



Why This Stock Has Nearly Doubled in Just 3 Months

Description

Some experts expect the ongoing pandemic to be disastrous for the global airline industry. However, cargo and charter airline business — a niche within the airline industry — is witnessing continued strength in demand. Investing in such small airline businesses seems to be yielding stable positive returns for investors.

In [my recent article on June 11](#), I suggested investing in one such company — **Cargojet** ([TSX:CJT](#)). The company's stock has risen by more than 19% in the last 10 days. The company is an Ontario-based air cargo services provider that provides its services primarily across North America. At the end of Q1, it had a fleet of 25 aircraft.

In this article, we'll review some key drivers for Cargojet's stock price rally and find out whether it's still worth buying after the recent rally. But first, let's take a closer look at its stock price performance against its peers.

Cargojet stock vs. peers

In the second quarter, Cargojet's stock has thus far outperformed the broader market and its peers by a wide margin. It has inched up by about 61.9% — against a 16.0% rise in the **S&P/TSX Composite Index**. By comparison, the shares of its peers such as **TFI International**, **Air Canada**, **Chorus Aviation**, and **Bombardier** have risen by 45.8%, 17.7%, 12.6%, and 3.3%, respectively, on a quarter-to-date basis.

In the last three months combined, Cargojet's stock has nearly doubled with 89.2% rise as of June 22.

Key positive factors

Cargojet [reported](#) its Q1 2020 earnings report on May 7. Despite the COVID-19 outbreak, the company posted an 11.4% year over year increase in its revenue — its highest quarterly revenue growth rate in the last five quarters. Its Q1 revenue growth rate was also much better than all its peers.

For example, while Air Canada's revenue tanked by 16.4% year over year, Chorus Aviation reported a marginal 1.8% year-over-year rise in its revenue for the quarter.

Surprisingly, Cargojet's gross margin also improved, as it reported a solid 26.18% adjusted gross margin in the first quarter. It was much higher as compared to 19.20% gross margin a year ago. It was the third quarter in a row that Cargojet's gross profit margin improved on a year-over-year basis. As well, more demand for its all-in Charters business boosted its profitability.

Analysts are positive

Currently, 55% of 11 analysts covering Cargojet's stock are recommending a "buy." While 45% of them are suggesting a "hold," no analyst is recommending a "sell." The analysts' consensus price target for the stock is \$139.75. However, its stock has already rallied above this target price. On June 22, Cargojet's stock settled at \$163.68.

Foolish takeaway

While the company's stock has risen sharply in the last three months to its all-time high, it doesn't mean that it can't inch up further. Despite the ongoing pandemic, businesses worldwide would need to maintain stable supply chain — creating demand for cargo air services.

I believe that Cargojet may continue to benefit from higher demand for its cargo as well as its charter business. Due to its stable long-term business model and improving profitability despite the pandemic, consider buying Cargojet's stock on dips.

CATEGORY

1. Coronavirus
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