



## Aerospace Industry Braces for Trade War

### Description

A trade war will benefit no one.

Rising costs and a potential disruption in supply chains can impact a company's competitiveness. One industry that is anticipated to be hit hard is the aerospace industry.

Don't take my word for it. The Aerospace Industries Association of Canada (AIAC) has expressed great concern that an escalating trade war will negatively impact the industry. Why? The industry relies heavily on aluminum and steel — both of which have been at the centre of Trump's trade rhetoric.

According to Jim Quick, president of the AIAC, "the tariffs ... threaten highly integrated supply chains on both sides of the border." Here are two companies that will be impacted in the event of a trade war.

### Recent results reason for concern?

First up, we have one of the Canada's largest aerospace components manufacturers, **Magellan Aerospace Corp.** ([TSX:MAL](#)). The company engineers and manufactures aeroengine and aerostructure components for aerospace markets, including products for defence and space markets, and complementary specialty products.

Magellan is a Canadian Dividend Aristocrat, having raised dividends for five consecutive years. In the first quarter of 2018, the company saw declining revenue growth. Its U.S. operations declined 1.9%, and net income was halved year over year (YOY).

Is this a sign of things to come? Management remains bullish and have yet to comment on the tariffs. That being said, it's important to watch for warning signs.

### Landing gear supplier

**Heroux Devtek Inc.** ([TSX:HRX](#)) is a little-known small-cap supplier. The company specializes in landing gear and actuation systems for the aerospace industry.

Since reaching a high of \$16.75 in May, Heroux Devtek has lost approximately 7% of its value on increasing trade tensions. Much like Magellan, the company's first-quarter results were mixed. Sales decreased 6.5%, while adjusted net income increased 14% YOY.

The company is expected to close two major acquisitions over the next year, which should result in a significant bump in earnings and sales. However, the company is expecting flat sales from existing operations through 2019.

### **Aerospace outlook**

The demand for aerospace components is expected to be robust. There has been an increase in defence spending commitments worldwide. Along with a positive outlook in the commercial industry, there is much to like about the sector.

Despite the positives, one cannot ignore the potential ramifications of a trade war. Some of the biggest names in the industry have voiced their concerns over the high tariffs.

Should the trade war escalate, I would expect Magellan and Heroux Devtek to be pressured over the short term. On the flip side, should trade tensions ease, both of these companies can be poised for big gains.

### **CATEGORY**

1. Investing

### **POST TAG**

1. Editor's Choice

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1. TSX:HRX (Héroux-Devtek)

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