



## Why Cargojet (TSX:CJT) Stock Is Poised to Outperform

### Description

**Cargojet** ([TSX:CJT](#)) is Canada's leading air cargo service provider. Thanks to its strong financial performance, Cargojet stock has handily outperformed the broader market averages by a substantial margin over the past several years.

For instance, Cargojet stock has more than doubled in three years. Further, it is up about 266% in five years. Due to the appreciation in its price, Cargojet stock was part of the Toronto Stock Exchange's TSX30 list in 2021. This list comprises 30 best-performing TSX stocks over three years.

### Strong underlying business

Cargojet stock hasn't had much of a run over the past year. It mostly traded sideways as tough year-over-year comparisons and a slowdown in e-commerce growth in the second half of the year played spoilsport. It's worth noting that the e-commerce and pharma demand amid the pandemic gave a significant boost to Cargojet's financials and, in turn, its stock in 2020.

Nevertheless, Cargojet managed to \$757.8 million in 2021 — up 13% year over year. This growth comes on top of a 37% increase in its revenues in 2020. It's worth noting that each line of its business performed well, while adjusted EBITDA also improved.

Further, Cargojet continued to invest in growth, lowered debt, and paid down aircraft leases, which is positive. Also, average daily volumes improved, fleet size increased, and SG&A cost decreased.

Overall, Cargojet's underlying business remains strong. Further, its focus on revenue diversification, sustained demand, and strong expense management indicate that Cargojet could continue to deliver strong financials in the coming year that would drive its stock price.

### Growth catalysts

Cargojet's robust business model and fuel-efficient fleet provide a solid platform for multi-year growth.

It's worth noting that Cargojet is the only cargo airline company whose strong domestic network enables next-day delivery for the courier industry to over 90% of the Canadian household. This gives Cargojet a significant advantage over peers and supports its growth.

Further, Cargojet's long-term customer contract adds visibility over future cash flows. For instance, about two-thirds of its domestic revenues have a long-term contractual arrangement. All of these contracts have variable surcharges for uncontrollable costs, like fuel.

Moreover, these contracts also entail minimum revenue guarantees, provisions to pass-through costs, and CPI-based annual price increases.

While e-commerce growth has slowed a bit, the growing penetration and ongoing digital shift indicate that the demand could reaccelerate and support Cargojet's financials. Further, Cargojet recently announced a long-term [agreement](#) with DHL, which the company expects to be accretive to its earnings and cash flows. Moreover, it would help Cargojet to diversify its offerings.

## Bottom line

Cargojet is one of the top TSX stocks to generate [outsized returns](#) in the long term. Its strong base business, investments in growth initiatives, strong delivery capabilities, focus on lowering operating cost and debt, and network capacity expansion augurs well for future growth. Further, international growth opportunities and the growing penetration of e-commerce will likely accelerate its growth and support my bullish outlook.

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