

World Kinect

Aviation yields better-than-expected yet macro pressures persist; PO to \$23

Reiterate Rating: UNDERPERFORM | PO: 23.00 USD | Price: 23.85 USD

Better Aviation yields drove beat; Land pricing challenged

World Kinect posted 4Q23 adj. EPS of \$0.54, above our \$0.43 target and Street's \$0.44. The beat was led by Aviation Gross profit, which was \$131 million in 4Q, up 19% y-y and \$17 mil above our target (+\$0.22/sh). Those gains were partially offset by higher-than-expected Operating Expenses (-\$0.06/sh) and Interest Expense (-\$0.06/sh). The company repriced Aviation contracts and improved its mix (higher margin non-core commercial is now 50% of Aviation gross profit vs 20% 7 years ago), leading to improved yields. Aviation Gross Profit/Gallon was up 20% y-y, above our +1% target. Land Gross Profit was \$105 mil, down 9% y-y and \$4 mil below target as pricing pressures at US and lower Europe mix (including nat gas distribution) lowered returns. Land was impacted by an erroneous bid in the Finnish power market, leading to a \$49 mil one-time charge (-\$0.61/sh). World Kinect implemented resiliency measures to safeguard against similar future issues. Marine gross profit was \$44 mil, down 21% y-y and \$4 mil above our target, as pricing declined 14% y-y (better than our -24% target) due to low bunker costs.

Red Sea minimal impact; Investor Day on March 15th

World Kinect expects a seasonal decline in 1Q24 Aviation volumes and flattish Marine margins. It anticipates sequentially flattish 1Q24 OpEx of ~\$201 mil as it moves to pull costs from its workforce and real estate to offset inflationary pressures. CFO Ira Birns noted that while Red Sea disruptions led to near-term dislocations, impacts to its Marine operations are limited given liner slow steaming. The company will host its Investor Day on March 15 in NYC where it will expand on its path to achieve a net operating margin of 30% over the medium term. Gross Revenues were \$12 billion, down 14% y-y, but \$370 million above our target. Adj. Gross Profits were \$280 mil, down 1% y-y, but \$18 mil above our target. Adj. Operating Income was \$74 mil, down 8% y-y but \$12 mil above our target, for a net operating margin of 26.2%, 290 bps better than our target.

Raise PO to \$23

We reiterate Underperform on World Kinect's shares yet increase our PO to \$23 (from \$21), as we hold a 10x target multiple on our 2024 EPS estimate. Our target remains below its 11x-17x range given near-term macro pressures. We increase our 2024/2025E EPS estimates 12%/6% to \$2.35/\$2.70, from \$2.10/\$2.55.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.04	1.95	2.35	2.70	3.00
GAAP EPS	1.81	0.86	2.35	2.70	3.00
EPS Change (YoY)	50.0%	-4.4%	20.5%	14.9%	11.1%
Consensus EPS (Bloomberg)			2.19	2.49	NA
DPS	0.52	0.56	0.56	0.56	0.56
Valuation (Dec)					
P/E	11.7x	12.2x	10.1x	8.8x	8.0x
GAAP P/E	13.2x	27.7x	10.1x	8.8x	8.0x
Dividend Yield	2.2%	2.3%	2.3%	2.3%	2.3%
EV / EBITDA*	5.8x	5.7x	5.3x	5.0x	4.8x
Free Cash Flow Yield*	4.2%	12.8%	16.8%	18.1%	19.0%

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

22 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	21.00	23.00

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Stock Data

Price	23.85 USD
Price Objective	23.00 USD
Date Established	22-Feb-2024
Investment Opinion	B-3-7
52-Week Range	17.69 USD - 30.65 USD
Mrkt Val (mn) / Shares Out (mn)	1,441 USD / 60.4
Free Float	96.5%
Average Daily Value (mn)	11.24 USD
BofA Ticker / Exchange	WKC / NYS
Bloomberg / Reuters	WKC US / WKC.N
ROE (2024E)	7.0%
Net Dbt to Eqty (Dec-2023A)	29.9%
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: 22 February 2024 11:07PM EST

iQprofileSM World Kinect

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	6.8%	6.5%	7.1%	7.3%	7.5%
Return on Equity	6.5%	6.1%	7.0%	7.5%	7.9%
Operating Margin	0.5%	0.6%	0.7%	0.7%	0.7%
Free Cash Flow	60	184	242	260	274

