

# PALOS

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## Weekly Commentary

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## More on Who's Winning from The E-commerce Boom

Last week I wrote about how TFI International Inc (TSX, NYSE: TFII) is well positioned to benefit from the growth in e-commerce. Another Canadian company that's successfully riding the e-commerce wave is Cargojet (TSX: CJT). Cargojet is Canada's premier cargo airline and operates a transportation service business that moves air freight to destinations across Canada, as well as the Caribbean and Europe. The company's reach is 95% of Canada's population, they operate in excess of sixty flights daily and account for over 90% of Canada's domestic overnight air cargo. The amount of goods shipped equates to over 1.5 million pounds of time-sensitive deliveries. Cargojet has a market cap of \$2.2B, over 1,100 employees and a fleet of twenty-three aircraft that have been refurbished for transporting freight. Three-quarters of the company's domestic revenue is under long-term contracts.

Their customer list consists of industry leading companies like Amazon, UPS, FedEx, DHL, Canada Post and TFI. In fact, last August Cargojet entered into an agreement with an Amazon subsidiary whereby Amazon has the option to acquire a stake in Cargojet, closely tied to business volume received from Amazon. The company's established network includes 16 major airports across the country thus making CJT the carrier of choice. The company's recognized efficiency in overnight cargo provides customers with the assurance that time-sensitive, "next-day" deliveries will be fulfilled as promised. CJT has become the de-facto enabler of e-commerce in Canada.

As you can imagine, the fallout from Covid-19 is having a positive impact on volumes. Following our conference call with CJT management, our understanding is that demands from e-commerce and healthcare have reached peak levels. Domestic volumes have seen an uptick between 15% to 20% and the same applies to international charters. While operating costs will move higher as the company adds additional flights, boosts part-time staff and offers pay incentives, some of the incremental costs should be offset by higher volumes and lower fuel costs in the months of March and April, and perhaps longer. Cargojet is expected to report its Q1/2020 results on May 7th and we are looking forward to hearing more about demand for cargo air transportation and e-commerce volumes. In the meantime, Cargojet continues to fly higher.

*Disclaimer: Palos Funds are shareholders of CJT.*

Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) <sup>1</sup>	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$6.54	-20.42%
Palos Equity Income Fund - RRSP	PAL101	\$4.71	-17.11%
Palos Merchant Fund L.P. (Dec 31, 2019) <sup>2</sup>	PAL500	\$1.71	20.15%
Palos WP Growth Fund - RRSP	PAL210	\$6.17	-19.36%
Palos-Mitchell Alpha Fund <sup>3</sup>	PAL300	\$7.43	-28.34%
S&P TSX Composite (Total Return with dividends reinvested)			-13.31%
S&P 500 (Total Return with dividends reinvested)			-11.83%
S&P TSX Venture (Total Return with dividends reinvested)			-17.98%
Chart 2: Market Data <sup>1</sup>			Value
US Government 10-Year			0.61%
Canadian Government 10-Year			0.53%
Crude Oil Spot			US \$19.78
Gold Spot			US \$1,700.90
US Gov't10-Year/Moody BAA Corp. Spread			323 bps
USD/CAD Exchange Rate Spot			US \$0.7098

<sup>1</sup> Period ending May 1, 2020. Data extracted from Bloomberg

<sup>2</sup> Fund is priced annually

<sup>3</sup> Fund is priced weekly on Tuesdays

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