



U.S. and Canada Hike Military Spending: Buy These 3 Defence Stocks Now

Description

In a January speech at John Hopkins Hospital in Maryland, United States secretary of defense James Mattis laid out the U.S. geopolitical strategy going forward. “Great power competition — not terrorism — is now the primary focus of U.S. national security,” Mattis said in his speech. In March, the U.S. House of Representatives approved a record military budget of \$700 billion in 2018 and of \$716 billion in 2019.

Last year, Canadian minister of foreign affairs Chrystia Freeland said that Canada would need to exercise “hard power” in order to support “Canadian diplomacy and development.” Soon after, Canadian defence minister Harjit Sajjan outlined a defence policy that called for \$62 billion in additional military spending. The Canadian defence budget is projected to grow from \$18.9 billion in 2017 to \$32.7 billion by 2026-27.

The comments from Canadian and U.S. leadership illustrate the re-emergence of [great power competition](#) in the 21st century. Multi-polarity dominated global politics from the mid-19th century before culminating in the intensely bloody World Wars in the first half of the 20th century. This is new territory for an independent Canada, and hikes in military spending are an indication that it intends to bolster its capabilities in an attempt to meet these new challenges.

Let’s look at three companies that are likely to benefit from increased military spending over the next decade.

CAE Inc. ([TSX:CAE](#))([NYSE:CAE](#))

CAE is a Quebec-based company that designs, manufactures, and supplies simulation equipment, and provides training for defence and security markets. CAE stock was up over 3% as of close on April 11, and shares are up over 15% year over year. CEO Marc Parent said last year that the pivot to Asia and a resurgent Russia was sparking a run up in defence budgets in Western countries.

In January of 2017, CAE was awarded with Canadian and [U.S. military training contracts](#) worth upwards of \$1 billion. CAE will deliver classroom, simulator, and live flying support services for helicopter training in the U.S. army. In the fall of 2017, CAE also won contracts with Canadian defence

that will see it provide fighter-jet training to the Canadian military.

Firan Technology Group Corp. ([TSX:FTG](#))

Firan Technology Group is a Toronto-based aerospace and defence electronic product and subsystem supplier. It possesses facilities in Canada, the U.S., and China. Firan released its first-quarter results on April 11. The company booked over \$40 million in orders in Q1 2018, and sales rose to \$27.5 million compared to \$27.2 million in Q1 2017. Shares of Firan have climbed over 380% dating back to April 2013.

Heroux Devtek Inc. ([TSX:HRX](#))

Heroux Devtek is a Quebec-based company that is involved in landing gear and actuation systems and components for the aerospace and defence markets. Shares were down 4.1% in 2018 as of close on April 11, but the stock has climbed over 20% year over year. In its Q3 fiscal 2018 results, cash flow increased to \$17.1 million compared to \$9.7 million in the prior year.

Heroux Devtek projected positive growth in anticipation of increased defence spending worldwide. However, in the most recent quarter, defence sales dropped 6% to \$44.9 million compared to \$47.7 million in the previous year. Year-to-date defence sales are still up to \$136 million compared to \$135.6 million in the first nine months of fiscal 2017.

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