

Kirby Corporation (KEX)

\$48.97 (As of 08/13/20)

Price Target (6-12 Months): **\$42.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 07/30/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: D

Summary

Shares of Kirby have plunged 30.7% in a year's time, mainly due to weak performance of the distribution and services unit. The unit's below-par performance is due to softness in the oil and gas market. Coronavirus concerns have worsened the situation. Segmental revenues plunged 46.1% in the first half of 2020. Moreover, in inland marine business, activity and barge utilization levels have declined as a result of coronavirus-related headwinds. Given the significant softness in economic activities, the company anticipates average barge utilization to be lower sequentially in the third quarter. Negativity surrounding the stock is evident from the Zacks Consensus Estimate for 2020 earnings being revised downward in the last 60 days. However, the company's cost-reduction efforts to minimize coronavirus-led challenges are appreciable.

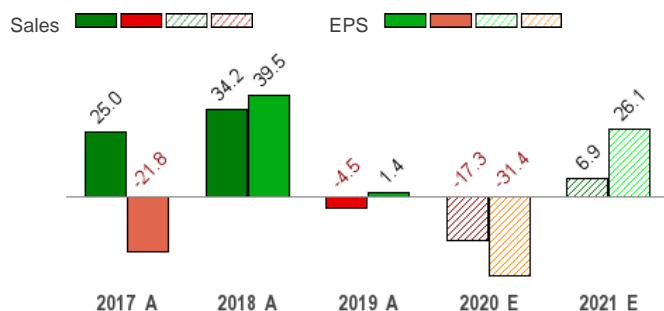
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$92.30 - \$32.76
20 Day Average Volume (sh)	555,717
Market Cap	\$2.9 B
YTD Price Change	-45.3%
Beta	1.34
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Transportation - Shipping
Zacks Industry Rank	Bottom 12% (222 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	-12.5%
EPS F1 Est- 4 week change	-8.7%
Expected Report Date	10/23/2020
Earnings ESP	0.0%
P/E TTM	20.5
P/E F1	24.6
PEG F1	2.3
P/S TTM	1.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	619 E	608 E	621 E	620 E	2,509 E
2020	644 A	541 A	527 E	559 E	2,347 E
2019	745 A	771 A	667 A	656 A	2,838 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.53 E	\$0.60 E	\$0.73 E	\$0.71 E	\$2.51 E
2020	\$0.59 A	\$0.42 A	\$0.37 E	\$0.47 E	\$1.99 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 08/13/2020. The reports text is as of 08/14/2020.

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.

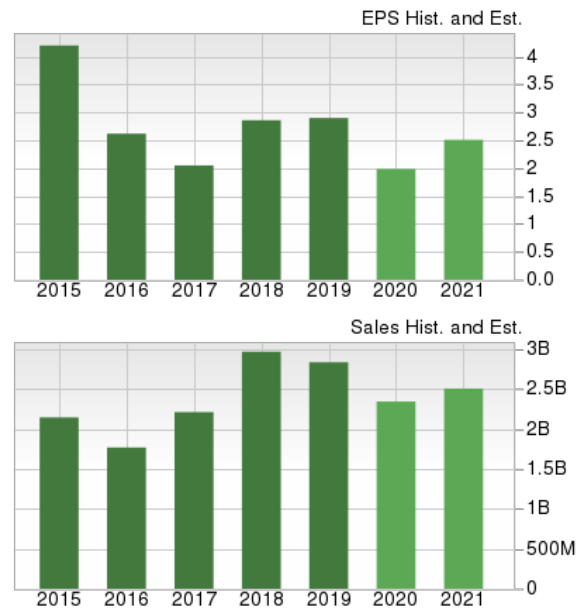
Petrochemicals, black oil, refined petroleum products and agricultural chemicals contributed 54%, 23%, 19% and 4%, respectively, to segmental revenues in the same year.

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.



Reasons To Sell:

- ▼ Persistent below-par performance of the distribution and services segment due to weakness in the oil and gas market is concerning. The situation has been worsened by coronavirus woes. Segmental revenues plunged 46.1% year over year in the first half of 2020. In 2019, the segment's revenues decreased approximately 16% year over year. With most customers reducing spending for 2020, the oil and gas market's activity is expected to remain weak. As a result, the segment is likely to remain under pressure through the remainder of this year. Within the distribution and services segment, the core businesses in commercial and industrial market are plagued by reduced economic activity.
- ▼ In the inland marine business, activity and barge utilization levels have declined as a result of coronavirus-related headwinds. Given the significant softness in economic activity, the company anticipates average barge utilization to be lower sequentially in the third quarter. This in turn is expected to hurt revenues and operating margins. The company estimates inland revenues and operating income to decline sequentially in the current quarter.
- ▼ Additionally, reduced spot-market activity is weighing on the coastal market's (part of marine transportation segment) performance. Moreover, reduced activity in the coal transportation business is expected to hurt coastal revenues and operating income in the third quarter. The company anticipates earnings to decline sequentially in the third quarter with reduction in inland marine business and losses in the distribution and services segment.

