

World Kinect

Sees 30% net op margin, \$500 mil EBITDA by 2026; Simplifying the story; PO to \$26

Reiterate Rating: UNDERPERFORM | PO: 26.00 USD | Price: 24.90 USD

Targets 30% net op. margin, ~\$500 mil EBITDA by 2026

We attended World Kinect's Investor Day on March 13 in NYC, hosted by CEO Michael Kasbar, CFO Ira Birns, EVP Marine, Aviation & Land John Rau, and Investor Relations Elsa Ballard. The company targets 30% net operating margins in 2026 (we forecast 29.9%, from 29.6%), \$480-\$520 million in 2026 adj. EBITDA (we forecast \$491 million, from \$459 million), 8-10% CAGR from \$386 million in 2023, and \$900 million-\$1.2 billion in aggregate Free Cash Flow 2024-2028. It aims to increase Land returns to 30% net operating margin in 2026 (we forecast 29.6%, from 25.5%), from 24% in 2023, and lower Corporate Expenses to 9% of gross profits (from 10% in 2023, we were 8%) which it sees generating additional \$40 mil adj. EBITDA (vs ~\$114 mil EBITDA growth by 2026).

Value added services, sustainability solutions aiding mix

WKC is focused on expanding its value proposition to shippers as it adds complimentary services (fuel management, fixed base operator, deicing fluids) to pivot to broad energy solutions from its role of a traditional fuel forwarder. Sustainability offerings (such as Sustainable Aviation Fuel, natural gas, renewable diesel, LNG bunker) also represent a small (11% of 2023 gross profits) yet fast-growing and profitable part of its operations.

Sharpening the portfolio and simplifying the story

CFO Ira Birns highlighted WKC's focus on sharpening its portfolio to simplify its story. It divested its air charter platform Avinode and aviation software group for \$200 million on 18x 2023 EBITDA, an accretive spin vs WKC's 6x multiple. It sees EPS gains as it pays off debt and lowers annual interest costs by \$10-\$11 mil. WKC is focused on expanding its Land footprint (>1% share of \$1.9 trillion market) through opportunistic M&A, but noted its priority on driving organic growth, improving mix, and optimizing its cost structure. It aims to shed ancillary non-core operations through divestments.

PO to \$26; Returns strategy clearly improved

We are encouraged by the company's margin targets and increased clarity in its strategy yet believe near-term demand challenges for fuel remain a headwind. Thus, we remain Underperform on WKC's shares, yet increase our PO to \$26 (from \$23) on 10.5x our '24 EPS estimate (from 10x). We also increase our 2024, 2025 and 2026 EPS estimates 4%, 13%, and 15% to \$2.45, \$3.05 and \$3.45, from \$2.35, \$2.70, and \$3.00, respectively.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.04	1.95	2.45	3.05	3.45
GAAP EPS	1.81	0.86	2.45	3.05	3.45
EPS Change (YoY)	50.0%	-4.4%	25.6%	24.5%	13.1%
Consensus EPS (Bloomberg)			2.22	2.51	3.27
DPS	0.52	0.56	0.68	0.68	0.68
Valuation (Dec)					
P/E	12.2x	12.8x	10.2x	8.2x	7.2x
GAAP P/E	13.8x	29.0x	10.2x	8.2x	7.2x
Dividend Yield	2.1%	2.2%	2.7%	2.7%	2.7%
EV / EBITDA*	6.0x	5.8x	5.3x	4.9x	4.7x
Free Cash Flow Yield*	4.0%	12.2%	17.0%	19.2%	20.4%

* For full definitions of *IQmethod*SM measures, see page 7.

