

Kirby Corp

Sees inland margin gain of 300-400bp each of next 2 yrs on extended upcycle; PO \$95

Reiterate Rating: BUY | PO: 95.00 USD | Price: 82.40 USD

Pricing gains set stage for 300-400bps ann. margin ramp

Kirby Corp (KEX), an Inland tank barge operator, is poised to benefit in each of the next two years from repricing of legacy contracts, tight industry supply, and moderating cost inflation. The company noted confidence in achieving 300-400 bps Inland margin gains in 2024 and 2025 (from 16.7% in 2023). The carrier sees the mounting 2024 maintenance bubble (barges built 10-ys ago must go for special survey), coupled with a negligible tank barge orderbook (~25 newbuilds in 2024 vs ann scrap rate of 50-100) to drive pricing gains. It is currently renewing term contracts at double-digit rates. We target 2024 and 2025 inland margins of 20.2% and 23.6% (from 16.7% in 2023 and our prior targets of 20.4% and 21.6%, respectively). The potential to return to mid-20's inland operating margins (from mid-teens in 2023) suggest a longer-than-anticipated tank barging upcycle as deliveries remain low and refinery utilization stays elevated. KEX targets 2024 EPS to increase 30%-40% year-year, (we target +31%). Within its target are a slightly weaker 1Q inland margin on weather and a more cautious 2024 Distribution & Services (D&S) view, as it targets flat- to slightly down revenues (we were +4%, now flat) with mid-to-high single digits D&S margins (we were 9% now 8%).

Sees near-term pressure given weather related impacts

KEX reported 4Q23 EPS of \$1.04, below our \$1.07 estimate, yet slightly above Street's \$1.03. Inland yields (revenue/ton-mile) were 11.2 cents/ton mile, above our 10.2c/tm target, its highest level in our 25-year model. Alternatively, utilization (ton-miles/barge) decreased 4% year-year, below our -3% target, due to winter storm impacts. CEO Grzebinski sees near-term pressures in 1Q24 as fog related lock delays and refinery shutdowns negatively impact volumes and margins (we target -10% for 1Q24 ton miles and Inland margin to deteriorate 100 bps sequentially). Revenues were \$799 mil, up 9% year-year and \$19 mil above our estimate. Operating Income was \$93 mil, up 50% year-year, yet \$2 mil below our estimate (-\$0.02/sh) for an Operating Margin of 11.6%, 50 bps worse than our target.

Reiterate Buy; PO to \$95, Increase 2025 EPS +14%

We reiterate our Buy on KEX's shares and raise our PO to \$95 (from \$91) on 19.5x our 2024 EPS estimate (from 18x) as we account for its extended earnings acceleration. We lower our 2024e EPS 2% to \$4.90 from \$5.05, given its more cautious view on D&S, yet increase our 2025e EPS 14% to \$6.45 from \$5.65, on its lengthened margin ramp.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.10	3.73	4.90	6.45	7.55
GAAP EPS	2.03	0	4.90	6.45	7.55
EPS Change (YoY)	275.0%	77.6%	31.4%	31.6%	17.1%
Consensus EPS (Bloomberg)			5.00	5.86	6.87
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	39.2x	22.1x	16.8x	12.8x	10.9x
GAAP P/E	40.6x	NA	16.8x	12.8x	10.9x
EV / EBITDA*	14.4x	10.7x	9.5x	7.9x	7.3x
Free Cash Flow Yield*	2.5%	2.5%	5.8%	8.9%	9.8%

* For full definitions of *IQmethod*SM measures, see page 6.

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Timestamp: 01 February 2024 04:14PM EST

01 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	91.00	95.00
2024E Rev (m)	3,236.6	3,199.4
2025E Rev (m)	3,371.6	3,364.4
2026E Rev (m)	3,520.1	3,495.1
2024E EPS	5.05	4.90
2025E EPS	5.65	6.45
2026E EPS	6.05	7.55

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Stock Data

Price	82.40 USD
Price Objective	95.00 USD
Date Established	1-Feb-2024
Investment Opinion	B-1-9
52-Week Range	64.92 USD - 87.52 USD
Mrkt Val (mn) / Shares Out (mn)	4,889 USD / 59.3
Free Float	98.8%
Average Daily Value (mn)	27.60 USD
BofA Ticker / Exchange	KEX / NYS
Bloomberg / Reuters	KEX US / KEX.N
ROE (2024E)	8.9%
Net Dbt to Eqty (Dec-2023A)	32.3%
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".

