

>: What Lies on the Road Ahead for Trucking Stocks?

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Financial companies have received most of the talk in the media lately, but the wheels that really drive the economy are the transports, and these stocks have been under extreme pressure. On October 26, we downgraded our recommendation on shares of YRC Worldwide (ticker: YRCW) to underweight from overweight; since then the stock is down by approximately 40%. Other transports that we currently have underweight ratings on include Arkansas Best (ticker: ABFS) and Heartland Express (ticker: HTLD).

On December 27, the American Trucking Association (ATA) released its monthly truck tonnage index for November. Seasonally adjusted, the tonnage index improved to 112.0, up 3.3% from a year earlier, marking the second year-over-year increase in eight months and the largest gain since January 2005. Year-to-date, the tonnage index was 1.7% lower than the same period in 2006.

ATA Economist, Tavio Headley, said that the November tonnage reading suggests there is still continued volatility and softness in freight volumes, despite the month-to-month and year-over-year gains. Headley noted that, since March, every monthly increase in the seasonally adjusted tonnage index was followed by a monthly contraction. The slowdown in tonnage volumes is projected to continue into 2008. "Based on the latest economic data and the expected slowdown in the economy over the next few quarters, we anticipate lackluster freight volumes at least through the first half of 2008," Headley said.

Tonnage trends have been abysmal since August, and coupled with the higher cost of fuel, disaster for quite a few truckers' income statements in the coming round of earnings releases is all but a foregone conclusion. We still have a long-term bullish perspective on trucking industry shares, and believe that there will be a wave of consolidation, but feel that the backdrop could get much worse before it begins to get normalize. Many trucking stocks have lost considerable market value over the past few months that the risk/reward is extremely compelling, but for the most part we would be avoiding investment in the industry near-term. Management teams across the industry will be forced to slash prices to drive any type of volume growth, but despite these lower prices, volumes will remain pressured.

Our favorite investment recommendation in the trucking industry is JB Hunt Transportation (ticker: JBHT) primarily as a result of the excellent management team. The Company has four operating segments, JB Intermodal (transports trailers via two forms of transportations, rail and highway), Dedicated Contract Services (utilizes contract rates for a specific route and/or customer), JB Truck (full truckload carrier), and Integrated Capacity Solutions (provides comprehensive transportation services and solutions by utilizing a network of third-party carriers). JB Intermodal is a segment that separates JB Hunt from the others in the industry as a result of its close ties with railroad operator Norfolk Southern (ticker: NSC). However, the Company's real earnings growth in 2008 will come from its logistics-like segment ICS as a result of the strong export market and the explosive growth that the segment has been experiencing over the past three quarters. We have JB Hunt rated as an overweight with a \$32.00 price target.

Written by David Silver, a Research Analyst for Wall Street Strategies (www.wstreet.com) covering companies in the Transports, Autos, and Beverage sectors.