14 March 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	23.00	26.00
2024E DPS	0.56	0.68

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Stock Data

Price	24.90 USD
Price Objective	26.00 USD
Date Established	14-Mar-2024
Investment Opinion	B-3-7
52-Week Range	17.69 USD - 26.40 USD
Mrkt Val (mn) / Shares Out (mn)	1,504 USD / 60.4
Free Float	96.6%
Average Daily Value (mn)	13.08 USD
BofA Ticker / Exchange	WKC / NYS
Bloomberg / Reuters	WKC US / WKC.N
ROE (2024E)	7.3%
Net Dbt to Eqty (Dec-2023A)	29.9%
ESGMeter™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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Timestamp: 14 March 2024 05:56AM EDT

iQprofileSM World Kinect

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	6.8%	6.5%	7.2%	8.0%	8.1%
Return on Equity	6.5%	6.1%	7.3%	8.4%	8.6%
Operating Margin	0.5%	0.6%	0.7%	0.7%	0.7%
Free Cash Flow	60	184	256	289	307

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.1x	2.3x	2.3x	2.1x	2.0x
Asset Replacement Ratio	0.7x	0.8x	0.7x	0.7x	0.7x
Tax Rate	20.2%	21.6%	25.0%	25.0%	25.0%
Net Debt-to-Equity Ratio	27.5%	29.9%	23.2%	12.3%	2.1%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	59,120	47,710	48,513	51,154	53,209
% Change	88.7%	-19.3%	1.7%	5.4%	4.0%
Gross Profit	1,089	1,106	1,157	1,217	1,280
% Change	38.2%	1.6%	4.6%	5.1%	5.2%
EBITDA	384	392	430	467	491
% Change	59.1%	2.2%	9.7%	8.7%	5.0%
Net Interest & Other Income	(111)	(128)	(117)	(110)	(109)
Net Income (Adjusted)	128	120	144	176	194
% Change	49.0%	-6.3%	20.5%	21.5%	10.4%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	113	53	144	176	194
Depreciation & Amortization	108	105	108	108	108
Change in Working Capital	(278)	526	225	225	225
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	195	(412)	(147)	(145)	(145)
Capital Expenditure	(79)	(88)	(75)	(75)	(75)
Free Cash Flow	60	184	256	289	307
% Change	-55.2%	206.2%	39.2%	13.0%	6.3%
Share / Issue Repurchase	(49)	219	(50)	(50)	(50)
Cost of Dividends Paid	(31)	(34)	(40)	(39)	(38)
Change in Debt	334	(303)	(170)	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	298	304	250	450	668
Trade Receivables	3,294	2,736	2,696	2,656	2,616
Other Current Assets	1,646	1,464	1,464	1,464	1,464
Property, Plant & Equipment	484	515	590	665	740
Other Non-Current Assets	2,442	2,356	2,356	2,356	2,356
Total Assets	8,165	7,375	7,356	7,591	7,844
Short-Term Debt	16	79	79	79	79
Other Current Liabilities	4,593	3,971	4,051	4,131	4,211
Long-Term Debt	830	809	639	639	639
Other Non-Current Liabilities	735	567	567	567	567
Total Liabilities	6,174	5,426	5,336	5,416	5,496
Total Equity	1,991	1,950	2,020	2,175	2,349
Total Equity & Liabilities	8,165	7,375	7,356	7,591	7,844

* For full definitions of iQmethodSM measures, see page 7.

Company Sector

Freight Forwarding

Company Description

World Kinect operates an asset light business model and engages in the global marketing and sale of marine, aviation and land fuel products and related services.

Investment Rationale

We rate WKC Underperform as fuel demand remains muted in the elongated freight recession, concern remains for oil-related providers given the ongoing energy transition, air activity has not fully returned post-COVID, and marine volumes remain muted given reduced sailings. World Kinect benefits from fuel use for global transport and the fragmentation of downstream energy markets. Results have been aided by internal cost focus, though volumes have remained under pressure from the macro backdrop.

Stock Data

Average Daily Volume 525,148

Quarterly Earnings Estimates

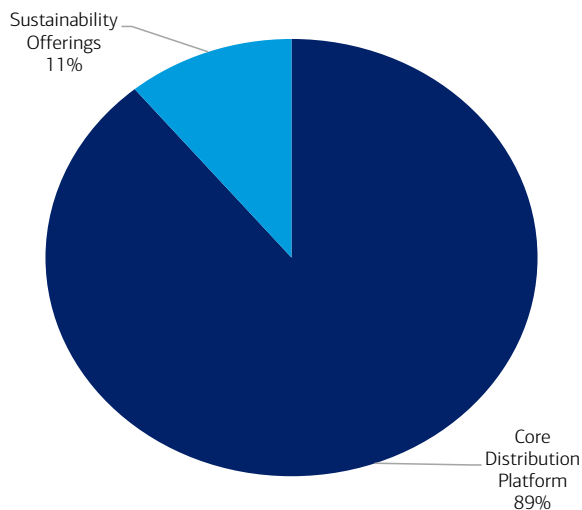
	2023	2024
Q1	0.36A	0.58E
Q2	0.48A	0.62E
Q3	0.58A	0.65E
Q4	0.54A	0.60E

