This Deep-Value Stock Is Not for the Faint of Heart

Description

What bad luck! **Maxar Technologies** (TSX:MAXR)(NYSE:MAXR) just showed that things can go from bad to worse when the stock came tumbling down more than 32% on Monday and another 24% on Tuesday for a cumulative decline of almost 50% since Friday.

What triggered the fall in the stock was that the space technology company released news that its WorldView-4 imaging satellite could not produce usable imagery anymore and that the satellite was likely not recoverable.

To Maxar, how big of a blow is the lost satellite?

WorldView-4 was acquired by GeoEye prior to its merger with DigitalGlobe in 2013, while MDA Corp., a commercial satellite operator, merged with DigitalGlobe in 2017 before renaming itself to Maxar. The satellite was launched in November 2016 and generated revenues of about $85 million in 2018. This revenue amount is nearly 4% of the revenue Maxar generated from the last four reported quarters.

Image source: Getty Images.

The satellite had a net book value of about $155 million, including related assets, as of the end of2018. If the satellite is not recoverable, Maxar will write off the net book value in Q4 2018. Thesatellite's net book value is about 2.5% of Maxar's total assets at the end of September.

The roughly 50% loss of the stock from the news seems overblown. First, on an initial review, Maxar believes it can offset $10-15 million of the annual revenue from WorldView-4 with imagery collected by its other satellites and outside resources. Second, WorldView-4 is insured for $183 million, and Maxar intends to seek full recovery for the loss of the satellite under its insurance policies.

Maxar's biggest problem is its debt levels

No doubt that WorldView-4 is a blow to Maxar. However, the space technology company's biggest problem is still its huge debt levels. In the last reported quarter at the end of September, Maxar had about US$3.17 billion of long-term debt on its balance sheet.

In comparison, it had US$10.6 million of cash and cash equivalents, and it generated US$426.3 million of operating cash flow in the last four reported quarters. After subtracting capital expenditures, Maxar had US$289.7 million of free cash flow. If its free cash flow generation remained stagnant, it'd take Maxar about 11 years to pay off the debt.

The company's debt-to-capital and debt-to-equity ratios are 60% and 1.8, respectively, which are on the high side.

Investor takeaway

Maxar has a weak balance sheet, and losing its satellite made things worse. It's now estimated to have declining earnings this year. At US$6.03 per share (CAD$8.06 on the TSX) based on yesterday's market close price, Maxar is a deep-value stock trading at about 1.7 times forward earnings.

Contrarian investors with at least three years of investment horizon may be interested in taking a bet here. The most bearish analyst from **Thomson Reuters** has a 12-month target of US$17 per share on the stock for nearly 182% near-term upside potential.

CATEGORY

1. Dividend Stocks
2. Investing
3. Tech Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:MAXR (Maxar Technologies)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing
3. Tech Stocks

Tags

1. Editor's Choice

Date
2025/09/09
Date Created
2019/01/09
Author
kayng