



THE GRAIL REPORT

A Buy Recommendation

Investment Style: Small Cap Growth

Issue No. 1 2015 23 Jan 15

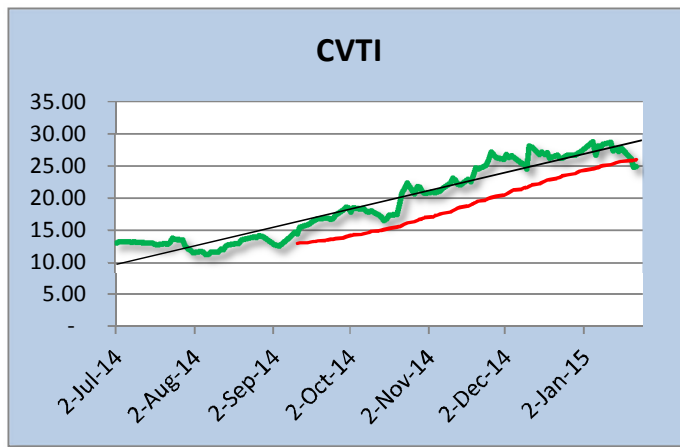
Part 1 – Summary of Key Data

Market Condition **Market in confirmed Uptrend**

Website: <http://www.covenantdrivers.com/>

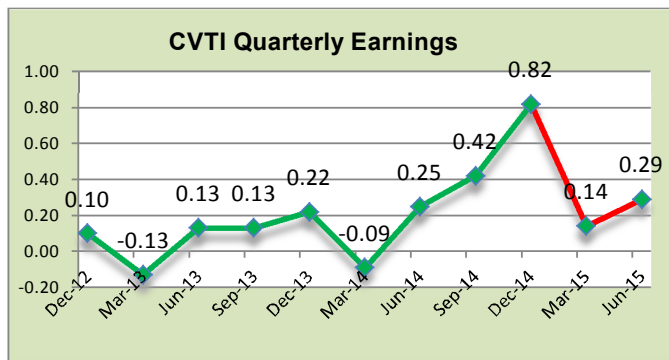
Name:	Covenant Transportation	
Industry Sector:	Transportation	Industry Rank: 11 of 31
Market Cap:	\$604 million	Small Cap

Covenant Transportation Group, Inc. is a carrier for transportation companies, such as freight forwarders, less-than-truckload carriers, and third-party logistics providers that require a high level of service to support their businesses, as well as for traditional truckload customers, such as manufacturers, retailers, and food and beverage shippers. It also generates revenue through a subsidiary that provides freight brokerage services. The Company operates in two segments: Asset-Based Truckload Services (Truckload) and its Brokerage Services, also known as Covenant Transportation Solutions, Inc. (Solutions). The Truckload segment consists of three asset-based operating fleets. The Solutions segment provides freight brokerage service directly and through freight brokerage agents who are paid a commission for the freight they provide. The Company's primary customers include manufacturers and retailers. On May 31, 2011, it acquired a 49% interest in Transport Enterprise Leasing, LLC.



50 Day MA:

Price Performance				Other Key Metrics		
1-Jul-14	To Date	± in %	SP500 2 Jul 14	P/E Ratio	PEG	Grail Beta
\$13.05	\$24.85	90%	3%	17.69	0.06	0.82



Additional Information from IBD

- Earning Report date 29 Apr 2015
- Sales % change last qtr 17% 😊
- 3 years sales growth rate 3% 😊
- 2 quarters of EPS acceleration 😊
- 3 years EPS growth rate 101% 😊

Red lines in chart denotes forecasts

Earnings Surprises					YoY Earnings Growth	
4 Qtr 13	1 Qtr 14	2 Qtr 14	3 Qtr 14	4 Qtr 14	1 Qtr 15	2 Qtr 15
0.01	-0.01	0.08	0.06	0.08	273%	256%

Part 2 - Detailed Analysis

PROFIT MARGIN: [FAIL]

This methodology seeks companies with a minimum trailing 12 month after tax profit margin of 7%. The companies that pass this criterion have strong positions within their respective industries and offer greater shareholder returns. A true test of the quality of a company is that they can sustain this margin. **CVTI's** profit margin of **1.10%** fails this test.

RELATIVE STRENGTH: [PASS]

The investor must look at the relative strength of the company in question. Companies whose relative strength is 90 or above (that is, the company outperforms 90% or more of the market for the past year), are considered attractive. Companies whose price has been rising much quicker than the market tend to keep rising. **CVTI**, with a relative strength of **96**, satisfies this test.

