This Growth Stock Is Breaking Out: Time to Buy?

Description

Cargojet (TSX:CJT) stock just soared higher by 15% in the past two trading days. Obviously, there has been some good news. We'll get to that in a moment.

Over the last one year and eight months or so, the supposed growth stock, well, did nothing. It's still trading at similar levels as the start of this period. So, the breakout in the past two days could be the start of a reversal. That said, it's hitting a resistance area, so it might have to consolidate a bit to gain strength for further upside.

In the last 10 years, the growth stock did very well. It delivered total returns of approximately *36.7% per year(!)* in the period. This equates to turning an initial investment of $10,000 into $227,425! So, maybe, investors should have a much longer investment horizon than two years. Surely, this breakout suggests the growth stock has finished going sideways, right?

What experts say about Cargojet stock

Earlier this month, Bruce Murray said this:

> "Cargojet boomed during Covid since it's in the delivery business. The stock rose too far, really. Even today, the 12-month price-to-earnings ratio is around 60 times. So, we're not interested in it. People may be returning to stores to buy things, and delivery of goods could be done using cheaper forms. CJT is well run, though. He's neutral on CJT."
> *Bruce Murray, CEO of The Murray Wealth Group*

Murray seems to be avoiding Cargojet because its P/E is high, which can suggest the stock is expensive or that investors have high earnings-growth expectations of CJT stock. However, the company has tonnes of non-cash expenses that drive down its earnings. For example, its non-cash depreciation and amortization expense in 2021 was $123.7 million, which shrank net income by 74% for the year!

Perhaps, observing the company's cash flow generation is a better idea. It would also make better sense of the 12-month consensus price target of $236.58 across 12 analysts, according to Yahoo Finance. This Cargojet stock price target suggests near-term upside potential of approximately 24%.

In December 2021, Stephen Takacsy had the following view on Cargojet:

> "We're following Cargojet stock carefully. It was a monopoly and the pandemic has been good for them, but competition is coming and they have had to buy more planes. Labour costs will also have to rise and there is a shortage of pilots. We're looking at it at $160. Long term a good business, but you want to wait for the right price."
> *Stephen Takacsy, president, CEO, and chief investment officer at Lester Asset Management*

Takacsy commented on the growth stock when things weren't looking so good for the company. The stock is approximately 19% higher today versus the $160 level. It goes to show that when bad news swirls, it could be a good time to buy great stocks.

Why Cargojet stock flew 15% higher

On Tuesday, Cargojet announced that it was going to provide air transportation services for DHL's global network for the next five years, an agreement that can extend two more years. Here's a snippet of details from the press release.

> "The agreement is expected to be meaningfully accretive to Cargojet's earnings and cash flows over time and help Cargojet further diversify its portfolio of services in line with its previously announced strategic goal of achieving a balanced portfolio…to align interests and strengthen the long-term strategic relationship, Cargojet will issue to DHL warrants to acquire up to 9.5% of Cargojet's outstanding voting shares (on a non-diluted basis as of the date hereof) at a price of $158.92 per share (based on the 20-day volume weighted average trading price immediately prior to the date hereof) over a period of seven years, with vesting tied to the delivery by DHL of up to [US$1.8 billion or about C$2.3 billion] in business volume during the same term."
> *Cargojet press release*

Before this news, Cargojet stock could deliver total returns of about 11-14% per year over the next three years. If the growth stock dips to about $160, it's a buy-the-dip opportunity! Right now, it looks more like a hold.

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