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.1x	2.3x	2.3x	2.2x	2.1x
Asset Replacement Ratio	0.7x	0.8x	0.8x	0.8x	0.8x
Tax Rate	20.2%	21.6%	23.5%	25.0%	25.0%
Net Debt-to-Equity Ratio	27.5%	29.9%	23.6%	16.5%	9.3%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	59,120	47,710	48,066	49,873	51,036
% Change	88.7%	-19.3%	0.7%	3.8%	2.3%
Gross Profit	1,089	1,106	1,144	1,179	1,215
% Change	38.2%	1.6%	3.4%	3.0%	3.1%
EBITDA	384	392	417	442	459
% Change	59.1%	2.2%	6.3%	6.1%	3.8%
Net Interest & Other Income	(111)	(128)	(123)	(120)	(119)
Net Income (Adjusted)	128	120	139	155	168
% Change	49.0%	-6.3%	15.7%	11.8%	8.7%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	113	53	139	155	168
Depreciation & Amortization	108	105	100	100	100
Change in Working Capital	(278)	526	217	217	217
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	195	(412)	(139)	(137)	(137)
Capital Expenditure	(79)	(88)	(75)	(75)	(75)
Free Cash Flow	60	184	242	260	274
% Change	-55.2%	206.2%	31.7%	7.6%	5.2%
Share / Issue Repurchase	(49)	219	(50)	(50)	(50)
Cost of Dividends Paid	(31)	(34)	(33)	(32)	(31)
Change in Debt	334	(303)	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	298	304	413	541	684
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	7,519	7,682	7,860
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	809	809	809
Other Non-Current Liabilities	735	567	567	567	567
Total Liabilities	6,174	5,426	5,506	5,586	5,666
Total Equity	1,991	1,950	2,014	2,097	2,194
Total Equity & Liabilities	8,165	7,375	7,519	7,682	7,860

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

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 World Kinect Underperform as fuel demand peaks as fluidity has returned after 2022. World Kinect benefits from fuel use for global transportation and the fragmentation of downstream energy markets. Given COVID and NATO withdrawal from Afghanistan, volume growth had been under pressure since 2H21 at its Aviation segment (with results aided by internal cost focus). We can see multiple compression as business volumes begin to decelerate.

Stock Data

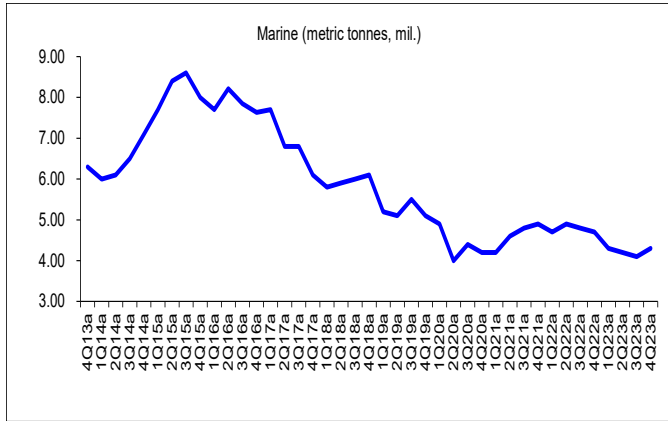
Average Daily Volume 471,265

Quarterly Earnings Estimates

	2023	2024
Q1	0.36A	0.58E
Q2	0.48A	0.60E
Q3	0.58A	0.60E
Q4	0.54A	0.56E

Exhibit 1: Marine Fuel Volumes (Million Metric Tons)

Marine fuel volumes were 4.3 metric tons, -9% y-y (vs. our -6% target)

