

Kirby Corporation (KEX)

\$90.46 (As of 01/20/20)

Price Target (6-12 Months): **\$95.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/17/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: A

Momentum: B

Summary

Disappointing performance of the oil and gas market is affecting Kirby's operations significantly. This headwind induced a 13% decline in distribution and services revenues in the first nine months of 2019. The company's tapered 2019 earnings view is also worrisome. Poor operating conditions at the company's inland marine business are likely to impact 2019 results. However, significant growth at the marine transportation division is aiding the company, owing to which its shares have outperformed the industry in a year's time. The company's growth-by-acquisition policy is also appreciative. In this regard, the buyout of the marine transportation fleet of Cenac Marine Services is noteworthy, which bolstered Kirby's fleet in turn. Uptick in revenues from inland marine operations despite weakness is encouraging as well.

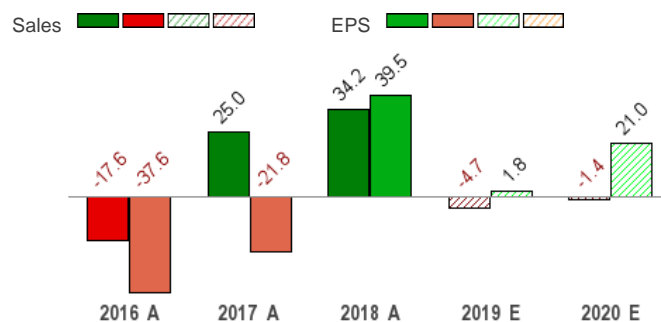
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$92.30 - \$66.76
20 Day Average Volume (sh)	297,178
Market Cap	\$5.4 B
YTD Price Change	1.0%
Beta	1.10
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Transportation - Shipping
Zacks Industry Rank	Top 27% (68 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	12.7%
Last Sales Surprise	-7.4%
EPS F1 Est- 4 week change	1.0%
Expected Report Date	01/30/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	651 E	680 E	701 E	695 E	2,790 E
2019	745 A	771 A	667 A	642 E	2,831 E
2018	742 A	803 A	705 A	721 A	2,971 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.63 E	\$0.84 E	\$1.06 E	\$1.00 E	\$3.52 E
2019	\$0.74 A	\$0.79 A	\$0.80 A	\$0.59 E	\$2.91 E
2018	\$0.67 A	\$0.78 A	\$0.70 A	\$0.75 A	\$2.86 A

*Quarterly figures may not add up to annual.

P/E TTM	29.4
P/E F1	25.7
PEG F1	2.4
P/S TTM	1.9

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/20/2020. The reports text is as of 01/21/2020.

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 February 22, 2019, the segment owned/operated 1,003 inland tank barges with 21.8 million barrels of capacity, 285 inland towboats, 53 coastal tank barges with a capacity of 5.1 million barrels, 50 coastal tugboats, four offshore dry-bulk cargo barges, four offshore tugboats and one docking tugboat. Notably, the segment accounted for 49.9% of the company's revenues in 2018.

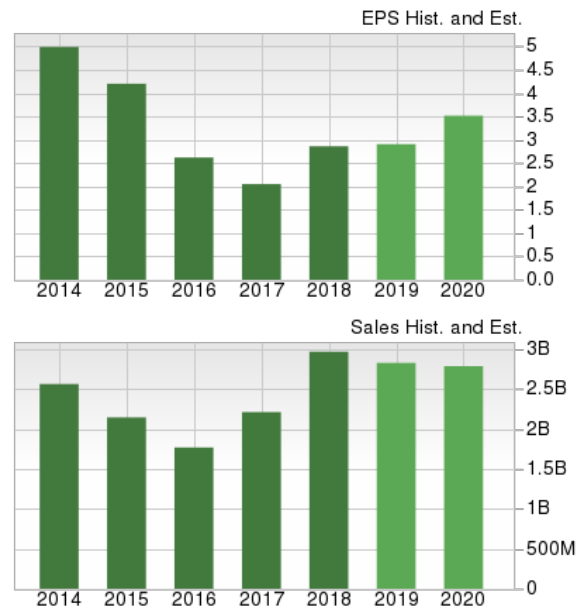
Petrochemicals, black oil, refined petroleum products and agricultural chemicals contributed 56%, 21%, 19% and 4%, respectively, to segmental revenues in the same year.

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 50.1% of the company's revenues in 2018. Service and parts accounted for 71% of the segmental revenues, with the balance coming from manufacturing.

Market-wise, the oil and gas market accounted for 68% of 2018 segmental revenues. The balance came from the commercial and industrial market.

