

Kirby Corporation (KEX)

\$47.03 (As of 07/09/20)

Price Target (6-12 Months): **\$50.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/29/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: C

Summary

Shares of Kirby have plunged 36.9% in a year's time, mainly due to disappointing performance of the oil and gas market, which is affecting its operations significantly. The already weak market conditions were worsened by the COVID-19 pandemic, which reduced business activity in the distribution and services segment. Additionally, ramped-down activity in coal transportation business is likely to dent coastal revenues in 2020. However, substantial growth at the marine transportation division is aiding the company. Additionally, we are optimistic about the company's acquisition of the inland tank barge fleet of Savage, completed in April. Benefits from the buyout is expected to boost earnings in 2020 and thereafter. The company's current year earnings are also expected to get a boost from the Convoy acquisition, closed in January.

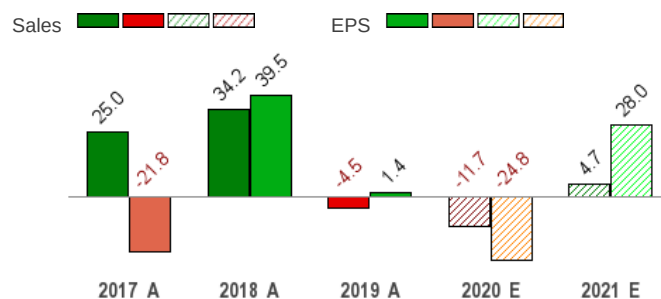
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$92.30 - \$32.76
20 Day Average Volume (sh)	408,142
Market Cap	\$2.8 B
YTD Price Change	-47.5%
Beta	1.42
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Transportation - Shipping
Zacks Industry Rank	Bottom 12% (223 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	20.4%
Last Sales Surprise	-1.5%
EPS F1 Est- 4 week change	-0.5%
Expected Report Date	07/30/2020
Earnings ESP	-20.8%
P/E TTM	17.0
P/E F1	21.6
PEG F1	2.0
P/S TTM	1.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	633 E	670 E	685 E	675 E	2,624 E
2020	644 A	622 E	624 E	621 E	2,507 E
2019	745 A	771 A	667 A	656 A	2,838 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.62 E	\$0.86 E	\$1.05 E	\$1.02 E	\$2.79 E
2020	\$0.59 A	\$0.42 E	\$0.61 E	\$0.61 E	\$2.18 E
2019	\$0.74 A	\$0.79 A	\$0.80 A	\$0.58 A	\$2.90 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/09/2020. The reports text is as of 07/10/2020.

Overview

Kirby Corporation is the largest domestic tank barge operator in the United States. The Houston, TX-based company is responsible for transporting bulk liquid products (including petrochemicals, black oil and refined products). The company transports bulk liquid through the Mississippi River System on the Gulf Intracoastal Waterway along all three coasts of the United States, and in Alaska and Hawaii.

Kirby also rents out various equipments like generators and fork lifts so that they can be utilized in industrial markets. This apart, the company's focus on manufacturing and remanufacturing equipment related to oilfield service for land-based oilfield service customers is impressive.

The company, through its subsidiaries, operates via following segments — **marine transportation** and **distribution and services**.

The marine transportation division is responsible for providing transportation services by tank barge to inland and coastal markets.

As of Dec 31, 2019, the segment owned/operated 1,053 inland tank barges with 23.4 million barrels of capacity, 299 inland towboats, 49 coastal tank barges with a capacity of 4.7 million barrels, 47 coastal tugboats, four offshore tugboats and one docking tugboat. Notably, the segment accounted for 56% of the company's revenues in 2019.

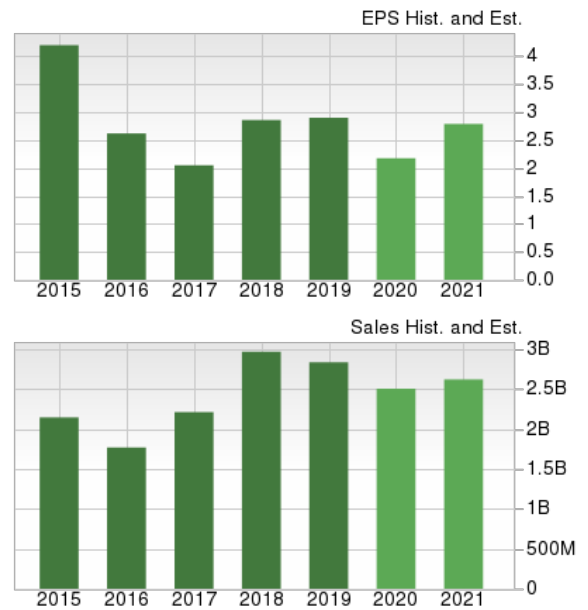
Petrochemicals, black oil, refined petroleum products and agricultural chemicals contributed 54%, 23%, 19% and 4%, respectively, to segmental revenues in the same year.

