Aviation Stocks: Have the Bulls Got it Wrong?

Description

Pundits and investors alike are still bullish on some areas of the aviation sector that the casual observer may find surprising. Indeed, one of the most hotly debated aerospace stocks today is continuing to trade at a healthy price, despite a string of PR disasters. Let's take a quick look at the current state of several aviation stocks from either side of the border and see how they're holding up.

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

Down 2.04% in the last five days at the time of writing, the TSX index's own Air Canada is a little out of favour at the moment, but unlike the next aviator on our list, it's not out of the skies. It's a solid enough stock, to be sure, with past-year returns of 20.7% that outperformed the Canadian airlines industry average of 9.8% for the same period and a five-year average past earnings growth of 41.7%

Though its one-year past earnings-growth rate has been negative by almost 100%, Air Canada is looking at a 50.9% expected annual growth in earnings over the next one to three years, with an attendant expected ROE of 28% for the same three-year period. The valuation isn't perfect, with a P/E of 51.6 times earnings and P/B of 2.1 times book, but this stock remains a sturdy long-term investment.

Boeing (NYSE:BA)

Boeing's 38% market share might be untenable in the near future, with everyone from tabloids to political leaders chiming in on the subject. Up 3.44%, investors are still bullish on this stock, though, even with its wings clipped. But have they got it wrong? With one PR disaster after another, it's a brave traveler who takes a punt on this aviation ticker.

The stats aren't bad for Boeing, however, and herein lies the likely cause for resilient bullishness. Boeing's returns of 13.4% beat the U.S. aerospace and defence industry's negative returns over the past 12-month period, though whether this stock will ever see five-year returns around the 300% mark again is anyone's guess.

Though it's still well covered by operating cash flow, Boeing's debt has climbed over the past five years. Another red flag for the nervous investor would be the fact that Boeing insiders have only sold shares in the last three months. The value investor would do well to look elsewhere, with a P/E of 21.2 times earnings and a P/B ratio in the hundreds.

Héroux-Devtek (TSX:HRX)

Turning back to the TSX index, we can see that Héroux-Devtek's one-year past earnings growth of 20.2% didn't quite beat the Canadian defence and aerospace industry average of 24%, though its own five-year average growth rate of 16.5% beat the industry's 8.7% for the same period.

While its level of debt compared to net worth has increased over the past five years from 29.5% to the current 73.4%, it's still a healthier stock than Boeing. Héroux-Devtek is also the better valued investment, with a higher P/E of 30 times earnings but considerably lower P/B of 1.5 times book. Again, Héroux-Devtek comes out on top with a 25.3% expected annual growth in earnings.

The bottom line

With a dividend yield of 2.15% bringing past 10-year stability, Boeing might tempt the newcomer; its 10.9% expected annual growth in earnings seems somewhat optimistic, given the current situation, however. Héroux-Devtek is possibly the one aviation stock that investors should remain bullish on even if the whole industry were to tank.

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TICKERS GLOBAL

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Date
2025/08/24
Date Created
2019/04/18
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