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



Reasons To Buy:

- ▲ Significant growth at the company's marine transportation division is commendable. Segmental revenues increased 8% in the first nine months of 2019. Improved barge utilization and favorable pricing at the inland market is aiding the segment's growth. With strong customer demand and other key fundamentals in place, the marine transportation division is anticipated to have put up a robust show in the fourth quarter as well. Detailed results will be available on Jan 30.
- ▲ Although the company's inland marine operations witnessed some sluggishness in the third quarter of 2019, revenues from the business increased approximately 10% year over year owing to contributions from last year's acquisitions and favorable pricing. The operating margin for the inland business was 20% in the September quarter. Moreover, third-quarter revenues at the coastal market increased 3% on a year-over-year basis, attributable to favorable pricing and improved barge utilization.
- ▲ We are impressed by the company's growth-by-acquisition strategy. The most recent acquisition (marine transportation fleet of Cenac Marine Services) was completed in March 2019. The buyout has bolstered Kirby's fleet. Prior to being acquired, Cenac's fleet comprised 63 30,000-barrel inland tank barges with approximately 1.9 million barrels of capacity, 34 inland towboats apart from two offshore tugboats. For the tank barges, the average age of the Cenac fleet is approximately four years and six years for the towboats. In a bid to expand its fleet, Kirby has 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.

Strong growth in the marine transportation division is encouraging. The company's growth-by-acquisition strategy also holds promise.

Reasons To Sell:

- ▼ Due to the disappointing performance of the oil and gas market, distribution and services revenues decreased 13% year over year in the first nine months of 2019. Owing to the below-par performance of the segment, the company's top line declined 3% in the first nine months of 2019. The segment is likely to have performed disappointingly in the December quarter as well, which in turn, might hurt results. The company's narrowed 2019 earnings view, primarily due to this headwind, is also concerning. For 2019, earnings are expected to have been in the range of \$2.80-\$3 per share, compared with \$2.80-\$3.2 expected previously.
- ▼ Significant delay days as a result of high-water conditions in the Mississippi river and bad weather conditions affected the company's inland marine business in second-quarter 2019. Even though the situation improved in the September quarter, with flood waters on the Mississippi river receding at the beginning of August 2019, the adversity is likely to have hurt the company's full-year results.
- ▼ Long-term debt at Kirby (including the current portion) increased to \$1,434.43 million at the end of the third quarter of 2019 from \$1,399.93 million at the end of third-quarter 2018. Debt to capitalization ratio, a measure of Kirby's financial leverage, at the end of the third quarter was almost 30%.

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 Q3

Kirby's earnings of 80 cents per share surpassed the Zacks Consensus Estimate of 71 cents. The bottom line also improved 14.3% year over year.

However, total revenues of \$666.8 million fell short of the Zacks Consensus Estimate of \$719.7 million and also declined 5.4% year over year. The top line was hurt by reduced sales at the distribution and services division.

Quarter Ending **09/2019**

Report Date	Oct 25, 2019
Sales Surprise	-7.35%
EPS Surprise	12.68%
Quarterly EPS	0.80
Annual EPS (TTM)	3.08

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 8% to \$412.7 million. Segmental operating income also soared almost 50% to \$72.7 million. Segmental operating margin too expanded to 17.6% from 12.7% a year ago.

Inland market revenues rose approximately 10% year over year owing to contributions from last year's acquisitions and favorable pricing. The operating margin for the inland business was 20% in the September quarter. Revenues at the coastal market increased 3% on a year-over-year basis, attributable to favorable pricing and improved barge utilization.

The distribution and services segment is responsible for selling replacement parts and focuses on oil and gas, and commercial and industrial markets. Segmental revenues decreased 21.2% to \$254.1 million due to below-par performance in the oil and gas market. Moreover, operating margin at the distribution and services segment declined to 3.6% from 7.4% a year ago.

The oil and gas market was weak in the quarter under review due to reduction in North America oilfield activity. Operating margin for oil and gas was in the negative low single digits.

In the commercial and industrial market, revenues and operating income improved year over year, mainly owing to higher service levels in the marine repair business coupled with increased demand for back-up power generation equipment. During the quarter under review, the commercial and industrial operating margin was in the high single digits.

Balance Sheet Highlights

Long-term debt at Kirby (including the current portion) increased to \$1,434.43 million at the end of the third quarter of 2019 from \$1,399.93 million at the end of third-quarter 2018. Debt to capitalization ratio at the end of the third quarter was 29.8% compared with 30.2% a year ago.

Outlook for 2019

The company revised its earnings guidance for the full year in the range of \$2.80-\$3 per share (old guidance: \$2.80-\$3.20). The outlook for capital expenditures is unchanged between \$225 million and \$245 million

Valuation

Kirby shares are up 30.7% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and the Zacks Transportation sector are up 18.8% and 13.2% respectively.

The S&P 500 index is up 25.6% over the past year.

