



Global Military Spending Hits a Record: 2 Stocks to Grab in Response

Description

According to an annual report by the Stockholm International Peace Research Institute (SIPRI), global military spending topped \$1.8 trillion in 2018. This represented a 2.6% year-over-year increase over the previous annual record for military expenditures in 2017. [U.S. military spending](#) climbed 4.6% in 2018 to \$649 billion. U.S. military spending is set to increase to \$686 billion in FY 2019 and a whopping \$718 billion has been requested for FY 2020.

Canadian military spending is set to increase into the middle of the next decade, but it will still [dwarf the spending](#) of the top world powers. Fortunately, there are several TSX-listed companies that have benefited from the growing defence industry in the domestic and international sphere. Let's look at two that are a good fit in any portfolio today.

CAE ([TSX:CAE](#))([NYSE:CAE](#))

CAE is a Quebec-based company that delivers training for the civil aviation, defence, security, and healthcare markets. Shares of CAE have climbed 26% in 2019 as of close on May 14. The stock is up 28% year over year.

The company will release its fourth-quarter and full-year results for fiscal 2019 on May 17. In the third quarter of FY 2019, CAE reported a record \$9 billion backlog. Defence and Security stood tall as its strongest segment in the quarter. Revenues in Defence and Security climbed 27% year over year to \$330.2 million, and total backlog increased 22% to a record \$4.4 billion. In Q3 FY 2019, CAE secured an eight-year, more than \$250 million contract with the U.S. Air Force as well as a contract with the Eurofighter industry consortium.

CAE stock has generated solid growth over the last three years, climbing 100% in that span. The company last announced a quarterly dividend of \$0.10 per share, which represents a modest 1.2% yield.

Heroux-Devtek ([TSX:HRX](#))

Heroux-Devtek is another Quebec-based company that designs, develops, manufactures, and repairs landing gear and actuation systems and components for the aerospace market. Shares of Heroux-Devtek have climbed 16.4% in 2019 as of close on May 14. The stock is down 2.2% from the prior year.

Heroux-Devtek is expected to release its fourth-quarter and full-year results for FY 2019 later this month. In the third quarter, the company saw sales jump 49% year over year to \$144.5 million. Operating income rose 79.6% to \$11.9 million. For the first three quarters of FY 2019 Heroux-Devtek reported adjusted net income of \$17.5 million, or \$0.48 per share, compared to \$13.7 million, or \$0.38 per share, in the prior year.

Defence sales saw the biggest year-over-year increase in the quarter. Sales surged 76% year over year to \$79 million on the back of Beaver and CESA's sales. It also benefited from higher spares requirements from the U.S. Government and higher manufacturing sales to civil customers. Defence sales in the year-to-date period reached \$167.7 million over \$135.9 million in FY 2018.

Heroux-Devtek is forecasting solid sales growth into the next decade. The stock is trading at the high end of its 52-week range ahead of its next quarterly report, so value investors may want to wait for a more favourable entry point.

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1. NYSE:CAE (CAE Inc.)
2. TSX:CAE (CAE Inc.)
3. TSX:HRX (Héroux-Devtek)

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