



## Cargojet (TSX:CJT) Stock Soars 90%: What's Next?

### Description

The aviation industry is witnessing violent turbulence due to the coronavirus. The sector is on its knees with passenger airline companies around the world staring at a bleak future. Amid challenging times, air cargo operators are witnessing a spike in demand, despite lower economic activity, which is driving their stocks higher.

For instance, **Cargojet** ([TSX:CJT](#)) stock has grown over 90% in one year compared to a 6% drop in the benchmark index during the same period. Meanwhile, it is up about 55% this year. Higher demand and sales leverage continue to drive Cargojet's revenues and margins and position it well to generate strong growth in the coming quarters. The company's focus on steadily increasing the number of aircraft and capacity bodes well for growth.

### Strong operating metrics

The government's safety measures, including the stay-at-home orders and travel restrictions, do not apply to Cargojet, as its operations are part of essential services. Meanwhile, the surge in demand from the healthcare and e-commerce segment more than offset the decline in business-to-business volumes.

In the [most recent quarter](#), Cargojet's total revenues increased by 11.4%, despite the tough year-over-year comparisons. Meanwhile, its average cargo revenue per operating day improved 10.1%, while the average volume per operating day rose 5.5%.

The company's gross margin expanded significantly, while adjusted EBITDAR and adjusted EBITDAR margins showed strong growth.

### Strength in underlying business to support Cargojet stock

Cargojet's first-quarter performance benefited from the spike in demand due to the pandemic. However, investors should note that its underlying business remains strong and should continue to do well in the coming quarters, even if the virus-led demand subsides.

Cargojet impressed with its strong financial performance even in the pre-pandemic phase. Its top line showed mid-single-digit growth in 2019. Meanwhile, both its gross and adjusted EBITDAR margins expanded. The average cargo revenue per operating day increased by 7.5% in 2019. On a quarterly basis, the company has managed to expand its EBITDAR margins in the last four consecutive quarters, which is encouraging.

Cargojet's high customer retention rate and new customer acquisitions are likely to support its revenues in the coming quarters. The company has retained all of its major customers. Meanwhile, it has consistently added aircraft, network capacity, and staff to meet the growing demand. Besides, its focus on optimizing costs and lower fuel expenses should support its margins in the future.

## Bottom line

Cargojet continues to operate all of its aircraft both on the domestic and international routes. Moreover, it is witnessing a surge in demand for domestic and international air cargo, which is likely to boost its near-term financials. Also, an increase in the charter and ACMI activities should support its top line.

The company remains well positioned to gain from the organic growth in its existing customer base and the addition of new customers. Besides, the new scheduled routes to the U.S. and Mexico should support ACMI scheduled and adhoc charter revenues.

With improving revenues and cost-control measures, Cargojet should be able to maximize its free cash flows and dividends.

The company's resilient business and strong growth prospects make [Cargojet stock a top investment](#).

## CATEGORY

1. Coronavirus
2. Investing

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