



## RRSP Stock Picks: 1 Great Buy in February 2021

### Description

**Magellan Aerospace** ([TSX:MAL](#)) is a [diversified supplier](#) of components to the aerospace industry. The company engineers and manufactures aerostructure components for aerospace markets, including advanced products for defence and space markets and complementary specialty products. Magellan also supports the aftermarket through the supply of spare parts as well as through repair and overhaul services.

The company has a price-to-earnings ratio of 15.15, price-to-book ratio of 0.65, dividend yield of 4.56%, and market capitalization of \$535 million. Debt is very sparingly used at Magellan Aerospace, as evidenced by a debt-to-equity ratio of just 0.13. The company has excellent performance metrics with an operating margin of 6.56% and a return on equity of 4.39%.

The company's strategy is to focus on selected [core competencies](#) within the aerospace industry where those competencies are critical to meeting customer needs. These include precision machining of a wide variety of aerospace metal alloys, complex high technology alloy castings, and engine repair and overhaul technologies.

The company supplies design engineering products to international customers in the commercial and defence markets. Components are manufactured to aerospace tolerances using conventional and high-speed automated equipment. Capabilities also include precision casting of engine and airframe mounted components.

The company also supplies systems to develop and sell proprietary space and rocket motor systems to a global customer base. Magellan's alignment with customers and the company's dedication to technological innovation combined with low-cost sourcing from emerging markets has positioned Magellan to capture targeted complex assembly programs.

The business carried on by the company involves firm contracts generally having terms of between three to 10 years. Component products and systems supplied are related to end-product sales by Magellan's customers and are generally subject to termination, modification, or reduction at the option of the company's customers.

However, if a program is terminated, the terms of some of the underlying contracts provide that the company will be reimbursed for allowable costs incurred to the date of termination plus any proportionate amount of profits attributable to the work actually performed. Products that are delivered directly to the end-user generally involve contracts for specific quantities over specific time periods, and are less likely to experience variations to the terms.

The aerospace industry is highly regulated in most countries, including Canada, the United States, and the United Kingdom, by specialized government agencies. Magellan is certified in such jurisdictions and, in some cases, also by individual original equipment manufacturers to engineer and service parts used in specific aircraft models.

The company minimizes the increase in cost of materials and parts by utilizing customer buying power. Magellan procures raw materials and components necessary to fulfill contractual requirements at competitive prices from the global marketplace. To the extent possible, Magellan includes price escalation formulas and other clauses in contracts with customers to share the risk of price increases in raw materials.

Recently, Magellan has been investing heavily in leading technologies to advance capabilities and to maintain a competitive advantage. These investments are likely to pay rich dividends over the long term.

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