

## Kirby Corporation (KEX)

**\$47.63** (As of 04/13/20)

Price Target (6-12 Months): **\$41.00**

Long Term: 6-12 Months

**Zacks Recommendation:** Underperform

(Since: 02/25/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**4-Sell**

Zacks Style Scores:

VGM:F

Value: D

Growth: D

Momentum: D

### Summary

Shares of Kirby have declined 38.7% in a year's time, mainly due to disappointing performance of the oil and gas market, which is affecting its operations significantly. This headwind induced a 16% decline in distribution and services revenues in 2019. Consequently, the top line dipped 4.5% in the period. With the downturn anticipated to persist, revenues at the distribution and services are expected to decline 12-17% in the current year. Additionally, ramped-down activity in coal transportation business is likely to dent coastal revenues. The company's high debt levels further add to its woes. The negativity revolving around the stock is evident from the Zacks Consensus Estimate for current-year earnings being revised downward in the past 60 days. However, significant growth at the marine transportation division is aiding the company.

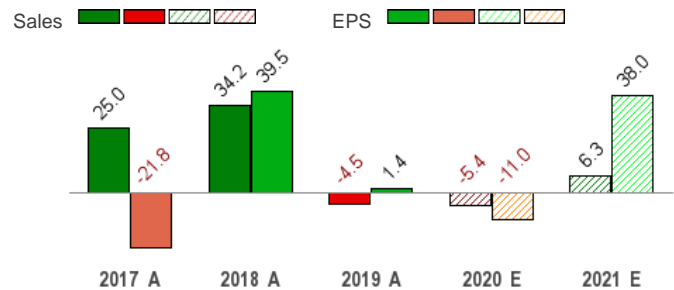
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$92.30 - \$32.76</b>
20 Day Average Volume (sh)	<b>697,794</b>
Market Cap	<b>\$2.9 B</b>
YTD Price Change	<b>-46.8%</b>
Beta	<b>1.36</b>
Dividend / Div Yld	<b>\$0.00 / 0.0%</b>
Industry	<a href="#">Transportation - Shipping</a>
Zacks Industry Rank	<b>Top 26% (67 out of 253)</b>

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>-1.7%</b>
Last Sales Surprise	<b>2.2%</b>
EPS F1 Est- 4 week change	<b>-14.2%</b>
Expected Report Date	<b>05/07/2020</b>
Earnings ESP	<b>-13.7%</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					2,853 E
2020	654 E	685 E	686 E	720 E	2,685 E
2019	745 A	771 A	667 A	656 A	2,838 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$3.56 E
2020	\$0.49 E	\$0.64 E	\$0.81 E	\$0.84 E	\$2.58 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.

P/E TTM	<b>16.4</b>
P/E F1	<b>18.5</b>
PEG F1	<b>1.7</b>
P/S TTM	<b>1.0</b>

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/13/2020. The reports text is as of 04/14/2020.

## 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.

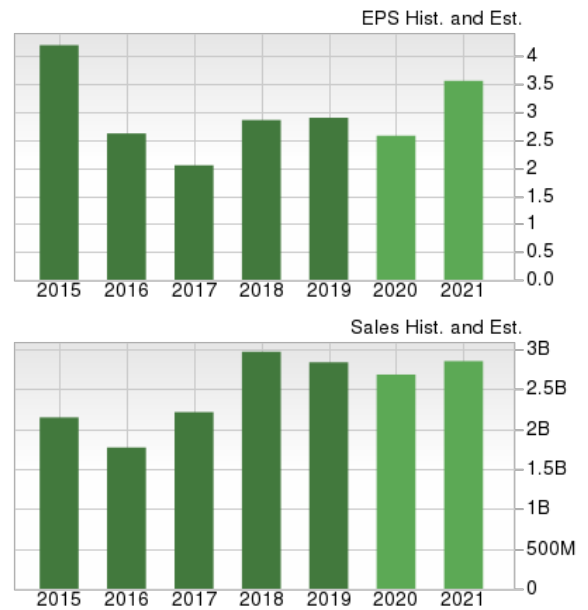
Petrochemicals, black oil, refined petroleum products and agricultural chemicals contributed 54%, 23%, 19% and 4%, respectively, to segmental revenues in the same year.

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.



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### 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. With the downturn expected to persist at least in the near term, revenues at the segment are anticipated to decline 12-17% year over year in 2020.
- ▼ Additionally, reduced activity in coal transportation business is likely to affect coastal revenues (part of the broader marine transportation segment's revenues) in 2020. As a result, coastal revenues are anticipated to be either flat or up slightly year over year. Moreover, the coronavirus outbreak may affect the company's petrochemical tank-barge demand due to an economic slowdown.
- ▼ Although the company's long-term debt declined to \$1.37 billion at the end of the fourth quarter of 2019 from \$1.41 billion at the end of 2018, the amount is nevertheless huge enough to hurt prospects going forward. Debt to capitalization ratio, a measure of Kirby's financial leverage, at the end of the fourth quarter was 28.9%.