The stock is currently trading at 1.94X forward 12-month price-to-sales, which compares to 1.77X for the Zacks sub-industry, 1.16X for the Zacks sector and 3.57X for the S&P 500 index.

Over the past five years, the stock has traded as high as 2.3X and as low as 1.14X, with a 5-year median of 1.64X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$95 price target reflects 2.04X 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	1.94	1.77	1.16	3.57
	5-Year High	2.3	2.78	1.44	3.57
	5-Year Low	1.14	1.33	1.03	2.54
	5-Year Median	1.64	1.87	1.23	3
EV/EBITDA TTM	Current	13.04	10.54	8.07	12.38
	5-Year High	45.41	15	11.11	12.86
	5-Year Low	5.45	6.54	5.97	8.48
	5-Year Median	9.38	9.69	7.41	10.67
P/B TTM	Current	1.61	0.85	3.36	4.55
	5-Year High	2.1	1.51	4.67	4.55
	5-Year Low	1.09	0.57	2.68	2.85
	5-Year Median	1.47	0.81	3.42	3.61

As of 01/17/2020

Industry Analysis Zacks Industry Rank: Top 27% (68 out of 254)



Top Peers

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

Industry Comparison Industry: Transportation - Shipping				Industry Peers		
	KEX Neutral	X Industry	S&P 500	CKH Neutral	GATX Neutral	OII Neutral
VGM Score	B	-	-	B	B	C
Market Cap	5.42 B	516.18 M	24.65 B	849.94 M	2.72 B	1.46 B
# of Analysts	5	2	13	1	2	4
Dividend Yield	0.00%	0.00%	1.73%	0.00%	2.38%	0.00%
Value Score	C	-	-	A	B	B
Cash/Price	0.00	0.17	0.04	0.10	0.02	0.22
EV/EBITDA	16.25	8.91	14.11	5.71	11.11	14.32
PEG Ratio	2.31	2.65	2.08	NA	1.01	NA
Price/Book (P/B)	1.61	0.60	3.39	1.05	1.52	1.12
Price/Cash Flow (P/CF)	12.30	4.52	13.81	7.14	5.42	6.50
P/E (F1)	25.17	8.76	19.19	21.60	15.17	NA
Price/Sales (P/S)	1.87	1.10	2.69	1.04	1.95	0.74
Earnings Yield	3.89%	11.12%	5.21%	4.63%	6.59%	-2.03%
Debt/Equity	0.47	0.89	0.72	0.44	2.87	0.74
Cash Flow (\$/share)	7.35	1.05	6.94	5.90	14.27	2.27
Growth Score	A	-	-	C	D	C
Hist. EPS Growth (3-5 yrs)	-12.32%	-20.95%	10.56%	-10.07%	-1.53%	-77.24%
Proj. EPS Growth (F1/F0)	20.99%	144.12%	7.57%	11.43%	-2.11%	70.64%
Curr. Cash Flow Growth	25.00%	-7.57%	14.73%	-13.09%	5.97%	8.32%
Hist. Cash Flow Growth (3-5 yrs)	0.61%	7.18%	9.00%	-11.93%	4.46%	-17.15%
Current Ratio	1.85	0.93	1.24	1.44	1.65	2.29
Debt/Capital	31.75%	47.19%	42.99%	30.60%	74.18%	42.49%
Net Margin	3.96%	-2.85%	11.14%	2.92%	14.63%	-7.55%
Return on Equity	5.60%	0.24%	17.16%	3.69%	10.18%	-5.69%
Sales/Assets	0.47	0.20	0.55	0.53	0.17	0.68
Proj. Sales Growth (F1/F0)	-1.45%	17.71%	4.16%	3.05%	NA	9.97%
Momentum Score	B	-	-	F	A	C
Daily Price Chg	-0.19%	-0.45%	0.27%	0.00%	-3.02%	-1.20%
1 Week Price Chg	1.38%	-2.23%	0.39%	-6.64%	-3.07%	5.63%
4 Week Price Chg	4.41%	-3.02%	2.95%	-0.17%	-7.96%	-2.06%
12 Week Price Chg	10.97%	-4.47%	7.76%	-8.16%	-3.09%	7.57%
52 Week Price Chg	32.54%	4.62%	22.29%	0.14%	6.88%	-5.38%
20 Day Average Volume	297,178	164,311	1,536,375	91,293	290,749	1,143,942
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	1.03%	0.00%	0.00%	-12.95%	0.00%	0.55%
(F1) EPS Est 12 week change	-9.11%	0.00%	-0.40%	-17.37%	-1.45%	-13.13%
(Q1) EPS Est Mthly Chg	7.69%	0.00%	0.00%	-15.09%	NA	0.00%

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	C
Growth Score	A
Momentum Score	B
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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