



Kontoor Brands Inc. (KTB)

Updated December 12th, 2022 by Jonathan Weber

Key Metrics

Current Price:	\$43	5 Year CAGR Estimate:	8.6%	Market Cap:	\$2.5B
Fair Value Price:	\$48	5 Year Growth Estimate:	2.5%	Ex-Dividend Date:	12/08/22
% Fair Value:	89%	5 Year Valuation Multiple Estimate:	2.3%	Dividend Payment Date:	12/19/22
Dividend Yield:	4.5%	5 Year Price Target	\$55	Years Of Dividend Growth:	2
Dividend Risk Score:	D	Retirement Suitability Score:	C	Rating:	Hold

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 third quarter financial results in November. The company reported that its revenue declined by 7% compared to the previous year’s quarter, to \$610 million. Revenues came in \$10 million lower than what the analyst community had forecasted. Kontoor Brands’ revenues declined due to weaker consumer spending in the quarter, but the growth rate also was negatively impacted by a tough comparison with the strong Q3 of 2021.

Kontoor Brands’ earnings-per-share totaled \$1.11 during the third quarter, beating the analyst consensus estimate by a sizeable \$0.18. Kontoor Brands’ revenue decline could be turned into a small earnings-per-share increase, which was a compelling feat. In fact, Kontoor Brands’ earnings-per-share rose by 4% compared to the previous year’s quarter. This can be explained by margin expansion. Kontoor Brands delivered strong earnings-per-share considering the environment where many other consumer discretionary companies missed profit estimates, while Kontoor beat the analyst consensus. For the current year, management is now forecasting earnings-per-share of \$4.35 to \$4.40, which is a small decrease versus the previous guidance range, and which means that profits will rise meaningfully during the current year as long as Kontoor Brands manages to hit the guidance range in 2022. Kontoor Brands increased its dividend by 4%, to \$1.92 annualized, in the fall of 2022.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$3.84	\$2.61	\$4.28	\$4.38	\$4.96
DPS	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$2.24	\$0.96	\$1.66	\$1.92	\$2.23
Shares¹	N/A	N/A	N/A	N/A	N/A	N/A	N/A	57.9	58.4	58.8	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. With the impact of the pandemic passing, Kontoor has recovered to substantially higher profitability levels once again, as 2021 was a new record year for the company, with 2022 likely being an even better year according to management.

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	N/A	N/A	N/A	N/A	N/A	N/A	N/A	10.9	15.7	11.9	9.8	11.0
Avg. Yld.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	5.3%	3.9%	3.3%	4.5%	4.1%

Finding a fair value for Kontoor Brands is difficult because it does not have a long history as a standalone company. We can, however, look at the historical valuation of its prior parent company. V.F. Corporation has mostly traded at a high-teens multiple in the past. Since 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, shares are trading below fair value at the current high single digit earnings multiple.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	N/A	N/A	N/A	N/A	N/A	N/A	N/A	58.3%	36.8%	38.8%	43.8%	44.9%

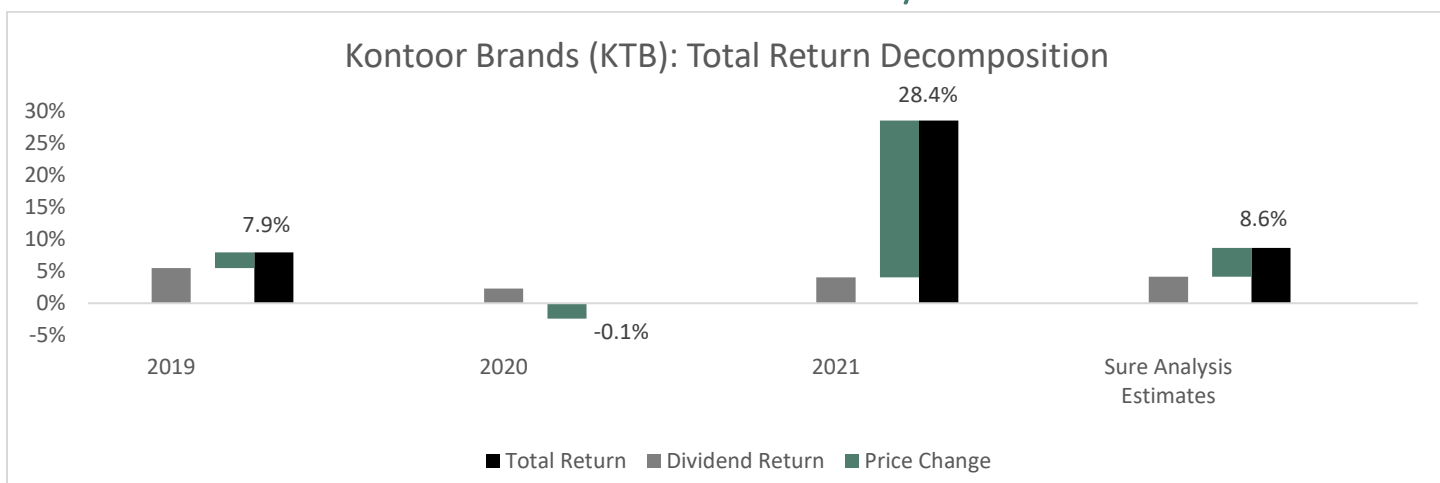
Kontoor Brands' investment case was primarily centered on a high dividend yield that looked like it was covered in a solid way before the pandemic, which devastated the industry. The dividend has been reinstated following a suspension during the peak of the pandemic, but the new payout is lower compared 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 could continue to grow slightly in the coming years. Shares are trading below our fair value estimate right now, and forecasted total returns look solid, at around 8%-9%. We therefore rate Kontoor Brands a hold at current prices.

Total Return Breakdown by Year



Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue					2,926	2,830	2,764	2,549	2,098	2,476
Gross Profit					1,215	1,172	1,115	1,004	864	1,108
Gross Margin					41.5%	41.4%	40.3%	39.4%	41.2%	44.7%
SG&A Exp.					806	815	782	803	740	825
D&A Exp.					34	34	31	31	34	37
Operating Profit					409	357	333	201	124	283
Operating Margin					14.0%	12.6%	12.0%	7.9%	5.9%	11.4%
Net Profit					315	116	263	97	68	195
Net Margin					10.8%	4.1%	9.5%	3.8%	3.2%	7.9%
Free Cash Flow					296	142	(119)	740	180	247
Income Tax					95	243	77	39	5	49

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets						2,126	2,458	1,517	1,546	1,533
Cash & Equivalents						81	97	107	248	185
Acc. Receivable						240	253	231	242	291
Inventories						440	474	458	341	363
Goodwill & Int.						291	276	265	302	313
Total Liabilities						769	735	1,448	1,461	1,385
Accounts Payable						174	134	147	167	214
Long-Term Debt						274	272	914	914	792
Total Equity						1,358	1,723	69	85	148
LTD/E Ratio						0.20	0.16	13.20	10.80	5.34

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets							11.5%	4.9%	4.4%	12.7%
Return on Equity							17.1%	10.8%	88.3%	168%
ROIC							14.5%	6.5%	6.9%	20.2%
Shares Out.								57.9	58.4	58.8
Revenue/Share					51.67	49.97	48.80	44.55	36.26	41.90
FCF/Share					5.22	2.51	(2.10)	12.94	3.10	4.18

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

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