Forget Airline Stocks: Buy This Business Instead

Description

Airline stocks are back in fashion.

In 2013, Warren Buffett called airlines a "death trap" for investors. Today, he's one of the industry's biggest investors.

"It's true that the airlines had a bad 20th century," Buffett told *CNBC*. "They're like the Chicago Cubs. And they got that bad century out of the way, I hope."

What changed?

Airlines finally got serious about limiting overcapacity, diversifying revenue sources, and streamlining operations. This has been a boon for nearly every competitor.

Air Canada stock is up 270% since 2014. On May 13, **WestJet Airlines** announced it will be taken private at a 67% premium.

But if you think your best option is to scoop up airline stocks, think again. There's a little-known company that has even more upside without the need to bet on a single carrier.

Always sell the shovels

Whenever there's a gold rush, most people rush for the gold. The real profits, however, are made by those who sell the shovels. No matter what happens, these entrepreneurs will end up in the green.

CAE (TSX:CAE)(NYSE:CAE) is selling the shovels to the airline industry. Except it's not shovels that it's selling — it's simulators.

CAE provides simulator technology and training services to the global airline industry. This is a great business to be in.

The International Air Transport Association expects airline demand to double by 2037. **Boeing** thinks that nearly 800,000 new pilots will need to be trained in order to meet this demand.

That's where CAE comes in.

Most carriers only have the internal capacity to train a few thousand pilots per year. CAE can train 135,000 pilots per year. Plus, it has capacity to train 85,000 flight crew annually — a necessity for any growth in airline demand.

Whatever happens to the airline industry, CAE stands to benefit.

If history repeats itself, and operators rush new capacity to market, eroding newfound profit margins, CAE's business should continue to grow with little disruption — it's not optional to train your flight staff.

Is the valuation right?

Over the last 12 months, CAE stock is up 30%. The **S&P/TSX Composite Index** has returned just 1% over the same period.

Over the last five years, CAE stock has popped an astounding 145%, yet again beating the S&P/TSX Composite Index's gain of just 9%.

After the meteoric rise, are you too late to join the party?

Even after the run, shares trade at just 28 times trailing earnings. That's a premium versus the market, but it's well deserved considering its growth trajectory. Last year, revenue jumped by 13%.

Looking ahead, CAE stock trades at just 22 times 2021 earnings. That's not a bad price to pay for a company with a multi-decade growth opportunity ahead of it, not to mention best-in-class services.

No matter what happens to individual carriers, overall demand for flights will likely increase consistently over the next few decades. Safety regulations should also continue to strengthen, especially considering the latest troubles plaguing Boeing.

All of the above should provide a reliable runway for CAE to grow. Despite the slight premium, the current valuation looks like a steal for patient investors.

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