



This Time Last Year, Cargojet (TSX:CJT) Stock Was Worth Less Than \$100 a Share

Description

This year, despite a pandemic that has impacted most companies negatively, several **TSX** stocks have seen huge tailwinds and returned massive sums for investors. 2020 has highlighted a tonne of reasons to always own stocks and, furthermore, why it's crucial to be diversified. **Cargojet** ([TSX:CJT](#)) has been one of these stocks, seeing a massive boost in demand for its services and creating a tonne of shareholder value as a result.

Investors who'd bought Cargojet last year would likely have done so because of all of the qualities of a top long-term-growth business it had.

It just so happened to get a tailwind from the pandemic. However, without having solid operations and a team capable of handling the increase in business, Cargojet would not have been able to perform so well.

Cargojet's operations

Cargojet is an airline cargo stock, an industry that continues to see increases to demand each year. Airline cargo most recently has been growing with the e-commerce trend. Since the start of the pandemic, though, the company has also seen a tailwind from medical supplies, however, partially offset by a reduction in business to business shipping.

Another reason it's seen so much growth is the lack of competition. Prior to the pandemic, a lot of cargo could fly in empty space on commercial passenger flights. However, with so many of those grounded due to such little demand, the air cargo capacity has decreased significantly.

Long term, though, Cargojet's biggest tailwind will be the growing e-commerce industry. In 2019 roughly 6% of all retail sales in Canada were done through [e-commerce](#). In the second quarter of 2020 (when a lot of the country was shut down), that jumped by more than double to 12.7%.

Often when shopping online, consumers do so in lieu of shopping in person. So, most consumers want

their goods as soon as possible. Therefore, air cargo is really the only option, as most people want overnight shipping. This is one of the areas where Cargojet thrives. Its on-time performance is consistently above 98%, which makes it a top choice among its customers.

Cargojet stock's potential

One thing that's very attractive about the airline industry, especially cargo, is the economies of scale. When airlines fly, a lot of the costs are fixed. So, whether a plane is half full or completely full, the cost to Cargojet will be very similar (the only main difference will be fuel consumption). Because of this, Cargojet's profitability will continue to increase as its sales grow.

In the second quarter of 2020, which ended June 30, Cargojet's revenue jumped by 64% year over year to \$196 million. Furthermore, its adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) jumped to \$91 million in the quarter. That was an increase of 140%, showing the impressive economies of scale, as Cargojet grows its revenue.

And on top of the strong economics that Cargojet already has, the TSX stock continues to focus on optimizing its fleet. This is important for both the routes it flies and for overall costs to the company.

Cargojet has the dominant market position in Canada, almost ensuring that it will continue to see growth. The only external factor the [growth stock](#) relies on is the continued growth of e-commerce, which has no reason to slow down, especially while we are still in the pandemic.

It's a strong business and will continue to dominate in the industry for years to come. Plus, the company is well capitalized and in a solid financial position.

Bottom line

With all the increase in demand and Cargojet's ability to perform well, the stock has returned more than 115% in 2020 as of Thursday's close. The stock has had an impressive run, but this is just the beginning.

Long term, the demand will continue to increase for overnight shipping. And Cargojet, one of the top stocks on the TSX, will continue to find ways to grow its profitability.

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