

Kirby Corporation (KEX) - \$73.17 per share

Transporting Cargo on the Mississippi and US Coast



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Kirby Corporation (KEX) is the largest barge transportation company along the Mississippi, with two main business segments. These are a marine transportation service operating river and coastal barges transporting chemicals and oil along the Mississippi and surrounding coast, and a distribution service that sells after-market service and replacement parts for engine gears, motors, transmissions, and related oilfield services equipment, among others.

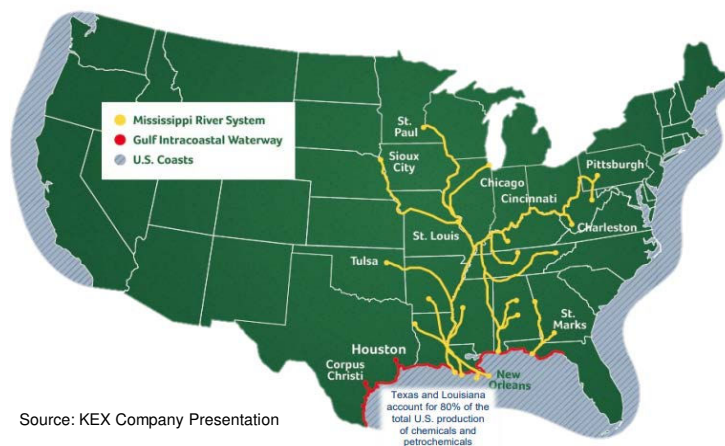
Company Background

KEX traces its roots back to 1921 when John Henry Kirby formed the Kirby Petroleum Company as an independent oil and gas exploration company. KEX entered the marine transportation business in 1969 when they acquired Dixie Carriers and began publicly trading under "KEX" in 1976. In 1987, the Board of Directors decided to strategically focus on the marine transportation and diesel engine servicing business; divesting oil and gas assets. This strategic decision proved to be fruitful as today KEX is the nation's largest domestic tank barge operator transporting products throughout the Mississippi River system and the Gulf Coast. KEX currently owns and operates 1,037 river barges and 29 coastal barges, more than double the amount of tank barges owned by the next largest operator.

A Pandemic Recovery Story

During the pandemic KEX saw barge utilization drop to record lows of just over 65% in 2020. This loss in demand led to record low margins in late 2020 and early 2021. KEX's diesel engine servicing and distribution also saw a significant downturn as oil prices plummeted and supply chains issues made parts harder to acquire. However, through this downturn KEX made financially sound decisions, focusing on remaining profitable and not taking on extra debt.

Since then, oil and gas prices have rebounded, and chemical plant utilization has returned to pre-pandemic levels. Utilization of KEX's barge fleet has recovered back over 90%. Wisely, KEX also opted to delay renewing term contracts as much as possible during the pandemic, when demand was low, with the theory that higher future demand will lead to higher pricing for barge transportation. In Q4 of 2022, management reported seeing a 10% - 15% increase in pricing for term contracts proving KEX right to hold on during down times.



Source: KEX Company Presentation

Investment Thesis

KEX faced a sharp downturn in the pandemic due to a loss of demand but now demand is returning, and utilization rates have already started to increase. Utilization and demand tends to lead margins by 6-12 months for KEX. Thus, we estimate there will be increased profits in quarters to come, with relative stability against a downturn as ~60% of KEX's shipping business will be locked into long term contracts at new higher prices.