Disappointing performance of the oil and gas market is weighing on the company's distribution and services revenues. The situation has been worsened by coronavirus woes.

Risks

- Kirby's cost-reduction efforts to mitigate coronavirus-induced adversities are encouraging. Cost-control initiatives such as workforce reductions, furloughs and a strict check on general and administrative expenses are partly offsetting the coronavirus-led revenue declines. Benefits of these cost-reduction initiatives are expected to be better realized in the third quarter. With stringent control, the company estimates capital expenditures to be approximately \$150 million in 2020, indicating a year-over-year reduction of roughly 40%.
 - 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.
 - Kirby believes that it has reached the bottom of coronavirus-led weakness in the activity and utilization levels and has lately been seeing modest improvement in demand. In inland marine (part of the broader marine transportation segment), refinery and petrochemical plant-utilization rates have improved. Moreover, in commercial and industrial (part of distribution and services segment), there has been some improvement in the on-highway and power generation businesses. Additionally, the fact that the company does not have any scheduled debt maturities until 2023 is a positive. Cash and cash equivalents at the end of the second quarter of 2020 stood at \$108.47 million, considerably higher than \$22.52 million at the end of second-quarter 2019.
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Last Earnings Report

Kirby's Q2 Earnings In-line

Kirby's second-quarter 2020 earnings of 42 cents per share were in line with the Zacks Consensus Estimate. The bottom line plunged 46.8% year over year.

Total revenues of \$541.2 million lagged the Zacks Consensus Estimate of \$618.4 million and declined 29.8% year over year. The top line was hurt by a decline in revenues at the marine transportation, and distribution and services segments due to coronavirus-induced weak economic conditions.

Quarter Ending 06/2020

Report Date	Jul 30, 2020
Sales Surprise	-12.49%
EPS Surprise	0.00%
Quarterly EPS	0.42
Annual EPS (TTM)	2.39

Segmental Performance

The company through its subsidiaries operates via the 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. In the second quarter, revenues at the marine transportation unit decreased 5.8% year over year to \$381 million. Segmental operating income also dipped 3.4% year over year to \$51.4 million. However, operating margin expanded to 13.5% from 13.2% in the year-ago period.

Inland market revenues decreased 2% year over year due to reduced barge utilization and low fuel rebills. The operating margin for the inland business was in the mid-to high teens.

Revenues at the coastal market fell 17% year over year due to reduced spot market activity, retirement of two large capacity vessels and planned shipyard activity. The coastal market recorded break-even operating margin during the quarter.

The distribution and services segment is responsible for selling replacement parts and focuses on the oil and gas, and commercial and industrial markets. Segmental revenues dropped 56.3% to \$160.2 million due to below-par performance in the oil and gas market. Moreover, the segment reported a negative operating margin of 8.8% in the reported quarter against 6.3% in the second quarter of 2019.

The oil and gas market was weak during the second quarter due to reduction in oilfield activity and low oil prices. Operating margin for oil and gas came in negative.

In the commercial and industrial market, revenues slipped year over year due to reduced economic activity and disruptions in the on-highway and power generation businesses. The commercial and industrial operating margin was in low single digits in the quarter under review.

Balance Sheet Highlights

Long-term debt (including current portion) for this company increased to \$1.64 billion at the end of the second quarter from \$1.59 billion at the end of June 2019. Debt-to-capitalization ratio at the end of second-quarter 2020 was 35% compared with 32.4% a year ago.

Outlook

Kirby believes that it has reached the bottom of coronavirus-led weakness in the activity and utilization levels. Lately, the company has been seeing modest improvement in demand. In inland marine, refinery and petrochemical plant utilization rates have improved. However, given the significant softness in economic activity, the company anticipates average barge utilization to be lower sequentially in the third quarter. This in turn is expected to hurt revenues and operating margins. The company estimates inland revenues and operating income to decline sequentially in the current quarter.

Meanwhile, the coastal market is expected to benefit from reduced shipyard maintenance in the third quarter in a challenging spot market. Despite anticipating reduced activity in the coal transportation business, the company expects sequential improvement in third-quarter coastal revenues and operating income. On the whole, Kirby anticipates the coastal business to be stable for the remainder of this year.

With most customers reducing spending for 2020, the oil and gas market's activity is expected to remain weak, which in turn is likely to weigh on the distribution and services segment's performance. The commercial and industrial market continues to be plagued by reduced economic activity. Yet, there has been some improvement in the on-highway and power generation businesses. To mitigate the adversities in the distribution and services segment, the company has controlled costs through workforce reductions, furloughs and a strict check on general and administrative expenses. Benefits of these cost reduction initiatives are expected to be better realized in the third quarter. On the whole, the company expects segment operating margins to improve in the third quarter but will still be below break-even levels.

With stringent control, the company estimates capital expenditures to be approximately \$150 million in 2020, indicating a year-over-year reduction of roughly 40%. Free cash flow is predicted in the range of \$250-\$350 million for the current year.

Valuation

Kirby shares are down 45.3% and 30.7% 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 42% and 2% in the year-to-date period respectively. Over the past year, the Zacks sub-industry is down 19.4%, while the sector is up 8.2%.

