2 Stocks to Store in Your Portfolio for the Next Decade

Description

Back in April I'd discussed how the governments of the United States and Canada had pushed to increase military spending over the next decade. This is a noticeable trend across the world, and it is likely to continue as growth slows into the next decade and competition between nations intensifies.

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On June 18 the *John S. McCain National Defense Authorization Act for Fiscal 2019 passed the U.S. Senate 85-10*. This vote authorizes an $82 billion increase in military spending. This also authorizes $8.5 billion in spending for new systems that will go toward a recently unclassified "space budget." The U.S. Air Force is projected to invest $44.3 billion in space systems over the next five years.

Tom Lawson, former Canadian chief of defence, said recently that it is in Canada's interest to "remain closely linked with U.S. space agencies." However, this process is likely to be slow and Canada has already committed a significant bump in military spending over the next decade.

The private sector is going to have a huge part to play as these systems are upgraded. Investors looking for long-term growth should look to this industry going forward. Today we'll look at two stocks that could take advantage of the trend in military spending, as well as the push to upgrade defense in space.

Magellan Aerospace Corp. (TSX:MAL)

Magellan Aerospace is a Mississauga-based aerospace and defence company. Shares have plunged 23.6% in 2018 as of close on June 22 and the stock is down 21.8% year over year. Should you buy the dip?

The company released its first-quarter results on May 3. Total revenues were down 1.4% year-over-year to $244.6 million and gross profit fell 7.1% to $40.4 million. Its best performing segment was in Canada as revenues rose 5.1% to $78.6 million. This was due to higher repair and overhaul services offset by lower production volumes and a weak U.S. dollar.

In its outlook for the remainder of the year, the defence market has the brightest marks. This is due to the aforementioned boost in budgets in the U.S. as well as in other developed nations. Magellan leadership expects defence markets to continue to rebound, which should be good news for the company over the long haul. The stock could be a sneaky pick up after a post-earnings dip.

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

CAE is a Quebec-based company that delivers training in civil aviation, defence, security, and healthcare markets. Shares of CAE have climbed 15.7% in 2018 thus far. The stock is up 21% year over year.

Defence revenue in the fourth quarter for CAE rose 3% year-over-year to $290.4 million. Annual Defence revenue climbed 5% to $1.08 billion. The company reported that Defence booked orders for $434.5 million in the fourth quarter, which included a training system integration contract for a comprehensive NH90 helicopter training solution to the Qatar Emiri Air Force and helicopter training for the Brazilian Navy.

CAE announced a dividend of $0.09 per share, thereby representing a 1.3% dividend yield. The stock has rallied to new highs in June and investors may want to wait for a more dramatic pullback before stashing CAE in their portfolios. In any case, this is an attractive long-term hold.

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