Transportation Stocks Every Investor Should Have On The Radar

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The transportation industry is a vital component of the global economy, with a staggering valuation of $875.5 billion, according to the American Trucking Association (ATA). As the industry continues to experience impressive growth rates around 2.8–3.2%, key sector stocks are making strategic moves to reward their shareholders. Top performers in the sector are declaring higher cash quarterly and annual dividends, offering stock buybacks, and outperforming industry growth rates.

The trucking transportation industry has evolved significantly with the introduction of new technologies, such as artificial intelligence, intermodal transportation strategies, logistics protocols, last-mile delivery skills, new fuels, IoT devices for predictive maintenance, and onboard sensors. These developments have made the trucking and transportation sector, a new and exciting industry.

However, the industry also faces several challenges, such as increased wages for employees and drivers, benefits, rents, fuel, and operating costs. Additionally, finding enough qualified drivers, offsetting higher fuel costs, and dealing with less imported freight due to decreased shipments from Asia in the short term are other challenges the industry is facing.

Moreover, port delays and other operating expenses increase the need for intermodal

multi-transportation truck/rail/sea/air logistics for greater efficiency

Forbes Says Technology Will Make Transportation More Profitable

Forbes recently published an analysis that highlighted how new technology strategies in transportation are promoting sustainability while also driving profitability in the industry. However, these rapid changes make it difficult for investors to accurately value fast-changing transportation stocks. Despite this challenge, the transportation sector remains a viable investment option.

According to SimplyWallSt., analysts are particularly optimistic about the trucking industry, predicting 34% annual earnings growth over the next five years. In contrast, the earnings growth rate for railroads is expected to be only 3.2% over the same period. Investors looking for that growth potential may want to keep an eye on the transportation sector, which seems to have a promising future.

Here’s a look at some industry winners.

Werner Enterprises, Inc. (NASDAQ: WERN) trades at a PE ratio (TTM) of 11.41 and a market cap of $2.7 billion. It is one of the nation's largest trucking and logistics companies. Its board just declared another quarterly dividend, this time $0.13 per common share, as it has every quarter since July 1987. Last year, Werner paid dividends of $32.2 million and repurchased shares worth $110.40 million. Both had similar payouts in 2021. It serves clients in the U.S., Canada, and Mexico. Its revenues in 2022 were greater than $3.3 billion, and its net income was $241.2 million.

WERN's services include truckload brokerage, freight management, intermodal, and final mile logistics. Its shares have grown 3.1% over the past three months. outperforming the 2.8%-3.2% projected rise of the trucking transportation industry. However, the company's expenses grew 15.9% in Q4 2022. Higher expenses included driver wages, benefits (5.9% higher), fuel up (55.1% increase), plus more rent and purchased transportation expenses (a 13.7% jump). Analyst Zacks is impressed with its cash dividend payouts and share buyback program, designed to boost shareholder value and reinvest in its business. Zacks ranks its stock as a 'hold'.

Schneider National, Inc. (NYSE: SNDR) trades at a TTM PE ratio of 10.18 and a market cap of $4.6 billion. Last year's revenues were $6.6 billion, up 6.6% from the prior year, and its net income in 2022 rising 13% to $457.8 million from FY 2021. However, its profit margin dropped to 6.9% in 2022 from 7.2% in FY 2021. That was because SNDR's expenses increased.

SimplyWall St. says it forecasts Schneider's fiscal performance to stay flat over the next three years vs. a 5.1% jump in Transportation Industry sector revenue seen for the same period. SNDR is increasing its dividend in April for a 1.2% annual payment to its stock price—unfortunately, that dividend is less than what others in this industry sector are paying, according to analyst SimplyWallSt. In 2022, SNDR paid $56 million in dividends, well above 2021 levels, the company said on its Q4 earnings call. Its new intermodal Western partner is Union Pacific. Trucking activity was down in Q4 2022 because import activity from Asia waned, an industry-wide headwind.

Even with SNDR's disappointing performance, which missed analysts' estimates by just 1.5%, SimplyWallSt. calculates that SNDR stock is still trading close to its estimated fair value. This analyst uses a proprietary two-stage free cash flow calculation method to determine its fair value estimate per share of $25.98. The stock currently trades at $29+ per share. That valuation strategy uses future cash flows and discounts them for their current value today.

Heartland Express (NASDAQ: HTLD) has a PE ratio (TTM) of 9.11. It has a market cap of $1.25 billion. Its fiscal performance for the full year 2022 beat analysts' expectations. Revenue was up 59% from FY 2021 to $968 million in FY 2022. Net income increased by 69% to $133.6 million. Its profit margin of 14% in FY 2022 stayed in line with FY 2021. As a result, it declared a cash dividend of $0.02 per share, payable on April 7, 2023. That means the company has paid out $544.2 million in cash dividends, including this most recent dividend payment.

