Buy This Space Stock and Outperform Jeff Bezos and Elon Musk

Description

Magellan Aerospace Corporation (TSX:MAL) produces aeroengines and aerostructure assemblies for space markets in North America, Europe, and Asia.

The company was incorporated in 1994 and corporate headquarters is in Mississauga, Canada. The company sells aero=engine products, including engine frames, compressor and fan cases, turbine cases, shafts, rotor spools, discs and blisks, gearbox housings, combustion liners and cases, exhaust frames and systems, engine bypass ducts and frames, acoustically treated exhaust systems and fan cowl doors.

The company is underpriced with a price-to-earnings ratio of 10.64, a price to book ratio of 1.21 and market capitalization of 961 million. Debt is very sparingly used at Magellan Aerospace, as evidenced by a debt to equity ratio of just 0.11. The company has average performance metrics with an operating margin of 10.78% and a return on equity of 11.73%.

The company supports the aftermarket through the supply of spare parts as well as through repair and overhaul services (R&O). The company began a focused effort in 2018 to establish a zero defect, 100% schedule compliance culture across the firm.

In parallel, there was a big emphasis on reducing inventories while increasing inventory turns and improving cash management. The company also invested in a new Enterprise Resource Planning (ERP) system to transform the business.

The company supplies both the commercial and defence sectors of the Aerospace segment. In the commercial sector, the company operates in the large commercial jet, business jet, regional aircraft, and helicopter markets.

On the defence side, the company provides parts and services for major military aircrafts. Within the Aerospace segment, the company has two major product groupings: aerostructures and aeroengines. Aerostructure and aeroengine products are used both in new aircrafts and for spare parts.

Within the aerostructures product grouping, the company supplies international customers by

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producing components to aerospace tolerances using conventional and high-speed automated solutions. Capabilities include precision casting of air frame mounted components.

Management believes that Magellan need to focus on technological innovation and low cost sourcing from emerging markets so the company is appropriately positioned to gain market share.

Within the aeroengines product grouping, the company manufactures complex castings, fabricated and machined gas turbine engine components, both static and rotating, integrated nacelle components, flow path and engine exhaust systems for the world's leading aeroengine manufacturers. The company also performs R&O services for jet engines and related components.

Last year, 69% of revenues were derived from commercial markets (2017–73%, 2016–73%) while 31% of revenues related to defence markets (2017–27%, 2016–27%). The company reported revenue in most recent quarter of $270 million, a $25.3 million increase year over year. Gross profit and net income were $43 million and $21 million, respectively.

The company has also been actively pursuing partnerships to further business interests. Magellan recently announced agreements valued at $48 million with the Canadian government to perform the licensed manufacture of LUU-2 Illumination flares for the Royal Canadian Air Force.

Magellan also recently announced it has reached a multi-year agreement with **The Boeing Company** to manufacture 777X ribs and Magellan will provide internal dual source capability for risk control.

Magellan appears to be an under the radar opportunity for Canadian value investors looking for exposure to the global aerospace industry.

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