Is This High-Yield Dividend Stock a Bargain or a Falling Knife?

Description

Maxar Technologies (TSX:MAXR)(NYSE:MAXR) plunged 50% over the past week as of close on January 11. Shares have now fallen 90% year over year. The stock hit a 52-week low of $6.69 last week, which is stunning compared to its 52-week high back in January 2018 of $79.91.

Maxar stock was hit hard in the summer of 2018 after a short report from Spruce Capital Management put its value seriously into question. The report alleged that Maxar's accounting hid weak cash flow, which would negatively impact its balance sheet going forward. The company issued a rebuke, but the report was soon vindicated when Maxar released its third-quarter results. Maxar reported a $432 million net loss in Q3 2018, $383.6 million of which it attributed to impairment losses and inventory obsolescence.

The space systems GEO Comsat business was a drag on earnings, and in the report Maxar indicated that it could bring in additional funds by selling its satellite business. Spruce Capital estimated that shares would fall to an intermediate range of $20-25. This has turned out to be an optimistic forecast.

Last week, Maxar revealed that one of its top revenue-producing satellites had failed just over two years after launch. Maxar has said that it will attempt to recover as much of the $85 million in revenue the satellite produced, but that it will likely only be able to offset between $10 million and $15 million in lost revenue. Maxar will seek full recovery of $183 million for the insured WorldView-4 satellite.

Things are looking grim in early 2019, and the pressure will be on Maxar to take Spruce's summer 2018 advice and cut its high dividend. Currently, Maxar offers a quarterly dividend of $0.37 per share. This now represents a sky-high 19% yield.

Relying on Maxar's technicals over the past years has been a fool's errand, especially going by its Relative Strength Index (RSI). Maxar stock fell into oversold territory immediately after the short report as well as in October and December. As of close on January 11, Maxar stock boasted an RSI of 23, indicating that it is once again oversold as we hit the mid-point mark in January.

The loss of the WorldView-4 satellite is a tremendous blow to Maxar in large part due to the timing. Shares have been a lasting temptation since the short report, but again and again shareholders have been burned. Maxar still has a revenue base from which to bounce back from after a myriad of disasters, even as it hints at a decoupling from one of its previously lucrative satellite segments.

Risk-averse investors should plainly look elsewhere in this volatile market. However, for those targeting rebound candidates in early 2019, Maxar is worth monitoring as it prepares to release its fourth-quarter results in February. Income investors, however, should be wary after this substantial loss in revenue. A dividend cut may be on the horizon.

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