

Kirby Corp

20-min series: Spot rates climbing; CEO highly confident on 20%+ inland margins

Maintain Rating: BUY | PO: 84.00 USD | Price: 74.40 USD

Kirby continues our 4th annual 20-min Shipping Call Series

On June 5, we hosted Kirby Corp as part of our 4th annual Hoexter's 20-minute Shipping call series. Kirby is the largest inland tank barge carrier, with 1,076 inland tank barges (vs industry of ~4,000). We hosted CEO Dave Grzebinski and CFO Raj Kumar to discuss tank barge demand, rates, capacity, and its Coastwise/Distribution & Services segments.

Spot rates climbing on strong tank barging demand/supply

Kirby noted tank barge spot rates (two 30k barrel barges and a tow) are at ~\$9,000/day (from \$8,000/day in late '22) and continue to climb. Barge utilization remains around 90% (down slightly from last month as is normal seasonally, -2-3% on seasonality, -1% on demand). Contract rates are also up, but remain slightly below spot, as shippers pay for certainty of capacity. While chemical demand slowed 2Q-to-date given recessionary impacts and black oil/refined product entered its offseason, rates stayed robust given the tight capacity backdrop. Shipyards are fully booked until 2026 and a new 30k-barrel tank barge costs \$3.85 million vs \$2 million pre-COVID. It also expects a doubling wave of 10-yr inland barge mandatory maintenance to constrain capacity over the next 2 years (330 barges in 1H23, 468 in 2H23, 522 in 1H24, 602 in 2H24 vs historically 200/half yr).

CEO Grzebinski highly confident on 20%+ inland margins

CEO Grzebinski is highly confident that KEX can achieve a 20%+ margin as it exits 2023, barring a major economic recession. Both spot and contract rates are up in 2Q, with contract renewals up in the high-single to low double-digits. CEO Grzebinski noted for Inland to operate consistently in mid-20s margin, spot rates must reach \$11k/day as it aims to offset 4%-7% cost inflation. With higher financing rates and less depreciation-related tax shields there is lower incentive for small operators to add capacity.

Coastwise improving; D&S benefits from e-frac demand

KEX's Coastwise barge business is seeing double-digit increases in spot/contract rates as capacity tightens (some pricing up 20%+). It expects Coastwise to exit '23 at mid-single digits margins (we're at 3% in 4Q23) and near double-digits at end '24 (we're at 8% in 4Q24). While pressure pumping is seeing slowing orders, Kirby's D&S Oil & Gas business benefits from its e-frac manufacturing leadership (no change in its outlook). We reit our Buy and \$84 PO (on 23.5x '23e) given strong inland spot rate momentum.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	0.56	2.10	3.55	4.85	5.30
GAAP EPS	(4.10)	2.03	3.55	4.85	5.30
EPS Change (YoY)	-69.6%	275.0%	69.0%	36.6%	9.3%
Consensus EPS (Bloomberg)			3.55	4.78	5.46
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	132.9x	35.4x	21.0x	15.3x	14.0x
GAAP P/E	NM	36.7x	21.0x	15.3x	14.0x
Dividend Yield	0%	0%	0%	0%	0%
EV / EBITDA*	18.0x	13.2x	9.3x	7.8x	7.4x
Free Cash Flow Yield*	5.0%	2.7%	3.7%	7.7%	9.7%

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Timestamp: 05 June 2023 10:07PM EDT

05 June 2023

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Stock Data

Price	74.40 USD
Price Objective	84.00 USD
Date Established	27-Apr-2023
Investment Opinion	B-1-9
52-Week Range	55.03 USD - 76.34 USD
Mrkt Val (mn) / Shares Out (mn)	4,484 USD / 60.3
Average Daily Value (mn)	24.76 USD
BofA Ticker / Exchange	KEX / NYS
Bloomberg / Reuters	KEX US / KEX.N
ROE (2023E)	6.8%
Net Dbt to Eqty (Dec-2022A)	32.8%
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".

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



iQprofileSM Kirby Corp

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	1.1%	3.0%	5.0%	6.5%	6.8%
Return on Equity	1.1%	4.3%	6.8%	8.7%	8.9%
Operating Margin	3.7%	7.1%	10.5%	13.2%	13.4%
Free Cash Flow	224	122	168	344	436

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	9.5x	2.3x	2.3x	1.9x	1.9x
Asset Replacement Ratio	0.5x	0.9x	1.3x	0.8x	0.6x
Tax Rate	32.3%	25.6%	25.8%	26.0%	25.8%
Net Debt-to-Equity Ratio	39.1%	32.8%	25.9%	16.5%	6.1%
Interest Cover	1.9x	4.5x	5.6x	7.9x	9.2x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	2,247	2,785	3,153	3,303	3,436
% Change	3.5%	24.0%	13.2%	4.8%	4.0%
Gross Profit	593	724	971	1,105	1,146
% Change	-10.2%	22.0%	34.1%	13.9%	3.7%
EBITDA	304	416	593	700	739
% Change	-17.2%	36.8%	42.4%	18.1%	5.6%
Net Interest & Other Income	(32)	(28)	(42)	(45)	(40)
Net Income (Adjusted)	34	127	214	289	312
% Change	-69.4%	275.1%	68.9%	35.3%	8.0%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	34	127	213	289	312
Depreciation & Amortization	212	201	246	254	269
Change in Working Capital	16	(103)	30	(12)	2
Deferred Taxation Charge	(44)	39	2	2	2
Other Adjustments, Net	104	30	8	8	8
Capital Expenditure	(98)	(173)	(330)	(196)	(156)
Free Cash Flow	224	122	168	344	436
% Change	-24.7%	-45.6%	38.1%	105.0%	26.6%