SimplyWallSt. estimates 13% revenue growth for HTLD on average over the next three years vs. a 5.1% forecast for the transportation sector in the US over this period. However, Zacks rates this stock a 'hold' after its slight fiscal miss of analyst expectations for Q4 2022 performance.

Marten Transport, Ltd. (NASDAQ: MRTN) has a strong PE ratio (TTM) of 14.66 and trades at a market cap of $1.64 billion. In 2022, MRTN reported revenues of $1.26 billion, 30% higher than the previous year. Net income rose 29% to $110.4 million in the full year 2022. But like other companies in transportation trucking, MRTN showed a slight decrease in profit margin—to 8.7% in 2022—as higher expenses, from fuel to payroll, cut into the bottom line. This company is also forecast to outperform the transportation industry over the next two years with a 5.4% growth in revenue. Perhaps due to its fiscal performance, MRTN's shares have risen YTD. Now analysts are gleefully watching its improved return on capital (ROCE) trends. SimplyWallSt. discovers that it has increased by 15% over the last five years and that its stock has increased by 72% over the same period. Its ROCE has outperformed the industry sector average.

For investors willing to take more risk for a potentially higher gain, smaller up-and-coming companies may provide that action. One stock that is virtually unknown and flying under the radar in this sector is APSI. Let's take a closer look at what makes APSI a high-potential opportunity.

Last year, **Aqua Power Systems, Inc. (OTC: APSI)** purchased 100% of transportation trucking company Tradition Transport and all of its subsidiaries. For the full fiscal year 2022, sales are expected to be in the $125 million range, with a net profit of $4.5 million. In 2021, Tradition reported revenue of $87,695,384 and a net profit of $2,986,945. In 2020, the company generated $49,992,274 and a net income of $1,738,623. APSI moved from a shell OTC company to a bona fide asset-based transport/trucking firm with seven subsidiaries.

Yet, APSI trades at a market cap of only $5.7 million.

Tradition Debuts New Intermodal Services

Tradition, through its subsidiary Freedom Freight Solutions, added new intermodal services through its drayage inbound and outbound freight business at its facility in the Port of Savannah. The seamless intermodal strategy is designed to make freight movement faster and more efficient for the customer.

Tradition is adopting new technology for its large base of some 500 active customers. It serves a diversified base of industries such as building materials, automotive, manufacturing, containers, and food. This broad spectrum gives Tradition a stable client footprint.

APSI also owns an asset-based fleet of 162 company-owned tractors, some 303 trailers, and six warehouses totaling two million sq. ft. In terms of assets, Tradition Transport is a solid investment that delivers revenue and net income via this fleet. It also acquired Anchor Bolts & Fasteners, LLC, a company that manufactures bolts and fasteners as well as custom plates, cages, and embeds. Tradition's goal is to acquire another 200+ tractors and some 400 trailers in 2023 and 2024.

More deployment centers for Tradition are scheduled to open in Savannah, Nashville, Dallas, and Indianapolis. M&A is on the horizon. In addition to its organic growth structure, Tradition Transport is already reviewing future potential buyout candidates related to the businesses.

Tradition is also planning to grow its international business, and already serves freight to and from Mexico and Canada.

APSI Stock Is Undervalued: A Significant Opportunity For Investors

Tradition's parent, APSI, has just 17,204,180 shares outstanding, and its pricing remains undervalued in the transportation industry. By any measurement of revenue, net income, or assets, it deserves better. In fact, it should trade at well above $1 per share—and perhaps closer to $6-7 per share. Financial experts would agree that the APSI market cap makes no mathematical sense as it currently stands.

A valuation based on industry standards compared to 10 competing publicly traded transportation companies finds that the median enterprise LFY valuation in this sector is 1.6X revenues. That would translate into an APSI market cap of some $200 million, based on 2022 full year sales of $125 million.

A valuation based on typical sector multiples — such as the average enterprise based on LFY having 3.2 times revenues — means APSI would have a market cap of $400 million with a share price of $23.25. Even a one-time revenue share price at the estimated 2020 sales of $125 million would translate into $7.26 per share.

APSI May Be One Of Most Undervalued Companies Publicly Listed

APSI may be one of the most undervalued companies publicly listed when industry or sector multiples are applied. APSI has already filed an application with the SEC for an uplist to the OTCQB exchange. A NASDAQ listing is its ultimate goal. When this stock uplists, investors will notice. Investors should keep APSI on their watch lists because of the company's asset-based acquisitions in the hot transport business — freight, logistics, warehousing, brokerage, leasing, and more.

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Tags

WERNER ENTERPRISES INC. (NASDAQ: WERN)

SCHNEIDER NATIONAL INC. (NYSE: SNDR)

HEARTLAND EXPRESS (NASDAQ: HTLD)

MARTEN TRANSPORT LTD. (NASDAQ: MRTN)

AQUA POWER SYSTEMS INC. (OTC: APSI) APSI STOCK SNDR STOCK

HTLD STOCK WERN STOCK BEST TRUCKING STOCKS

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