Kontoor Brands Inc. (KTB)

Updated March 17th, 2020 by Jonathan Weber

Key Metrics

Current Price:	$29	**5 Year CAGR Estimate:**	9.7%	**Market Cap:**	$1.8B
Fair Value Price:	$30	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	06/05/20
% Fair Value:	98%	**5 Year Valuation Multiple Estimate:**	0.3%	**Dividend Payment Date:**	06/18/20
Dividend Yield:	7.7%	**5 Year Price Target**	$34	**Years Of Dividend Growth:**	0
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	-

Overview & Current Events

Kontoor Brands is an apparel company that focuses on what it calls "lifestyle apparel". The company, which was spun off from V.F. Corporation (VFC) in 2019, owns some of the world's most iconic denim brands, including *Wrangler, Lee,* and *Rock & Republic.* Kontoor Brands is a US-focused company; just 27% of its revenues are generated outside of the United States. Kontoor is headquartered in Greensboro, North Carolina.

Kontoor Brands reported its fourth quarter financial results on March 5. The company reported that its revenue declined by 10.1% compared to the previous year's quarter, to $653 million. Revenues came in $31 million lower than what the analyst community had forecasted. Kontoor Brands' revenues were negatively impacted by its decision to close down non-profitable business lines, mainly in India, while currency rate movements also were a headwind.

Kontoor Brands' earnings-per-share totaled $0.97 during the fourth quarter, beating the analyst consensus estimate by $0.05. Kontoor Brands' lower revenue generation was partially offset by a higher average gross margin during the quarter. Kontoor Brands did have to deal with one-time expenses related to the closing of some businesses.

Kontoor Brands announced that revenues would likely come in at $2.55 billion during fiscal 2020, which would be in line with the revenues that Kontoor Brands generated during the previous year. Earnings are expected to grow, however, due to higher average margins on its sales. This is why Kontoor Brands' management announced an earnings-per-share guidance range of $3.55 to $3.65 for the current year. The coronavirus impact was not fully visible when this was announced in early March, we thus have adjusted the estimate downwards to reflect the larger negative impact.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$3.84	***$2.95***	***$3.42***
DPS	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$2.24	***$2.24***	***$2.47***
Shares[1]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	57.9	***58.0***	***58.0***

Kontoor Brands was spun off very recently, thus there is no long-term data available, but it is likely that Kontoor Brands' business would face steep headwinds in a major recession the size of the last financial crisis.

In 2020, Kontoor Brands forecasted solid results, as it sheds the one-time costs associated with its restructuring and begins operating as a steady-state publicly-traded company. Beyond 2020, Kontoor Brands is likely to grow very slowly, due to the fact that its brands and products are inherently slow-growth, while the company also does not retain a large amount of earnings that could be spent on growth initiatives.

Management had previously forecasted revenue growth in the low-single-digits for 2020 and 2021, before reducing the guidance towards no growth more recently, based on the impact that the coronavirus will have on its operations. The further spread of the virus in the US and Europe since early March is why we believe that sales will actually be down this year, and earnings will, we believe, take a hit as well. Unless something else is announced, we believe that the dividend will remain stable, as the company does not have a lot of cash needs, due to low capital expenditure spending.

[1] In Millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	10.9	***9.8***	***10.0***
Avg. Yld.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	5.3	***7.7%***	***7.2%***

Finding a fair value for Kontoor Brands is difficult because it does not have any history as a standalone company. We can, however, look at the historical valuation of its prior parent company. V.F. Corporation has traded at an average price-to-earnings ratio of 17. Given that Kontoor Brands was created to separate V.F. Corporation's slow-growing legacy brands from its faster-growing core businesses, we believe a lower valuation multiple is warranted for the spin-co. We also have reduced our fair value multiple in this report to reflect the uncertainty around the impact of the coronavirus.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	58.3	***75.9%***	***72.3%***

Kontoor Brands will pay out about three-quarters of this year's profits in the form of dividends. With Kontoor Brands, the company's dividend safety is a highly important component of its investment case, because the company's total returns will be heavily reliant upon the continued distribution of its dividend payment. We thus recommend investors monitor the safety of the company's dividend closely moving forward.

Kontoor Brands' competitive advantage lies in its ownership of some of the world's most popular denim brands. *Lee's* and *Wrangler* in particular control a large amount of market share in the denim category.

Final Thoughts & Recommendation

Kontoor Brands is a consumer goods company which was created through a low-growth spin-off. We believe that the company's earnings and revenues will rise at a low pace in the long run, although there will likely be some extent of volatility. The company's high dividend yield appears to be solidly covered by the firm's free cash flow. Kontoor Brands seems capable of delivering attractive total returns over the coming years, which is why we rate the stock a buy.

Total Return Breakdown by Year