



Can CAE Shares Reach \$20?

Description

Very few Canadian companies can claim to be the world leader in their industry. But one company has consistently led its industry for years: **CAE Inc** ([TSX:CAE](#))([NYSE:CAE](#)). The company provides flight simulation products and services to airlines and militaries across the world.

In both of those end markets, CAE is the clear leader. The lead is especially large in emerging markets, where airline traffic is growing the fastest. For example, CAE has nearly a 70% share of installed simulators in both China and India, where airline traffic is growing by 8.4% and 7.0% respectively. This growth in airline traffic is creating a serious shortage of pilots, which will create even more demand for CAE's services long-term.

As would be expected, CAE has been growing impressively. Net income in the most recent fiscal quarter came in at nearly \$48 million, up 28% year-over-year. The company's backlog eclipsed \$4 billion, up nearly 20% from the year earlier. The stock has reacted accordingly, reaching \$15 per share after trading below \$10 at one point in April. But how much runway is left?

At \$15 per share, CAE trades at over 22 times earnings. So clearly the market is recognizing the strong position that the company is in. Furthermore, 40% of revenues still come from militaries, whose budgets have come under pressure in recent years. And while aircraft orders from Airbus and **Boeing** ([NYSE:BA](#)) are at record levels, fortunes can turn in a heartbeat in the airline industry.

But the growth in worldwide aviation is very real, and CAE is one of the few companies poised to take advantage. Another option is **Bombardier** ([TSX:BBD.B](#)), but the aircraft maker has run into recent problems with its C Series jet, and only 52% of 2013 revenues were related to aerospace.

Foolish bottom line

Clearly the market is very optimistic about CAE's future, and that optimism is warranted. But the company still faces a few headwinds, especially concerning military spending. Still, CAE is one of Canada's few world champions of industry, and that should not be discounted at all.

And for Canadian investors who want to bet on the global airline industry, CAE might be the only realistic option.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BA (The Boeing Company)
2. NYSE:CAE (CAE Inc.)
3. TSX:BBD.B (Bombardier)
4. TSX:CAE (CAE Inc.)

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Date

2025/07/04

Date Created

2014/03/06

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