This Industrial May Be Just What Your Portfolio Needs for Capital Growth

Description

Anybody who has traveled in recent years can attest that flying is gaining in popularity. Overbooked flights, crowded planes, and long wait times at the terminal are the rule more than the exception. While this may anger the average traveler, there is a silver lining to be found in the airline industry.

This surge in airline traffic is spurring demand from all the manufacturers in the aerospace sector. Companies building planes like **Boeing** and parts manufacturers like **Triumph** are seeing their orders backlog soaring to multi-year highs.

So which Canadian stock should you add to your portfolio to benefit from this? While **Bombardier** might be the obvious choice, a smaller yet more dominant company, **CAE** (TSX: CAE)(NYSE: CAE), has seen much better returns in recent years. Here are the factors contributing to its recent success.

Flight simulators

CAE provides simulation and modeling technologies and integrated training services, primarily to the civil aviation industry and defense forces worldwide. Mainly a provider of airplane simulators (commonly known in the industry has FFSor Full Flight Simulators) CAE has long-standing relationships with most of the airline companies in the world. Airline regulation requires operators to own a certain percentage of simulators for each fleet of airplanes they own. That means the bigger Boeing and Airbus' backlog is, the more simulators are needed from CAE.

Pilot shortage

According to *BusinessWeek,* recent regulation in the United States has put an even harder strain on the pilot shortage that is presently going on. Back in 2012, CAE bought UK Oxford aviation academy to increase its presence in the promising pilot training sector. Now with the shortage in the U.S., along with increasing airline traffic in both China and India (8.4% and 7%, respectively), more and more pilots will be needed, and for CAE, having training facilities around the world gives it an edge over the competition.

The numbers

CAE is not cheap, trading at 20 times trailing earnings and up 35% in the last 52 weeks, but the company deserves the multiples. Revenues are at an all time high at $2.1 billion, up from $1.6 billion back in 2011. Earnings per share on the other hand, are up 37% year over year, with management stringent on getting operating margins higher now that all the training academies are up and running. There might still be more room for growth in the stock, and while you wait, you are getting paid a 1.6% dividend yield.

The balance sheet is strong and can withstand the increased competition that is bound to come in the future with a solid 1.4 current ratio as of last quarter and reasonable amount of debt that was refinanced in recent years to take advantage of the low rate environment. Add to that its diversification of revenues — the company is making simulators for the mining and healthcare sectors – which is helping to smooth the earnings from the cyclical nature of the airline industry. It's easy to see that CAE could one day become the world leader in simulation technology.

CATEGORY

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