CAE (TSX:CAE) Stock Falls to 10-Month Lows: Should You Buy?

Description

Aviation training specialist **CAE** (TSX:CAE)(NYSE:CAE) stock has been notably weak and has lost 26% since last month. While broader markets seemed to have found some relief from Omicron fears, CAE stock has not seen a similar enthusiasm lately.

CAE stock ahead of 2022

It was a double whammy for CAE investors in November.

CAE delivered a pretty decent set of fiscal Q2 numbers but fell short of analyst expectations. In addition, more travel restrictions due to the new coronavirus variant also hammered investor sentiment. Thus, CAE stock continued to lag markets, losing more than 10% for the year.

CAE is a $10 billion company that develops simulation technologies for civil aviation, defence, and healthcare. Before the pandemic, the civil aviation training segment contributed more than 85% to its total operating income. This contribution fell to 13% last year amid the pandemic. Now with the air travel demand recovery in sight, CAE could see an upturn in the next few quarters.

For the quarter ended September 30, 2021, CAE reported $815 million in revenues, which was a 16% growth year over year. Its net income for the quarter came in at $14 million against a loss of $5 million in the year-ago period.

Robust demand growth outlook

Many passenger airlines see an encouraging air travel demand recovery in the next few quarters. According to IATA's (International Air Transport Association) latest forecast issued, they expect annual domestic and international passenger demand, or revenue passenger kilometres (RPKs), to be 52% of pre-COVID levels and a 53% improvement over calendar year 2020. Additionally, IATA now expects RPKs to recover to 2019 levels by 2023.

Expectations of an air travel demand recovery could restart the corporate investment cycle in the foreseeable future. More passengers means an increased need for pilots, and, thus, more business for companies like CAE.

In November 2020, CAE released a report that discussed a Pilot Demand Outlook for 2020-2029. It estimated an expected global requirement of 264,000 new pilots in the civil aviation industry to sustain growth and support mandatory retirements over the next 10 years. It valued the addressable market of civil aviation training solutions at $6.2 billion with headroom for growth. CAE is just responsible for approximately half of it, indicating a robust scope for growth.

CAE has been a relatively stable stock in the pre-pandemic period. Its earnings grew by a decent 8% CAGR in the earlier decade, delivering approximately 300% returns in the same period. Now, after several quarters of cash burn and losses, CAE looks well placed for a fresh start.

Among all the rosy outlook, potential travel restrictions driven by more concerning virus variants form one of the major threats to CAE. Also, rising inflation could weigh on richly valued stocks like CAE.

Bottom line

CAE completed nine acquisitions during the pandemic, which could drive its top-line growth in the next few quarters. While higher expected air travel demand is bullish, higher contributions from defence and healthcare could also fuel CAE's financial growth.

CATEGORY

1. Coronavirus
2. Investing

TICKERS GLOBAL

1. NYSE:CAE (CAE Inc.)
2. TSX:CAE (CAE Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. kduncombe
2. vinitkularni20

Category

1. Coronavirus
2. Investing

Date
2025/07/17
Date Created
2021/12/10
Author
vinitkularni20