



## Are the Dynamics Still in Place for Cargojet (TSX:CJT) to Grow?

### Description

**Cargojet** ([TSX:CJT](#)) stock has more than doubled, delivering annualized returns of more than 40% per year, since I first [wrote about it](#) in May 2017.

The stock just soared about 12% on Friday after it announced that it had entered a new strategic agreement to provide air-transportation services for **Amazon** on top of an existing agreement that it had with the company.

The release stated, “Cargojet expects the agreement to generate additional revenue growth and be meaningfully accretive to Cargojet’s earnings and cash flows over time.” There’s no doubt that the new agreement strengthens Cargojet’s relationship with Amazon, the top player in e-commerce.

Are the dynamics still in place to keep Cargojet growing?



### Ongoing e-commerce mega-trend

The advent of e-commerce has benefited Cargojet. The e-commerce mega-trend is still strong — statista projects global retail e-commerce sales to grow about 19% per year through 2021 to US\$4.9 trillion.

In fewer than 20 years, Cargojet has built a dominant position, with more than 90% of the market share, in providing time-sensitive overnight air cargo services in Canada.

Essentially, it consolidates cargo received from customers and transports it to the appropriate destination in a safe and timely manner. Each business night, it transports more than 1.5 million pounds of time-sensitive cargo by operating over 60 flight legs.

On July 31, Cargojet reported its second-quarter results. Total revenues increased 9.3% to \$119 million against Q2 2018.

## Low oil prices

Relatively low oil prices compared to the first half of the decade has helped with lowering cost or boosting profitability. Cargojet has also found synergistic opportunities to improve its fleet utilization and overall margins.

For Q2, Cargojet reported gross margin improvement of 4.3% year over year. Adjusted EBITDA, a cash flow proxy, increased impressively by 30% to \$37.5 million versus Q2 2018.

## A recession will eventually come

We haven't had a recession for 10 years, and the North American stock markets have been reigned by the bull in that time. Another recession or market downturn will eventually occur. And when it does, the demand for overnight air cargo services will decrease, and CJT stock should then trade at a more appetizing multiple. At about \$102 per share as of writing, it trades at about 68 times estimated 2020 earnings.

What's noteworthy, though, is that Cargojet has about 75% of core overnight revenues under long-term contracts with guaranteed volume minimums, annual inflationary adjustments, and variable surcharges for uncontrollable cost changes, such as fuel and regulatory changes. So, the core of Cargojet's top and bottom line will [somewhat be protected in the face of a recession](#).

## Foolish takeaway

Cargojet will grow long term. However, investors should be cautious about the stock's high valuation and the possibility of a recession or market downturn happening within the next few years.

### CATEGORY

1. Investing

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1. Investing

**Date**

2025/08/26

**Date Created**

2019/08/25

**Author**

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