Maxar Technologies (TSX:MAXR): Imminent Bankruptcy or Contrarian Gold?

Description

Maxar Technologies Inc. (TSX:MAXR)(NYSE:MAXR) has been one of the most interesting technology stocks on the Toronto Stock Exchange. A leader in the nascent space technology industry, the company has suffered severe losses, a spike in debt, and a breathtaking erosion of market value over the past twelve months.

Each share was worth approximately $56 in April 2018, but is now worth just under $6.6, a whopping 88% decline within a single year. Meanwhile, management finally decided to cut its ludicrously high dividend this quarter and announced job cuts across its core operations. However, the cuts and consolidation may be too little, too late.

Maxar's latest quarterly report (Q4) showed sales of $496 million and a net loss of $844 million. That's a massive $14.3 loss per share. Bear in mind that the share sells for $6.6 at writing. Meanwhile, the debt load surged to a record high of $3.03 billion. The company now has nearly $4.9 in debt for every dollar in equity.

While the immense debt load looks unsustainable and could indicate a potential bankruptcy, investors should take a closer look to see if the market is missing some underlying value here.

Don Lato of Padlock Investment Management told the Cantech Letter that Maxar's covenants don't seem to imply a bankruptcy in the near-term. This means that although the company's debt burden seems insurmountable, the team still has a few years left to sort things out and save the company.

It's important to note that Maxar is actually a conglomerate created by merging four separate space technology firms over the past few years. Formerly known as McDonnell, Dettweiler & Associates (MDA), the core company acquired Space Systems/Loral, LLC (SSL), DigitalGlobe, and Radiant to offer services such as satellite manufacturing, network maintenance, geospatial imagery, and commercial space data analytics.

This year, the conglomerate completed its domestication in the United States, which now opens it up to U.S. government contracts.

With this in mind, it seems Maxar has three ways to cut debt and turn the ship around – sell one of its recently acquired companies to unlock value, strike a major contract with either the U.S. government or an American commercial venture, and cut costs by reducing staff and eliminating the dividend.

Most likely, the company could do all three. It has already announced 200 job cuts this year. Meanwhile, the company's new CEO Dan Jablonsky said they only need one or two geostationary satellite launches a year to break even on the SSL segment of the business. Jablonsky believes that goal is within reach this year.

While legacy companies MDA and SSL continue to suffer, Maxar's new acquisitions Digital Globe and Radiant are involved in the fastest-growing sectors of the space technology industry, which means that stabilizing the legacy businesses and focusing on new innovations could help the company return to profitability.

At the moment, Maxar's stock trades at a mere 18% of annual sales and 61% of book value.

Bottom line

Maxar is still an insanely risky stock. Not only is it involved in a volatile and nascent technology sector, but it has also managed to magnify the risk by over-leveraging its balance sheet in the pursuit of growth.

However, if the company can break even on its legacy businesses, cut costs, and avoid bankruptcy over the next few years, the stock should start normalizing, which in this case means a multi-fold return.

In my view, the stock is only suitable for investors with an extreme appetite for risk.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NYSE:MAXR (Maxar Technologies)

PARTNER-FEEDS

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

Category

1. Investing
2. Tech Stocks

Date
2025/07/28
Date Created

2019/04/18
Author
vraisinghani