

Kirby Corp

4Q Preview: See strong pricing aiding returns yet 1Q may face pressure; PO \$91

Reiterate Rating: BUY | PO: 91.00 USD | Price: 77.43 USD

Expect strong pricing, renewals to drive 4Q23 margins

We target 4Q23 EPS of \$1.07, up 60% year-year and above Street's \$1.03 as we see strong pricing momentum and moderating cost inflation to drive additional margin expansion. We expect Inland margins to end the year at 19.5%, a 140 bps improvement from 3Q23 and in-line with CEO Grzebinski's view of an exit rate of ~20% for 2023. We target improved margins on rising tank barging rates as Kirby realizes the margin benefits from high-single digit increases in term contracts. Distribution & Services is expected to also see improved gains on higher uptake of its Oil & Gas e-frac units. We target a 13% year-year increase in Dist. & Services revenues, accelerating from +7% in 3Q. The fourth quarter is historically the most impactful quarter for pricing as ~30% of its tank barging contracts will see new rate terms. Thus, we focus on Kirby's ability to convert renewal gains into sustainable Inland margins moving above 20+% in 2024 (we target 2024 Inland margins of 20.4%, a 340 bps improvement year-year).

Winter weather a near-term challenge for utilization

We expect tank barging fundamentals to remain intact in 2024, leading to elevated rates and returns for Kirby as the barge orderbook remains near record lows. Yet, we see near-term pressures in 1Q24 as weather-related challenges may lead to headwinds. We note that winter storm impacts have led to the suspension of approx. 15% of the US Gulf's refinery capacity last week, with capacity also shutting for Spring maintenance. Recent weather-related lock closures near the Houston channel will also negatively impact tank barging ton-miles. Thus, we lower our 1Q24 Inland barging ton-mile growth target to -10% from +3% previously. We also slightly lower Inland margins in the near term (19.4% in 1Q24 from 19.6% prior).

PO to \$91

We reiterate our Buy on Kirby's shares yet decrease our PO to \$91 (from \$94) holding our 18x target multiple on our revised 2024 EPS estimate. We are positive on tank barging fundamentals given limited new barge deliveries and elevated refinery utilization yet factor in near-term fluidity challenges. We decrease our 2024 and 2025 EPS estimates 3% each, to \$5.05 and \$5.65, from \$5.20 and \$5.80, respectively.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	0.56	2.10	3.75	5.05	5.65
GAAP EPS	(4.10)	2.03	3.75	5.05	5.65
EPS Change (YoY)	-69.6%	275.0%	78.6%	34.7%	11.9%
Consensus EPS (Bloomberg)			3.71	5.02	5.86
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	138.3x	36.9x	20.6x	15.3x	13.7x
GAAP P/E	NM	38.1x	20.6x	15.3x	13.7x
EV / EBITDA*	18.8x	13.7x	10.1x	8.6x	8.0x
Free Cash Flow Yield*	4.8%	2.6%	3.6%	9.1%	8.9%

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

24 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	94.00	91.00
2024E Rev (m)	3,299.6	3,236.6
2025E Rev (m)	3,437.7	3,371.6
2024E EPS	5.20	5.05
2025E EPS	5.80	5.65

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Stock Data

Price	77.43 USD
Price Objective	91.00 USD
Date Established	24-Jan-2024
Investment Opinion	B-1-9
52-Week Range	63.12 USD - 87.52 USD
Mrkt Val (mn) / Shares Out (mn)	4,626 USD / 59.7
Free Float	98.9%
Average Daily Value (mn)	29.91 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: 24 January 2024 08:07AM EST

iQprofileSM Kirby Corp

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	1.1%	3.0%	5.2%	6.5%	7.1%
Return on Equity	1.1%	4.3%	7.3%	9.3%	9.7%
Operating Margin	3.7%	7.1%	11.1%	13.6%	14.2%
Free Cash Flow	224	122	165	419	411

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%	18.7%	8.9%
Interest Cover	1.9x	4.5x	6.3x	8.6x	9.9x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	2,247	2,785	3,072	3,237	3,372
% Change	3.5%	24.0%	10.3%	5.4%	4.2%
Gross Profit	593	724	921	1,065	1,120
% Change	-10.2%	22.0%	27.3%	15.6%	5.2%
EBITDA	304	416	565	668	719
% Change	-17.2%	36.8%	35.8%	18.2%	7.6%
Net Interest & Other Income	(32)	(28)	(42)	(40)	(38)
Net Income (Adjusted)	34	127	225	297	328
% Change	-69.4%	275.1%	77.6%	32.2%	10.3%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	34	127	225	297	327
Depreciation & Amortization	212	201	213	217	229
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	419	411
% Change	-24.7%	-45.6%	35.5%	154.7%	-1.9%
Share / Issue Repurchase	1	(19)	(86)	(78)	(78)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(308)	(86)	(41)	(135)	(185)

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	35	81	100	317	476
Trade Receivables	568	598	575	472	489
Other Current Assets	401	533	517	475	480
Property, Plant & Equipment	3,679	3,633	3,730	3,529	3,316
Other Non-Current Assets	717	710	699	747	815
Total Assets	5,399	5,555	5,621	5,540	5,577
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	2,076
Total Equity	2,889	3,045	3,097	3,289	3,501
Total Equity & Liabilities	5,399	5,555	5,613	5,540	5,577

* 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 386,346

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



Price objective basis & risk

Kirby Corp (KEX)

Our \$91 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.

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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
	Norfolk Southern	NSC	NSC 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
	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
	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

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

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

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

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

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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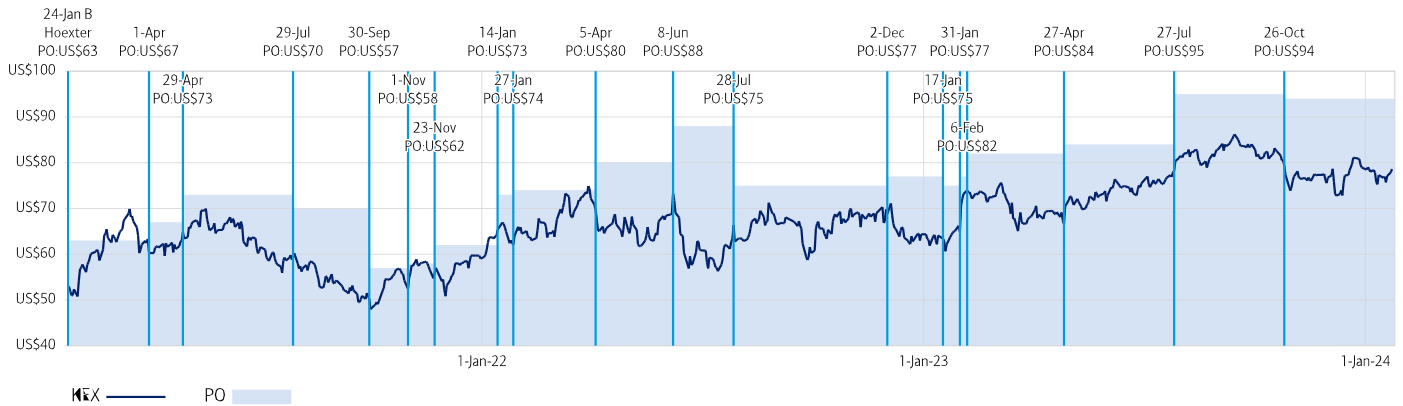
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Kirby Corp (KEX) Price Chart



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 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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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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