

World Fuel Services

Aviation led top-line beat, reiterates return focus as it reprices business; PO to \$29

Reiterate Rating: BUY | PO: 29.00 USD | Price: 24.10 USD

Solid Aviation offset soft Land, tax aided EPS beat

World Fuel Services (INT) posted 1Q23 EPS of \$0.36, above our \$0.33 estimate and the Street's \$0.35. Total gross profit was \$263 million, up 14% year-year and \$5 million above our estimate on stronger-than-expected Aviation gross profits (\$101 million, up 57% year-year and \$15 million above our target). Aviation was aided by a favorable year-year comp given the negative impact of backwardation last year as well as an uptick in travel activity. Land gross profit was \$110 million, down 8% year-year and \$11 million below our projection as extreme weather negatively impacted its West Coast US operations. Marine gross profit was \$52 million, up 11% year-year, in line with our forecast. Operating income (\$65 million) was \$1 million below our target (\$0.01/sh worse) for a net operating margin of 24.7%, 80 bps worse than our target, as costs remain elevated. The EPS beat was aided by a 15.7% tax rate, below our 26% estimate (\$0.04/sh better) on recoverable items that INT sees as having a one-off impact.

Reiterates returns focus on repricing business given rates

The company reiterated its focus on improving pricing and returns as it works to price in higher interest rates into customer contracts. It noted steady progress in Marine given its relatively higher spot exposure, as it repriced business to help offset lower container liner demand. Marine gross profit per ton was up 21% year-over-year, above our +10% target, well above its historical averages. Aviation gross profit per gallon was up 46% year-year and above our +30% target on a higher mix of ancillary services. Land gross profit per gallon was down 7% year-year, below our flat target given weather impacts. INT expects to further improve Aviation yields as multiple contracts renew in July and plans to expand its more consistent natural gas and power operations within Land.

Lower PO to \$29 on macroeconomic backdrop

We reiterate our Buy on INT's shares but lower our PO to \$29 (from \$35) on a 13.5x target multiple on our 2023 EPS estimate (from 16.5x), converging it to the midpoint of its 11x-17x range as we move past peak fuel prices. We increase our 2023 EPS estimate 2%, to \$2.15 from \$2.10, given pricing gains and increased cost focus. We hold our 2024 estimate at \$2.40.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	1.36	2.04	2.15	2.40	2.60
GAAP EPS	1.16	1.81	2.15	2.40	2.60
EPS Change (YoY)	18.3%	50.0%	5.4%	11.6%	8.3%
Consensus EPS (Bloomberg)			2.16	2.52	3.01
DPS	0.48	0.52	0.56	0.56	0.56
Valuation (Dec)					
P/E	17.7x	11.8x	11.2x	10.0x	9.3x
GAAP P/E	20.8x	13.3x	11.2x	10.0x	9.3x
Dividend Yield	2.0%	2.2%	2.3%	2.3%	2.3%
EV / EBITDA*	9.5x	6.0x	5.5x	5.3x	5.2x
Free Cash Flow Yield*	8.9%	4.0%	45.1%	16.2%	16.6%

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

27 April 2023

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	35.00	29.00

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Stock Data

Price	24.10 USD
Price Objective	29.00 USD
Date Established	27-Apr-2023
Investment Opinion	B-1-7
52-Week Range	19.29 USD - 30.65 USD
Mrkt Val (mn) / Shares Out (mn)	1,513 USD / 62.8
Average Daily Value (mn)	9.91 USD
BofA Ticker / Exchange	INT / NYS
Bloomberg / Reuters	INT US / INT.N
ROE (2023E)	6.2%
Net Dbt to Eqty (Dec-2022A)	27.5%
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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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 27 April 2023 06:57PM EDT

iQprofileSM World Fuel Services

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	4.1%	6.8%	6.9%	6.9%	6.9%
Return on Equity	4.5%	6.5%	6.2%	6.2%	6.3%
Operating Margin	0.5%	0.5%	0.6%	0.6%	0.7%
Free Cash Flow	134	60	683	245	252

