Which Canadian Aviation Industry Stocks Are Soaring?

Description

The good news that investor confidence in **Bombardier** stock is soaring (see a five-day leap of over 33% on positive Q4 and full-year results) shows that traders are still willing to bet on Canadian aviation . Below is a brief evaluation of a few TSX index stocks that operate in the same (aero)space. Will these Canadian aviation stocks follow Bombardier into the stratosphere, or have they received permission to land?

Air Canada (TSX:AC)(TSX:AC.B)

Up 4.53% over the last five days, the share price for Air Canada is taking off. This favourite of aviation investors has an expected 21.6% ROE over the next few years — significant for a TSX index stock — while its track record looks good with a five-year average past earnings growth of 41.7%.

With more inside buying than selling in the last three months, Air Canada is a popular stock at the moment, with a 52.3% expected annual growth in earnings. Could the valuation be better? Looking at a P/E of 54 times earnings and P/B of 2.2 times book, it's easy to call for overvaluation, though a high P/E could be seen as a sign of high performance, while that per-asset valuation is by no means the highest for a Canadian stock.

Compare these stats with those of a U.S. counterpart, like **Delta Airlines** (NYSE:DAL). Delta Airlines is up 4.38% in the last five days and enjoyed a one-year past earnings growth of 22.8%. Its P/E valuation is much lower that Delta Airlines at just nine times earnings, though a P/B of 2.5 times book nudges the former stock's P/B.

Delta Airlines pays a dividend yield of 2.74%, beating Air Canada — which offers no dividends — though with the former stock's 5.3% expected annual growth in earnings, it looks as though its wings have been clipped.

Heroux-Devtek (TSX:HRX)

Moving on to production stocks and away from commercial carriers, we have this stalwart TSX index aerospace ticker. Up 8.05% in the last five days, Heroux-Devtek's one-year past earnings growth of 20.1% continues a positive trend set by a five-year average of 16.5%. A fair volume of shares in Heroux-Devtek have been bought by insiders in the last few months, adding to a moderate buy signal.

With a P/E of 27.9 times earnings and P/B of 1.4 times book matched with a significant 25.3% expected annual growth in earnings, Heroux-Devtek is a decent pick for capital gains investors scanning the radars for potential upside.

Magellan Aerospace (TSX:MAL)

Down 0.86% in the last five days at the time of writing, the geographically diversified aero parts stock matches attractive valuation (see a P/E of 10.8 times earnings and P/B of 1.3 times book) with a dividend yield of 2.32% and 2.9% expected annual growth in earnings.

Magellan Aerospace is generally positive, with a five-year average past earnings growth of 15.8%. A low debt level of 9.3% of net worth makes Magellan Aerospace one of the healthiest stocks on the TSX index, and it's certainly the Canadian aerospace stock to go for if you happen to be a stickler for spotless balance sheets.

The bottom line

Air Canada shows that it can go toe to toe with American aerospace stocks on quality, with its ROE challenging Delta Airlines's expected ROE of 20.4% over the next three years. Meanwhile, the aviation parts side of the TSX index is well represented by Heroux-Devtek and Magellan Aerospace, which offer strong capital gains and passive income, respectively.

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2. TSX:AC (Air Canada)
3. TSX:HRX (Héroux-Devtek)

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