This Training Company Could See its Stock Soar as Demand for Air Travel Rises

Description

As airlines like **Air Canada** (TSX:AC)(TSX:AC.B) and **WestJet Airlines Ltd.** (TSX:WJA) continue to see their stocks perform well this year, as the companies benefit from increased travel, investors may want to look at another stock that could also benefit from the rising demand in the industry.

Cae Inc. (TSX:CAE)(NYSE:CAE) offers simulations and services that are used for training in aviation, healthcare, and defence. The company operates in more than 35 countries with 160 locations around the world and estimates that it trains more than 120,000 people every year among the different industries that it serves. A big portion of the company's training comes from aviation, which contributed more than two-thirds of Cae's segment operating income in 2016. Defence and security segments were less than one-third of income, with healthcare making up less than 2%.

A strong moat makes Cae a powerful brand

The company recently announced its Cae Master Pilot program, which will offer pilots a more sophisticated simulation and training solution. Nick Leontidis, the group president of the segment, claims that "This new program, with its tailored training curriculum using cutting-edge flight simulation, will allow pilots to elevate their status and training to the highest levels for inflight safety." Cae has considerable moat in its industry given that it has developed a strong brand known for training that is high quality and trusted by many airlines and companies around the world.

With almost 60% of its business being recurring and secured by long-term contracts, Cae has been able to cement strong partnerships that would make it difficult for a new entrant to grab significant market share.

Opportunities for growth beyond just aviation

Although the company primarily generate its revenue from aviation, its advanced technology and simulation-based training can have widespread appeal to many industries. Healthcare currently takes up just a small fraction of the company's sales, and that has the opportunity to change as demand grows for more realistic training models like simulators.

The company has shown steady growth over the past few years

Since 2014, the company has grown its sales by 30%, averaging a strong annual growth rate of 9%. Despite moderate gross margins averaging just 28%, Cae has been able to bank 9% of its revenue as profit.

Growing free cash gives Cae flexibility

Free cash flow gives companies the opportunity take on investments, pay dividends, or simply stockpile cash for when it is needed. Cae has seen its free cash grow in the past two years with $191 million banked last year, which was up 82% from 2015. Although the company pays a dividend of just 1.62%, investors might see that increase if Cae is able to keep growing and adding to its cash flow.

Why the stock is a good buy

There is a lot to like about Cae, namely that the company offers impressive training solutions to some very big industries that could see lots of growth. Although aviation is a big part of that, and Cae could definitely benefit from growth in that segment, its diversification minimizes the long-term risk for investors since the company can offer training to other industries in many parts of the world.

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djagielski