KEX Price Chart



Source: Bloomberg

Kirby Corp. (KEX)

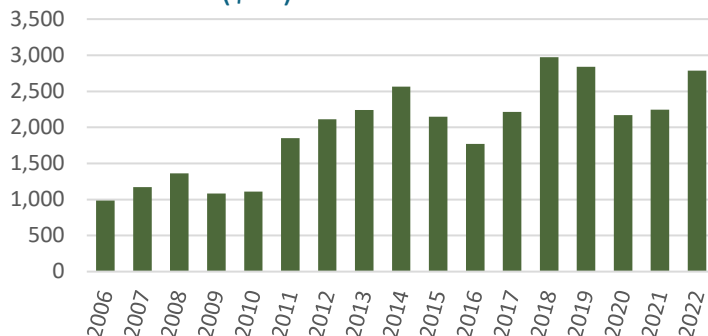
Company Fundamentals

KEX has shown impressive revenue growth coming out of the pandemic, growing revenue 47% over the past two years. This revenue increase is due to the combination of higher utilization and higher pricing which should continue to rise. Predictably lagging gross margins increased to 26% in Q4 of 2022 marking the second straight quarter in which margins increased. As a result, earnings per share increased from \$0.18 in Q4 of 2021 to \$0.62 in Q4 of 2022. Looking ahead, management expects marine transportation revenue along the Mississippi to continue to increase by double digits in 2023.

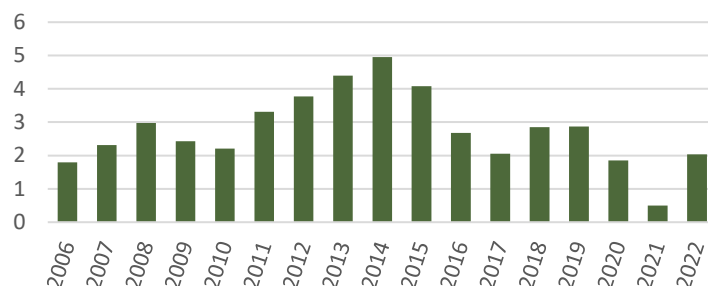
The distribution and service segment also grew significantly in 2022 fueled by oil, gas, and higher prices; demand for transmissions and other parts; and increased orders for other power generation equipment. Overall, revenue for the distribution and service segment grew 28% in 2022, despite supply chain delays remaining a headwind to further growth. Looking forward, management expects another 10% - 20% growth in revenue in 2023.

Given this strong performance in 2022 KEX was able to pay down \$39 million in debt and announce that the board had increased the share repurchase authorization by five million shares.

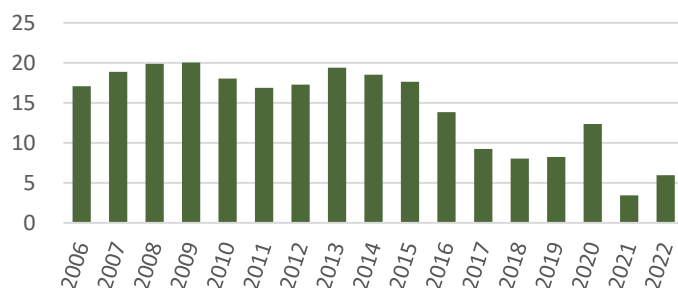
KEX Revenue (\$M)



KEX Operating EPS (\$)



KEX Operating Margin (%)



Source: Company Reports, Intrinsic Research, Thomson Reuters Consensus Estimates, & Shaker Investments

Risks

- KEX performs better with higher oil and gas prices and a large downturn in those prices could materially impact revenue and profits.
- KEX relies on the Mississippi and its tributaries to ship goods, if the Mississippi's water level falls that could materially impact the amount of goods KEX is able to ship.

11 Characteristics

1) Growth	●	Projecting 2022 revenue growth of 25 - 30%
2) Sustainable Advantage	●	High entry costs for barge fleets
3) Strong Management	●	Leadership experienced both within the company and the industries they serve
4) Market Leadership	●	#1 share in tank barge transportation market
5) Focused	●	Barge shipping and diesel engine servicing and distribution
6) Many Customer/Products	●	Wide distribution , no customer >10%
7) Quality Leadership	●	Leaders in safety and reliability
8) New Product Development	○	None recently, looking into supplying solar but years away
9) Positive Earnings/CF	●	Positive earnings for past 5 quarters
10) Conservative Financials	●	Leveraged but being responsibly paid down
11) Inside Ownership	●	Insiders own 2.5% of equity

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