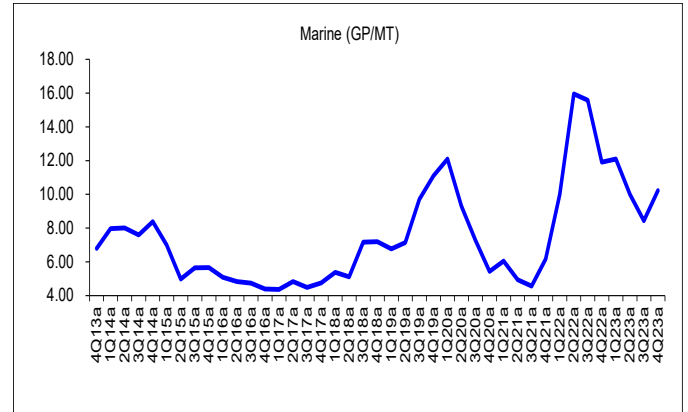


Source: BofA Global Research estimates and company reports.

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Exhibit 2: Marine Fuel Gross Profit/Metric Ton

Marine gross profit/mt was \$10.423, -14% y-y (vs our -24% target)

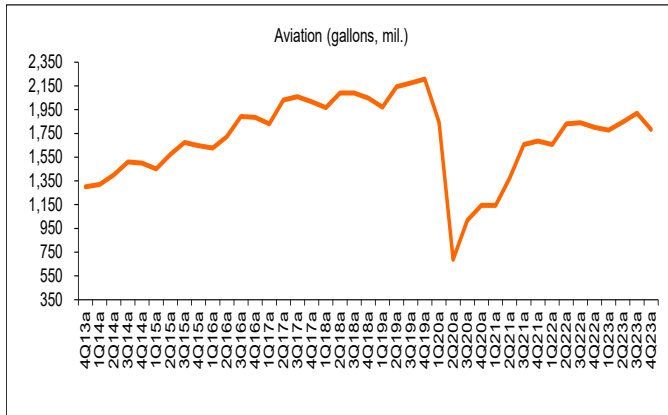


Source: BofA Global Research estimates and company reports.

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Exhibit 3: Aviation Fuel Volumes (Million Gallons)

Aviation volumes were 1.78 bil gallons, down 1% y-y (below our +2% target)

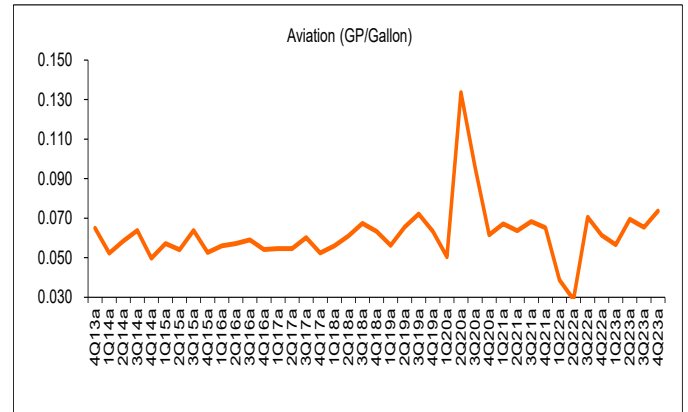


Source: BofA Global Research estimates and company reports.

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Exhibit 4: Aviation Gross Profit/Gallon

Aviation gross profit/gallon was 7.4 cents/gallon, +20% y-y (vs our +1% tgt)

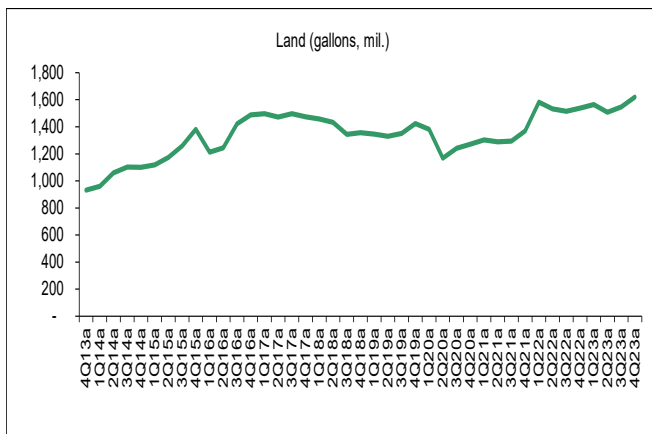


Source: BofA Global Research estimates and company reports.