Targets 30% net operating margins by 2026

World Kinect targets to grow its net operating margins to 30% by 2026 (we forecast 29.9%, from 29.6%), from 26% in 2023, and achieve \$480-\$520 million in adj. EBITDA in 2026 (we forecast \$491 million, from \$459 million), from \$386 million in 2023. Within its target, it expects to achieve 30% in Land net operating margins (we forecast 29.6%, from 25.5%), from 24% in 2023 as it adds synergistic acquisitions (such as Cardlock stations) and lower its Corporate Expenses to 9% of gross profits (we target 9%, from 8%), from 10% in 2023, through automation, continuous cost management, and offshoring (with increased staffing in Costa Rica). Sustainability-related offerings represented 11% of WKC's 2023 Gross Profits and is expected to outgrow its core distribution platform, further improving its mix.

Exhibit 1: 2023 Gross Profit Mix

Within WKC's \$1.1 billion Gross Profit in 2023, 11% is Sustainability-related.

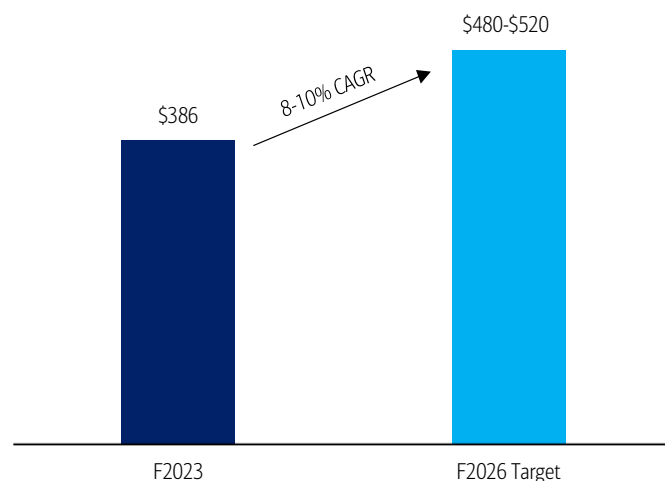


Source: Company Reports.

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Exhibit 2: World Kinect 2026 Adjusted EBITDA Target (\$ mil)

WKC targets \$480-\$520 million in F2026 Adjusted EBITDA, 8-10% CAGR.



Source: Company Reports.

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Increased Land penetration could drive growth

World Kinect serves 137,000 customers and 3,500 retail stations and Cardlock stations across North America in its Land business, providing bulk fuel supply to retail gas stations, industrial sites and automated truck refueling station mostly under long-term contracts (1+ year with more longer term contracts 7-10 years). The segment remains underpenetrated with WKC holding less than 1% share of the \$1.9 trillion Land fueling market (vs 10% in Marine/Aviation). Given ample consolidation opportunity, WKC aims to acquire margin accretive businesses through its cash generation. It highlighted its recent Cardlock station adds in Michigan were completed at 80% incremental net operating margins given increased ease of integration after its Flyers acquisition. It expects to improve Land net operating margin to 30% by 2026 from 24% in 2023. The company noted it does not anticipate a material step-up in adjusted gross profit/gallon (from \$0.062/gallon in 2024), implying a potentially aggressive ramp in organic/M&A expansion in the segment.

