1 Less-Discussed Aerospace Stock Likely to Continue to Soar

Description

In the Canadian aerospace industry, much of the discussion has centered on Canadian airlines such as **Air Canada** (TSX:AC)(TSX:AC.B) and **WestJet Airlines Ltd.** (TSX:WJA), given the rise in the market capitalizations of these firms during the most recent bull market. Airlines have certainly benefited from a positive cyclical trend, which supported improved earnings for these firms, as consumers continue to travel more domestically and abroad.

The drivers of improved earnings in this sector are many; however, with the stock prices of Air Canada and WestJet selling off somewhat in recent months, now may be a good time to take a look at the broader aerospace sector and other companies that may profit off of the rise in airline travel and improving fundamentals in this sector.

CAE Inc. (TSX:CAE)(NYSE:CAE) is the world leader in providing flight simulator technology and training to pilots. This Canada-based company has performed very well in recent years, spurred by an increased need for pilots as airlines scramble to provide new routes and increased service levels to meet consumer demand. Estimates that approximately 250,000 pilots will need to be trained over the next 10 years to meet this demand have certainly been tailwinds for CAE's stock price of late and is a significant long-term driver, which many analysts and investors, including me, believe is not fully priced into CAE's current valuation.

The company currently trades at a relatively attractive valuation at a forward price-to-earnings multiple of less than 19, and it has shown relatively strong free cash flow growth, which is supported by a very stable operating margin, producing a situation in which predictable and stable cash flow growth is underpinning the momentum CAE has provided investor with over the past five years. Year to date, shares of CAE are actually down more than 4%, providing an interesting potential buying opportunity for investors looking for a decent entry point.

Bottom line

In terms of companies offering investors slow and steady growth, capital appreciation, and a modest but meaningful dividend yield (currently hovering around 1.5%), CAE ticks off most of the boxes for a conservative long-term investor looking for a “steady Eddie” as a play in the airline sector. I would recommend investors buying into the cyclical upward trajectory of the airline sector consider other companies that will benefit from this rise without much of the operational and balance sheet/debt-related risk airlines provide at this point in time.

Stay Foolish, my friends.

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