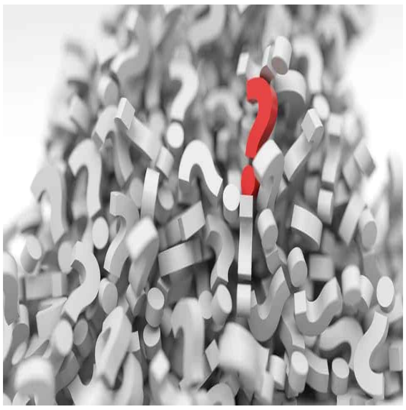

Why Is Cargojet a Battered High-Quality Growth Stock?

Description

Cargojet (TSX:CJT) is a high-quality growth stock. However, it has underperformed in recent months and declined 17% year to date. The underperformance does not in any way paint an accurate picture of the company's underlying growth metrics and long-term prospects.

Here's a closer look at this underrated opportunity.

Business model

As the name suggests, Cargojet is a commercial air freight carrier that's been an excellent business during the pandemic as e-commerce sales and cross-border trade exploded. However, supply-chain issues have bogged down the company recently.

However, that story seems to be shifting.

Improving financials

As a leading provider of air cargo services in Canada, the company is well-positioned to benefit amid the supply chain bottlenecks. Heading into the busy holiday season, the company should attract a fair amount of business as people and businesses resort to air travel services to circumvent supply chain issues on the ocean and on-ground transportation networks.

The bullish case for Cargojet is that these supply chain issues are temporary. Eventually, the flow of goods will be resolved as we fully recover from the pandemic. Meanwhile, the long-term demand for online shopping is as bright as ever.

Cargojet is fresh from delivering solid Q3 results that affirm solid growth in the core business. Revenue in the quarter was up 16.8% year over year to $189.5 million. Its adjusted loss also narrowed to $0.74 a share compared to a loss of $1.31 delivered the same quarter last year.

Looking ahead, the company is well-positioned to profit amid the dramatic uplift of digital adoption. As more people resort to e-commerce shopping and as economies and businesses reopen, the air cargo transportation company should see strong business going forward.

Cargojet's prospects

Additionally, the company has moved to diversify its portfolio and strengthen its competitive edge with the acquisition of a 25% interest in 21Air. It has also inked a deal with Amazon Canada, a deal expected to enhance the company's commercial relationship allowing it to profit from e-commerce trends.

Cargojet's partnership with e-commerce juggernaut Amazon gives it an edge. In fact, Amazon holds a stake in the business, which is the ultimate vote of confidence.

That said, there is no doubt that Cargojet is a high-quality growth stock destined for greatness going forward. The 17% pullback means the stock is trading at a discount with a price-to-earnings multiple of 29. A dividend yield of 0.57% doesn't offer much passive income but cements the fact that this company is in great shape financially.

Bottom line

Cargojet faces near-term headwinds but long-term tailwinds. The company is at the forefront of the supply chain mess, which could drag on for months. It could also make this upcoming holiday season one of the worst in Cargojet's history. However, over the long term, demand for air freight should continue to boom.

This recent dip could be an attractive opportunity for investors looking to make a multi-year bet on a robust growth stock.

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