Aviation may see mix benefits on value added services

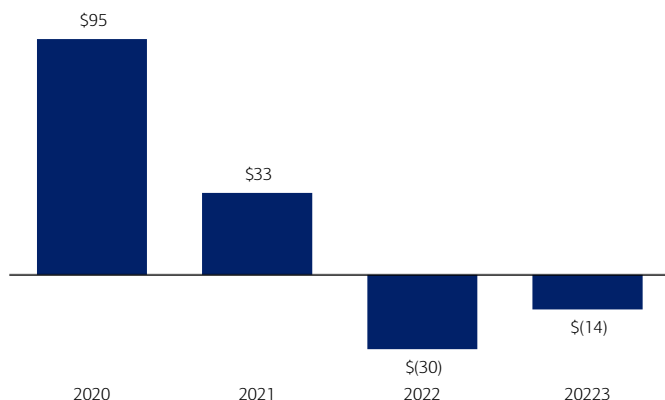
World Kinect's Aviation segment serves 11,900 customers, 36,000 commercial aircrafts, 40,000 business aircrafts, and 4,000 airports. The company is increasingly focused on pivoting into smaller, more margin accretive operators such as private jet fueling (vs commercial airlines) and providing airfield fueling assistance as a fixed-base operator (FBO). It targets to expand more into the "last-half-mile" of the fueling supply chain (such as fuel storage, airstrip fuel trucking), which should drive increased returns.

Sees Marine as volatile yet capital light cash generator

World Kinect's Marine segment helps address the needs of 2,200 customers across 1,250 seaports. Unlike Aviation and Land where demand is more scheduled, Marine business is more spot exposed, thus linked to bunker prices, and are more volatile. With decreased sailing demand given muted liner activity and vessel slow-steaming, WKC maintains conservative expectations on Marine returns. Nevertheless, it views the segment as a strong cash generation (42% 5-year average net operating margin) with low working capital commitments (negative working capital in the past 2 years), which can help fund growth in its other segments.

Exhibit 3: World Kinect Marine Net Working Capital

Working capital for its Marine segment has been negative in 2022 and 2023.



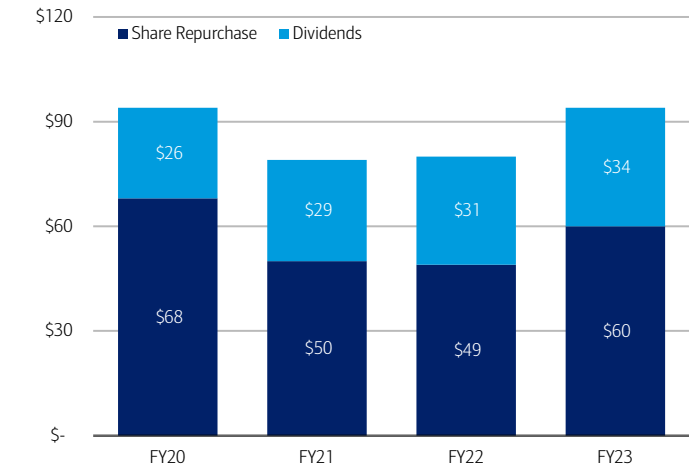
Source: BofA Global Research and Company Reports.

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Strong shareholder returns focus in capital allocation

The company targets \$900 million to \$1.2 billion in aggregate free cash flow from 2024-2028, which implies \$180-\$240 million in annual FCF generation on average in the next 5 years (implies 12%-16% in FCF yield on its \$1.49 billion market cap). It expects to allocate 60% of its FCF to organic growth, strategic M&A, as well as reducing its debt (though it highlighted its 1.9x Debt/EBITDA post divestment is well below its 3.0x leverage target) and 40% to share repurchases and dividends. It increased its quarterly dividend 21% to \$0.17/share for 2024 and has maintained a 14% dividend CAGR from 2020 to 2023.

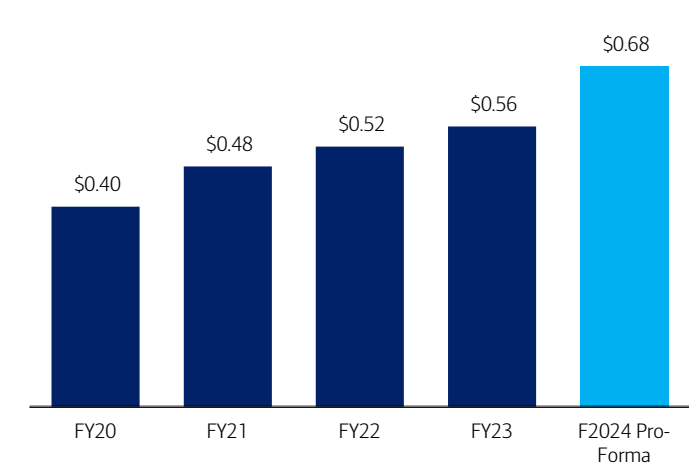
Exhibit 4: World Kinect Total Shareholder Returns (\$ mil)
WKC has returned \$94 million in 2023 in shareholders returns.