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	2.0x	1.1x	5.7x	2.2x	2.2x
Asset Replacement Ratio	0.5x	0.7x	0.8x	0.8x	0.8x
Tax Rate	26.1%	20.2%	21.0%	23.5%	25.0%
Net Debt-to-Equity Ratio	-7.5%	27.5%	-1.1%	-4.6%	-8.2%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	31,337	59,120	50,552	51,495	51,592
% Change	53.9%	88.7%	-14.5%	1.9%	0.2%
Gross Profit	788	1,089	1,128	1,134	1,147
% Change	-7.5%	38.2%	3.5%	0.6%	1.1%
EBITDA	241	384	418	430	441
% Change	-7.7%	59.1%	8.8%	2.9%	2.6%
Net Interest & Other Income	(40)	(111)	(137)	(136)	(135)
Net Income (Adjusted)	86	128	133	143	149
% Change	16.6%	49.0%	3.9%	7.4%	4.6%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	74	113	133	143	149
Depreciation & Amortization	81	108	101	100	100
Change in Working Capital	86	(278)	1,116	215	215
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(67)	195	(591)	(138)	(138)
Capital Expenditure	(39)	(79)	(76)	(75)	(75)
Free Cash Flow	134	60	683	245	252
% Change	-75.8%	-55.2%	NM	-64.1%	2.7%

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	652	298	751	833	922
Trade Receivables	2,355	3,294	2,967	2,927	2,887
Other Current Assets	1,012	1,646	1,400	1,400	1,400
Property, Plant & Equipment	349	484	554	629	704
Other Non-Current Assets	1,574	2,442	2,375	2,375	2,375
Total Assets	5,942	8,165	8,047	8,164	8,289
Short-Term Debt	31	16	18	18	18
Other Current Liabilities	3,066	4,593	4,414	4,494	4,574
Long-Term Debt	478	830	708	708	708
Other Non-Current Liabilities	451	735	610	610	610
Total Liabilities	4,026	6,174	5,751	5,831	5,911
Total Equity	1,917	1,991	2,297	2,333	2,378
Total Equity & Liabilities	5,942	8,165	8,047	8,164	8,289

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

Company Sector

Freight Forwarding

Company Description

World Fuel 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 Fuel Buy as volumes are set to rebound as fluidity improves through 2022. World Fuel 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 in 2H21 at its Aviation segment (with results aided by internal cost focus). We can see multiple expansion as business volumes begin to accelerate..

Stock Data

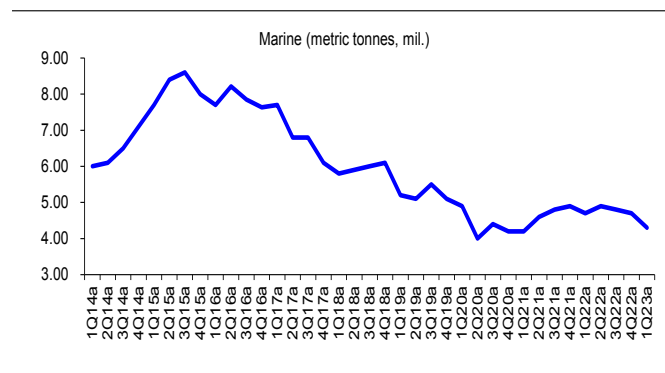
Average Daily Volume 411,212

Quarterly Earnings Estimates

	2022	2023
Q1	0.42A	0.36A
Q2	0.41A	0.44E
Q3	0.67A	0.72E
Q4	0.54A	0.64E

Exhibit 1: Marine Volumes (metric tons)

Marine vol were 4.3 mil tons in 1Q23, down 9% year-year (we targeted -2%)