The distribution and services segment is responsible for selling replacement parts and focuses on oil and gas, and commercial and industrial markets.

The division also provides service mechanics to overhaul and repair engines, transmissions, reduction gears and related oilfield services equipment. The segment accounted for 44% of the company's revenues in 2019. Service and parts accounted for 75% of the segmental revenues, with the balance coming from manufacturing.

Market-wise, the oil and gas market accounted for 53% of 2019 segmental revenues. The balance came from the commercial and industrial market.

The company's fiscal year coincides with the calendar year.



Reasons To Buy:

- ▲ The fact that the company does not have any scheduled debt maturities until 2023 is a positive. Moreover, the fact that its total debt to total capital ratio is on the lower side (is only 0.35 at the first-quarter end, increasing marginally from fourth-quarter 2019) is encouraging. The manageable total debt to total capital ratio indicates that the proportion of debt to finance the company's assets is not on the rise.
- ▲ Significant growth at the company's marine transportation division is commendable. Segmental revenues increased 7% in 2019 and 9.6% in the first quarter. The Cenac acquisition and favorable pricing in the inland market are aiding this segment's growth. The unit is also benefiting from higher barge utilization rates and an improved pricing at the coastal market. The segment is likely to have performed well in the June quarter too, owing to the above-mentioned tailwinds. Detailed results will be available on Jul 30.
- ▲ We are impressed by Kirby's growth-by-acquisition strategy. The company's acquisition of the inland tank barge fleet of Savage Inland Marine ("Savage") in April is a notable move that should help Kirby serve its customers better, reduce the average age of its fleet and lower capital expenditures in the future. While the buyout is anticipated to be modestly accretive to 2020 earnings, synergies from the purchase are expected to boost earnings significantly beyond 2020. Additionally, the company acquired Convoy Servicing Company ("Convoy"), a Thermo King refrigeration system sales, service and parts distributor in January 2020. The \$40-million acquisition expands the company's geographic distribution area for Thermo King to extend its network to Colorado. The buyout is anticipated to be accretive to 2020 earnings. Previously, in March 2019, Kirby bought the marine transportation fleet of Cenac Marine Services, which bolstered its fleet. For fleet expansion, Kirby made other purchases like three inland tank barges from a leasing company and 27 inland tank barges (barrel capacity of 306,000 barrels) from CGBM in December 2018.

Robust performance of the marine transportation division should continue to boost performance.

Reasons To Sell:

- ▼ Due to the disappointing performance of the oil and gas market, distribution and services revenues decreased approximately 16% year over year in 2019. Owing to the below-par performance of the segment, the company's top line declined 4.5% in 2019. Distribution and services revenues are likely to have been weak in the second quarter too due to softness in the oil and gas market following reduction in oilfield activity. Moreover, the coronavirus outbreak is ailing the company's petrochemical tank-barge demand due to an economic slowdown, which is expected to have affected the company's second quarter performance significantly.
- ▼ With uncertainty looming over the duration of coronavirus and the extent of the global economic slowdown, Kirby has withdrawn its 2020 earnings guidance (\$2.60-\$3.40 per share). In the inland marine business, activity and barge utilization levels have declined dramatically lately as a result of coronavirus-related headwinds and reduced consumer demand for certain commodities. Kirby anticipates the low volume scenario to persist until the economy revives. Further, the company expects quarterly revenues and barge utilization at the coastal market to decline in the near term due to coronavirus woes. Additionally, expected reductions in the coal transportation business and the retirement of four of Kirby's old coastal barges are expected to affect the company's 2020 results.
- ▼ With major customers limiting spending for 2020, oil and gas activity is expected to decline significantly, which in turn is anticipated to weigh on the distribution and services segment's performance. In the commercial and industrial market too, reduced activity due to COVID-19 is predicted to weigh on Kirby's core markets. Within commercial and industrial, the most severe impact is likely to be felt in the on-highway sector and in power generation with customers delaying maintenance spending and large capital projects. To mitigate the adversities in the distribution and services segment, the company is controlling costs through staff reductions, furloughs, lowering work hours and freezing pays. Additionally, the company plans to consolidate additional facilities and put a strict check on discretionary spending. For 2020, capital spending is expected to be either at or below its previously guided range of \$155-\$175 million. This indicates a year-over-year reduction of approximately 40%. Reduced capital spending might hurt the company's growth prospects.

