



Is Air Canada (TSX:AC) About to Disrupt Cargojet's (TSX:CJT) Market?

Description

After losing over 86% of its passenger business revenue since the COVID-19 pandemic struck this year, **Air Canada** ([TSX:AC](#)) has devised a new survival plan. AC stock investors welcome the airline's plan to convert many more passenger planes into dedicated cargo aircraft. However, concerns could be on a high flying **Cargojet** ([TSX:CJT](#)) stock. Could the dedicated cargo airliner lose business to an ailing giant?

It looks like Air Canada is out to eat some of Cargojet's lunch.

Passenger carrying revenues plunged, but cargo held strong

COVID19 crushed Air Canada's passenger-carrying business, but the airline's cargo segment registered growth during the pandemic.

Cargo revenues grew 22% year-over-year during the third quarter of 2020, while passenger revenue was down 86% during the same period. Management's plan to convert some passenger planes into all-cargo aircraft paid off. The plan allowed the company to participate in a surge in cargo service demand as governments sought COVID19 personal protective equipment supplies from abroad.

Cargo handlers saw a surge in volumes as e-commerce orders skyrocketed during lockdowns. Significant cargo capacity went away as passenger planes that used to carry cargo in their bellies were grounded worldwide.

Cargojet, one of Canada's largest dedicated cargo airliner, is one of the biggest beneficiaries of the boom in the cargo business this year. It is overworking its fleet of 27 aircraft and reported record revenues and cash flows during the pandemic. [Its stock price surged this year.](#)

Air Canada now eyes a larger piece of the cargo business pie.

Air Canada intensifies thrust into cargo freight

During an earlier conversation on Cargojet stock in October, I expressed some concern that “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.”

As the situation plays out, an ailing Air Canada has its eyes on the cargo carrier’s lunch right now.

Air Canada announced on November 27 that it plans to convert “several” of its retired Boeing aircraft into all-cargo planes. The airline has already renegotiated its contracts with pilots so it can competitively service the all-cargo market segment. Generally, passenger plane pilots enjoy higher pay scales and more perks as compared to their cargo counterparts. These include free flights for family members.

It’s not yet clear how many planes will be converted, but the airline has plans to fast-track the retirement of 79 planes. Perhaps not all of them can be turned into cargo aircraft, but this increased fleet of dedicated cargo planes could snatch Cargojet’s potential market share.

Air Canada Cargo currently employs four Boeing 777 and three Airbus A330 converted planes for all-cargo flights. The company completed about 3500 all-cargo flights between May 22 and November 27 this year. It plans to make 100 weekly international all-cargo flights during the fourth quarter. Cargo could become a major contributor to revenue in the near term.

Should Cargojet stock investors be concerned?

One would naturally expect Air Canada to snatch cargo market share from competitors. The airline is Canada’s largest provider of air cargo services as measured by capacity. Given intensified investments in cargo handling, it could scoop up some of Cargojet’s volumes.

That said, institutional customers don’t usually change suppliers as quickly as individual consumers do. Cargojet has strategic alliances with big cargo handling firms. Three of its largest customers constitute about 60% of quarterly revenue. Clients include Canada Post, **Amazon**, UPS Canada, DHL Express Canada, and Sameday Worldwide. Business could flow to CJT for a while longer.

Moreover, Cargojet claims to represent more than 90% of Canada’s availability of overnight air cargo lift. It’s an uphill task to dislodge such a well-established competitor.

I foresee a refocused Air Canada and Cargojet coexisting peacefully for some time. There’s more business for both cargo giants to handle right now. CJT actually declined significant client business during the second-quarter while committing to serving Canadians first. The surge in e-commerce could linger for longer.

Most noteworthy, it will take longer for wide-body passenger planes to take to the skies as frequently as they used to before the pandemic. Until then, strong charter demand for cargo on international routes could hold in place until passenger service is fully recovered. Beyond that, we will have to see.

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