iQprofileSM Kirby Corp

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	3.0%	5.2%	6.3%	7.5%	8.0%
Return on Equity	4.3%	7.3%	8.9%	10.4%	10.7%
Operating Margin	7.1%	10.9%	13.2%	15.3%	16.0%
Free Cash Flow	122	124	282	433	479

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	2.3x	2.4x	2.1x	1.7x	1.6x
Asset Replacement Ratio	0.9x	1.9x	1.6x	0.7x	0.6x
Tax Rate	25.6%	24.2%	25.5%	25.5%	25.5%
Net Debt-to-Equity Ratio	32.8%	32.3%	29.1%	23.7%	18.9%
Interest Cover	4.5x	6.2x	8.0x	9.9x	11.6x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	2,785	3,092	3,199	3,364	3,495
% Change	24.0%	11.0%	3.5%	5.2%	3.9%
Gross Profit	724	911	1,006	1,160	1,229
% Change	22.0%	25.9%	10.4%	15.4%	5.9%
EBITDA	416	560	631	763	819
% Change	36.8%	34.6%	12.7%	20.9%	7.3%
Net Interest & Other Income	(28)	(44)	(42)	(42)	(36)
Net Income (Adjusted)	127	223	282	353	391
% Change	275.1%	76.3%	26.6%	25.0%	10.7%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	127	223	282	353	391
Depreciation & Amortization	201	211	199	236	246
Change in Working Capital	(103)	18	96	(10)	(11)
Deferred Taxation Charge	39	47	2	2	2
Other Adjustments, Net	30	26	19	7	7
Capital Expenditure	(173)	(402)	(316)	(156)	(156)
Free Cash Flow	122	124	282	433	479
% Change	-45.6%	1.8%	128.2%	53.2%	10.6%
Share / Issue Repurchase	(19)	(108)	(218)	(298)	(318)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(86)	(41)	(75)	(125)	(125)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	81	38	38	58	104
Trade Receivables	598	575	472	493	512
Other Current Assets	533	517	475	480	485
Property, Plant & Equipment	3,633	3,731	3,548	3,327	3,097
Other Non-Current Assets	710	699	1,065	1,335	1,639
Total Assets	5,555	5,560	5,598	5,694	5,837
Short-Term Debt	3	10	10	10	10
Other Current Liabilities	639	647	538	550	558
Long-Term Debt	1,076	1,028	983	883	808
Other Non-Current Liabilities	791	831	784	734	684
Total Liabilities	2,510	2,516	2,315	2,177	2,059
Total Equity	3,045	3,095	3,282	3,517	3,778
Total Equity & Liabilities	5,555	5,611	5,598	5,694	5,837

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Sea Transport

Company Description

Kirby Corporation operates a Marine Transportation segment (56% of '23 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 (44% of '23 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

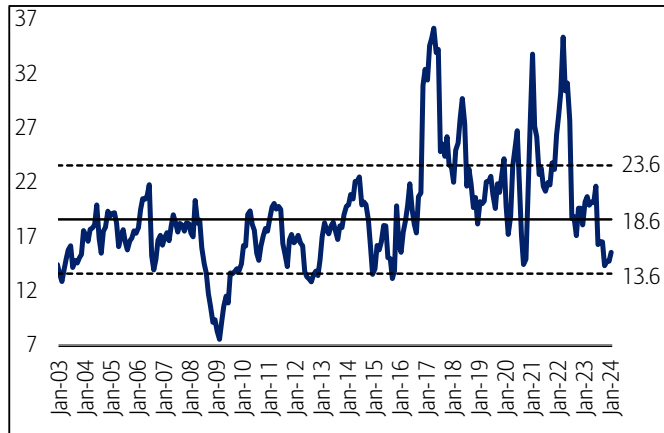
Average Daily Volume 334,955

Quarterly Earnings Estimates

	2023	2024
Q1	0.68A	0.93E
Q2	0.95A	1.24E
Q3	1.05A	1.37E
Q4	1.04A	1.36E

Exhibit 1: KEX Forward P/E

Trading at 17x its 2024e EPS, below the midpoint of its 14x-24x range.