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	35	81	171	336	533
Trade Receivables	568	598	527	548	565
Other Current Assets	401	533	287	292	297
Property, Plant & Equipment	3,679	3,633	3,404	3,165	2,913
Other Non-Current Assets	717	710	1,122	1,208	1,266
Total Assets	5,399	5,555	5,510	5,550	5,574
Short-Term Debt	2	3	3	3	3
Other Current Liabilities	542	639	539	549	568
Long-Term Debt	1,161	1,076	1,001	896	751
Other Non-Current Liabilities	805	791	744	694	644
Total Liabilities	2,510	2,510	2,288	2,142	1,967
Total Equity	2,889	3,045	3,222	3,407	3,608
Total Equity & Liabilities	5,399	5,555	5,510	5,550	5,574

* 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 332,827

Quarterly Earnings Estimates

	2022	2023
Q1	0.29A	0.68A
Q2	0.49A	0.80E
Q3	0.65A	0.93E
Q4	0.67A	1.14E



Price objective basis & risk

Kirby Corp (KEX)

Our \$84 price objective is based on a 23.5x multiple on our 2023 EPS estimate, near the midpoint of its 19x-29x one-standard deviation historical trading range given movement away from 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

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US - Transportation Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Canadian National	CNI	CNI US	Ken Hoexter
	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
	RXO, Inc.	RXO	RXO US	Ken Hoexter
	Schneider National	SNDR	SNDR US	Ken Hoexter
	Scorpio Tankers Inc.	STNG	STNG US	Ken Hoexter
	Union Pacific	UNP	UNP US	Ken Hoexter
	Werner Enterprises	WERN	WERN US	Ken Hoexter
	World Fuel Services	INT	INT US	Ken Hoexter
NEUTRAL				
	Old Dominion Freight Line	ODFL	ODFL US	Ken Hoexter
	Saia Inc.	SAIA	SAIA 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
	XPO, Inc.	XPO	XPO 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
	TuSimple	TSP	TSP US	Ken Hoexter

US - Transportation Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
RSTR	Triton International, Ltd	TRTN	TRTN 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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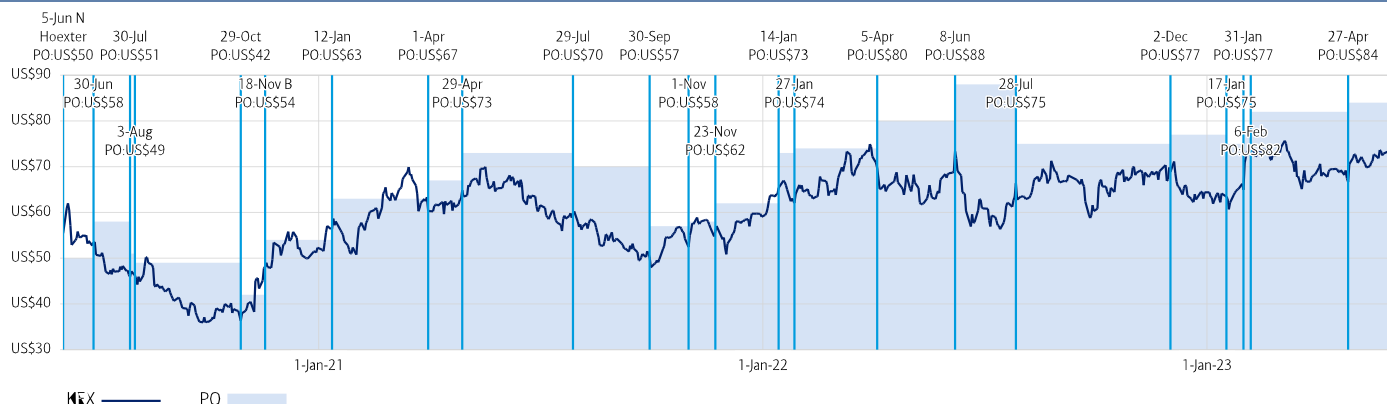
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Kirby Corp (KEX) Price Chart



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 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	68	51.52%	Buy	38	55.88%
Hold	28	21.21%	Hold	15	53.57%
Sell	36	27.27%	Sell	18	50.00%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1869	53.01%	Buy	1030	55.11%
Hold	827	23.45%	Hold	476	57.56%
Sell	830	23.54%	Sell	389	46.87%

^{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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Underperform	N/A	≥ 20%

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