Is Magellan Aerospace Corp. (TSX:MAL) About to Take Off?

Description

Military spending is likely to be big news in the near future, as geopolitical superpowers re-position themselves amid seismic shifts in the global economy and other stressors. With a recent announcement that Canadian defence spending is set to leap by $62 billion over the coming years, the aviation sector might be about to really take off, offering opportunities for a stable return on invested capital.

The Canadian Armed Forces are due for expansion, with an emphasis on jets and warships. Depending on which companies will profit from this investment in the military, stock pickers may have an opportunity to make a profit, too. While there are more than a few stocks on the TSX that could really make your own defence budget work for you, we've singled out one of the hottest.

Explore your options, but this is one of the best

Possibly the best growth stock in Canadian defence right now is a billion-dollar aerospace company by the name of **Magellan Aerospace Corp.** (TSX:MAL). One of the heavyweights of the Canadian aviation industry, Magellan Aerospace designs, engineers, and manufactures aero engines and other aero components for the United States, Canada, and Europe. Its main market is commercial aviation, though a quarter of its revenue comes from the defence industry.

Along with designing and building aero parts, Magellan Aerospace also has a line in repair and maintenance, making the company an all-round service. Magellan Aerospace swallowed up a number of U.S. aviation companies in the 90s and is also the parent company of Magellan Aerospace U.K. Alongside its commercial and defence clients, this internationality represents a certain level of market diversification that places Magellan Aerospace as a pretty stable growth stock.

A defensive stock to help you navigate a choppy economy

Magellan Aerospace is a component supplier for Lockheed Martin F-35, a mainstay of military fleets in the U.S., as well as the Airbus A380 and the Boeing 787 Dreamliner, two of the world's most important commercial airliners. By focusing on key aero parts and maintenance, Magellan Aerospace has ensured itself a lower level of risk due to lower outlay — an issue for companies that produce the vehicles themselves. This stability is passed on to the shareholder, making this a defensive stock in more ways than one.

Don't be put off by the fact that Magellan Aerospace reported a Q1 drop in overall income year on year of 7.1%. New contracts are coming in, including a lucrative deal to supply parts for the McDonnell Douglas CF-18 Hornet, a favourite of the Royal Canadian Air Force. In short, Magellan Aerospace is set to profit directly from a major increase in defence spending over the coming years.

The bottom line

Currently up 0.29%, the share price still isn't bad. At $17.40 a pop, Magellan Aerospace remains moderately discounted after a steep nosedive in the middle of May, so get them while they're hot.

With a forward yield of 1.95%, Magellan Aerospace is a decent dividend stock worth having in your portfolio. As potential conflict threatens in various geopolitical hotspots around the world, you're going to want to have dividend-paying stocks in growth industries. Having at least one or two military or aerospace stocks in your basket makes more than a little sense if you're looking for long-term profits.

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