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Exhibit 5: Land Fuel Volumes (Million Gallons)

Land fuel volumes are 1.62 bil gallons, up 5% y-y (vs our -1% target)

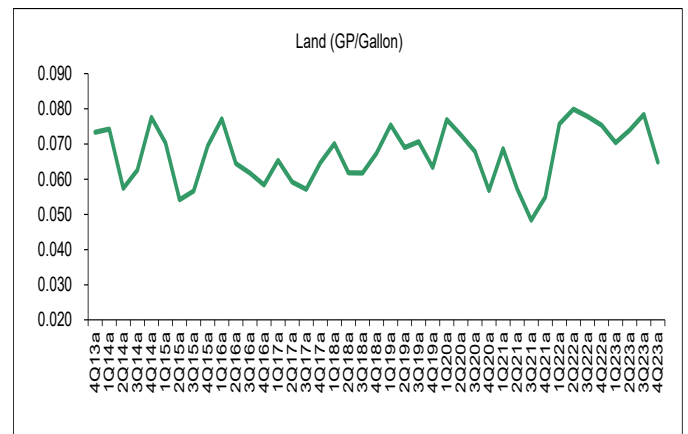


Source: BofA Global Research estimates and company reports.

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Exhibit 6: Land Gross Profit/Gallon

Land gross profit/gallon was 6.5 cents/gallon, down 14% y-y (vs our -5% tgt)



Source: BofA Global Research estimates and company reports.

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Price objective basis & risk

World Kinect (WKC)

Our \$23 price objective is based on a 10x 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
	Old Dominion Freight Line	ODFL	ODFL 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
	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	YTFII	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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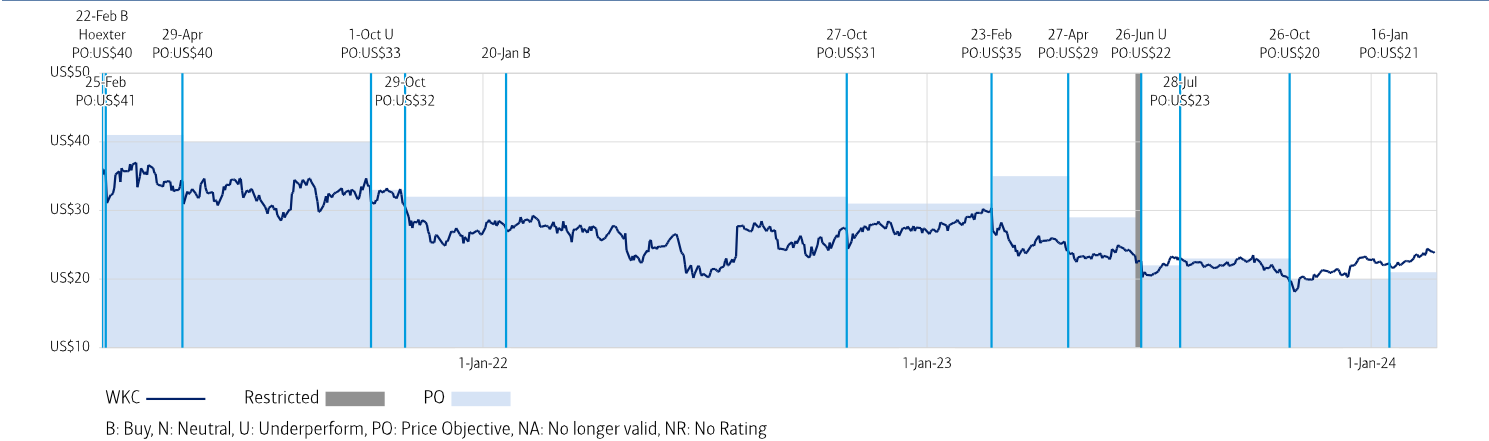
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World Kinect (WKC) Price Chart



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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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