



## Danger: This Stock Looks Like a Piece of Space Junk!

### Description

Just when you thought things couldn't possibly get worse... **Maxar Technologies** ([TSX:MAXR](#))([NYSE:MAXR](#)), the space company formerly known as Macdonald Dettwiler & Associates (MDA), nosedived 33% in a single trading session on reports that its WorldView-4 imagery satellite had failed due to an issue with its control moment gyros (CMGs).

### Houston, we have a problem!

At this time, it's believed that the satellite won't be recoverable, as its imagery capabilities are now unusable. So, essentially the expensive satellite (with its net book value of around \$155 million) that was packaged as a part of the already ridiculously expensive DigitalGlobe acquisition is now nothing more than a piece of space junk.

Unfortunately for Maxar, the WorldView-4 satellite failure came as a complete surprise and a shocker to many on the Street as the company had already been under a tremendous amount of downward pressure over the past year due to issues with debt and the weak state of the balance sheet, which could breach covenants at some point in 2019. Management has been scrambling to improve its financial health ratios (debt-to-EBITDA) to avoid covenant breaches, so the failure of the WorldView-4 satellite couldn't have come at a worse time.

[Hats off](#) to fellow Fool contributor Kay Ng for identifying Maxar's troubles before the stock's catastrophic implosion, but as for the unforeseen death of a major piece of equipment, nobody saw that one coming.

At the time of writing, Maxar is down 89% from peak to trough. Although investors seem to think the company is on its way out (or a piece of uninvestable space junk), I'd encourage deep-value hunters to take a step back to empathize with the company over the "perfect storm" of issues that have plagued the stock.

The weak financial flexibility and the massive uncertainties that come with predicting future cash flows were a major reason why Maxar stock has dropped like a rock. The October-December market-wide

pullback just served to exacerbate an already dire situation, and the recent failure of WorldView-4 is just salt in a flesh wound that's already very deep.

## Hope you're insured!

While the news of WorldView-4's "unrecoverable" failure may seem like the last straw for remaining shareholders, I don't think a 33% drop isn't at all warranted. In fact, I think it's overblown beyond proportion when considering the fact that the satellite was insured for around US\$183 million.

Management stated that it intends to fully recover the loss from the failure of WorldView-4, so investors who sold first to ask questions later may not see the massive write-offs that they were expecting.

While it's promising news that Maxar was insured, as you'd imagine, it's ridiculously expensive to get a sizable payload like a replacement satellite back into orbit. That's a lot of rocket fuel, and unfortunately, Maxar may have to absorb substantial costs at a time when there's very limited financial flexibility.

In a prior piece, I'd noted that Maxar was nothing more than a speculation that was [suitable only for the most aggressive of deep-value investors](#). Although the stock is battered with a P/B ratio south of 0.3, absolutely nothing is certain for this company, including its survival. Space satellites are a tough business to understand, and the business's cash flows are even harder to understand! But in the case of Maxar, I'd say that's a good thing, as everybody is a bear right now.

It is entirely possible that Maxar could win some promising contract renewals in the year ahead, and if management has what it takes, covenants won't be breached, and the next thing you know, the company will be back on the growth track. The bar is low here, so I suspect any piece of positive news will be enough to send the stock flying by double-digit percentage points.

## Foolish takeaway on Maxar

If you've got the stomach, Maxar could be ready to skyrocket into the stratosphere over the next year. The stock, like the WorldView-4, looks like a worthless piece of space junk in your portfolio, but I think it's more than that. It's a potential deep-value play that could turn into one of the most promising rebounders on the TSX over the next year.

But for most investors, I'd recommend grabbing some popcorn, so you can enjoy the Maxar show comfortably from the sidelines.

Stay hungry. Stay Foolish.

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