Source: BofA Global Research estimate and Bloomberg.

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Targets 30-40% 2024 EPS growth, ~\$300m FCF

Kirby targets 30%-40% year-year EPS growth in 2024 (\$4.85-\$5.22; we're at \$4.90). It expects to achieve ~20% in 2024 inland margins (we target 20%) and mid- to high-single digit Inland revenue growth (we target +6%). In Coastal, it targets revenue growth of high single- to low double-digits (we target +7%) and mid- to high single-digits margins (we target 7%). In D&S, Kirby expects to achieve flat- to slightly down revenues, given increased equipment lead times and demand uncertainty in Oil & Gas (O&G; we target flat), and mid- to high-single digits margins (we target 8%).

Kirby targets 2024 cash from operations of \$600-\$700 million (we target \$600 million) and CapEx of \$290-\$330 million (we target \$320 million). It expects free cash flow of approximately \$300 million (we target \$280 million) and targets to deploy ~75% of its cash to repurchase shares (or approximately \$200-\$250 million in buybacks). We increase our 2024 buyback target to \$220 million (from \$80 million previously) given its shareholder returns focus.

Inland pricing scales; Coastal inflects positive

Inland revenues were \$373 million, up 11% year-year and \$20 million above our estimate. Revenue/Inland Ton-Mile was 11.2 cents, above our 10.2 cent target. Inland margins were approximately 18.1%, flat from 3Q23 and 140 bps worse than our target given fluidity challenges. However, it noted it exited December at a 20% level. Spot tank barging rates continue to ramp higher, to the \$9,500/day for 2-barge tows, up 2-5% quarter-on-quarter.

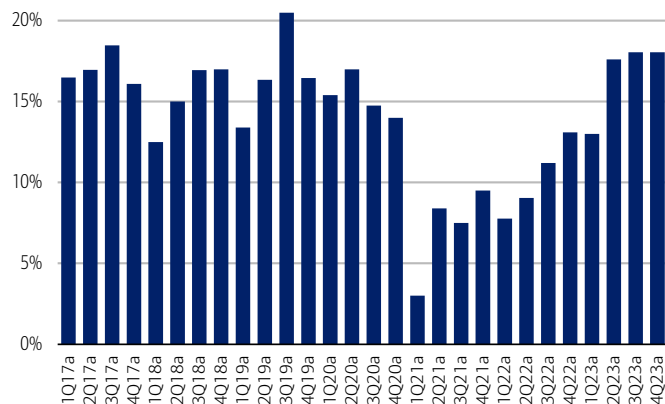
Coastal Revenues were \$79 million, down 7% year-year and in-line with our estimate. Coastal Rate/Barge was \$29,000, down 4% year-year, better than our -7% target, which was balanced by lower-than-expected barge utilization (93% vs our 95% target). Coastal Operating margins inflected positive to approximately 1.0%, 50 bps better than our target, from -0.5% in 3Q23 as term pricing increased 20%-22% year-year.

Distribution & Services sees slowing e-frac demand

D&S revenues were \$347 million, up 13% year-year, and \$1 million below our estimate. D&S Operating Income was \$29 million, from \$17 million a year ago, \$1 million below our target, for an Operating Margin of 8.3%, 30 bps worse than our target, up from a 5.5% margin a year ago, yet still pressured by supply chain issues and increased equipment lead times.

Exhibit 2: Kirby Inland Margins

Inland margins were ~18% in 4Q23, 140 bps worse than our target.

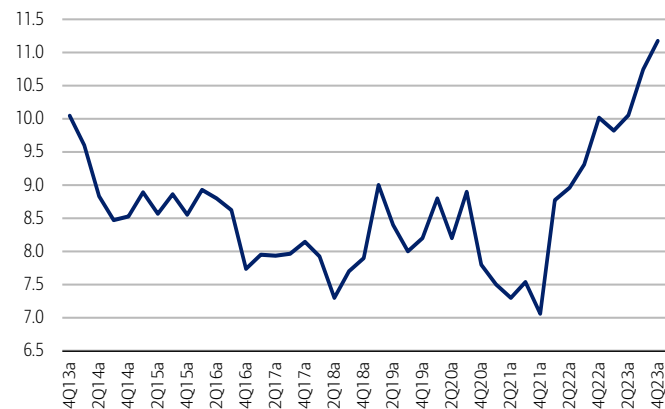


Source: BofA Global Research and Company Reports.

