

Kirby Corp

Port of Houston Tour and mgmt meeting highlight rates still working, demand the Q

Reiterate Rating: BUY | PO: 94.00 USD | Price: 77.56 USD

Port Tour highlights rates building, demand the unknown

Yesterday, at the conclusion of BofA's Global Energy Conference in Houston, we hosted an investor tour of Port of Houston and meeting with Kirby's CFO Raj Kumar, VP Public & Gov't Affairs Matt Woodruff, and IR Kurt Niemietz. Port of Houston is the largest US port by trade, moving a variety of crude, petrochem, LPG, and containers. Kirby noted inland tank barging spot rates continue to scale, demand is an unknown, but is steady, capacity remains stable given high newbuild prices, but should be aided in 2H23-1H24

Rates topping \$9,500; set for nearly 35% renewals in 4Q

Kirby noted inland tank barging spot rates continue to scale, topping \$9,500, up slightly from \$9,000 quarter end (intra-coastal waterway, such as Houston channel, represents ~80% of Kirby's inland waterway moves). This is positive as Kirby renews a sizable part of its book in 4Q (~30-35% of contracts), setting the stage for a 2024 pricing uptick. Additionally, nearly 600-700 barges will go through 10-year surveys in '24, from 175/yr normally, further constraining capacity. Rates at current levels increased management confidence on exiting 2023 at ~20% Inland margins (we see 19.5% in 4Q). Seasonality is expected to pressure early 1Q, before building through 2024, as Kirby sees a few year glide path to push into the low-20's (we conservatively target just over 20% in 2024).

Demand remains stable, with potential; Reiterate Buy

Management noted refined petrochem demand remains steady/stable (in contrast to strength of rail chemical volumes, which improved over 2023). Capacity is constrained as new 30,000-barrel barges cost \$4 million, 2x over past few years, thus demanding ~\$13k/day spot rates to recover double-digit ROI levels on new barges. Given rates are 30% below that level, newbuilds remains limited. We reiterate our Buy and \$94 PO (based on 18x our '24e EPS) on Kirby's shares. We hold our '23/'24 EPS at \$3.75/\$5.20.

Houston port continues to expand, providing growth

Since 2011, the Houston Ship Channel benefited from \$100 billion of investments in the petrochem industry. Energy transition is putting another \$2-\$3 billion in the region, and Texas Department of Transportation is planning to spend \$10 billion to expand land-side infrastructure to support growth (double-stacking highways as it builds up w/ no rights-of-way). Currently 9,000 large vessels/year move through the channel's 52-mile basin. The container port grew to 4 million TEUs of vol capacity, from 2 million over 6 years. 80% of product in and out of Port Houston are Oil & Gas related vs. 15%-20% container.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	0.56	2.10	3.75	5.20	5.80
GAAP EPS	(4.10)	2.03	3.75	5.20	5.80
EPS Change (YoY)	-69.6%	275.0%	78.6%	38.7%	11.5%
Consensus EPS (Bloomberg)			3.71	5.02	5.86
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	138.5x	36.9x	20.7x	14.9x	13.4x
GAAP P/E	NM	38.2x	20.7x	14.9x	13.4x
EV / EBITDA*	18.8x	13.8x	10.1x	8.3x	7.8x
Free Cash Flow Yield*	4.8%	2.6%	3.6%	9.4%	9.2%

* For full definitions of *IQmethod*SM measures, see page 5.

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Equity

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Stock Data

Price	77.56 USD
Price Objective	94.00 USD
Date Established	26-Oct-2023
Investment Opinion	B-1-9
52-Week Range	60.14 USD - 87.52 USD
Mrkt Val (mn) / Shares Out (mn)	4,634 USD / 59.7
Average Daily Value (mn)	27.45 USD
BofA Ticker / Exchange	KEX / NYS
Bloomberg / Reuters	KEX US / KEX.N
ROE (2023E)	7.3%
Net Dbt to Eqty (Dec-2022A)	32.8%
ESGMeter TM	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: 17 November 2023 01:05PM EST

iQprofileSM Kirby Corp

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	1.1%	3.0%	5.2%	6.7%	7.3%
Return on Equity	1.1%	4.3%	7.3%	9.6%	9.9%
Operating Margin	3.7%	7.1%	11.1%	13.7%	14.3%
Free Cash Flow	224	122	165	435	427

