Bear Market Selloff: Cargojet Remains a Top TSX Bet in September

Description

It's official! The next 12 months may be extremely painful for investors, as federal banks are willing to risk the prospect of a recession to tame inflation by increasing interest rates. Multiple interest rate hikes are on the cards, which will increase the cost of debt for companies and result in falling in profit margins.

Further, due to higher commodity prices, consumer demand is likely to fall, impacting the top line of companies across sectors. The double whammy of inflation and higher bond rates coupled with an extremely high possibility of an economic recession has driven down valuations of growth stocks significantly lower in 2022.

But it also allows long-term investors to place their bets on quality stocks trading at a discount and benefit from outsized gains in the future. One such TSX stock is **Cargojet** (TSX:CJT). Let's see why it is a compelling bet right now.

Cargojet stock is down 43% from all-time highs

Shares of Cargojet have delivered market-thumping returns to investors in the last decade and have surged 2,200% since September 2012. But the stock is also down 43% from all-time highs, valuing it at a market cap of $2.38 billion.

Cargojet's revenues are derived from its domestic network of air cargo services between 16 major Canadian cities. Its customers pre-purchase cargo space on the Cargojet network and guarantee daily revenue amounts for the same. The remaining capacity is sold on an ad hoc basis. While a major portion of domestic network revenues is fixed, overall sales are tied to customer volumes.

In the second quarter (Q2) of 2022, Cargojet increased sales by 43.3% to $246.6 million, but its gross profits rose by just 11.3%. The company's gross margins fell to 24.8% in Q2 compared to 32% in the year-ago period, due to rising input costs.

Cargojet is seeing a shift in consumer demand from goods to services, as the COVID-19 pandemic is coming to an end. While this trend might cause short-term volatility in cargo volumes, the company remains bullish on the expanding market for e-commerce, which was a key revenue driver in the last two years.

Cargojet has a strong balance sheet with leverage at record lows. It added flagship customers, such as DHL, while it continues to service big-ticket customers, including **Amazon** and **UPS**. Further, most of Cargojet’s customer contracts are indexed to changes in the cost of fuel, providing it with pricing power to tide over an inflationary environment.

With a fleet of 34 aircrafts, Cargojet announced a $1 billion CAPEX (capital expenditure) program, which should increase future cash flows.

Is Cargojet stock overvalued or undervalued?

Analysts expect Cargojet to increase sales by 32.4% to $1 billion, while adjusted earnings might rise 3.3% to $9.82 per share. But its top-line growth might decelerate to 3.3% in 2023, while earnings are forecast to fall 24% in the next year.

So, Cargojet stock is valued at 2.5 times forward sales and a price-to-earnings multiple of 18.5, which is not too expensive.

Bay Street remains bullish on CJT stock and expects shares to surge by almost 50% in the next 12 months.

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