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Exhibit 4: Kirby Inland Revenue/Ton-Mile

Revenue per ton mile was 11.2 cents, up 12% y-y, above our 10.2 cent target.

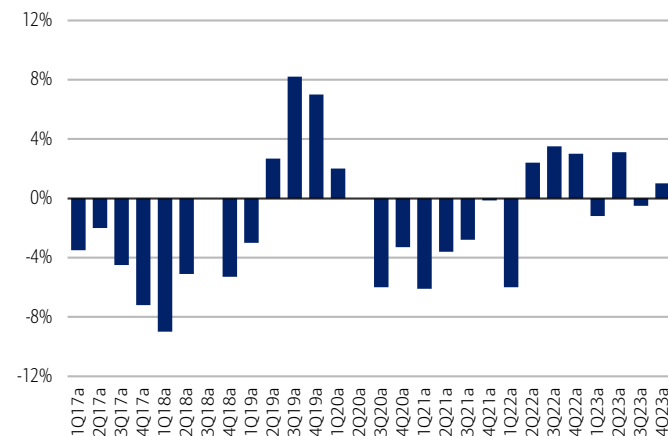


Source: BofA Global Research and Company Reports.

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Exhibit 3: Kirby Coastwise Margins

Coastwise margins were ~1.0% in 4Q23, 50 bps better than our target.



Source: BofA Global Research and Company Reports.

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Exhibit 5: Kirby D&S Margins

D&S margins were 8.3% in 4Q23, 30 bps worse than our target.



Source: BofA Global Research and Company Reports.

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Price objective basis & risk

Kirby Corp (KEX)

Our \$95 price objective is based on a 19.5x multiple on our 2024 EPS estimate, above the bottom of its 19x-29x one-standard deviation historical trading range as we move past its trough EPS, with tank barge capacity historically tight given limited vessel newbuilds and demand expected to remain strong given elevated refinery utilization. Rising shareholder returns focus is an additional driver with buybacks ramping as margins improve given strong pricing.

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
	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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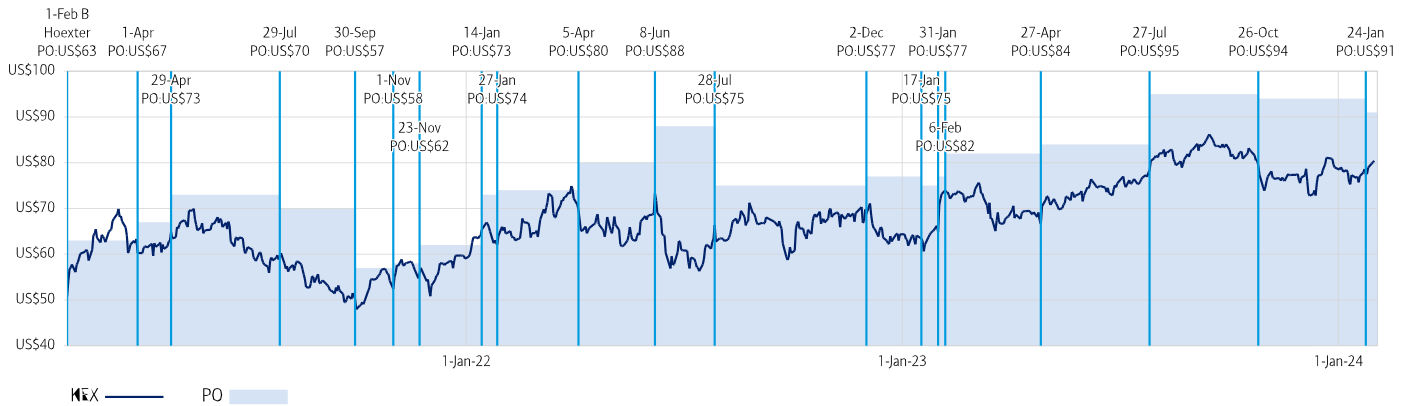
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Disclosures

Important Disclosures

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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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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