Could Cargojet Stock Continue to Soar as the Pandemic Subsides?

Description

Cargojet (TSX:CJT) is one of a few businesses that has managed to keep investors' optimism alive, despite the ongoing global pandemic. While the COVID-19 closures across the nation forced many businesses to shut temporarily, Cargojet continued to operate, as it was declared an essential service. As of June 9, its stock has risen by 35.7% year to date, as compared to a 7.2% decline in the **S&P/ TSX Composite Index**. During the same period, **Air Canada** (TSX:AC) — Canada's largest airline — has seen a massive 56.7% value erosion.

Now, let's take a closer look at some key factors that justify Cargojet's solid year-to-date gains and find out whether the stock can continue to soar as the pandemic subsides.

Cargojet's recent financials

In the quarter ended March 31, 2020, Cargojet reported $123 million revenue, up 11.4% on a YoY (year-over-year) basis. It was the company's best quarterly revenue-growth rate in the last year. While its domestic network revenues inched up by $5.2 million, its aircraft, crew, maintenance, and insurance segment revenues rose by $4 million — pushing the company's total revenue figures higher.

The Ontario-based cargo carrier's adjusted EBIT (earnings before interests and taxes) surged by 79% YoY to $14.5 million in the last quarter. Similarly, it posted a free cash inflow of $29.8 million — much stronger as compared to an inflow of only $0.8 million in the same quarter of the previous year. The company registered a minor 1.8% rise in its direct expenses for the quarter.

These financials highlight the continued strength in Cargojet's business that largely remained unaffected by the ongoing pandemic — unlike many other businesses. For example, Air Canada reported a 16.4% YoY decline in its first-quarter revenue to $796 million. The airline's profitability also suffered heavily, as it reported a negative adjusted EBIT of about $433 million in Q1 2020 as compared to an EBIT of $127 million in Q1 2019. Overall, restrictions due to the pandemic took a big toll on its financials.

Will Cargojet stock continue to soar?

While Cargojet has not given clear guidance for the next quarter due to uncertainties raised by the COVID-19 pandemic, it has seen a surge in demand for domestic and international air cargo services as well as in the passenger charter flights. The rising demand could continue to benefit the company in the current quarter.

Cargojet expects a prolonged pandemic to hurt its services demand with the rising cost of protecting its workforce and customers from the spread of the pandemic. However, the pandemic situation has improved in North America lately — especially in Canada — as the growth in the daily reported COVID-19 cases in the region is on the downward trajectory. I believe the strength in Cargojet's financials is very likely to continue in the second quarter.

Foolish takeaway

In June so far, Cargojet stock has risen by 6.2% against 4.2% rise in the TSX Composite Index. Meanwhile, Air Canada stock has gone up by 32.1%. The factors that we discussed above justify Cargojet's recent gains.

In contrast, the recent massive rally in other airline companies — including in Air Canada — is partly driven by investors' expectation of a significant rebound in traffic. Nonetheless, this expectation might be far from reality, as the COVID-19 outbreak might significantly reduce the frequency of many air travelers.

I find Cargojet stock to be attractive for the long term. But if we pay attention to its technical analysis, 14-day Relative Strength Index indicator is reflecting a divergence from its recent upward stock price movement — pointing towards a possibility of a technical correction in the near term. This is why you may want to wait for an expected technical correction in Cargojet's stock price to buy it at lower levels for the long term.

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Author
jparashar