Did You Miss Maxar (TSX:MAXR) Stock's 300% Gain? There's Still Time!

Description

Between March and December 2019, **Maxar Technologies'** (TSX:MAXR)(NYSE:MAXR) stock price has quadrupled. The 295% gain was the result of a number of critical corporate actions that shifted investor sentiment from chronic pessimism to mild optimism.

Now the question on everyone's mind is whether this space tech stock can keep skyrocketing in 2020 or if it's all going to come crashing back down to Earth. Here's a closer look at Maxar's looming challenges and potential valuation in 2020.

The catalyst

For the past few years, Maxar's biggest existential threat has been its immense debt burden. The company's debt was several times the value of its underlying equity and even outweighed its market capitalization. Unsurprisingly, investors punished the stock in 2018.

However, last year the company decided to redomicile in the United States and sell off part of its Canadian business to a group of private investors. This offloading of a critical asset unlocks US$765 million in cash for the company that it can use to reduce its debt burden and expand operations going forward. This was the catalyst for the stock price last year.

However, investors now need to assess the impact of this demerger on the company's top line, bottom line and overall valuation.

The valuation

Despite a fresh injection of cash, Maxar could still struggle to tackle its immense debt burden. After the deal is complete, management says the debt burden will be reduced from US$3.4 billion to US$2.4 billion. That's still 2.4 times larger than the company's current market value.

Meanwhile, the demerger will reduce the company's annual revenue to an estimated US$1.6 billion. Evidently the company needs another major catalyst to reduce debt to a sustainable level, which means it may have to strike another major deal to sell an underlying subsidiary or acquire a new multibillion dollar client.

That's certainly possible in 2020. As a U.S.-domiciled company, Maxar now has access to US government defence contracts that can easily help it multiply annual sales.

Meanwhile, the global space industry is estimated to be worth US$558 billion by 2026. There's plenty of room for swift growth, which is exactly what the company needs.

Given that the stock price is currently below sales per share, the company seems fairly valued for any investor seeking a speculative bet. However, considering the over-leveraged nature of the balance sheet and unpredictability of sales in 2020, conservative investors should avoid this stock at all costs.

Bottom line

Maxar certainly seems to be turning the ship around. By offloading assets and gaining better access to the U.S. defense market for space technology, the company could finally tame its immense debt burden. Once that's been resolved, the company has nearly endless potential for future expansion.

At the moment, I think the market understands this shift in underlying fundamentals and the stock is fairly valued considering all the risks. However, it's still a speculative stock best suited for a contrarian investor with a healthy appetite for risk.

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