200 Million Reasons to NOT Buy Cargojet (TSX:CJT)

Description

Cargojet (TSX:CJT) has become somewhat of an overnight celebrity, and not just because it specializes in overnight shipping.

Earlier this year, it announced a partnership with Drake, whereby it would give the rap star a **Boeing** 767 plane decked out with Drake's multiple logos in exchange for social media posts with the plane in the background.

The plane has an estimated value of $200 million, which is slightly less than half of Cargojet's FY 2018 revenues and 10 times the company's net income in that year.

In the past five years, the company has issued $585 million of debt and $123 million of stock for a total amount of $708 million. Given the value of the plane, 28% of its total money raised has been put toward this partnership with Drake.

Further to this, the company currently has a market cap of $1.2 billion, yet the company's accumulated net income for the past five years is a mere $18 million.

Partnership with Drake

I am all for companies partnering with celebrities, as long as there is value derived from the partnership. Cargojet's deal with Drake is a waste of money.

Firstly, Cargojet's target market are businesses that need to ship a product to a client within a 24-hour window. Last time I checked, Drake's target market was teenagers and those in their early 20s that like to listen to bass-boosted music and go out on the weekends.

There is an obvious disconnect between Cargojet and Drake.

Secondly, we live in an era where these so-called Instagram Influencers are a dime a dozen, and the value of a post is becoming increasingly less.

Simply put, this partnership does not add up at all.

Grossly overvalued

Cargojet's revenue has increased from $192 million to $495 million from FY 2014 to FY 2018. This translates to a compounded annual growth rate of 18.84%, which is quite impressive.

That being said, the value of a stock cannot simply be derived by revenue and if we look closer at the company's net income it is an entirely different picture.

The company took a loss in FY 2014 and FY 2015 before making $2 million profit in FY 2016. Since then, the company has made $24 million in FY 2017 and $20 million in FY 2018. The company's net income margin is 4.40%, which is quite slim. This means that the slightest shift in the economy could result in the company losing millions of dollars.

Keep in mind that overnight shipping is a luxury, not a necessity, so when the impending recession hits it will be one of the first industries to take a hit.

Bottom line

I personally love Drake. His music is fresh, relevant, and he has superb lyrics.

Despite this, I still believe Cargojet made an error in partnering with the rap star as the $200 million Boeing 767 is worth more than what Drake can offer the company.

Given that Cargojet only recently became profitable, this is money that it should have invested back into the business.

Secondly, with the economy teetering on the edge of a recession, investing in a company that is heavily impacted by shifts in consumer spending is not a good idea.

There are better managed companies out there.

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