Kontoor Brands Inc. (KTB)

Updated March 12th, 2021 by Jonathan Weber

Key Metrics

Current Price:	$49	**5 Year CAGR Estimate:**	3.4%	**Market Cap:**	$2.8B
Fair Value Price:	$43	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	03/08/21
% Fair Value:	115%	**5 Year Valuation Multiple Estimate:**	-2.8%	**Dividend Payment Date:**	03/19/21
Dividend Yield:	3.3%	**5 Year Price Target**	$49	**Years Of Dividend Growth:**	-
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**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 around 30% 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 2. The company reported that its revenue grew by 1% compared to the previous year's quarter, to $660 million. Revenues came in $22 million higher than what the analyst community had forecasted. Kontoor Brands' revenues grew thanks to strong consumer spending in the fourth quarter, as the holiday season saw shoppers spend significant amounts of money despite the pandemic backdrop.

Kontoor Brands' earnings-per-share totaled $1.23 during the fourth quarter, beating the analyst consensus estimate by a large $0.27. Kontoor Brands' small revenue growth rate could be turned into a more meaningful earnings increase, as Kontoor Brand was able to grow its gross profit margin by a meaningful 230 basis points, which came as a surprise to the analyst community. 2020 was a down year for the company, mainly thanks to a large impact of the pandemic during H1, but that was already well-known before the results for the year were published. As the coronavirus crisis is fading, Kontoor Brands will be able to generate significantly stronger results in 2021 compared to the previous year. Management is currently forecasting earnings-per-share in a range of $3.50 to $3.60, which is not very far from the pre-crisis profits the company generated in 2019.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$3.84	$2.61	***$3.55***	***$4.12***
DPS	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$2.24	$0.96	***$1.60***	***$1.77***
Shares[1]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	57.9	58.4	***59.0***	***60.0***

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, 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 pandemic emerged.

The spread of the virus in the US and around the world hurt Kontoor Brands' fiscal 2020 results badly, although the back half of the year was not too bad, thanks to the fact that stores started to reopen, which allowed Kontoor Brands to sell more merchandise. This allowed the company to still be profitable in 2020, despite major headwinds. Once the pandemic has fully passed, Kontoor Brands will recover to a substantially higher profitability once again, which is why 2021 should be a year of meaningful earnings growth. Profits will remain below peak levels seen before the crisis for now, though, partially due to the fact that the company has exited some business lines over the last year.

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[1] In Millions

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	10.9	15.7	***13.8***	***12.0***
Avg. Yld.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	5.3%	3.9%	***3.3%***	***3.6%***

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 estimate, we feel that shares are trading somewhat above fair value, following gains since our last update.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	58.3%	36.8%	***45.1%***	***42.9%***

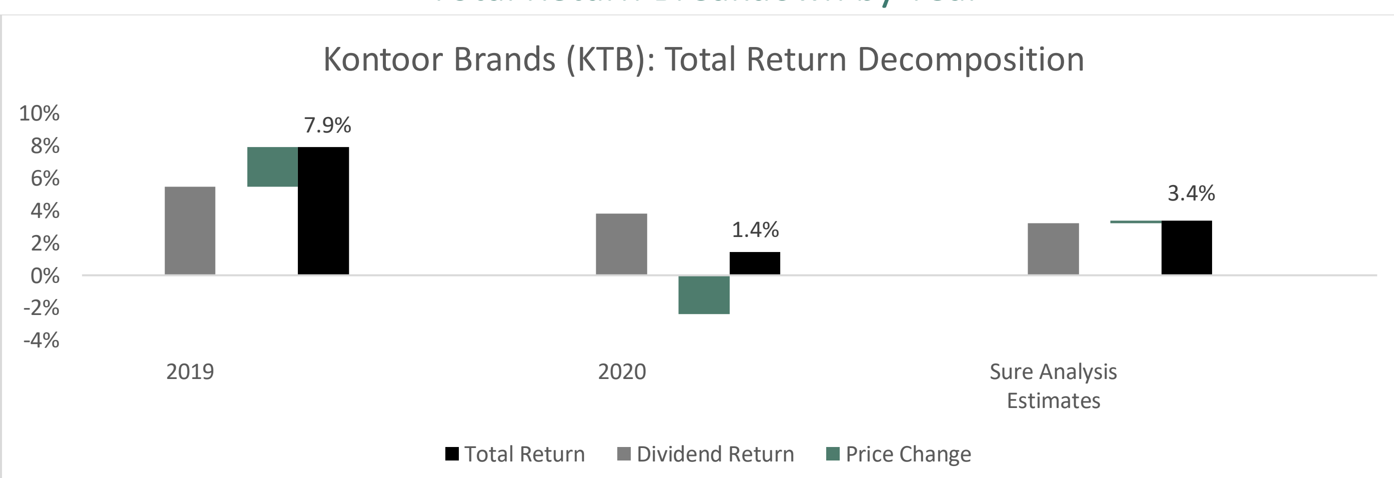
Kontoor Brands' investment case was primarily centered on a high dividend yield that looked like it was covered in a solid way before the current crisis, which has devastated the industry. The dividend has been reinstated following a suspension during the peak of the pandemic, but the new payout is lower compared to pre-crisis dividend levels.

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 spin-off of some low-growth businesses. We believe that the company's earnings and revenues will recover meaningfully this year as the pandemic passes. Following sizeable share price gains since our last update, shares are trading above our fair value estimate, which is why we rate the stock a sell for now, as forecasted total returns aren't overly attractive.

Total Return Breakdown by Year



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