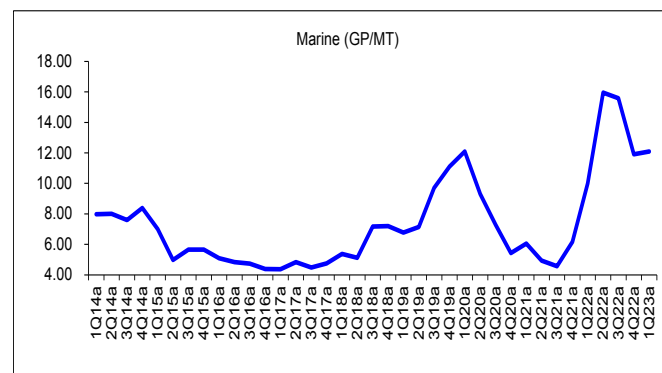


Source: Company reports

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Exhibit 2: Marine Gross Profit per metric ton

Marine gross profit/ton was \$12.09, up 21% year-year (we targeted +10%)

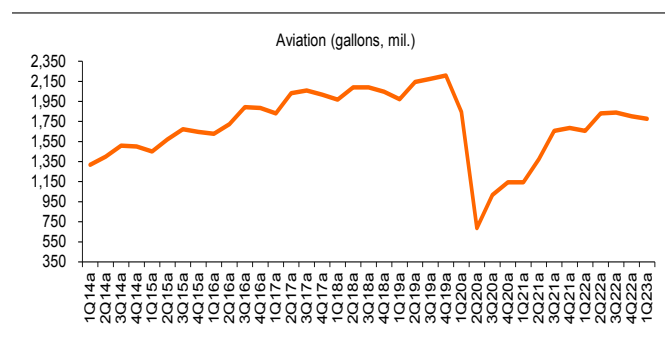


Source: Company reports

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Exhibit 3: Aviation Volumes (million gallons)

Aviation vol was 1.8 bil gallons in 1Q23, up 7% year-year (we targeted +3%)

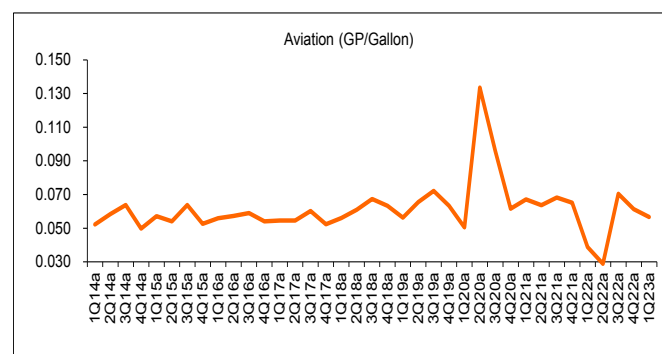


Source: Company reports

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Exhibit 4: Aviation Gross Profit per Gallon

Aviation gross profit/gallon was \$0.06, up 46% year-year (we targeted +30%)

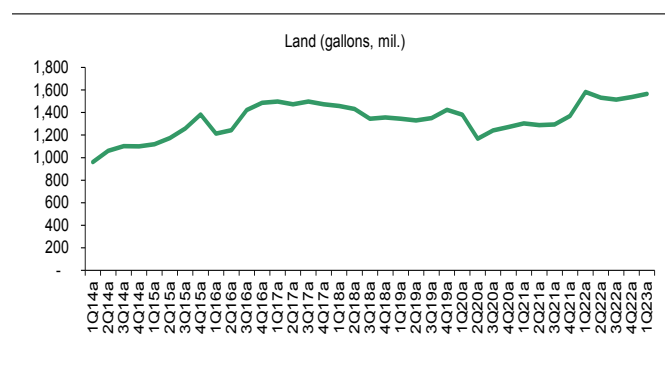


Source: Company reports

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Exhibit 5: Land Volumes (million gallons)

Land vol was 1.6 bil gallons, down 1% year-year (we targeted +1%)

