Forget Air Canada (TSX:AC): This TINY Airline Stock Just SMASHED Earnings!

Description

Ever since it started tanking in the COVID-19 market crash, **Air Canada** (TSX:AC) has been getting a lot of attention. Investors are always eager to buy beaten-down stocks on the dip, and AC appears destined to soar when the pandemic is over.

But looks can be deceiving. It's far from a foregone conclusion that airlines will get back to business as usual when COVID-19 is over. New regulations and passenger wariness could keep them grounded for a long time. Additionally, airlines could suffer lasting financial damage trying to get through this period of depressed revenue. That's one of the big reasons Warren Buffett sold his entire position in airline stocks last quarter.

But not all airlines are created equal. As I've written in past articles, airlines that ship goods are better positioned than airlines that transport people. Today, one of these airlines released earnings for the first quarter. And they were absolutely phenomenal.

Cargojet

Cargojet (TSX:CJT) is a small cargo airline based in Ontario. It ships goods around Canada and, to a lesser extent, internationally. Its speciality is small overnight shipments. This focus on small packages means it gets a lot of e-commerce orders. So, it benefits from the same trend that's sending stocks like **Amazon** soaring.

The first clue that CJT was going to do well in Q1 came a few weeks ago. The company issued a press release saying that business had surged thanks to increased e-commerce shipments. When passenger airlines were demanding the government help them survive, Cargojet said it needed help to keep up with demand!

It was encouraging, to say the last. And earlier today, CJT confirmed its Q1 boost with a stellar earnings release that showed improvements on virtually every metric. Revenue was up 12%. The gross margin was up 51%. Adjusted EBITDA was up 24.5%. Operating cash flow was up 66%.

The one sore spot was GAAP earnings, which came in at -$1.8 million. However, that was mostly due to non-cash items, like depreciation. Net cash from operating activities was a healthy $40 million, contrasted with $24 million in the same quarter a year before.

Why it outperformed

The reason why Cargojet outperformed other airlines in Q1 is pretty simple: it ships goods instead of people.

Almost all the restrictions that are hammering airlines right now are related to disease transmission. International travel is a major vector for disease, so airlines have had to close international routes. You can't socially distance on a cramped airplane, so airlines have had to limit passenger volume.

None of the aforementioned factors apply to Cargojet. As a cargo airline, its typical flight is staffed by only a pilot, a co-pilot, and a loadmaster — the person responsible for loading and unloading cargo. That's a night and day difference from a passenger airline. It means that CJT can operate normally during COVID-19, whereas Air Canada absolutely cannot. Add the company's focus on e-commerce shipments into the mix, and you've got a recipe for success.

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