



Is This Space Exploration Company Your Best Bet for 2019?

Description

One of Warren Buffett's most famous bits of wisdom is to be fearful when others are greedy, and greedy when others are fearful. There's a lot of fear surrounding **Maxar Technologies** ([TSX:MAXR](#))([NYSE:MAXR](#)) right now. Is it time to get greedy?

Maxar operates on the bleeding edge of space technology

After hitting an all-time high of \$100 in 2015, Maxar stock is down to just \$10 at writing. The market it operates in remains strong, and most of its problems are of its own making.

Maxar describes itself as providing advanced space technology solutions, end-to-end capabilities in satellites, robotics, earth imagery, geospatial data, and analytics. The company consists of four different businesses all housed under the same corporation given the benefits of providing an integrated offering to customers. If a customer needs one service, it's very likely to need one of the other three. Cross-selling and shared expertise are huge benefits of Maxar's corporate structure.

In total, the company has a 60-year track record of space expertise. It's building the satellite communications subsystem for the European Space Agency. It's supplying sensors for a client specializing in last mile logistics in space. The company even made the robotic arms for NASA's InSight Lander that recently touched ground on Mars.

A torrent of bad news

At its height, Maxar had a \$6 billion market cap. Today, it's down to around \$600 million. For such a successful company operating in a high growth industry with barriers to entry, what's caused such a severe collapse?

In July, Maxar's management suggested that investors should prepare for a full year of revenue declines. They expected sales to fall between 2% and 4% on an annual basis. The stock dropped given the market anticipated high growth rates for years to come. Still, EBITDA margins were expected to be a healthy 33%, generating cash flow from operations of around \$350 million—about half of the

current market cap.

In August, Spruce Point Capital Management released a short-seller report noting that shares could fall 50% or more. Their price target was around \$20 per share, but noted that long term, there could be 100% downside, meaning shareholders would leave with nothing.

The report's biggest claim is that Maxar's management team has engaged in a latticework of accounting schemes and shenanigans, and the facts seem to support their claims. For example, Maxar's CEO Howard Lance was involved in two other accounting scandals earlier in his career, both of which required complete reviews and restatements of the related financial statements. In summary, the report believes Maxar's claims of huge margins and cash flows are a lie, or at least misleading.

For example, Maxar chose to extend the depreciable lives of its asset base twice in 2018. Management also chose to accelerate the recognition of tax credits while booking one-time gains from its retirements plan. Each of these on their own would be considered aggressive accounting practices.

Leave this stock in outer space

In a classic response, Maxar's management team released a statement claiming that the short-seller report "contains a number of inaccurate claims and misleading statements." The company believes the report was "a direct attempt by a short-seller to profit." This type of reaction is the cliché, canned response you can expect from any company. Notably, Maxar refused to respond in detail to the report's claims, possibly because their defense would be lackluster.

In time, the truth will come out, but it's best to stay on the sidelines for now. The market is fearful, but you should be too. Perhaps another Warren Buffet quote is more apt: "Charlie and I look for companies that have...able and trustworthy management." Unfortunately, we can't say the same for Maxar.

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