Forget Air Canada (TSX:AC): Buy CARGOJET (TSX:CJT) Instead

Description

Investors have been piling into Air Canada stock recently, justifying their investment with the company's strong performance over the years. As Karen Thomas recently wrote, shares have "a five-year return of 450%, a two-year return of 143%, and a one-year return of 34%, making it a clear winner."

But what if I told you there's a related company with similarly impressive returns but significantly less volatility? Meet **CARGOJET** (TSX:CJT).

Cargojet dominates this market

Cargojet is a behemoth when it comes to transporting cargo via airplane in Canada. Over the last 20 years, it has built itself into the only company capable of overnight shipping throughout nearly all of Canada. The company controls more than half of the overnight market in the country.

With more than 1,200 employees and $450 million in annual revenues, Cargojet has massive scale in an industry where those with scale dominate. Serving 16 airports coast to coast, overnight shipping can be a difficult market to enter for competitors, as reputation and consistency are key. It would be very difficult for a new entrant to match both Cargojet's scale and long history of on-time execution.

Importantly, Cargojet also has a history of good relations with its staff, particularly its flight crews. At a time when other airline companies like **Southwest Airlines** are cancelling hundreds of flights per day due to employee strikes, Cargojet just began a five-year contract with its pilots that extends through 2023. Notably, this contact has a no-strike clause — something few others in the industry have been able to secure.

In total, Cargojet has built the most efficient "middle-mile" company in Canada. While "last-mile" logistics have taken up much of the headlines, the company has instead inserted itself into a critical part of its customers logistics needs, ensuring a healthy slice of the pie along the way.

E-commerce gives Cargojet a long-term tailwind

Over 90% of Canada's population lives in fewer than 10 cities; apart from rail, that makes air transport the most efficient way to transport goods across the county. Contrast that to the U.S., where trucks play a much bigger role in transporting goods. With the rise of internet shopping, Cargojet's stranglehold on its market should continue to increase.

In 2015, roughly $29.6 billion worth of goods were purchase online in Canada. By 2020, that should surpass $55 billion. Importantly, Canada also has a relatively low rate of online shopping, creating yet another avenue for growth. For example, in the U.K. and China, around 20% of all purchases are made online. In Canada, just 7% are made online.

These factors have helped push overnight revenues from $150 million in 2015 to more than $350 million today, roughly one-quarter of which consists of fuel surcharges — a variable revenue source that insulates the company from swings in commodity prices.

Should you buy shares?

Currently, Cargojet stock trades at less than 10 times EBITDA with a dividend yield of 1%. As long as the Canadian economy continues to grow, expect this stock to deliver. Plus, in contrast to traditional airlines like Air Canada, the company is completely insulated from volatile oil prices and cut-throat competition.

If you're buying a Canadian air company this year, Cargojet should be at the top of your list.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:AC (Air Canada)
2. TSX:CJT (Cargojet Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/08/23
Date Created
2019/02/28
Author
rvanzo