ALERT! 2 Oversold Defence Stocks

Description

Defence stocks were some of my favourite long-term picks before the onset of the COVID-19 pandemic thrust the global economy into turmoil. Many sectors have been throttled by economic shutdowns. However, investors should keep faith in defence going forward. If anything, economic instability will encourage more investment in this sector.

In 2018, global military spending soared to a record high. Today, I want to look at two TSX-listed defence stocks that can be had for a mouth-watering discount in early April. Let's jump in.

Top TSX defence stock: CAE

CAE (TSX:CAE)(NYSE:CAE) is a Montreal-based company that provides training solutions for the civil aviation, defence, and security, and healthcare markets around the world. It should receive additional interest for its service to this latter sector, which is also seeing increased attention due to COVID-19. Shares of CAE have dropped 47% month over month as of early afternoon trading on April 8.

The company had delivered a strong Q3 FY 2020 in early February. Revenues rose 13% year over year to $923.5 million and earnings per share reached $0.37 over $0.29 in Q3 FY 2019. In early March, CAE announced that it would provide coronavirus simulation training scenario and webinars for healthcare providers. Investors should seek out companies that offer essential services in this crisis, and CAE fits the bill.

Unfortunately, the company was forced to suspend its dividend and share repurchases in the face of this crisis. Meanwhile, it is developing an easy-to-manufacture ventilator to meet surging demand from hospitals. CAE stock last had a favourable price-to-earnings (P/E) ratio of 13 and a price-to-book (P/B) value of 1.9. Investors will have to go without the dividend in the near term, but long-term CAE still looks like a great hold.

Heroux-Devtek

Heroux-Devtek (TSX:HRX) is another Quebec-based defence stock that is engaged in the design, development, manufacture, integration, testing, and repair and overhaul of special components in the aerospace market. Its stock has dropped 38% month over month at the time of this writing. The exposure to defence continues to be promising, but like CAE it is exposed to near-term volatility in aviation.

In early April, Heroux-Devtek withdrew its fiscal 2022 guidance in response to the COVID-19 pandemic. The company is the world's third-largest manufacturer of landing gear. Because of the uncertainty in the aerospace market, Heroux-Devtek may face significant turbulence in this area. However, management reiterated that its strong defence backlog would be a source of strength going forward.

The company released its fiscal 2020 third-quarter results on February 6. Its funded backlog increased 9% to a record $839 million. In the year-to-date period, defence sales climbed 39.8% year over year to $234.4 million. Indeed, the strength in its backlog was primarily bolstered by increased demand for defence products under long-term contracts.

Shares of Heroux-Devtek last had a favourable P/E ratio of 11 and a P/B value of 0.8. Its withdrawn guidance is a concern, and volatility in aviation is certainly a risk. However, its defence segment is strong enough to carry the company through this crisis. Value investors should consider buying-the-dip in both of these defence stocks today.

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