Maxar Technologies (TSX:MAXR) Plummets Back to Earth

Description

Maxar Technologies (TSX:MAXR)(NYSE:MAXR) picked the wrong day to disappoint investors. Yesterday, the market's shift in sentiment was palpable. Growth stocks have been underperforming for a while, but a statement from Janet Yellen plunged stocks lower. The fact that Maxar reported earnings that were below expectations culminated in a massive loss of capital.

The spacetech giant needs to turn the ship around, quickly, to stem the losses and save investors from further losses. Here's a closer look at why Maxar stock plunged back to Earth yesterday and what its future looks like.

Disappointing earnings

Maxar stock's biggest catalysts are debt and deals. The company needs to win new contracts to expand its order book. That will allow it to pay off its debt over time. The company's debt burden is currently more than twice the size of shareholder equity — a clear concern.

This is why investors were forecasting a robust jump in revenue and profits in the first quarter of 2021. Analysts estimated US$560 million (CA$690 million) in revenue and net profit of US$1.06, or CA$1.31 per share. Maxar disappointed on both metrics. Revenue came in 30% lower, at US$392 million (CA$483 million).

The company also reported a *net loss* of US$1.30 (CA$1.6) per share. Unsurprisingly, Maxar stock sold off right away. Comments from the United States secretary of the treasury intensified the sell-off.

Interest rates

U.S. secretary of the treasury Janet Yellen expressed concern about the rapidly heating American economy. "It may be that interest rates will have to rise somewhat to make sure our economy doesn't overheat," she told reporters yesterday.

Higher interest rates are a bad signal for growth stocks. The present value of future cash flows decline substantially when interest rates rise. However, for companies like Maxar, there's another concern.

Higher interest rates make their debt burden more expensive to service.

The plunge may have pushed Maxar stock into deep-value territory.

Maxar stock valuation

Maxar stock is currently trading at a price-to-sales (P/S) ratio of 1.2. If you consider Maxar a tech stock, that's unbelievably low. Most tech companies in growing, multi-trillion-dollar industries have P/S ratios in double digits right now. However, even if you consider Maxar an industrial stock in the government contracting business, the valuation looks attractive.

Essentially, Maxar stock seems to be pricing in investor concerns about debt and slow growth. Considering that the company has been struggling with this issue for years, the concern seems justified.

However, the stock may offer an attractive risk-to-reward ratio at this level. The downside is priced in and minimal. The upside, however, could be immense. If the team can turn this ship around and secure more contracts, the stock could lift off (pun intended).

Bottom line

Maxar stock is nosediving because of lacklustre earnings. The spectre of higher interest rates could intensify this sell-off. However, Maxar stock looks ripe for a contrarian bet. It's speculative but well placed for investors with an appetite for risk.

CATEGORY

1. Investing
2. Tech Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:MAXR (Maxar Technologies)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Investing
2. Tech Stocks

Tags

1. Editor's Choice

Date
2025/09/26
Date Created
2021/05/05
Author
vraisinghani