Geopolitical Tensions Could Push These 2 Stocks Higher in May

Description

Oil prices have surged in April and May in the lead up and aftermath of U.S. president Donald Trump's decision to torpedo the Iranian nuclear deal. Canadian energy stocks have been big beneficiaries of the rally, but the oil and gas sector is not the only one getting a boost due to recent news.

U.S. defence stocks surged after the announcement, coinciding with heightening tensions and scattered reports of missile exchanges between Israel and Iranian forces within Syria. **Lockheed Martin Corp.** (NYSE:LMT), one of the largest defence contractors in the world, has seen its stock rise 4% week over week as of close on May 11. Shares of **Raytheon Co.** (NYSE:RTN) climbed 5.5% over the same time period.

Governments in the U.S. and Canada have committed to increase military spending going forward. Canada has ruled out participation in any wider operation against the Syria government, and operations against ISIS are winding down, as the organization has been severely degraded in recent months. Regardless, the government has committed to increasing defence spending by 70% over the next decade.

The two companies that we will look at today could see more orders with Middle East activity ramping up and military spending rising worldwide.

Magellan Aerospace Corp. (TSX:MAL)

Magellan Aerospace engineers and manufactures aeroengine and aerostructure components for aerospace markets and the defence sector. Shares of Magellan plunged 6.03% on May 11, and the stock has dropped 17.6% in 2018 so far. However, it has experienced huge growth since plunging with other aerospace stocks in the worst throes of the financial crisis. Last year, Magellan was awarded an engine maintenance contract that powers the CF-188 Hornet aircraft.

In the first quarter, Magellan saw revenues drop 1.4% year over year to $244.6 million, and gross profit fell 7.1% to $40.4 million. The company declared a quarterly dividend of $0.085 per share, representing a 1.7% dividend yield.

CAE Inc. (TSX:CAE)(NYSE:CAE)

CAE is another aerospace and defence company based in Quebec. Shares of CAE have climbed 4.4% in 2018 so far. The stock is up 14% year over year. The company reported a record $7.5 billion order backlog in its fourth-quarter 2017 report.

CAE posted annual revenue of $2.7 billion in 2017, representing an 8% increase from the prior year. In the defence sector, CAE won orders and contract options that added up to $2.3 billion and contributed to a record $4.2 billion defence backlog. In Q4, defence revenue fell 4% to $282.7 million, but annual defence revenue climbed 7% to $1.03 billion.

Some notable defence order wins for CAE included a training systems integration contract from European multinational Airbus, and a maintenance training solution for the Royal Canadian Air Force. The latter program carries estimated value of $300 million over the next 26 years. The defence segment also won training contracts with NATO and the U.S. Air Force.

CAE offers a dividend of $0.08 per share, representing a 1.4% dividend yield.

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