CAE Inc.: 3 Reasons to Buy and Hold Forever

Description

CAE Inc. (TSX:CAE)(NYSE:CAE), one of the world's leading providers of comprehensive training solutions for the aviation, defense, security, and healthcare industries, has disappointed investors in 2015, falling slightly as the TSX Composite Index has risen over 1%. However, I think it is well positioned to head higher and widely outperform the market from this point forward. Let's take a look at three of the primary factors that could play a role in making this happen and why you should be a long-term buyer today.

1. Very strong earnings results to support a near-term rally

On May 26 CAE released very strong earnings results for its fiscal year ending on March 31, 2015, but its stock has responded by falling over 1.5% in the trading sessions since. Here's a summary of 10 of the most notable statistics from the annual report compared with its results in fiscal 2014 (all results are from continuing operations):

1. Net income increased 6.9% to $201.2 million
2. Earnings per share increased 5.6% to $0.76
3. Revenue increased 8.1% to $2.25 billion
4. Gross profit increased 6.8% to $603.7 million
5. Gross margin contracted 30 basis points to 26.9%
6. Operating profit increased 15% to $332.8 million
7. Operating margin expanded 90 basis points to 14.8%
8. Free cash flow increased 4.6% to $124.4 million
9. Total backlog increased 7% to $5.36 billion
10. Cash and cash equivalents increased 5.7% to $330.2 million

2. Its stock trades at inexpensive current and forward valuations

At today's levels CAE's stock trades at 19.8 times fiscal 2015's earnings per share of $0.76, just 17.9 times fiscal 2016's estimated earnings per share of $0.84, and only 15.8 times fiscal 2017's estimated earnings per share of $0.95, all of which are inexpensive compared with its long-term growth potential.

I think CAE's stock could consistently trade at a fair multiple of at least 20, which would place its shares upwards of $16.75 by the conclusion of fiscal 2016 and around $19 by the conclusion of fiscal 2017, representing upside of more than 11% and 26%, respectively, from current levels.

3. Seven consecutive years of dividend increases

CAE pays a quarterly dividend of $0.07 per share, or $0.28 per share annually, giving its stock a 1.85% yield at today's levels. A 1.85% yield may not seem impressive at first glance, but it is very important to note that the company has increased its annual dividend payment for seven consecutive years, and its strong operational performance and growth potential could allow this streak to continue for another seven years at least.

Should you make CAE a core holding today?

I think CAE should be on your long-term buy list because its very strong fiscal 2015 earnings results could support a near-term rally, because its stock trades at inexpensive current and forward valuations, and because it has increased its annual dividend payment for seven consecutive years with a current yield of approximately 1.85%. All Foolish investors should take a closer look and consider beginning to scale in to positions today.

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