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

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## Risks

- 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.
  - Significant growth at the company's marine transportation division is commendable. Segmental revenues increased 7% in 2019. The Cenac acquisition and favorable pricing in the inland market are aiding this segment's growth. Moreover, the company's inland revenues are projected to increase in low double digits to mid-teens' percentage range while the inland operating margin is predicted in the high teens. The upside is owing to consistent rise in customer demand, higher volumes from new petrochemical plants and net new barge construction in the industry. Consequently, we expect the marine transportation division to continue with its robust performance in the subsequent quarters as well.
  - The company's earnings projection for 2020 is also upbeat owing to anticipation of continued growth in inland Marine on the back of benefits from the Savage acquisition and a modest improvement in coastal revenues. Current-year earnings are predicted in the range of \$2.60-\$3.40 per share. The midpoint (\$3) of the guided range lies above the 2019 reported figure of \$2.9.
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## Last Earnings Report

### Earnings Miss at Kirby in Q4

Kirby's fourth-quarter 2019 earnings (excluding 53 cents from non-recurring items) of 58 cents missed the Zacks Consensus Estimate by a penny. The bottom line also declined 22.7% year over year.

Although total revenues of \$655.9 million surpassed the Zacks Consensus Estimate of \$642.1 million, it decreased 9.1% year over year. The top line was hurt by reduced sales at the distribution and services division.

Quarter Ending **12/2019**

Report Date	Jan 30, 2020
Sales Surprise	2.16%
EPS Surprise	-1.69%
Quarterly EPS	0.58
Annual EPS (TTM)	2.91

### Segmental Performance

The company through its subsidiaries operates via the following segments of marine transportation as well as distribution and services.

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 5.1% to \$402.01 million. Segmental operating income also ascended 22.5% to \$54.5 million. Segmental operating margin too expanded to 13.6% from 11.6% a year ago.

Inland market revenues rose 7% year over year owing to contributions from the Cenac acquisition and favorable pricing. The operating margin for the inland business was in the mid-teens.

Revenues at the coastal market climbed modestly on account of favorable pricing and improved barge utilization. Additionally, the coastal operating margin was in mid-to-high 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 25.1% to \$253.9 million due to below-par performance in the oil and gas market. Moreover, operating margin at the distribution and services segment was a negative 1.1% against a positive 8.3% in the year-ago period.

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-to-high single digits.

In the commercial and industrial market, revenues augmented year over year on the back of improved power generation, commercial marine and on-highway businesses. Operating income decreased slightly due to service and product sales mix. 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 reduced to \$1.37 billion at the end of the fourth quarter of 2019 from 1.41 billion at the end of 2018. Debt to capitalization ratio at the end of 2019 was 28.9% compared with 30.5% a year ago.

### 2020 Outlook

For the full year, earnings are anticipated to be \$2.60-\$3.40 per share. The Zacks Consensus Estimate for the same stands at \$3.52.

Inland revenues are estimated to increase in the low double digits to mid-teens percentage range while inland operating margin is predicted in the high teens. The upside is owing to consistent rise in customer demand, higher volumes from new petrochemical plants and net new barge construction in the industry.

However, coastal revenues are expected to be either flat or up slightly year over year with operating margins in the low-to-mid single digits. While strong customer demand and tight industry capacity should aid the unit's performance, reduced activity in coal transportation business is likely to weigh on results.

At the distribution and services segment, revenues are expected to decline 12-17% year over year due to near-term weaknesses in the oil and gas market. However, operating margin at the segment is expected to be positive in the low-to-mid single digits.

For 2020, capital expenditures are anticipated between \$155 million and \$175 million.

### Important Developments

Kirby entered into a definitive agreement to acquire the inland tank barge fleet of Savage Inland Marine ("Savage"). The transaction is valued at approximately \$278 million. Notably, Savage's tank barge fleet comprises 90 inland tank barges with approximately 2.5 million barrels of capacity and 46 inland towboats. The buyout, subject to closing conditions and regulatory approval, is expected to close by the end of the first quarter of 2020.

Additionally, earlier this month, the company acquired Convoy Servicing Company ("Convoy"), a Thermo King refrigeration system sales, service and parts distributor. 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 earnings in 2020.

## Valuation

Kirby shares are down 46.8% and 38.7% 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 44% and 26.7% in the year-to-date period respectively. Over the past year, the Zacks sub-industry and the sector are down 37% and 25.8% respectively.

The S&P 500 index is down 13.6% and 4.6% in the year-to-date period and in the past year, respectively.

