

Kirby Corp

Margins well above target as cost pressure ease; Rate outlook still robust; PO to \$95

Reiterate Rating: BUY | PO: 95.00 USD | Price: 79.99 USD

Margins above expectations at both Marine and D&S

Kirby Corp (KEX) posted 2Q23 EPS of \$0.95, up 94% year-year, above our \$0.80 target and Street's \$0.85. The beat was driven by broad margin improvements across both Marine and Distribution & Services (D&S) segments, as costs moderated while tank barging rates/pricing increased. Marine operating income was \$64 mil, up 109% year-year, \$8 mil above our target. Inland revenues were \$352 mil (82% of Marine), up 11% year-year (in-line with our target), and Coastwise revenues (12% of Marine) were \$75 mil, down 15% year-year (\$9 mil below our target) due to higher-than-expected shipyard days. Total Marine margins were 15.0% (above our 12.8% target) as costs held flat vs 1Q23 given stabilizing inflationary pressures. D&S operating income was \$30 mil, up 78% year-year, \$7 mil above our target, with 2Q operating margins at 8.5% (above our 6.8% target). The improved D&S returns were driven by moves to cut expenses, as well as some backlog conversion with supply chain constraints moderating slightly.

Tank barging supply-demand balance remains robust

Kirby expects Inland margins to exit 2023 near the 20%-range (vs 18%-range in 2Q23, we target 20% in 4Q23) as spot barging rates continue to increase mid-single digits sequentially. Demand for tank barging capacity is expected to remain steady, given high refinery utilization, while tank barge capacity is expected to decline given the looming barge maintenance bubble, which is expected to impact 20% of the Inland fleet annually in '23 and '24 (800/year vs 4,000-barge industry fleet). We believe the tank barge market will stay robust given limited new build slots and strong demand visibility. Thus, we expect inland barging revenue/ton-mile to rise to 10.3 cents in 4Q23 from 10.1 cents in 2Q23 (to the highest level in our 19 years of coverage).

PO to \$95, Accelerating rates the key earnings driver

We reiterate our Buy on KEX's shares and raise our PO to \$95 (from \$84) on 19x its 2024 EPS estimate (from 23.5x its 2023e). We move our target multiple to the bottom of its 19x-29x band as earnings look to ramp to new heights (finally topping its prior 2014 peak). We remain positive on the strong tank barge fundamentals and expect accelerating Inland rates and improving D&S margins to drive earnings. We increase our 2023, 2024, and 2025 EPS estimates 7%, 3%, and 3%, to \$3.80, \$5.00, \$5.45, from \$3.55, \$4.85, and \$5.30, respectively.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	0.56	2.10	3.80	5.00	5.45
GAAP EPS	(4.10)	2.03	3.79	5.00	5.45
EPS Change (YoY)	-69.6%	275.0%	81.0%	31.6%	9.0%
Consensus EPS (Bloomberg)			3.55	4.78	5.47
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	142.8x	38.1x	21.1x	16.0x	14.7x
GAAP P/E	NM	39.4x	21.1x	16.0x	14.7x
Dividend Yield	0%	0%	0%	0%	0%
EV / EBITDA*	19.4x	14.2x	10.1x	8.7x	8.3x
Free Cash Flow Yield*	4.7%	2.5%	3.1%	6.7%	8.5%

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

27 July 2023

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	84.00	95.00
2023E Rev (m)	3,153.1	3,143.3
2024E Rev (m)	3,303.1	3,324.4
2025E Rev (m)	3,435.6	3,458.5
2023E EPS	3.55	3.80
2024E EPS	4.85	5.00
2025E EPS	5.30	5.45

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Stock Data

Price	79.99 USD
Price Objective	95.00 USD
Date Established	27-Jul-2023
Investment Opinion	B-1-9
52-Week Range	57.64 USD - 78.37 USD
Mrkt Val (mn) / Shares Out (mn)	4,806 USD / 60.1
Average Daily Value (mn)	25.73 USD
BofA Ticker / Exchange	KEX / NYS
Bloomberg / Reuters	KEX US / KEX.N
ROE (2023E)	7.2%
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"](#).

