SL: Breakout Wealth Trade Alert: Open Immediately

****Trade Idea: Pangaea Logistics Solutions Ltd. (NASDAQ: PANL)****
Price at alert: $6.00
Buy Limit: $6.20
Stop Limit: $4.80

Hey, it’s Alex here with your next Breakout Wealth trade alert.

Today, we’re going to look at **Pangaea Logistics Solutions Ltd. (NASDAQ: PANL)**.

Pangaea is a dry bulk maritime shipping and logistics company. Dry bulk can include things like iron ore, coal, fertilizer, or agricultural products like grain or soybeans.

Right now, Pangaea is trading around $6. But I believe it could double in the coming months. To see why, let’s run it through my trusty TEN-X filter.

T- Total Addressable Market

The dry bulk market is worth $15.9 billion. Pangaea’s market cap is $276.4 million. Remember — I want the total addressable market to be at least 10X bigger than the company’s market cap. This allows plenty of runway for the stock to grow.

The total size of the dry bulk market is much bigger than 10X the market cap of Pangaea. So, the stock passes this phase.

A few things about Pangaea's particular business: While their ships serve a variety of routes all over the world, the company's specialty is ice-class shipping.

This means they service areas that are ice-restricted, like Alaska and the Gulf of St. Lawrence in the winter, and the Arctic Ocean in the summer. Servicing these areas requires a degree of specialization and experience that a lot of tanking companies just don't have. Which gives Pangaea a competitive moat.

They're the largest dry bulk hauler in the Arctic. Because of this, when dry bulk rates normally fall during the summer season, Pangaea maintains consistent revenue since they're the main shipper able to operate in the arctic summer months.

E - Earnings

Pangea's current price-to-earnings (PE) ratio is 3.4. A P/E ratio is a measure of a stock's price relative to the company's earnings. A lower PE can mean that a stock is trading at a discount. I'm usually looking for a stock to fall below a P/E ratio of 30.

As an industry, dry bulk shipping companies tend to be on the lower side of the P/E spectrum. But Pangaea's ratio of 3.4 is particularly low — which is why I'm expecting significant upside potential over the coming months as Pangae's share price rises to be more in line with the rest of the industry.

A few notes about Pangaea's latest Q3 earnings report:

Their net income dropped $8.2 million from Q3 2021, landing at $18.8 million. This caused them to miss their earnings expectations. However, this isn't as bad as it may seem. The reason being that the main reason net income fell is because of the insurance derivatives that the company bought to hedge their revenue.

I'm not going to go into all the details of these here, because it's relatively complex and worthy of its own write up. But, the short of it is that — in order to protect themselves from market and geopolitical fluctuations — shipping companies will often purchase various insurance derivatives. If they're wrong, then the pay a premium to the issuer.

So, Pangaea lost money on their derivatives this year. If you remove the cost of these derivatives plus a few other non-GAAP adjustments, Pangaea actually made $23.3 million. A $1.6 YoY increase. To me, that shows that the core of the business — sales, contracts, operating costs, are actually improving. Which is a bullish sign.

All that to say, that Pangaea passes the "Earnings" phase of the filter.

N - Near-Term Gross Margin

The cut off for me is 10% gross margins. Anything less and I feel like the company is teetering too close to the edge. Thankfully, Pangaea's latest gross margin was 17% — well over my cut-off. Pangaea is relatively unique among shipping companies in that it leases a large portion of its fleet, rather than owning its ships outright.

This allows it keep a relatively light liability tally. Not only that, but instead of seeking out longer-term contracts like many other shippers, Pangaea focuses on shorter-term contracts. While this increases long-term revenue volatility, it also allows Pangaea to more quickly adapt to changing market conditions.

Because of these factors, Pangaea is able to maintain solid margins of 28.6% as of Q3 2022. So, the company passes this phase of my filter.

X - X-Factor or Catalyst

What will be the spark to cause Pangaea to rise over the coming months? First, let’s note that the share price has risen by 20% over the past three months already.

But I believe that could just be the warm up — for a few reasons. One, if you’ve been reading my Wealthpin emails, I believe that the recession already came and went. I won’t retrace my steps here, but the gist of it is this:

Freight rates, container prices, and dry bulk shipping rates typically foreshadow economic booms or contractions. And a good amount of these signals dropped off in the first half of 2022, and are now rebounding.

Combined with the latest jobs report, I think these signals point to expanding economic conditions. And expanding economic conditions will lead to more demand for goods, and thus, more demand for shipping carriers like Pangaea.

Second, China is in the process of reopening on a large-scale. They’ve been shuttered for more than three years at this point. A Chinese reopening will cause demand for iron ores, agricultural commodities, and oil to soar.

Third, the Russia-Ukraine War has effectively cut Russian shipping companies out of the global economy. The hole needs to be filled by someone. WIth Pangae's emphasis on ice-class vessels, they can fill the gap that Russian ships were previously servicing.

Conclusion

We're adding **Pangaea Logistics Solutions Ltd. (NASDAQ: PANL)** to our Breakout Wealth Model Portfolio. This rundown will also be available on the site in a day or two.

Any thoughts on this month's trade idea? Let us know — we'd love to hear from you.

To your wealth,

Alex Reid
Founder, Breakout Wealth