Disappointing performance of the oil and gas market is weighing on the company's distribution and services revenues.

Last Earnings Report

Earnings Beat at Kirby in Q1

Kirby's earnings of 59 cents per share (excluding \$4.74 from non-recurring items) surpassed the Zacks Consensus Estimate of 49 cents. The bottom line however declined 20.3% year over year. Total revenues of \$643.9 million lagged the Zacks Consensus Estimate of \$654 million and also declined 13.5% year over year. The top line was hurt by reduced sales at the distribution and services division.

Quarter Ending 03/2020

Report Date	May 05, 2020
Sales Surprise	-1.54%
EPS Surprise	20.41%
Quarterly EPS	0.59
Annual EPS (TTM)	2.76

Segmental Performance

The marine transportation division is responsible for providing transportation services by tank barge to inland and coastal markets. Revenues at the marine transportation unit increased 9.6% year over year to \$403.3 million. Segmental operating income also rose 43.2% to \$50.7 million. Segmental operating margin too expanded to 12.6% from 9.6% a year ago.

Inland market revenues rose 13% year over year on contributions from the Cenac acquisition and favorable pricing. The operating margin for the inland business was in the mid-teens, reflecting negative impact from significant delay days. Hurt by planned shipyard days on large capacity vessels, revenues at the coastal market were flat year over year. The coastal operating margin was in the low-single digits.

The distribution and services segment is responsible for selling replacement parts and focuses on oil and gas, and commercial and industrial markets. Segmental revenues dropped 36.1% to \$240.7 million due to below-par performance in the oil and gas market. The already weak market conditions were worsened by the COVID-19 pandemic, which reduced business activity in the distribution and services segment. Moreover, operating margin at the segment was 1.5% in the first quarter compared with 10% in the year-ago quarter. The oil and gas market was weak during the quarter under review due to reduction in oilfield activity. Operating margin for oil and gas was in the negative mid-single digits.

In the commercial and industrial market, revenues augmented year over year, benefiting from the Convoy Servicing Company acquisition. During the quarter under consideration, the commercial and industrial operating margin was in the mid-single digits.

Balance Sheet Highlights

Long-term debt (including current portion) for the company increased to \$1.7 billion at the end of the first quarter from \$1.67 billion at the end of March 2019. Debt-to-capitalization ratio at the end of first-quarter 2020 was 35.3% compared with 33.8% a year ago.

Outlook

With uncertainty looming over the duration of coronavirus and the extent of the global economic slowdown, Kirby has withdrawn its 2020 earnings guidance (\$2.60-\$3.40 per share).

For 2020, capital spending is expected to be either at or below its previously guided range of \$155-\$175 million.

Valuation

Kirby shares are down 47.5% and 36.9% in the year-to-date period and over the trailing 12-month period respectively. Stocks in the Zacks sub-industry and the Zacks Transportation sector are down 46.9% and 11.6% respectively. Over the past year, the Zacks sub-industry and the sector are down 39.9% and 8.2% respectively.

The S&P 500 index is down 1.4% in the year-to-date period but up 6.5% in the past year.

The stock is currently trading at 1.1X forward 12-month price-to-sales, which compares to 0.87X for the Zacks sub-industry, 1.24X for the Zacks sector and 3.53X for the S&P 500 index.

Over the past five years, the stock has traded as high as 2.3X and as low as 0.73X, with a 5-year median of 1.58X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$50 price target reflects 1.16X forward 12-month sales.

