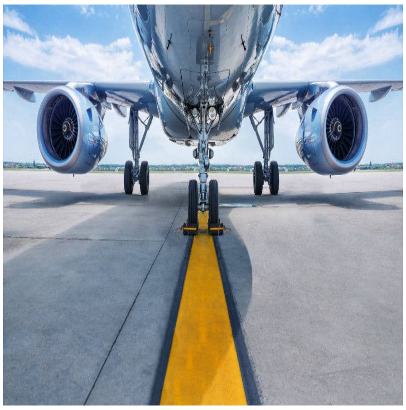

Why Cargojet (TSX:CJT) Stock Has Doubled in 2020

Description

Shares of Canada-based scheduled cargo airline company **Cargojet** (TSX:CJT) have more than doubled in 2020. Cargojet stock is trading at $240 indicating year-to-date returns of a stellar 129%. Further, the stock is up a whopping 250% since its 52-week low of $67.87.

It provides a domestic network of air cargo services between 15 major Canadian cities. While the passenger airline sector has been decimated due to COVID-19, the air cargo space has been relatively immune to the coronavirus.

Cargojet confirmed, "The company's business was deemed by the Canadian government as an essential service in order to keep the supply chains moving and was allowed to continue operating at normal levels. The travel restrictions imposed also did not apply to all-cargo flights nor to aircrew."

In Q3, Cargojet increased sales by 38.2% to $162.3 million. Its gross profit was up 96% at $58.3 million, while adjusted free cash flow surged by 339% to $59.3 million.

How does Cargojet generate revenue?

Most Cargojet customers pre-purchase a guaranteed space and weight allocation on the company's network and a corresponding guaranteed daily amount is paid for this space. The remaining capacity is sold on an ad-hoc basis to contract and non-contract customers.

While a major portion of network revenues are fixed due to allocations, Cargojet sales primarily depend on overall customer volume. Revenue and shipping volume from the company's domestic network is also seasonal and customer demand is maximum in Q4 of each year due to a surge in retail activity that coincides with the holiday season in December.

Cargojet also provides domestic air cargo services to several international airlines between points in Canada that helps to support lower demand legs and provides a revenue opportunity for the firm.

According to the company presentation, Cargojet transports over 1.8 million pounds of cargo each business flight.

What's next for investors?

Cargojet remains one of the top stocks on the TSX due to its leadership position in Canada and high operating leverage. In the fourth quarter, analysts expect sales to rise by 26.4% to $176.65 million, while earnings are forecast to rise to $1.45, up from an earnings loss of $0.33 in the prior-year period.

In 2020, it experienced a surge in e-commerce and healthcare-related volumes, which was partially offset by a fall in business-to-business volumes. Cargojet expects e-commerce as a percentage of total retail sales to grow at an accelerated pace in the upcoming quarters.

Over 75% of the company's revenue is backed by long-term contracts, which means it will continue to generate a steady stream of cash flows across business cycles. These contracts include variable surcharges for uncontrollable cost changes, such as fuel and all contracts have minimum volume guarantees.

Cargojet is the only national network that enables next-day service for the courier industry to over 90% of the country's population. Its stock is trading close to its record high and has a forward price-to-2021-earnings multiple of 46, which is expensive. This means investors can brace for a correction in the near term. However, analysts continue to remain bullish on Cargojet stock and have a 12-month price target of $251.

CATEGORY

1. Coronavirus
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