

THE GLOBE AND MAIL

Satellite company spies cash on land MDA aims to expand its property data business and boost revenue

By PETER KENNEDY
Friday, April 22, 2005

VANCOUVER — MacDonald Dettwiler and Associates Ltd., the renowned grandfather of B.C.'s technology sector, is set to expand its British presence, a move that it hopes will propel its revenue by more than 30 per cent.

It is a strategy that will continue to transform the Richmond, B.C.-based company, known mainly for contract-driven satellite and robotics operations, by pushing its revenue to more than \$1-billion by 2007 with a service providing electronically processed property information to real estate agents, lawyers and governments.

Analysts' revenue projections are based on opportunities that are expected to flow from legislation that will soon require homeowners in England and Wales to provide buyers with packages of key information, such as proof of titles, that are needed to complete the sale.

"Normally when you come up with a new product, it takes years to convince people and get them to accept it," MDA chief executive officer Dan Friedmann said in a recent interview. "But this is a billion-dollar-a-year market that is being legislated into existence in January, 2007," he said.

Once the legislation takes effect, it is expected to drive up the number of requests for electronically processed land title searches that are delivered through the web-based National Land Information Service (NLIS).

That in turn is expected to drive MDA revenue from \$751.4-million in 2004 to over \$1-billion because it is already one of three entities that are licensed to provide access to NLIS and its hub through a retail portal.

MDA offers retail access to NLIS via its transaction-online.co.uk service. It also operates a hub that provides electronic access to land title and property status information in local government databases.

David McFadgen of Sprott Securities Ltd. estimates that revenue from MDA's British operations will almost triple from current levels to \$410-million in 2007.

It is a key reason why he has a "buy" rating on the stock -- which rose 40 cents to \$28.65 on the Toronto Stock Exchange yesterday -- with a one-year target of \$44.

Analysts say the only question now is how much of the British market MDA will be able to grab as it continues to diversify away from its core satellite and robotics business to become a global provider of land ownership information.

In 1998, MDA's information products division, which now includes transaction-online and similar services in British Columbia and the United States, accounted for 7 per cent of total annual revenue.

But in the past few years, the information products unit expanded to the point where it brought in 58 per cent of total revenue last year, well ahead of information systems -- including satellite and robotics -- which accounted for 42 per cent.

By 2007, when the British home sale legislation is in effect, 68 per cent of the company's total revenue will be derived from information products, Mr. McFadgen said.

That marks a big change for a company that is known for high profile projects like RADARSAT-2, a \$542-million satellite joint venture with the Canadian Space Agency.

RADARSAT-2 is so technically sophisticated that Ottawa is bringing in legislation, Bill C-25, that will restrict who can receive the data.

That side of its business, analysts say, left the company vulnerable to decisions by governments and their agencies, including the U.S. National Aeronautics and Space Agency.

In January, for example, NASA awarded MDA's systems group a \$154-million (U.S.) contract for work on a proposed mission to repair the Hubble space telescope.

Under the Hubble contract, the company is developing a robotic grapple arm and a double-armed dexterous robot that would be used to install new orbit stabilization hardware and perhaps replace scientific instruments aboard the space telescope.

However, NASA announced in early February it would not try to save Hubble and would instead concentrate on taking it out of orbit after it goes dark.

While MDA continues to work on the Hubble mission, the cancellation of the project could slow the company's revenue growth, one analyst says.

"If NASA's current budget is approved and the Hubble rescue is scrapped, systems group revenue could grow by less than 10 per cent in 2005 and 2006," said Richard Stoneman of Dundee Securities Corp. in a recent report.

By comparison MDA's annual revenue last year rose 20 per cent from 2003.

Mr. Stoneman worries that RADARSAT-2, which is supposed to be launched next year, will not be in orbit in time to replace its aging predecessor RADARSAT-1 before it shuts down. MDA earned \$26-million (Canadian) last year from the sale of images from RADARSAT-1 and other satellites, he said.

It is why some analysts are pleased to see recurring revenue from MDA's information products business continue to exceed more contract-driven revenue from its smaller systems division.

"We believe the valuation of the company will change prior to 2007 to reflect the radically different growth, profitability and risk profiles associated with this business mix transformation," said Mr. McFadgen of Sprout Securities.

As a professional publisher, MDA will be valued on a multiple of earnings before interest tax, depreciation and amortization basis, rather than on a price-to-earnings multiple, he believes.

Mr. McFadgen's estimates are based on one million residential housing transactions a year, and a price tag of £710 (\$1,700) for each transaction.

Still, real estate industry officials say MDA will not be alone in trying to take advantage of the new British housing information legislation.

Meanwhile, with Hubble in limbo and British housing sales slowing down, Mr. Stoneman does not see any catalyst that will drive the stock higher in the near term.

"In our view, investors should remain watchful in terms of space-related activity," he said.

British Connection

Renowned B.C. technology company MacDonald Dettwiler expects to benefit from legislation that will soon require home owners in England and Wales to provide buyers with packages of key information. MDA's electronically processed land search information. MDA's electronically processed land search information service is a key player in the British market.

Company information

Headquarters: Richmond, B.C.

Chairman: James Shepard

President and CEO: Daniel Friedmann

Employees: 2,500*

Website: <http://www.mda.ca>

Phone number: 604-278-3411

*as of Dec. 31, 2004

Financials

Last close: \$28.65

Change from previous: up 40¢

52-week intraday high: \$29.52

52-week intraday low: \$23.67

P/E ratio, trailing: 21.70

Dividend yield: -

Market cap: \$1.1-billion

Price/book ratio: 4.01

1-year return: 6.51%

Revenue, fiscal 2004: \$751.4-million

Profit, fiscal 2004: \$52.5-million

SOURCES: THOMSON DATASTREAM; BLOOMBERG FINANCIAL SERVICES; COMPANY