World Kinect Corporation (WKC)

Updated October 31st, 2024, by Aristofanis Papadatos

Key Metrics

Current Price:	$26	**5 Year CAGR Estimate:**	12.8%	**Market Cap:**	$1.5 B
Fair Value Price:	$31	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date[1]:**	12/13/24
% Fair Value:	85%	**5 Year Valuation Multiple Estimate:**	3.4%	**Dividend Payment Date:**	1/14/25
Dividend Yield:	2.6%	**5 Year Price Target**	$43	**Years Of Dividend Growth:**	6
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Buy

Overview & Current Events

World Kinect Corporation (WKC) is a leading global energy distribution and management company that offers a broad range of solutions across the energy spectrum to more than 150,000 customers worldwide. It generates about half of its revenue in the U.S. and the other half in international markets. Its Land segment offers fuels and lubricants to retail petroleum operators as well as industrial, commercial, residential and government customers. The Marine segment offers similar products to shipping companies while the Aviation segment is focused on commercial, government and military aviation customers. In 2023, the Land, Marine and Aviation segments generated 40%, 16% and 44%, respectively, of the total gross profit of the company. World Kinect was incorporated in Miami, Florida in 1984, and has a market capitalization of $1.5 billion.

In late October, World Kinect reported (10/24/24) results for the third quarter of 2024. Its Land business continued to face unfavorable conditions due to an oversupplied gas market in Brazil and North America, while the Aviation segment remained strong. Total revenue decreased -14% over the prior year's quarter but adjusted earnings-per-share grew 7%, from $0.58 to $0.62, in line with the analysts' consensus, primarily thanks to the strong profits of the Aviation segment. The company has not beaten the analysts' estimates for three consecutive quarters, thus indicating somewhat lackluster business momentum. On the other hand, management expects the Aviation division to maintain its strong momentum in the running quarter. We expect an approximate 10% increase in earnings-per-share this year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$3.15	$2.47	$1.81	-$2.50	$1.89	$2.69	$1.71	$1.16	$2.04	$1.95	***$2.15***	***$3.02***
DPS	0.15	0.24	0.24	0.24	0.24	$0.36	$0.40	$0.48	$0.52	$0.56	***$0.68***	***$1.00***
Shares	71	71	70	68	68	67	64	63	63	60	***60***	***55***

Due to its focus on the highly cyclical energy market, World Kinect has exhibited a remarkably volatile performance record over the last decade. Even worse, the company has failed to grow its earnings-per-share over the last decade, as it has been unable to match its strong performance in 2014, which was a favorable year for its business.

On the bright side, the company is trying to enhance its operating margin by acquiring smaller companies. In 2022, it acquired Flyers and thus it enhanced its presence in the West Coast while it also improved its margins in its Land segment. World Kinect enhanced its adjusted gross margin from 21% in 2020 to 26% in 2023 and expects to improve it to 30% by 2026. Given also the small market share in its Land (<1%) and Aviation (~10%) segment, the company sees ample room for future growth. We expect 7% average annual growth of earnings-per-share over the next five years.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	14.1	18.9	24.9	---	13.3	12.9	15.9	27.5	12.7	12.1	***12.1***	***14.3***
Avg. Yld.	0.3%	0.5%	0.5%	0.7%	1.0%	1.0%	1.5%	1.5%	2.0%	2.4%	***2.6%***	***2.3%***

[1] Estimated date.

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Excluding the years in which depressed earnings resulted in abnormally high price-to-earnings ratios, World Kinect has traded with an average price-to-earnings ratio of 14.3 over the last decade. As a cyclical business, World Kinect tends to have higher price-to-earnings ratios during periods of lower earnings, and lower price-to-earnings ratios during periods of higher earnings. We view 14.3 as a fair earnings multiple for this stock, which is now trading at a price-to-earnings ratio of 12.1. If it trades at its fair valuation level in five years, it will enjoy a 3.4% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2029**
Payout	5%	10%	13%	---	13%	13%	23%	41%	25%	29%	***32%***	***33%***

