



## Forget the Airlines: CAE Inc. (TSX:CAE) Is the Way to Fly in 2019

### Description

Canada's darlings of the sky came crashing down to earth in 2018. That's figurative, of course.

Yes, that's right, **Air Canada** barely made it into positive territory on the year, and I don't want to talk about **West Jet**, a stock I've [recommended](#) on several occasions in the past year that's genuinely disappointed its shareholders.

Why chase these stocks over the next 12-24 months when you can own **CAE** ([TSX:CAE](#))([NYSE:CAE](#)), a company that wins no matter which airlines are doing well?

### There's a pilot shortage

In my last article about the flight simulator and training company in November, I'd said that the pilot shortage that exists in commercial aviation — there's a future need for something like [255,000](#) pilots — is a godsend to CAE's business, because all those pilots need time in simulators to get a feel for the aircraft they'll be flying.

However, CAE's business can't just rely on the sale of simulators, so it's gone out and set up training centres all over the world in partnership with many of the airlines that it's done business with, and those centres train the pilots how to use the simulators for maximum training benefit.

That's kind of like Gillette selling you the razor and then coming to your house to show you how to get the best shave from it. No one would pay for this service, but airlines sure do; that's because their revenues depend on highly trained pilots being available.

### No pilots, no revenues — at least not yet

Here's an interesting big-picture concern that I have with CAE stock.

What happens when planes don't need pilots and are flown autonomously like self-driving cars are

driven?

It seems crazy, but analysts believe they're just around the corner.

"If you're bullish on autonomous cars, it's time to start looking at autonomous aircraft," **Morgan Stanley** analysts Adam Jonas, Ravi Shanker, and Rajeev Lalwani said in a December research note. "[In many ways, an aircraft is] an easier software problem to solve than an autonomous car."

If you're a CAE shareholder, don't get too apoplectic. The analysts believe the first use of autonomous aircraft will involve the shipment of freight, with commercial travel coming far later.

That's good news if you own **UPS** or **FedEx** stock. And if you own CAE, pay attention to what the company says about its training business in the future. You might find that it's already thought about this and has a plan.

But I'm getting off on a tangent.

## The defence business

Although it's the part of CAE's business that very few people talk about, it's an essential piece of the puzzle, generating 40% of the company's overall revenue, 63% of it from Canada and the U.S.

As Fool contributor Ambrose O'Callaghan [stated](#) December 20, the global defence spending in 2018 increased by 4.9%, the most significant increase since 2008. Countries near and far are committing greater sums to their annual defence budgets.

Here in Canada, we're expected to increase our spending on defence by 70% over the next decade, providing CAE with lots of opportunities to grow this part of its business, some of it right in its backyard.

## Why bet on the airlines?

Warren Buffett has invested in a bunch of them; it's probably the best way to ensure you win the bet.

However, for the average Canadian, with only a handful of domestic airline stocks to bet on, you either have to look south of the border or invest in a company like CAE, which reduces specific airline risk and participates in segments of the aerospace industry that are growing.

Who needs Air Canada, anyway?

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