The stock is currently trading at 1.01X forward 12-month price-to-sales, which compares to 1.09X for the Zacks sub-industry, 0.91X for the Zacks sector and 3.07X 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 1.61X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$41 price target reflects 0.87X 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 F 12M	Current	1.01	1.09	0.91	3.07
	5-Year High	2.3	2.94	1.42	3.44
	5-Year Low	0.73	1.09	0.85	2.54
	5-Year Median	1.61	1.87	1.21	3.01
EV/EBITDA TTM	Current	8.22	12.15	6.45	10.17
	5-Year High	45.57	15.78	11.16	12.87
	5-Year Low	5.35	6.48	5.71	8.27
	5-Year Median	9.65	10.81	7.39	10.78
P/B TTM	Current	0.85	0.4	2.5	3.69
	5-Year High	2.1	1.5	4.02	4.55
	5-Year Low	0.61	0.32	2.07	2.84
	5-Year Median	1.46	0.72	3.42	3.63

As of 04/13/2020

## Industry Analysis Zacks Industry Rank: Top 26% (67 out of 253)



## Top Peers

Danaos Corporation (DAC)	Outperform
GATX Corporation (GATX)	Outperform
Frontline Ltd. (FRO)	Neutral
Golar LNG Limited (GLNG)	Neutral
Global Ship Lease, Inc. (GSL)	Neutral
Helix Energy Solutions Group, Inc. (HLX)	Neutral
Oceanenergy International, Inc. (OII)	Neutral
SEACOR Holdings, Inc. (CKH)	Underperform

Industry Comparison Industry: Transportation - Shipping				Industry Peers		
	KEX Underperform	X Industry	S&P 500	CKH Underperform	GATX Outperform	OII Neutral
<b>VGM Score</b>	<b>F</b>	-	-	<b>D</b>	<b>B</b>	<b>C</b>
Market Cap	2.86 B	225.88 M	19.08 B	545.65 M	1.97 B	376.93 M
# of Analysts	5	2	14	1	2	6
Dividend Yield	0.00%	0.00%	2.19%	0.00%	3.40%	0.00%
<b>Value Score</b>	<b>D</b>	-	-	<b>D</b>	<b>B</b>	<b>D</b>
Cash/Price	0.01	0.30	0.06	0.15	0.07	0.92
EV/EBITDA	8.61	7.18	11.58	4.30	9.89	-38.92
PEG Ratio	1.72	0.78	2.06	NA	0.66	NA
Price/Book (P/B)	0.85	0.34	2.58	0.67	1.08	0.35
Price/Cash Flow (P/CF)	6.60	2.98	10.19	3.64	3.65	2.08
P/E (F1)	18.78	4.38	17.15	27.04	9.83	NA
Price/Sales (P/S)	1.01	0.62	2.07	0.68	1.42	0.18
Earnings Yield	5.42%	21.47%	5.67%	3.70%	10.17%	-17.85%
Debt/Equity	0.45	0.89	0.70	0.45	2.85	0.89
Cash Flow (\$/share)	7.21	1.19	7.01	7.42	15.49	1.83
<b>Growth Score</b>	<b>D</b>	-	-	<b>F</b>	<b>C</b>	<b>B</b>
Hist. EPS Growth (3-5 yrs)	-9.85%	-23.81%	10.92%	-2.94%	-2.37%	-80.80%
Proj. EPS Growth (F1/F0)	-11.03%	39.20%	-1.91%	-27.54%	4.36%	17.48%
Curr. Cash Flow Growth	-1.14%	-4.96%	5.93%	39.23%	1.08%	-19.24%
Hist. Cash Flow Growth (3-5 yrs)	-2.27%	8.22%	8.55%	-9.50%	2.02%	-22.77%
Current Ratio	1.78	1.02	1.24	1.58	2.16	2.07
Debt/Capital	30.92%	46.99%	42.36%	30.93%	74.02%	47.10%
Net Margin	5.01%	-1.47%	11.64%	3.35%	15.15%	-17.01%
Return on Equity	5.22%	2.23%	16.74%	3.12%	11.03%	-6.44%
Sales/Assets	0.46	0.21	0.54	0.51	0.17	0.71
Proj. Sales Growth (F1/F0)	-5.41%	0.00%	0.45%	-0.53%	0.00%	2.99%
<b>Momentum Score</b>	<b>D</b>	-	-	<b>A</b>	<b>A</b>	<b>C</b>
Daily Price Chg	-3.84%	0.00%	-2.62%	-4.76%	-8.30%	-7.30%
1 Week Price Chg	22.18%	10.97%	16.01%	12.79%	11.16%	44.72%
4 Week Price Chg	29.78%	7.12%	14.48%	2.70%	-0.42%	63.52%
12 Week Price Chg	-47.35%	-41.36%	-21.69%	-35.80%	-26.92%	-74.20%
52 Week Price Chg	-38.67%	-39.25%	-14.14%	-37.03%	-26.73%	-77.19%
20 Day Average Volume	697,794	255,630	3,634,618	123,693	388,711	2,662,210
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-14.17%	0.00%	-5.74%	0.00%	0.00%	-22.29%
(F1) EPS Est 12 week change	-26.62%	-9.71%	-8.41%	-48.72%	12.74%	-124.31%
(Q1) EPS Est Mthly Chg	-7.25%	0.00%	-10.28%	0.00%	NA	-16.33%

## 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	D
Growth Score	D
Momentum Score	D
VGM Score	F

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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