E-Commerce Is Taking Over and This Transportation Company Is Poised to Benefit

Description

Over the past decade, there has been a massive shift in many business industries, as online capabilities get stronger and companies are able to cut costs by going online. There is nowhere that this is more evident and important than in the retail sector.

The secular shift from brick and mortar to online is growing even faster, as companies are able to deliver to their customers sooner. Overnight shipping driven by **Amazon** Prime and its competitors is pushing to get as many goods to as many customers as quickly as possible. This has created a massive change in the transportation and logistics industry.

One stock that is heavily tied to the growth of online sales and business is **Cargojet** (TSX:CJT). Cargojet has been on a massive run the last few years, with the stock going from roughly $24 at the beginning of 2016 to a present value of over $80 today. Although the stock did correct last year, it was more so due to systematic risk rather than anything company related.

Cargojet is in the business of airline cargo, especially overnight, time-sensitive cargo. It operates mostly in Canada, with a few international routes. It has a growing fleet of 21 **Boeing** 757 and 767 cargo planes.

Cargojet basically has a monopoly on overnight deliveries in Canada. It accounts for over 90% of domestic overnight air cargo available in Canada. Each business night, more than 1.5 million pounds of time-sensitive goods need to be delivered. Cargojet currently operates 60 flights each night, and that continues to grow year over year.

Cargojet also has an impressive track record of quality and punctual service. In the consumer goods delivery industry, on-time performance (OTP) is extremely important, especially in the overnight market.

Cargojet consistently keeps its OTP above 95%. This is an impressive number and will keep current customers happy with the company’s performance, ensuring a higher likelihood that contracts will be renewed when it comes time. Long-term contracts are of utter importance to Cargojet, as they generate 75% of revenue.

Recently, Cargojet entered a contract with Canada Post till at least 2025. It is the only national network allowing next-day service for the courier industry.

Going forward, the focus is shifting towards improving capital structure, specifically reducing debt over the medium term. Debt has been growing sharply as the company has been growing. Total debt of $639 million is now up to 4.5 times adjusted earnings before interest, taxes, depreciation, amortization, and rent (EBITDAR). This could be an issue going forward, and it's the number one potential problem for an otherwise solid growth company.

The growth has been exceptional. Revenue and EBITDAR having both been growing rapidly over the last five years. From 2014 to 2018, revenue grew by 137%, while EBITDAR grew by an astonishing 331%. In terms of numbers, that's $32 million in 2014 to $138 million in 2018 of EBITDAR. The company has also done an impressive job earning about 11% return on equity.

In addition to the growth, it also pays a modest 1.1% dividend. Price to cash flow of 9.1. and a EV/EBITDA of 15.2 is valuing the company at a premium; however, the growth from e-commerce is not going away any time soon.

Although, from a valuation standpoint, it's not the cheapest, it is priced reasonably for growth. While rising debt levels pose risks, management has already addressed this and plans to begin to reduce it in 2019. Investors who want exposure to the growing shift in online businesses should definitely consider an investment in Cargojet.

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Date
2025/06/30
Date Created
2019/05/21
Author

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