Which of These Stocks Have Awesome Upside?

Description

Talk about losing altitude! From about a year ago, **Transcontinental** (TSX:TCL.A) stock has fallen by about half, while **Maxar Technologies** (TSX:MAXR)(NYSE:MAXR) stock has fallen by more than 80%.

Stocks that turn around can deliver awesome upside; they can even be multi-baggers! But which stock — Transcontinental or Maxar — is a better turnaround candidate? First, let's explore why these stocks are down.

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Why Transcontinental stock is down

Naturally, businesses change over time. However, Transcontinental has *really* been transforming.

As Canada's largest printer, Transcontinental has offered integrated printing solutions for more than 40 years to publishers and marketers alike. Since 2014, the company has been using a combination of cash flow generation, asset sales, and debt to transition into packaging.

Transcontinental has purchased small packaging companies up until the big acquisition of Coveris Americas in 2018. To put things in perspective, the small acquisitions have one to two plants, but Coveris has 21.

As a result of the large Coveris acquisition, the company's net debt ratio ballooned to 2.7 times in 2018, which was even higher than its net debt ratio of 2.6 times in 2009 during the last recession and market fallout.

Management believes that the company can use its strong cash flow generation to reduce the net debt ratio to below two times by the end of fiscal 2020. If the company is able to achieve that, the stock should trade at much higher levels by then.

The stock hasn't shown any sign of bottoming yet. However, at $14.64 per share as of writing, thedeep value, investment-grade stock trades at about 5.5 times earnings and offers a yield of 6% thatseems safe.

Why Maxar stock is down

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Acquisitions are not always as great as they seem. In fact, a 2011 *Harvard Business Review* stated that study after study showed that 70-90% of mergers and acquisitions (M&A) failed to deliver shareholder value. Some M&A destroy shareholder value, as was the case with Maxar.

After acquiring DigitalGlobe for US$2.4 billion (CAD$3.1 billion) in October 2017, Maxar reported a net loss of US$1.26 billion in 2018. Naturally, it took on a lot of debt to make the acquisition. At the end of 2018, Maxar had US$3.1 billion of long-term debt, net debt to EBITDA of about 6.6, and a debt-to-equity ratio of 6.77.

Obviously, Maxar's debt levels are far too high, and the company's viability now relies on its ability to clean up its balance sheet by paying down its debt with its cash flows.

Early this month, on reporting its Q1 results, Maxar estimated that this year, it'll generate adjusted EBITDA of more than US$550 million, net of corporate expenses

Reducing its net debt to EBITDA to 3.5 will make Maxar a much more investable, lower–risk stock. However, that's going to take about three years — assuming the company keeps generating adjusted EBITDA of US$550 million per year from 2019 to 2021.

Foolish takeaway

Both Transcontinental and Maxar can deliver awesome upside once they prove that they can bring down their debt ratios to more normalized levels. However, as of now, I believe Transcontinental is a stronger turnaround candidate — which is exactly where I've placed a portion of my play money.

CATEGORY

1. Dividend Stocks

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1. NYSE:MAXR (Maxar Technologies)
2. TSX:TCL.A (Transcontinental Inc.)

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Date
2025/08/02
Date Created
2019/05/22
Author
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