Should You Buy Cargojet (TSX:CJT) Stock Ahead of its Q2 Earnings?

Description

Cargojet (TSX:CJT) stock has been up almost 55% so far this year. This top performer air cargo company is expected to report its second-quarter earnings on July 27. It has shown a consistent top-line growth in the last several quarters. For the upcoming release, higher revenues and a positive management commentary could boost Cargojet stock even further.

Cargojet's earnings

In the last two quarters, Cargojet reported nearly 8% average revenue growth and reported losses. However, Cargojet expects to report similar revenue growth and meaningful profit growth in the second quarter. This could notably cheer investors, which could keep its rally going, at least in the short term.

The company recently witnessed a notable surge in healthcare- and e-commerce-related volumes due to the pandemic. This could have a positive impact on its top line. However, the gain should somewhat compensate due to lower business activities.

Even post-pandemic, the ongoing shift in consumer behaviour will have a positive long-term impact. E-commerce will likely continue to see accelerated growth, which will be vital for Cargojet. However, on the negative side, it expects a negative impact on the overall demand if the pandemic lasts longer.

This freight operator has created massive wealth for its shareholders in the last few years. It returned more than 2,210% in the last decade, one of the best performances among TSX stocks. An investment of $10,000 a decade back would have accumulated more than $231,000 today.

What's behind Cargojet's outperformance?

Cargojet primarily generates its revenues from its air cargo services between 14 major Canadian cities. It operates 29 aircraft and carries over 1.8 million pounds of time-sensitive air cargo each business night.

Approximately 75% of its consolidated revenues come from long-term contracts. Most of its customers pre-purchase cargo space for a particular route. The rest of the capacity is normally sold to non-contract customers. This increases revenue stability and visibility.

The scale and unmatched network are big competitive advantages of Cargojet. Notably, e-commerce in Canada as a percentage of retail sales suggests plenty of room for growth. It is still an underpenetrated market compared to similar markets like the U.S. and U.K.

Thus, Cargojet could see prolonged growth driven by the booming e-commerce industry and its unique overnight delivery. Also, the capital-intensive air cargo business is a high barrier industry to new entrants, which prevents competition.

Bottom line

Cargojet stock is one of the top performers this year. It is currently trading at a forward price-to-earnings multiple of 90 times, based on analysts' 2020 earnings estimates. Its price-to-book value comes beyond nine times. This looks expensive compared to its historical average. However, growth stocks generally trade at a premium valuation. Also, aggressive investors might focus more on its strong growth prospects overlooking its premium valuation.

So, in a nutshell, Cargojet stock looks expensive and will likely trade volatile. Its second-quarter earnings will likely keep the rally going in the short term. Conservative investors could wait for a pullback. Interestingly, its long-term growth outlook seems optimistic with its leading position in a high-growth industry.

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