Kontoor Brands Inc. (KTB)

Updated August 19th, 2020 by Jonathan Weber

Key Metrics

Current Price:	$22	**5 Year CAGR Estimate:**	8.1%	**Market Cap:**	$1.2B
Fair Value Price:	$28	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	N/A
% Fair Value:	79%	**5 Year Valuation Multiple Estimate:**	4.9%	**Dividend Payment Date:**	N/A
Dividend Yield:	0.0%	**5 Year Price Target**	$32	**Years Of Dividend Growth:**	N/A
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	N/A

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 around 30% of its revenues are generated outside of the United States. Kontoor is headquartered in Greensboro, North Carolina.

Kontoor Brands reported its second quarter financial results on August 7. The company reported that its revenue declined by 43% compared to the previous year's quarter, to $350 million. Revenues still came in $57 million higher than what the analyst community had forecasted. Kontoor Brands' revenues declined primarily due to the current pandemic impact, as temporary store closings hurt Kontoor's ability to sell merchandise quite a lot during the quarter.

Kontoor Brands' earnings-per-share totaled -$0.22 during the second quarter, beating the analyst consensus estimate by $0.18. Kontoor Brands' lower revenue generation hurt its profitability tremendously, and the company had to report a small net loss for the quarter, although not as much as expected by the analyst community. Overall, analysts expect that 2020 will be much less profitable than 2019, but the company is forecasted to still earn $1.40 per share this year. As the coronavirus crisis will not be in place forever, we try to calculate fair value using an earnings power figure that adjusts for the crisis. In Kontoor Brands' case, we see earnings power at $2.80, around the guidance midpoint before the coronavirus crisis emerged. In order to preserve liquidity, Kontoor Brands has suspended its dividend, and it is not clear when, and at what level, the dividend will be reinstated.

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	***$1.40***	***$3.25***
DPS	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$2.24	***$0.00***	***$0.00***
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 not too long ago, thus there is no long-term data available. Due to the nature of the industry Kontoor Brands is active in, it has to be expected that this is a vulnerable business during recessions.

For 2020, Kontoor Brands forecasted solid results before the coronavirus emerged, with this statement being based on the fact that one-time separation costs have passed, although the divestment of some business lines was seen as a headwind to revenues and profits. Management had previously forecasted revenue growth in the low-single-digits for 2020 and 2021, before the current pandemic emerged. The further spread of the virus in the US and Europe during the last couple of months will hurt Kontoor Brands' Q2 results badly, but thanks to reopening efforts, the back half of the year will likely not be as bad, which is why we, and the analyst community, still forecast positive net profits for the current year. Once the pandemic has fully passed, Kontoor Brands will, we believe, recover to a substantially higher profitability once again, although the exit of some business lines will likely prevent Kontoor Brands from getting close to $4 in earnings-per-share in the foreseeable future.

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[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	***7.9***	***10.0***
Avg. Yld.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	5.3	***0.0%***	***0.0%***

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, Kontoor Brands should trade at a discount to that. Based on our current earnings power estimate, we feel that shares are rather inexpensive and have upside potential to fair value.

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%	***0.0%***	***0.0%***

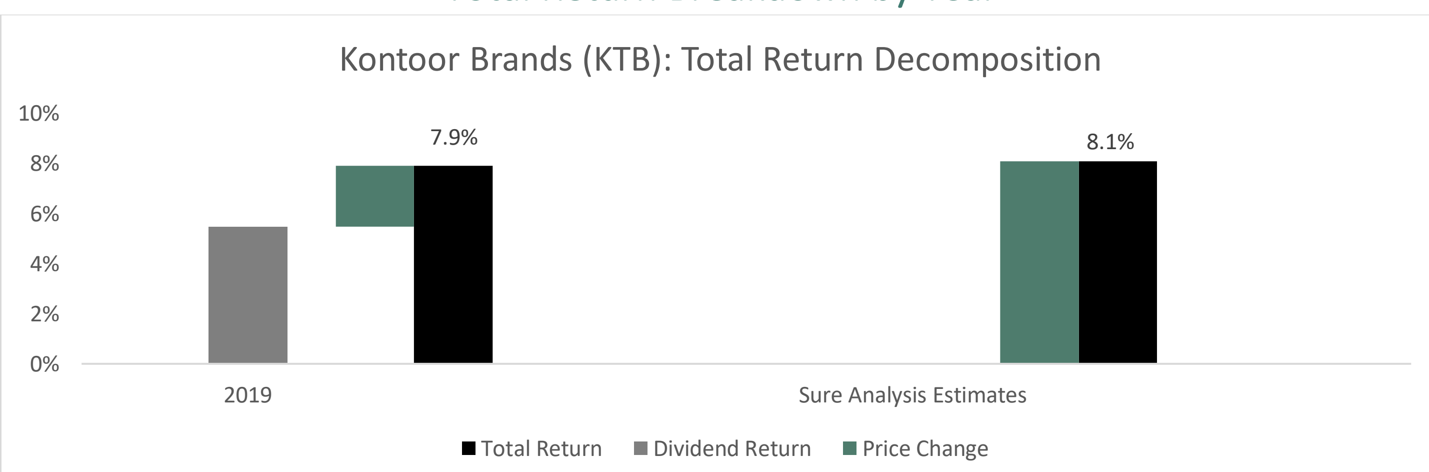
Kontoor Brands' investment case was primarily centered on a high dividend yield that looked like it was covered in a solid way before the current crisis, which has devastated the industry. The dividend has been suspended, and it is not clear when dividend payments will be reinstated, and at what level.

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. The company is vulnerable to economic downturns, which is being showcased during the current pandemic.

Final Thoughts & Recommendation

Kontoor Brands is a consumer goods company that was created through a low-growth spin-off. We believe that the company's earnings and revenues will recover meaningfully once the pandemic has passed, and despite the dividend suspension, forecasted total returns look solid, mainly due to a low valuation that leaves room for multiple expansion. We note the risks here, but rate the stock a hold for investors that do not shy away from the uncertainty.

Total Return Breakdown by Year



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