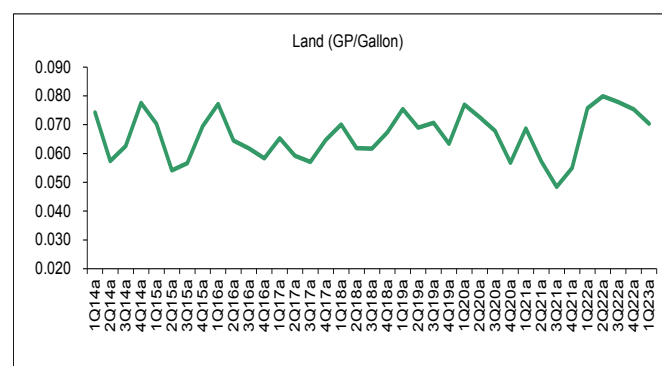


Source: Company reports

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Exhibit 6: Land Gross Profit per Gallon

Land gross profit/gallon was \$0.07, down 7% year-year (we targeted flat)



Source: Company reports

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Price objective basis & risk

World Fuel Services (INT)

Our \$29 price objective is based on a 13.5x target multiple on our 2023 EPS estimate. Our target multiple converges to the midpoint of its 11x-17x historical one-standard deviation trading range, given benefits from increased passenger flight traffic (benefiting Aviation volumes), and potential for more stable revenue flows following its acquisition of Flyers, which added 850 million reselling gallons partly balanced by peaking fuel prices. We see the potential for upside led by recovering volumes for this fuel reseller. Additionally, Marine, Aviation, and Land segments remain strong.

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).

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 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				
	ArcBest Corporation	ARCB	ARCB US	Ken Hoexter
	Old Dominion Freight Line	ODFL	ODFL 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				
	C.H. Robinson	CHRW	CHRW US	Ken Hoexter
	Saia Inc.	SAIA	SAIA US	Ken Hoexter
	The Greenbrier Companies	GBX	GBX US	Ken Hoexter
	TuSimple	TSP	TSP US	Ken Hoexter
	XPO, Inc.	XPO	XPO US	Ken Hoexter
RSTR				
	Triton International, Ltd	TRTN	TRTN US	Ken Hoexter

US - Transportation Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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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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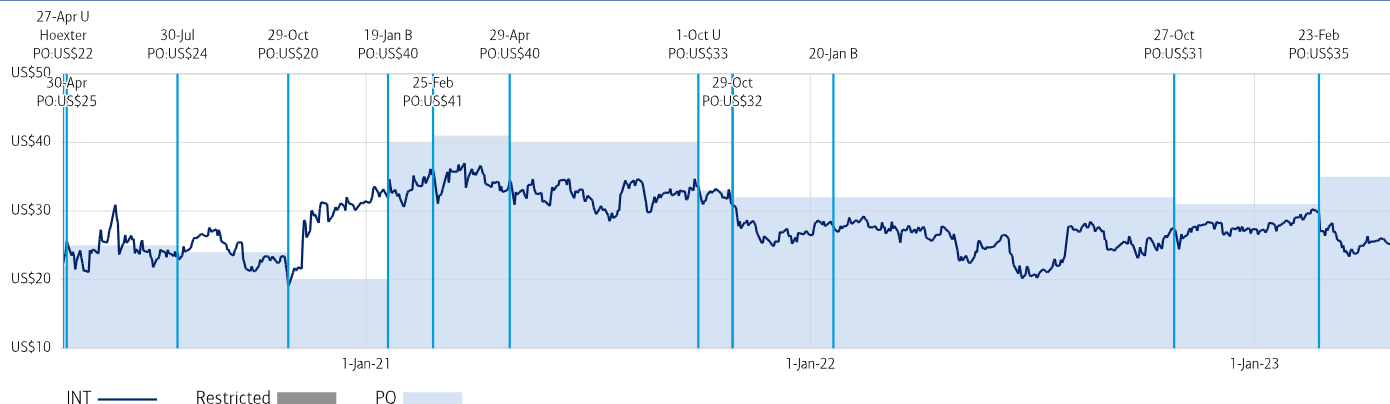
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Important Disclosures

World Fuel (INT) 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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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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