



This Stock Market Genius Is Betting This Space Stock Will Soar

Description

If you've seen *The Big Short*, you're familiar with Michael Burry. As the founder of the hedge fund Scion Capital, he was the first investor to recognize and profit from the subprime mortgage crisis. His investment advice made clients billions of dollars. Now, Burry is betting big on a beaten-down space stock: **Maxar Technologies Inc** ([TSX:MAXR](#))([NYSE:MAXR](#)).

Maxar's history is rife with controversy. In 2015, it was a multi-billion firm with a stock price above \$100. Today, the entire business is valued at just \$1.2 billion, with a share price of only \$20. It appears that Burry is seizing the [opportunity](#) to buy low, accumulating millions of dollars in shares this year.

But what makes Maxar so compelling at this [valuation](#)? Why were shares pummelled in the first place? If you connect the dots, it's easy to see why Burry loves this out-of-favour space stock.

The basics aren't boring

Maxar is an exciting business. It's responsible for many of our greatest space achievements. The company designs and builds critical equipment like satellites, sensors, earth imaging components, and much more. If it's launched into space, Maxar likely makes it.

For years, this was a lucrative business. From 2000 to 2015, shares rose from \$15 to \$100. A \$10,000 investment became \$67,000, handily beating the market as well as most growth stocks.

Then the bottom fell out. In 2018, a short-seller report from Spruce Point Capital alleged that the company was engaged in aggressive accounting practices, bordering on the edge of fraud.

Management was "engaging in a massive M&A accounting scheme to cover past problems," the report read, pulling off "one of the most aggressive accounting schemes Spruce Point has ever seen to inflate non-IFRS earnings by 79%." As if that wasn't bad enough, Spruce Point Capital also highlighted that the business was "burdened by \$3.7 billion of rising debt with almost no cash and free cash flow."

In response, shares fell 90%. The company was on the verge of bankruptcy, with an equity value of

\$500 million versus a debt load of around \$4 billion.

Buy this space stock?

Burry bought Maxar stock in the first quarter of 2020. “Not only is it a new position, but it’s now his largest Canadian bet and fourth largest altogether,” notes Fool contributor Vishesh Raisinghani. What makes Burry so bullish?

First, space stocks are surging in popularity. SpaceX wants to launch astronauts into space this week. Jeff Bezos is investing billions into his Blue Origin venture. NASA also ramped up its space program spending. **Virgin Galactic Holdings Inc.**, a space stock with almost no operating history, has a market cap *three times bigger* than Maxar.

This year, Maxar should generate US\$1.67 billion in revenue, valuing the stock at 0.53 times forward sales. Its five-year average is *double* that multiple. Even the rest of the sector trades at a 60% premium.

This is a stock with a lot of baggage, but its ability to close nearly a dozen new contracts in the past year is testament to its staying power.

With its finances in better condition, the company can slowly leave the past behind it, taking advantage of the new bull market for space stocks. Expect the valuation discount to narrow completely in the years to come.

CATEGORY

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