Why Maxar Technologies (TSX:MAXR) Is Tanking 25%

Description

Maxar Technologies (TSX:MAXR)(NYSE:MAXR) stock has dropped 25% today and seems to be heading even lower at the time of writing. The company reported earnings yesterday that were much worse than analysts and investors had expected. The ongoing sell-off in growth stocks could also be at play.

Here's a closer look at the impact and what investors should know.

Earnings below expectations

Maxar declared revenue at US$392 million (CA$483 million) for the quarter ended March 31. That's slightly higher than the same quarter last year. Revenue seems to have expanded a mere 2.9% year over year in these three months. However, analysts and investors had estimated sales of roughly US$560 million (CA$690 million) in this quarter.

Analysts were also disappointed with the bottom line. Consensus estimates suggested Maxar could pull off a net profit of US$1.06 per share or C$1.31. However, the company reported a *net loss of US$1.30 (CA$1.6) per share.*

These disappointing earnings seem to have convinced investors to sell their stakes. Yesterday, the stock dropped 10% after earnings. Today, the sell-off seems to have intensified. That's probably a function of the shifting sentiment on growth stocks.

Growth stock sentiment

Over the past few months, investor sentiment has clearly shifted away from growth stocks. Rising interest rates, the looming threat of inflation, and elevated valuations have spooked investors. Many of Maxar's rivals in the spacetech sector have lost value.

MDA, for instance, is selling off 4% at the time of writing, even though it hasn't reported earnings and only listed recently. The wider sell-off in the market may have intensified Maxar's drop. It may have also created an opportunity for tech investors with a longer time horizon.

Maxar stock valuation

While most of its rivals are overvalued and trading at stratospheric valuations, Maxar seems reasonably priced. The stock is trading at a mere five times earnings trailing earnings. Now that the company is reporting losses, revenue may be a better measure. Maxar stock is trading at 1.2 times revenue per share.

Debt remains a concern. Maxar has over US$2.1 billion (CA$2.6 billion) in debt on its books. That's larger than its market capitalization of CA$2.1 billion after its recent drop. However, debt has reduced by US$300 million in this latest quarter. Maxar's order book, meanwhile, stands at US$1.8 billion.

Winning new orders could help the company tackle its debt burden. Until then, investors can probably expect it to trade at a discounted valuation.

Bottom line

Maxar stock dropped 10% yesterday and another 25% this morning. The trigger was a disappointing earnings report. The company needs to win new contracts, claw its way back to profitability, and tackle its debt burden to unlock value. Without these catalysts, the stock may remain discounted for the foreseeable future — especially if investors remain pessimistic about growth stocks.

Keep a close eye on this sector. It may be ripe for a contrarian bet.

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