Source: BofA Global Research and Company Reports.

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Exhibit 5: World Kinect Dividend Per Share
WKC has grown DPS 14% CAGR from 2020 to 2023.



Source: BofA Global Research and Company Reports.

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Price objective basis & risk

World Kinect (WKC)

Our \$26 price objective is based on a 10.5x target multiple on our 2024E EPS estimate. Our target multiple moves slightly below the bottom of its 11x-17x historical one-standard deviation trading range, as we move past peak crude and fuel demands. Given the leading correlation crude price has with operating profits, we expect earnings pressure to rise as its volume outlook turns more muted. While we are positive its transition to a diversified service provider, we expect its near-term outlook to weigh on shares.

Downside risks to our price objective are increasing competition within its core fuel reselling business, acquisition integration failure, lack of acquisition opportunities which could stall its growth, a prolonged downturn in global trade inducing decline in transportation fuel use and ineffective hedging, leaving it exposed to the underlying commodity on non back-to-back transactions, mispricing of the commodity to its customers impacting margins, as well as customer bankruptcies after it has provided it fuel (though historically it has managed bad-debt risk extremely well). Upside risks to our price objective are a faster than expected macroeconomic recovery, an accelerated transition to its more stable retail and renewable fuel segments, larger-than-expected flight travel jet fuel demand, and extreme dislocations between fuel capacity and end markets.

Analyst Certification

I, Ken Hoexter, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Transportation Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Canadian Pacific Kansas City Ltd	CP	CP US	Ken Hoexter
	CSX Corporation	CSX	CSX US	Ken Hoexter
	FedEx Corp.	FDX	FDX US	Ken Hoexter
	J.B. Hunt Transport Services	JBHT	JBHT US	Ken Hoexter
	Kirby Corp	KEX	KEX US	Ken Hoexter
	Knight-Swift Transportation Holdings Inc	KNX	KNX US	Ken Hoexter
	Saia Inc.	SAIA	SAIA US	Ken Hoexter
	Teekay Tankers Limited	TNK	TNK US	Ken Hoexter
	Union Pacific	UNP	UNP US	Ken Hoexter
	Wabtec Corp.	WAB	WAB US	Ken Hoexter
	XPO, Inc.	XPO	XPO US	Ken Hoexter
NEUTRAL				
	Canadian National	CNI	CNI US	Ken Hoexter
	Old Dominion Freight Line	ODFL	ODFL US	Ken Hoexter
	RXO, Inc.	RXO	RXO US	Ken Hoexter
	Schneider National	SNDR	SNDR US	Ken Hoexter
	Scorpio Tankers Inc.	STNG	STNG US	Ken Hoexter
	TFI International	TFII	TFII US	Ken Hoexter
	TFI International	YFII	TFII CN	Ken Hoexter
	UPS	UPS	UPS US	Ken Hoexter
UNDERPERFORM				
	ArcBest Corporation	ARCB	ARCB US	Ken Hoexter
	C.H. Robinson	CHRW	CHRW US	Ken Hoexter
	The Greenbrier Companies	GBX	GBX US	Ken Hoexter
	Werner Enterprises	WERN	WERN US	Ken Hoexter
	World Kinect	WKC	WKC US	Ken Hoexter

US - Transportation Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
RSTR	Norfolk Southern	NSC	NSC US	Ken Hoexter

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +
Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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World Kinect (WKC) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Transport/Infrastructure Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	67	50.38%	Buy	44	65.67%
Hold	31	23.31%	Hold	13	41.94%
Sell	35	26.32%	Sell	17	48.57%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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