The table below shows summary valuation data for KEX

Valuation Multiples - KEX					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	1.1	0.87	1.24	3.53
	5-Year High	2.3	2.62	1.41	3.53
	5-Year Low	0.73	0.87	0.85	2.52
	5-Year Median	1.58	1.85	1.2	3.04
EV/EBITDA TTM	Current	12	9.58	8.29	12
	5-Year High	45.57	15.7	11.18	12.45
	5-Year Low	5.35	6.79	5.77	8.04
	5-Year Median	10.48	11.58	7.42	10.76
P/B TTM	Current	0.9	0.44	3.27	4.34
	5-Year High	1.94	1.27	3.9	4.65
	5-Year Low	0.61	0.38	2.3	2.81
	5-Year Median	1.44	0.75	3.42	3.69

As of 07/09/2020

Industry Analysis Zacks Industry Rank: Bottom 12% (223 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Martin Midstream Partners L.P. (MMLP)	Outperform	1
Euronav NV (EURN)	Neutral	4
Frontline Ltd. (FRO)	Neutral	3
Golar LNG Limited (GLNG)	Neutral	3
Star Bulk Carriers Corp. (SBLK)	Neutral	3
Teekay Tankers Ltd. (TNK)	Neutral	3
Ensco plc (VAL)	Neutral	2
Danaos Corporation (DAC)	Underperform	4

Industry Comparison Industry: Transportation - Shipping				Industry Peers		
	KEX	X Industry	S&P 500	FRO	TNK	VAL
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	2
VGM Score	A	-	-	A	A	F
Market Cap	2.82 B	202.83 M	21.19 B	1.42 B	419.34 M	115.18 M
# of Analysts	5	2	14	2	2	4
Dividend Yield	0.00%	0.00%	1.96%	38.73%	0.00%	0.00%
Value Score	B	-	-	A	A	D
Cash/Price	0.11	0.33	0.07	0.17	0.49	1.41
EV/EBITDA	8.61	7.08	12.56	8.19	4.16	6.35
PEG Ratio	1.96	1.19	2.85	NA	0.43	NA
Price/Book (P/B)	0.90	0.40	3.00	0.89	0.38	0.02
Price/Cash Flow (P/CF)	6.52	2.87	11.41	5.29	2.23	NA
P/E (F1)	21.37	4.44	20.79	3.10	1.29	NA
Price/Sales (P/S)	1.03	0.64	2.19	1.26	0.41	0.05
Earnings Yield	4.64%	6.00%	4.52%	32.23%	77.61%	-1,016.07%
Debt/Equity	0.59	0.89	0.76	1.08	0.76	0.98
Cash Flow (\$/share)	7.21	1.32	6.94	1.37	5.60	-2.02
Growth Score	A	-	-	A	A	F
Hist. EPS Growth (3-5 yrs)	-7.35%	-20.73%	10.90%	NA	-26.69%	NA
Proj. EPS Growth (F1/F0)	-24.97%	1.50%	-9.99%	184.15%	406.28%	2.49%
Curr. Cash Flow Growth	-1.14%	-1.14%	5.51%	164.47%	195.20%	176.20%
Hist. Cash Flow Growth (3-5 yrs)	-2.27%	9.42%	8.55%	153.93%	16.65%	NA
Current Ratio	2.76	0.99	1.30	0.78	2.02	1.25
Debt/Capital	37.08%	47.03%	44.46%	52.00%	43.10%	49.41%
Net Margin	-5.49%	-0.99%	10.62%	23.46%	13.18%	-143.25%
Return on Equity	5.00%	3.51%	15.75%	20.41%	16.13%	-13.06%
Sales/Assets	0.45	0.22	0.55	0.32	0.47	0.13
Proj. Sales Growth (F1/F0)	-11.68%	0.00%	-2.52%	109.11%	56.81%	-13.89%
Momentum Score	C	-	-	F	F	B
Daily Price Chg	-3.57%	-2.84%	-1.52%	-2.30%	-6.17%	-7.93%
1 Week Price Chg	-4.25%	0.00%	3.66%	-0.43%	-1.34%	-9.29%
4 Week Price Chg	-11.08%	-7.02%	0.36%	-3.73%	-22.42%	-39.72%
12 Week Price Chg	4.93%	-4.00%	10.41%	-22.51%	-36.00%	29.50%
52 Week Price Chg	-36.88%	-41.39%	-8.70%	-10.85%	14.52%	-93.81%
20 Day Average Volume	408,142	209,743	2,339,510	3,574,911	1,498,833	16,337,181
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.46%	0.00%	0.00%	0.00%	-6.30%	0.47%
(F1) EPS Est 12 week change	-6.21%	-4.15%	-7.77%	17.38%	27.07%	-3.93%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	-1.06%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	A
Momentum Score	C
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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