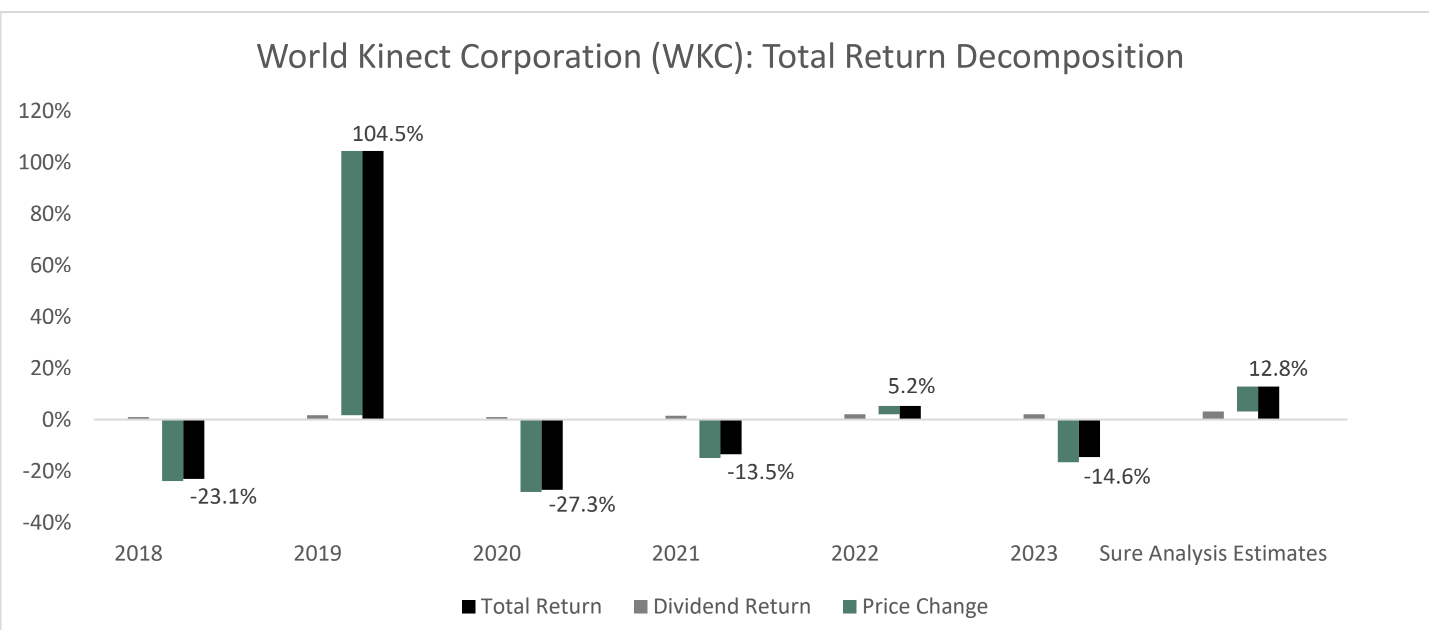
World Kinect has a highly cyclical business and hence it is vulnerable to economic downturns. During the pandemic, it incurred a -36% decrease in earnings-per-share in 2020 and a further -32% decrease in 2021. It also posted material losses in 2017 due to unfavorable conditions in the energy market in that year.

Moreover, we note that the company has a weak balance sheet, with net debt of $2.1 billion, which is 140% the market cap of the stock, and interest expense consuming 53% of operating income. World Kinect can easily service its debt during calm periods but it is likely to come under pressure whenever the next downturn of the energy market shows up. For all these reasons, the stock is not suitable for income-oriented investors. In addition, due to its high cyclicality, this is not a buy-and-hold-forever stock for any type of investor. As soon as World Kinect approaches our target price, investors should take their profits. The vast underperformance of the stock vs. the S&P 500 over the last decade (-40% vs. +186%) is a testament to the risk of the stock.

Final Thoughts & Recommendation

World Kinect has exhibited a lackluster performance record but its future looks brighter thanks to promising growth potential. The stock could offer a 12.8% average annual return over the next five years thanks to 7.0% growth of earnings-per-share, its 2.6% dividend and a 3.4% potential valuation tailwind. It thus receives a buy rating, but it is suitable only for investors who can tolerate the volatility related to the business of the company and the resultant stock price volatility.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	43,392	30,381	27,016	33,696	39,750	36,819	20,358	31,337	59,043	47,711
Gross Profit	819	861	899	932	1,019	1,112	852	788	1,089	1,058
Gross Margin	1.9%	2.8%	3.3%	2.8%	2.6%	3.0%	4.2%	2.5%	1.8%	2.2%
SG&A Exp.	539	615	710	735	742	793	678	634	816	820
D&A Exp.	57	66	82	86	82	87	86	81	108	105
Operating Profit	277	246	189	197	277	319	174	154	273	238
Op. Margin	0.6%	0.8%	0.7%	0.6%	0.7%	0.9%	0.9%	0.5%	0.5%	0.5%
Net Profit	225	175	127	(170)	128	179	110	74	114	53
Net Margin	0.5%	0.6%	0.5%	-0.5%	0.3%	0.5%	0.5%	0.2%	0.2%	0.1%
Free Cash Flow	91	397	15	(188)	(255)	148	553	134	60	184
Income Tax	54	47	16	149	56	56	52	26	29	13

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	4,881	4,525	5,413	5,588	5,677	5,992	4,500	5,942	8,165	7,375
Cash & Equivalents	302	583	699	372	212	186	659	652	298	304
Acc. Receivable	2,306	1,813	2,344	2,706	2,740	2,892	1,238	2,355	3,294	2,736
Inventories	438	359	458	505	523	593	344	478	780	665
Goodwill	871	887	1,118	1,125	1,098	1,065	1,062	1,051	1,569	1,538
Total Liabilities	3,016	2,619	3,473	3,850	3,845	4,099	2,587	4,026	6,174	5,426
Accounts Payable	1,850	1,350	1,770	2,240	2,400	2,603	1,215	2,400	3,530	3,098
Long-Term Debt	690	772	1,186	910	701	629	525	509	846	888
Total Equity	1,855	1,896	1,925	1,722	1,815	1,890	1,909	1,913	1,985	1,943
LTD/E Ratio	0.37	0.41	0.62	0.53	0.39	0.33	0.27	0.27	0.43	0.46

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	4.7%	3.7%	2.5%	-3.1%	2.3%	3.1%	2.1%	1.4%	1.6%	0.7%
Return on Equity	12.7%	9.3%	6.6%	-9.3%	7.2%	9.6%	5.8%	3.8%	5.8%	2.7%
ROIC	9.6%	6.7%	4.4%	-5.9%	4.9%	7.1%	4.4%	3.0%	4.3%	1.9%
Shares Out.	71	71	70	68	68	67	64	63	63	60
Revenue/Share	608.58	429.72	387.05	494.79	587.15	553.67	318.10	495.06	941.68	773.27
FCF/Share	1.27	5.61	0.21	(2.75)	(3.76)	2.22	8.64	2.12	0.96	2.98

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.