Global Defence Spending Hits a Record: 2 TSX Stocks to Buy Today

Description

Just over four years ago, I'd discussed the rising military budgets we had seen from the governments of the United States and Canada. Moreover, I cited former U.S. Secretary of Defense James Mattis in a speech he made at Johns Hopkins Hospital back in 2018. "Great power competition — not terrorism — is now the primary focus of U.S. national security," Mattis declared in his speech. Canadians should look to TSX stocks with exposure to the defence sector in the first half of this decade.

Recent events, like the wider Russian invasion of Ukraine that began in late February, have strengthened Mattis's declaration. Officially, the war has not spread outside of Ukraine's borders. However, NATO and the European powers have enacted historic sanctions on the Russian state and provided billions of dollars in lethal weapons to Ukraine.

Why global military spending will increase as this decade presses forward

On April 25, the Stockholm International Peace Research Institute (SIPRI) released a report that revealed global military expenditures had reached an all-time high, passing $2 trillion in 2021. We can expect to see this number increase for an eighth straight year in 2022 if we take current events into account. Germany, one of the world's largest economies, has vowed to dramatically bolster its defence spending-to-GDP ratio in response to the Russia-Ukraine conflict.

In 2021, the U.S., China, India, the United Kingdom, and Russia accounted for 62% of the global expenditure. Earlier this month, Canada also vowed to grow its military budget by $8 billion. However, it will still fall short of the 2% GDP NATO spending target.

This undervalued TSX stock offers exposure to the defence sector

Heroux-Devtek (TSX:HRX) is a Quebec-based company that is engaged in the design, development, manufacture, assembling, and repair and overhaul of aircraft equipment and components. Shares of this TSX stock have dropped 15% in 2022 as of close on April 27. This has pushed the stock into negative territory in the year-over-year period.

The company released its third-quarter fiscal 2022 results on February 9. Heroux-Devtek has faced major challenges due to supply chain issues. This pushed down sales, operating income, and adjusted EBITDA in the year-over-year period. However, adjusted net income was still up in the year-to-date period to $20.6 million compared to $18.8 million in the previous year. Defence sales were up 7.8% net of foreign exchange fluctuations.

This TSX stock possesses a favourable price-to-earnings (P/E) ratio of 18. Its shares last had an RSI of 31, which puts it just outside technically oversold territory.

One more TSX stock to buy as defence spending soars

CAE (TSX:CAE)(NYSE:CAE) is a Montreal-based company that manufactures simulation, modeling, and training technologies and services to the aerospace, healthcare, and defence sectors. This TSX stock has increased marginally in the year-to-date period. However, its shares are still down 14% from the same time in 2021.

In Q3 FY2022, CAE saw revenue rise to $848 million compared to $832 million in the previous year. Meanwhile, adjusted segment operating income was reported at $112 million — up from $97.2 million in Q3 FY2021. Defence revenue increased 42% year over year to $426 million.

CAE is geared up for very strong growth going forward, which should spur investors to snag this TSX stock in late April.

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