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	9.5x	2.3x	2.4x	2.1x	1.7x
Asset Replacement Ratio	0.5x	0.9x	1.7x	0.9x	0.7x
Tax Rate	32.3%	25.6%	24.7%	25.8%	25.8%
Net Debt-to-Equity Ratio	39.1%	32.8%	30.3%	18.2%	8.0%
Interest Cover	1.9x	4.5x	6.3x	8.8x	10.2x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	2,247	2,785	3,072	3,300	3,438
% Change	3.5%	24.0%	10.3%	7.4%	4.2%
Gross Profit	593	724	921	1,091	1,147
% Change	-10.2%	22.0%	27.3%	18.5%	5.0%
EBITDA	304	416	565	687	738
% Change	-17.2%	36.8%	35.8%	21.5%	7.5%
Net Interest & Other Income	(32)	(28)	(42)	(41)	(38)
Net Income (Adjusted)	34	127	225	306	336
% Change	-69.4%	275.1%	77.6%	36.1%	10.0%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	34	127	225	305	336
Depreciation & Amortization	212	201	213	223	237
Change in Working Capital	16	(103)	18	93	1
Deferred Taxation Charge	(44)	39	47	2	2
Other Adjustments, Net	104	30	26	8	8
Capital Expenditure	(98)	(173)	(364)	(196)	(156)
Free Cash Flow	224	122	165	435	427
% Change	-24.7%	-45.6%	35.5%	164.5%	-1.9%

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	35	81	100	333	508
Trade Receivables	568	598	575	471	489
Other Current Assets	401	533	517	475	480
Property, Plant & Equipment	3,679	3,633	3,730	3,522	3,302
Other Non-Current Assets	717	710	699	740	800
Total Assets	5,399	5,555	5,621	5,541	5,578
Short-Term Debt	2	3	10	10	10
Other Current Liabilities	542	639	647	535	554
Long-Term Debt	1,161	1,076	1,028	923	778
Other Non-Current Liabilities	805	791	831	784	734
Total Liabilities	2,510	2,510	2,516	2,251	2,075
Total Equity	2,889	3,045	3,097	3,290	3,503
Total Equity & Liabilities	5,399	5,555	5,613	5,541	5,578

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Sea Transport

Company Description

Kirby Corporation operates a Marine Transportation segment (61% of '21 revs) providing tank barge transportation of petrochemicals and chemicals, black oil products, refined petroleum products, and agricultural chemicals through the US Inland Waterway System. Its Distribution and Services segment (39% of '21 revs) services Oil & Gas market (manuf oilfield services equip and services) and to Commercial & Industrial custs (overhauls & repairs diesel engines for marine, power & railroad customers)

Investment Rationale

Kirby is the industry leader in the Jones Act domestic liquid barging sector, controlling 25%-30% of the liquid barge fleet and the offshore Marine fleet. Its inland barge fleet utilization has jumped back to the 90% level, which should drive pricing and margin gains. We also see improving prospects at its D&S segment, given the rebound in oilfield service activity. It supplies the oil services market for distribution/manufacturing equip, which is seeing increased rig and equipment demand.

Stock Data

Average Daily Volume 353,896

Quarterly Earnings Estimates

	2022	2023
Q1	0.29A	0.68A
Q2	0.49A	0.95A
Q3	0.65A	1.05A
Q4	0.67A	1.07E

Other tidbits

- Kirby noted that it has historically observed 75-100 Inland tank barges retired each year. This compares to the 20-25 new barges added in 2023.
- It believes it can exit 2024 with Coastal margins in the high single digits to low double digits yet sees shipyard maintenance days as an overhang in 1H24.
- Kirby continues to face supply chain related challenges in Distribution & Services and views margin performance as contingent on its ability to source components and parts.