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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%	6.8%
Return on Equity	1.1%	4.3%	7.2%	8.8%	9.0%
Operating Margin	3.7%	7.1%	11.0%	13.2%	13.4%
Free Cash Flow	224	122	151	321	409

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	9.5x	2.3x	2.2x	1.8x	1.8x
Asset Replacement Ratio	0.5x	0.9x	1.6x	0.9x	0.7x
Tax Rate	32.3%	25.6%	25.4%	25.8%	25.8%
Net Debt-to-Equity Ratio	39.1%	32.8%	28.7%	20.5%	10.9%
Interest Cover	1.9x	4.5x	6.1x	8.0x	9.3x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	2,247	2,785	3,143	3,324	3,459
% Change	3.5%	24.0%	12.9%	5.8%	4.0%
Gross Profit	593	724	962	1,084	1,124
% Change	-10.2%	22.0%	32.9%	12.7%	3.7%
EBITDA	304	416	585	677	713
% Change	-17.2%	36.8%	40.4%	15.7%	5.4%
Net Interest & Other Income	(32)	(28)	(42)	(45)	(40)
Net Income (Adjusted)	34	127	227	294	315
% Change	-69.4%	275.1%	79.4%	29.4%	7.3%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	34	127	227	293	315
Depreciation & Amortization	212	201	223	226	239
Change in Working Capital	16	(103)	47	(11)	2
Deferred Taxation Charge	(44)	39	14	2	2
Other Adjustments, Net	104	30	(10)	8	8
Capital Expenditure	(98)	(173)	(349)	(196)	(156)
Free Cash Flow	224	122	151	321	409
% Change	-24.7%	-45.6%	24.6%	112.3%	27.4%

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	35	81	77	200	360
Trade Receivables	568	598	527	549	566
Other Current Assets	401	533	450	455	460
Property, Plant & Equipment	3,679	3,633	3,505	3,295	3,072
Other Non-Current Assets	717	710	1,032	1,094	1,160
Total Assets	5,399	5,555	5,591	5,593	5,619
Short-Term Debt	2	3	4	4	4
Other Current Liabilities	542	639	555	521	540
Long-Term Debt	1,161	1,076	1,001	896	751
Other Non-Current Liabilities	805	791	799	752	702
Total Liabilities	2,510	2,510	2,358	2,172	1,997
Total Equity	2,889	3,045	3,233	3,421	3,622
Total Equity & Liabilities	5,399	5,555	5,591	5,593	5,619

* 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

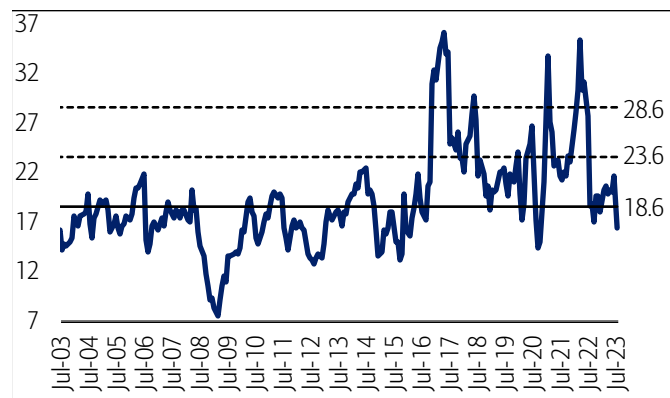
Average Daily Volume 321,641

Quarterly Earnings Estimates

	2022	2023
Q1	0.29A	0.68A
Q2	0.49A	0.95A
Q3	0.65A	0.97E
Q4	0.67A	1.19E

Exhibit 1: Kirby Forward P/E

Shares are trading at 16x its 2024e EPS, below its 19x-29x trading range.



Source: BofA Global Research estimates and Bloomberg

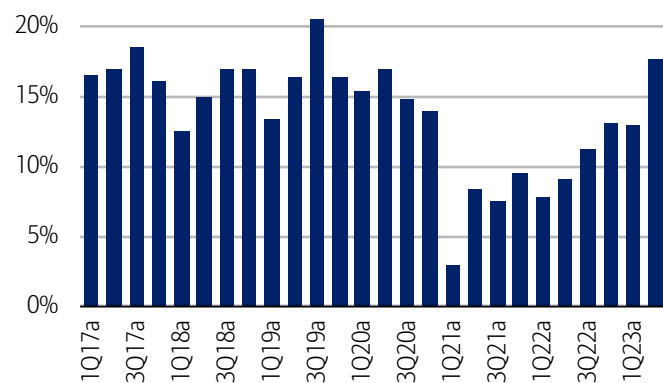
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Expects spot rate improvements; Sees 3Q headwinds

Revenues were \$777 million, up 11% year-year and \$4 million above our target. Operating income was \$87 million, up 82% year-year and \$11 million above our target (+\$0.13/sh). Operating margin was 11.2%, a 430-bps improvement year-year and 130 bps better than our target. The company targets continued increases in spot pricing and margins for 2H23 in Inland tank barging yet expects transitory operating headwinds given the closure of the Illinois river and refinery fires (we target ton-miles/active barge to decline 10% year-year in 3Q23 vs -2% in 2Q23). We expect the negative volume impact to be offset by increased barging rates given the poor fluidity further lowering available freight capacity.

Exhibit 2: Inland Marine Operating Margins

We estimate inland margins have improved to the 18%-range in 2Q23.

