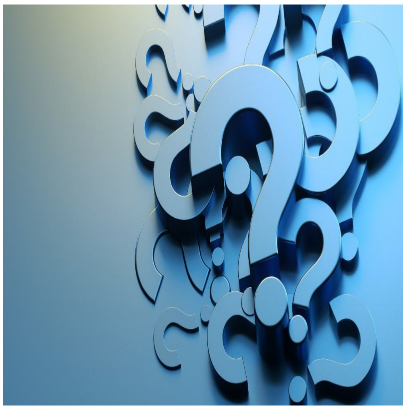

Cargojet (TSX:CJT) Just Surged 163%: Should You Buy?

Description

Cargojet (TSX:CJT) stock has surged over 163% since hitting its low of $67.87 on March 19. The air cargo company is experiencing stellar growth in the e-commerce and health care related volumes, which is driving its stock higher.

The aviation sector is witnessing turbulence amid the pandemic with passenger airline companies losing a significant portion of their value. Take **Air Canada** stock as an example, which has lost nearly two-thirds of its value this year. Travel restrictions, mounting debt, and high cash burn rate have weighed heavily on Air Canada's operations.

However, cargo airline companies remain busy with a higher demand on international routes. As for Cargojet, the company has consistently performed well (even in the pre-pandemic phase) and has generated hefty returns for its shareholders. Its stock has risen over 700% in five years.

Strong growth catalysts

Cargojet is Canada's #1 cargo airline company and transports over 1.8 million pounds of cargo each business night. Investors should note that Cargojet derives three-fourth of its domestic revenues from long-term contracts with minimum volume guarantee. Meanwhile, cost pass through provisions and CPI-based automatic annual price increases further reduce risk.

Thanks to its strong national network, Cargojet can offer time-sensitive deliveries to the courier industry across Canada, which is a significant competitive advantage and driving demand. While the above measures support its top-line, network optimization and cost management continue to cushion its margins.

The company retains all of its major customers and is expanding its network capacity on growing demand. Further, the company is optimizing costs to improve gross margins and EBITDA.

Stellar financial performance

While passenger airline companies have seen a massive drop in revenues in the first half of 2020, Cargojet's total revenues have increased by 39.0% year over year during the same period. Its, average cargo and passenger charter revenue was $2.72 million per operating day as compared to $1.72 million in the prior-year period (an increase of 58.1% year over year).

In the first half, Cargojet's adjusted EBITDA soared 88.1%. Meanwhile, its adjusted EBITDAR jumped 86.5%. The company reported an adjusted free cash flow of $85.5 million, up from $9.9 million during the first half of 2019.

Bottom line

Cargojet's balance sheet, liquidity, debt, and cash flows are in better shape than before, which is likely to fuel growth in the future. Investors should note that the acceleration in demand due to the grounding of the passenger flights and higher volumes from e-commerce and health care segment is likely to boost its near-term growth.

While its growth could decelerate as passenger flights resume operations, the e-commerce volumes are likely to remain high and should drive its top line. Meanwhile, cost optimization could continue to support its margins.

Cargojet's dominant competitive positioning, expansion of network capacity, sustained growth from existing customers, and new scheduled routes could continue to drive its financials and support the uptrend in its stock.

The massive rally in Cargojet stock could keep you sidelined. However, investors with a long-term outlook shouldn't worry much as the company continues to make money for its investors consistently.

CATEGORY

1. Coronavirus

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Category

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