This Canadian Airline’s Stock Has Doubled in 2020: Can You Still Buy it?

Description

The year 2020 has been the most difficult financial period for the airline industry. Planes remain largely grounded since the outbreak of the COVID-19 pandemic, and long-term investing legend Warren Buffett dumped all his holdings in airline stocks this year.

However, some non-passenger plane operators have seen a one-time boom in business. **Cargojet** (TSX:CJT) is one Canadian airline that reported record revenue growth recently, and its stock price has risen by 121% so far this year.

Cargojet’s stock price has more than doubled in 2020, and shares still show signs of valuation momentum. Can you still buy the Canadian cargo airline’s stock today with a view to hold for the long term?

Why has Cargojet’s stock price doubled so far this year?

Cargojet posted its best quarter in its entire history during the second quarter of this year.

Second-quarter revenue of $196 million was a staggering 65% higher than what the company invoiced during the same period last year. Gross margins expanded to a record high of 46% and quarterly free cash flow surged by over 597% year over year.

The cargo airliner benefited mainly from a surge in chartered cargo plane demand, as its Canadian customers battled to bring in PPE and related COVID-19 supplies from Asia, Europe, and the U.S.

Further, cargo space vanished when passenger airlines grounded their planes due to international travel restrictions. The company and other cargo carriers had to fill in the void. What was **Air Canada’s** loss was Cargojet’s gain. The company signed two new routes with cargo business operator DHL. The business did very well during the height of the pandemic.

Moreover, a surge in ecommerce deliveries during lockdowns was a strong driver for cargo business growth, too.

Can you still buy the Canadian airline's stock at today's levels?

Shares in CJT hit a new all-time high at $230.50 on the TSX on Wednesday. A strong share price growth momentum is evident in the Canadian airline's stock right now.

Momentum stocks usually offer good short-term returns. The market may remain bullish on them for some time. As long as technical analysts and traders remain bullish on its charts, short-term gains can still be harvested.

However, there are some considerations to be made if you are a long-term-focused, new investor.

The long-term buy case

The company's earnings margins have expanded during the short term, as it overutilized its assets in the face of a surge in service demand. Gross margins are expected to remain higher than historical levels. Free cash flow per share is estimated to peak at a record of $5.45 per share during the second quarter of next year after a 597% surge during the second quarter of this year.

The return on equity on CJT stock is expected to average between 27% and 34% in each of the next five quarterly reports. Such tangible returns on investors' equity look attractive and can sustain a stable valuation growth over time.

The company has plans of becoming debt-free within the next five years, and the recent growth in free cash flow has allowed managed to significantly reduce leverage in record time this year. Growing cash flows also allowed the company to order a new plane for delivery in October this year. The airliner's revenue growth, capital expenditures, and debt reductions show a growing business that is reducing its leverage risk profile. I would buy into such a business any day.

Long-term risks to consider

We aren't likely to see the record quarterly revenue reported for the June quarter again for several quarters ahead. Analysts expect Cargojet's revenue for the third quarter to fall by 23% sequentially to $151 million and gross margins to fall back to low 30% ranges.

Revenue run rates may remain relatively higher going forward. However, the rapid growth rates seen during the height of the coronavirus pandemic are behind us. Let's see how the market reacts to lower revenue on November 3, when the company releases Q3 results.

Moreover, there's a significant risk that the company will give back some good clients to passenger plane cargo space when airlines finally resume global flights over the next three years.

Investors may want to keep this in mind while enjoying the fine run in Cargojet stock right now.

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Author
brianparadza