COMPARE SALES AND EPS GROWTH TO THE SAME PERIOD LAST YEAR: [FAIL]

Companies must demonstrate both revenue and net income growth of at least 25% as compared to the prior year. These growth rates give you the dynamic companies that you are looking for. These rates for **CVTI (-7.69% for EPS, and 3.95% for Sales)** are not good enough to pass.

INSIDER HOLDINGS: [PASS]

CVTI's insiders should own at least 10% (they own **29.90%**) of the company's outstanding shares which is the minimum required. A high percentage typically indicates that the insiders are confident that the company will do well.

CASH FLOW FROM OPERATIONS: [FAIL]

A positive cash flow is typically used for internal expansion, acquisitions, dividend payments, etc. A company that generates rather than consumes cash is in much better shape to fund such activities on their own, rather than needing to borrow funds to do so. **CVTI's** free cash flow of **-\$6.35** per share fails this test.

PROFIT MARGIN CONSISTENCY: [PASS]

CVTI's profit margin has been consistent or even increasing over the past three years (**Current year: 0.77%, Last year: 0.90%, Two years ago: -2.19%**), passing the requirement. It is a sign of good management and a healthy and competitive enterprise.

R&D AS A PERCENTAGE OF SALES: [NEUTRAL]

This criterion is not critically important for companies that are not high-tech or medical stocks because they are not as R&D dependent as companies within those sectors. Not much emphasis should be placed on this test in **CVTI's** case.

INVENTORY TO SALES: [PASS]

This methodology strongly believes that companies, especially small ones, should have tight control over inventory. It's a warning sign if a company's inventory relative to sales increases significantly when compared to the previous year. Up to a 30% increase is allowed, but no more. Inventory to Sales for **CVTI** was **0.67%** last year, while for this year it is **0.69%**. Since the inventory to sales has been flat, **CVTI** passes this test.

ACCOUNT RECEIVABLE TO SALES: [PASS]

This methodology wants to make sure that a company's accounts receivable do not get significantly out of line with sales. It's a warning sign if a company's accounts receivable relative to sales increases significantly when compared to the previous year. Up to a 30% increase is allowed, but no more. Accounts Receivable to Sales for **CVTI** was **11.88%** last year, while for this year it is **12.67%**. Although the AR to sales is rising, it is below the max 30% that is allowed. The investor can still consider the stock if all other criteria appear very attractive.

LONG TERM DEBT/EQUITY RATIO: [FAIL]

CVTI's trailing twelve-month Debt/Equity ratio (**177.11%**) is too high, according to this methodology.

AVERAGE SHARES OUTSTANDING: [PASS]

CVTI has not been significantly increasing the number of shares outstanding within recent years which is a good sign. **CVTI** currently has **15.0 million** shares outstanding. This means the company is not taking any measures, with regards to the number of shares that will dilute or devalue the stock.

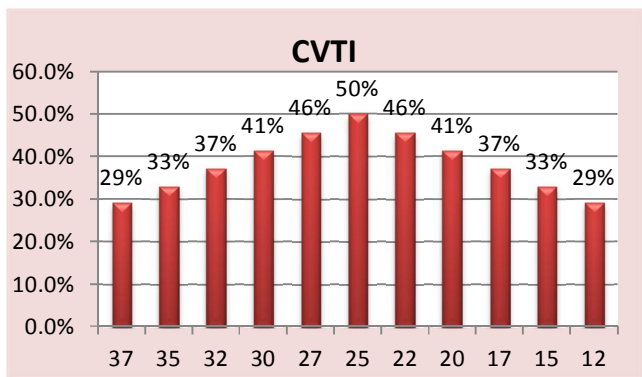
DAILY DOLLAR VOLUME: [PASS]

CVTI passes the Daily Dollar Volume (DDV of **\$5.7 million**) test. It is required that this number be less than \$25 million because these are the stocks that remain relatively undiscovered by institutions. "You'll be scoring touchdowns against the big guys on your turf."