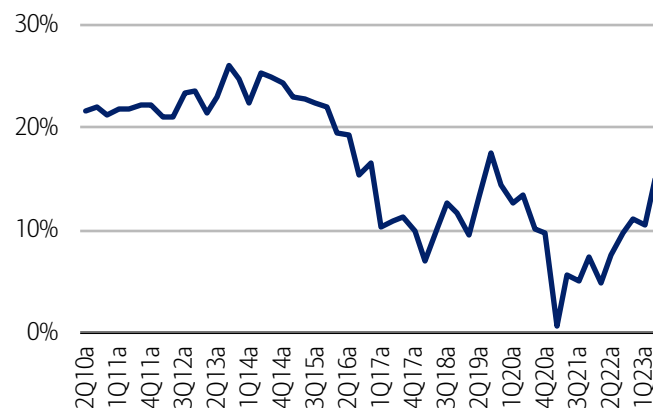


Source: BofA Global Research estimates and company reports

BofA GLOBAL RESEARCH

Exhibit 3: Total Marine Transportation Operating Margins

Marine Segment op margin was 15.0% in 2Q23, 220 bps better than our target.



Source: BofA Global Research estimates and company reports

BofA GLOBAL RESEARCH

Distribution & Services showing signs of improvement

D&S revenues were \$350 million, up 20% year-year and \$12 million above our target. Manufacturing (Oil & Gas) revenues were \$168 million, up 29% year-year and \$11 million above our target as demand for e-frac equipment remained strong. Commercial & Industrial (C&I) revenues were \$182 million, up 13% year-year, as all segments (on-highway, marine repair, power generation) saw growth. Operating margins were 8.5%, up from 6.7% in 1Q23 (and above our 6.8% target) as it converted backlog orders through deliveries and saw slight improvements in supply chain constraints. However, Kirby noted that certain component lead times still remain elevated.



Price objective basis & risk

Kirby Corp (KEX)

Our \$95 price objective is based on a 19x multiple on our 2024 EPS estimate, 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.

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				
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	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
	Schneider National	SNDR	SNDR US	Ken Hoexter
	Union Pacific	UNP	UNP US	Ken Hoexter
	Werner Enterprises	WERN	WERN US	Ken Hoexter
	XPO, Inc.	XPO	XPO US	Ken Hoexter
NEUTRAL				
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	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				
	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
	World Kinect	WKC	WKC 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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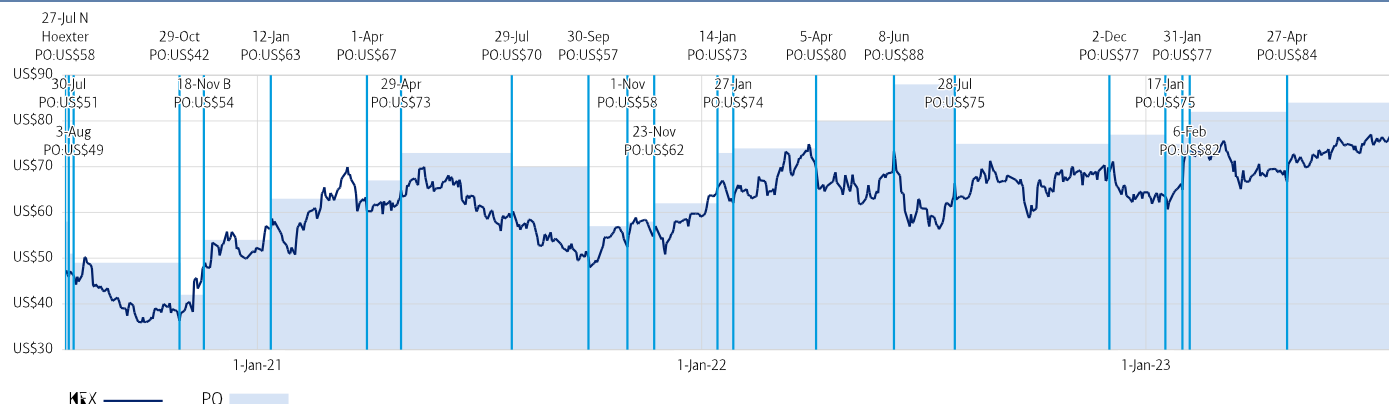
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Important Disclosures

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 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	72	52.94%	Buy	42	58.33%
Hold	29	21.32%	Hold	13	44.83%
Sell	35	25.74%	Sell	17	48.57%

Equity Investment Rating Distribution: Global Group (as of 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1877	53.28%	Buy	1040	55.41%
Hold	815	23.13%	Hold	464	56.93%
Sell	831	23.59%	Sell	385	46.33%

^{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}
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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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