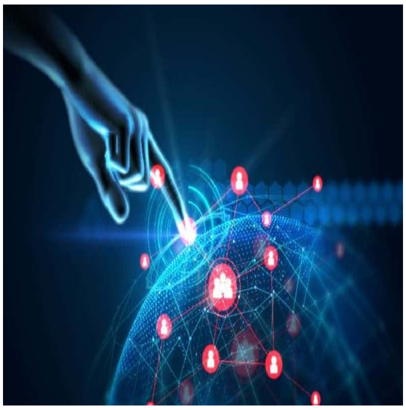

Investors: This Small Cap Technology Stock Has Gained 34% This Week

Description

Shares of **Maxar Technologies** (TSX:MAXR)(NYSE:MAXR) have gained close to 35% since the start of this week. The stock is currently trading at $12.54 per share at writing, 70% below its 52-week high and 145% above its 52-week low.

Maxar deals in the space technology business and aims to provide end-to-end capabilities in satellites, robotics, geospatial data, and Earth imagery. So why is the stock in an upward spiral at the moment?

Maxar stock has gained after investment bank **JP Morgan** began coverage on the company with an “overweight” rating on September 10, 2019. Other investment firms such as **TD Securities** maintains a “hold” rating, while **CIBC** has a “sector underperform” rating.

JP Morgan has a 12-month price target of $12 (USD) on Maxar, which indicates an upside potential of 30% from the current price. It believes Maxar provides a high-risk high-reward opportunity for investors.

What will attract investors to Maxar?

Maxar Technology management remains optimistic about long-term growth. The company is gaining traction in government and commercial markets and claims to be well aligned with the National Defense Strategy. Maxar is banking on its capabilities in Earth Intelligence and Space Infrastructure to gain traction.

The company is also focusing on improving profit margins at a robust pace, aiming to move toward a lower capital-intensive model that will drive return on invested capital higher. This will be achieved as Maxar looks to reduce capital footprint across manufacturing and satellite operations. Maxar wants to lower debt and interest payments over time.

Large addressable market

Maxar investors can be optimistic about the company’s large addressable market. There are persistent global security threats and rising defense budgets for the U.S. government and across international geographies. Space technology is a focus of investment for several countries while imagery and insights are in great demand.

Maxar can leverage its expertise in these areas and provide customized solutions. It has a range of geospatial products, defense services, and solutions. The company offers services in the Space Robotics and Ground Systems verticals as well.

Maxar is banking on higher imagery capacity and demand from Canadian space and defense verticals to drive revenue, and is confident about maintaining leadership in large and growing markets due to technological differentiation.

Why are sales continuing to decline?

While JP Morgan is bullish about Maxar's potential, there are limited signs of a turnaround. Why is the company unable to stem revenue decline despite its claim of being a market leader in space technology?

Maxar's sales are estimated to fall by 9.6% to $1.94 billion in 2019 and 1.6% in 2021. While its earnings per share are expected to fall by 145% this year, it's estimated to rise by 21.8% in 2020.

The fall in sales will also impact Maxar's EBITDA and operating margins. Analysts estimate Maxar's EBITDA to fall from $507 million in 2019 to $499 million in 2021. Its operating profit is expected to fall from $250 million to $163 million in the same period.

While JP Morgan expects Maxar to become profitable by 2021, other analysts are not so confident. Analysts expect Maxar's net margin to be -3.1% in 2020 and -2.9% in 2021. Is it enough to just bet on the company's total addressable market when it's struggling to gain traction?

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