Why CargoJet (TSX:CJT) Stock Could Plummet in 2021

Description

I've been very bullish on the long-term prospects of Canadian air freight company **CargoJet** (TSX:CJT) in the past. However, I've become much more wary of this company's long-term position in its core market of late. I think a major headwind could be brewing for CargoJet right now and think investors need to be very careful with this stock in 2021.

Customer concentration is problematic

Any company that has one customer that makes up a significant percentage of the overall top and bottom line, concentration risk takes hold. I think a meaningful amount of concentration risk exists right now with CargoJet. The company has signed a multi-year deal with **Amazon.com** (NASDAQ:AMZN), so its cash flows are safe for the next few years. Additionally, Cargojet operates in an essential monopoly in Canada, so its market position is of utmost importance to its valuation.

That said, it looks like its main customer Amazon may be on the long-term track to bring its transportation business in-house. Amazon has recently been on a plane-buying binge in the United States. The company is looking to build its transportation fleet to reduce its reliance on third-party carriers and speed up delivery times. How long will it take for Amazon to do the same in Canada?

The growth thesis for CargoJet centres on the idea that this Canadian monopoly will continue to exist long term. It seems that this monopoly is safe for at least the next few years. Amazon's investment in CargoJet and its multi-year deal ensure this.

That said, as Amazon has shown with so many other businesses, the company has a knack for doing what others do, better. Whether it's a takeover of CargoJet or an all-out assault on the Canadian air cargo business if Amazon doesn't get its way in the future, this company has way too much power over CargoJet for investors to sleep well at night, in my view.

Fundamentals leave much to be desired

CargoJet's fundamentals are just terrible. The monopoly argument aside (which is a good one), there's not a lot to like when one goes through this company's financial picture.

CargoJet is not turning a profit right now (-11% net margin), yet it is trading at around five times sales. This is a company with only $1.4 million of cash on the balance sheet right now, but more than $500 million in debt. The current ratio is less than one. In a capital-intensive industry, this company is trading at more than 16 times book. Revenues are going up, as are volumes, but CargoJet isn't doing so profitably right now.

What's really concerning to me is the company's return on equity numbers. At -39%, CargoJet's not returning value to shareholders right now with its operations. There is a microscopic dividend, which has become even smaller due to CargoJet's parabolic stock price move in recent years.

There's too much downside volatility with this stock right now, in my view. The numbers don't make sense, and the risks are far greater than the reward. I would encourage investors to be very wary of this stock right now.

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Author
chrismacdonald