The S&P 500 Index is up 4.8% and 18.7% in the year-to-date period and in the past year respectively.

The stock is currently trading at 1.2X forward 12-month price-to-sales, which compares to 1X for the Zacks sub-industry, 1.35X for the Zacks sector and 3.7X 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 1.57X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$42 price target reflects 1.03X 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	1.2	1	1.35	3.7
	5-Year High	2.3	2.41	1.41	3.7
	5-Year Low	0.73	0.91	0.85	2.53
	5-Year Median	1.57	1.84	1.2	3.05
EV/EBITDA TTM	Current	15.87	10.67	9.82	12.75
	5-Year High	45.57	16.06	11.09	12.84
	5-Year Low	5.35	6.53	5.41	8.24
	5-Year Median	10.66	10.88	7.24	10.9
P/B TTM	Current	0.96	0.48	3.56	4.7
	5-Year High	1.77	1.13	4.06	4.71
	5-Year Low	0.61	0.33	2.08	2.83
	5-Year Median	1.43	0.73	3.41	3.74

As of 08/13/2020

Industry Analysis Zacks Industry Rank: Bottom 12% (222 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Danaos Corporation (DAC)	Neutral	2
Euronav NV (EURN)	Neutral	3
Frontline Ltd. (FRO)	Neutral	3
Golar LNG Limited (GLNG)	Neutral	3
Martin Midstream Partners L.P. (MMLP)	Neutral	3
Star Bulk Carriers Corp. (SBLK)	Neutral	3
Ensco plc (VAL)	Neutral	4
Teekay Tankers Ltd. (TNK)	Underperform	5

Industry Comparison Industry: Transportation - Shipping				Industry Peers		
	KEX	X Industry	S&P 500	FRO	TNK	VAL
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	5	-	-	3	5	4
VGM Score	B	-	-	A	A	D
Market Cap	2.94 B	214.67 M	23.58 B	1.67 B	501.45 M	74.41 M
# of Analysts	5	2	14	1	2	4
Dividend Yield	0.00%	0.00%	1.68%	33.10%	0.00%	0.00%
Value Score	B	-	-	A	A	D
Cash/Price	0.04	0.39	0.07	0.15	0.39	2.56
EV/EBITDA	9.21	6.92	13.34	8.86	4.49	4.14
PEG Ratio	2.23	1.50	2.99	NA	0.69	NA
Price/Book (P/B)	0.96	0.45	3.20	1.04	0.46	0.01
Price/Cash Flow (P/CF)	6.79	3.02	12.83	6.19	2.66	NA
P/E (F1)	24.33	7.36	21.99	7.36	2.06	NA
Price/Sales (P/S)	1.17	0.73	2.53	1.47	0.47	0.04
Earnings Yield	4.06%	6.28%	4.35%	13.59%	48.46%	-1,597.30%
Debt/Equity	0.59	0.89	0.77	1.08	0.76	0.79
Cash Flow (\$/share)	7.21	1.32	6.94	1.37	5.60	-2.02
Growth Score	B	-	-	A	A	C
Hist. EPS Growth (3-5 yrs)	-5.59%	-18.45%	10.41%	NA	-26.69%	NA
Proj. EPS Growth (F1/F0)	-31.52%	14.83%	-6.32%	40.24%	278.27%	-1.33%
Curr. Cash Flow Growth	-1.14%	0.88%	5.20%	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	2.25	0.99	1.33	0.78	2.02	0.35
Debt/Capital	37.28%	46.87%	44.59%	52.00%	43.10%	44.11%
Net Margin	-6.89%	1.01%	10.13%	23.46%	23.10%	-237.15%
Return on Equity	4.45%	4.45%	14.51%	20.41%	25.14%	-15.28%
Sales/Assets	0.41	0.22	0.51	0.32	0.49	0.12
Proj. Sales Growth (F1/F0)	-17.32%	0.00%	-1.43%	109.11%	56.81%	-13.88%
Momentum Score	D	-	-	F	A	B
Daily Price Chg	-2.37%	0.00%	-0.44%	-2.20%	-6.29%	0.84%
1 Week Price Chg	0.06%	1.63%	2.30%	2.50%	3.87%	0.82%
4 Week Price Chg	4.15%	7.77%	4.38%	11.17%	11.53%	-40.79%
12 Week Price Chg	-4.02%	2.43%	13.59%	4.19%	-11.36%	12.65%
52 Week Price Chg	-30.64%	-25.49%	5.75%	31.37%	86.25%	-90.02%
20 Day Average Volume	555,717	217,860	1,984,154	1,619,477	787,683	10,304,455
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-8.73%	0.00%	2.08%	-50.64%	-25.28%	-3.91%
(F1) EPS Est 12 week change	-10.38%	-6.49%	2.66%	-54.18%	-23.26%	-2.03%
(Q1) EPS Est Mthly Chg	-39.39%	0.00%	0.94%	-80.00%	-95.46%	-2.11%

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	B
Momentum Score	D
VGM Score	B

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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