PRICE: [PASS]

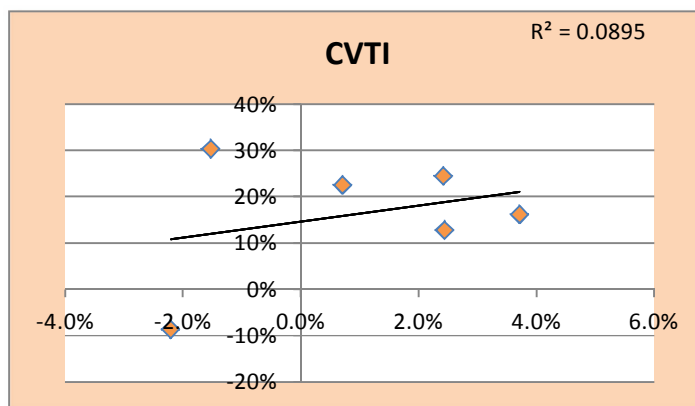
This is a very insignificant criterion for this methodology. But basically, low prices are chosen because "small numbers multiply more rapidly than large ones" and the potential for big returns expands. **CVTI** with a price of **\$24.85** passes the price test, even though it doesn't fall in the preferred range. The price should be above \$7 in order to eliminate penny stocks and below \$20 since most stocks in this price range are undiscovered by the institutions.

Part 3 – Risk Metrics



Value at Risk				
At Price	Losses	Price	Loss	Probability
24.85	-10%	22.37	-2.49	46%
	-20%	19.88	-4.97	41%
	-30%	17.40	-7.45	37%
	-40%	14.91	-9.94	33%
	-50%	12.43	-12.43	29%

Covenant's Alpha value of 14.6% measures the consistency of excess returns against the SP500 in monthly periods.



R-Squared values range from 0 to 100. An R-Squared of 100 means that all movements of a security are completely explained by movements in the index. A security with a low R-Squared (70 or less) does not behave much like the index (SP500).

Part 4 – Recent Key Developments (Click on the link to read the report)

Wednesday, January 21, 2015

- [Covenant Transportation Group Announces Fourth Quarter Financial and Operating Results](#) *GlobeNewswire* (Wed, Jan 21)

Friday, January 16, 2015

- [Covenant Transportation Group, Inc. Announces Timing of Fourth Quarter Earnings Release and Conference Call](#) *GlobeNewswire* (Fri, Jan 16)

Wednesday, December 10, 2014


- [Covenant Transportation Group Updates Expectations Concerning Fourth Quarter Financial ResultsGlobeNewswire\(Wed, Dec 10\)](#)

Thursday, November 13, 2014

- [Covenant Transportation Group Updates Fourth Quarter OutlookGlobeNewswire\(Thu, Nov 13\)](#)
- [Covenant Transportation Group Announces Class A Common Stock OfferingGlobeNewswire\(Thu, Nov 13\)](#)

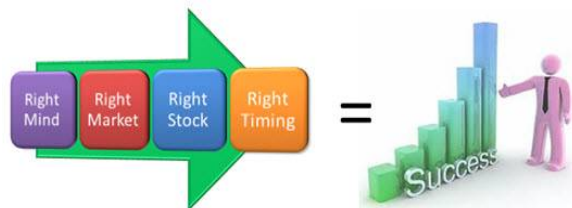
Part 5 – Analyst Recommendation Trends				
Recommendations	Current	1 Month Ago	2 Months Ago	3 Months Ago
Strong Buy	3	3	3	3
Buy	1	1	0	0
Hold	1	1	1	1
Underperform	0	0	0	0
Sell	0	0	0	0
Source:	Yahoo Finance	http://finance.yahoo.com/q/ao?s=CVTI+Analyst+Opinion		

Navellier Ratings System Fundamental Grade B Quantitative Grade A **STRONG BUY**

Composite Rating represents the percentage that the stock beats the market - maximum of 99%		CONSISTENCY IS THE BEST FORECASTER!	Grail Equity Ratings	Metric Strengths	Metric Weaknesses
			Weak buy <> 60% & 64% Moderate buy <> 65% & 69% Firm Buy <> 70% & 74% Strong Buy > 75%	76%	24%
			STRONG BUY		



John Henry Smith, MBA, FCMI
 Website: www.grailsecurities.com
 Email: info@grailsecurities.com
 Phone & Fax: 0041(0)41 781 36 01
 Cell phone: 0041(0)79 693 26 45



23 January 2015

The stock market and financial information contained in this document is available in the public domain at the time of publication and the recipient understands that Grail Securities (Switzerland) cannot be held liable for the accuracy of such information and that any purchase and/or sale of securities in whatever form based on information contained on this or other pages is entirely at his/her or their own risk.