Price objective basis & risk

Kirby Corp (KEX)

Our \$94 price objective is based on a 18x multiple on our 2024 EPS estimate, below the bottom of its 19x-29x one-standard deviation historical trading range as we move past its trough EPS, a rapidly rebounding refined product market in a post COVID-19 environment, and improved pricing in the spot tank barge market (partially offset by rising inflation). Additionally, we see improving revenue growth and margin prospects in its D&S segment.

Risks to our price objective are a deceleration in the economy and chemical demand, pricing headwinds owing to capacity/competition entering the market, customers shifting to more spot pricing and moving away from committed contracts thereby decreasing volumes to Kirby. Within Distribution & Services (Diesel Engine Services, United and Stewart & Stevenson), it includes deteriorating frac demand, lower nat gas prices that disincentivize drilling, and service demand worse than anticipated. Within Offshore (formerly K-Sea, Allied, and Penn), it includes deteriorating demand and utilization. We also continue to monitor near-term inflation impacts and low water levels in the Mississippi river.

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
	Old Dominion Freight Line	ODFL	ODFL US	Ken Hoexter
	RXO, Inc.	RXO	RXO US	Ken Hoexter
	Saia Inc.	SAIA	SAIA US	Ken Hoexter
	Union Pacific	UNP	UNP US	Ken Hoexter
	XPO, Inc.	XPO	XPO US	Ken Hoexter
NEUTRAL				
	Canadian National	CNI	CNI US	Ken Hoexter
	Norfolk Southern	NSC	NSC US	Ken Hoexter
	Schneider National	SNDR	SNDR US	Ken Hoexter
	Scorpio Tankers Inc.	STNG	STNG US	Ken Hoexter
	Teekay Tankers Limited	TNK	TNK US	Ken Hoexter
	TFI International	TFII	TFII US	Ken Hoexter
	TFI International	YTFII	TFII CN	Ken Hoexter
	UPS	UPS	UPS US	Ken Hoexter
	Wabtec Corp.	WAB	WAB 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

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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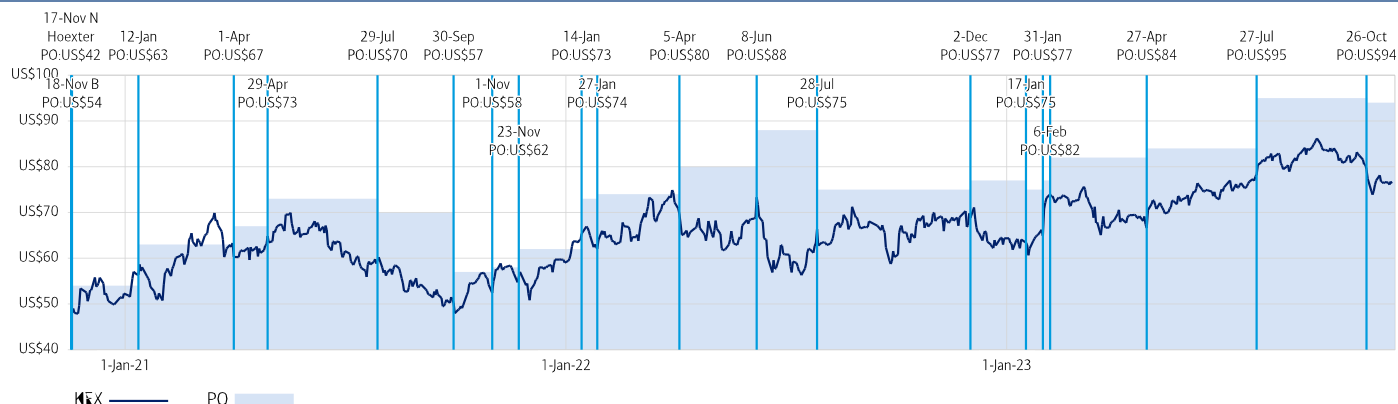
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Kirby Corp (KEX) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	71	53.38%	Buy	43	60.56%
Hold	29	21.80%	Hold	13	44.83%
Sell	33	24.81%	Sell	17	51.52%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1869	53.48%	Buy	1046	55.97%
Hold	828	23.69%	Hold	461	55.68%
Sell	798	22.83%	Sell	370	46.37%

^{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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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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