



Kronos Worldwide, Inc. (KRO)

Updated March 23rd, 2023 by Ian Bezek

Key Metrics

Current Price:	\$9	5 Year CAGR Estimate:	8.2%	Market Cap:	\$1.0 B
Fair Value Price:	\$6	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	06/05/23 ¹
% Fair Value:	153%	5 Year Valuation Multiple Estimate:	-8.2%	Dividend Payment Date:	06/19/23 ¹
Dividend Yield:	8.6%	5 Year Price Target	\$9	Years Of Dividend Growth:	1
Dividend Risk Score:	F	Retirement Suitability Score:	D	Rating:	Hold

Overview & Current Events

Kronos Worldwide is a chemicals company. It generates virtually all of its revenues from the sales of titanium dioxide (TiO₂) pigments. These pigments are used for giving brightness and color to products such as paints, cosmetics, and plastics. Kronos went public in 2003 and it remains a subsidiary of Valhi, Inc. (VHI) which owns 50% of Kronos' outstanding stock. Investors should exercise caution with Kronos stock given its limited trading volume and modest outstanding stock float. That said, the company has given its shareholders an above-average dividend stream in recent years. These have been supported by Kronos' volatile but generally favorable earnings results. While this is a pure commodity business, Kronos historically has been a strong operator with disciplined cost controls. The firm also saw an uptick in activity in 2021 thanks to the worldwide economic reopening.

However, Kronos' good fortunes appear to be ending. The TiO₂ business is a highly cyclical one as it is tied to end markets such as housing. That led to a dour set of fourth quarter earnings results, which were released on March 8, 2023. In them, Kronos saw its earnings turn negative. Kronos lost 18 cents a share, which was far short of expectations and down drastically from a 28 cent profit for the same period of 2021. Net revenues of \$342 million were also down 31% from the same period of 2021.

The company's earnings decline was caused by several factors. For one, sales volumes dropped while production costs continue to increase, leading to a sharp squeeze on the company's profit margins. Additionally, the company curtailed some operations in Europe, leading to higher unit costs due to unabsorbed fixed costs from those idled facilities. With the global economy seemingly set to slow down amid surging interest rates and slowing demand in markets such as housing, investors shouldn't expect Kronos to regain recent levels of earnings power anytime soon.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	-\$0.88	\$1.28	-\$1.13	\$0.80	\$1.81	\$2.20	\$1.17	\$1.11	\$1.26	\$0.90	\$0.50	\$0.81
DPS	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.68	\$0.72	\$0.72	\$0.72	\$0.76	\$0.76	\$0.76
Shares²	116	116	116	116	116	116	116	116	116	116	116	116

Kronos has had an unsteady earnings per share track record. The company has earned as much as \$2 per share on several occasions, while losing money outright at other times. Given that the company derives nearly all its revenues from titanium dioxide, it lives and dies by fluctuations in the supply and demand picture for that product. The company hasn't engaged in major investments or mergers and acquisitions which change the firm's long-term outlook.

As such, investors should anticipate that Kronos will continue to deliver roughly the same level of average earnings, over a full cycle, as it has done in previous years. That said, the company appears to be entering a sizable slump at the moment, with the past two quarters of results coming up well short of expectations and the outlook for 2023 seemingly similarly grim. At current levels of earnings, the company would struggle to support its current dividend payment for an extended period. As such, we are modeling no dividend growth for the foreseeable future.

¹ Estimated date.

² 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	--	17.4	--	19.2	13.6	11.6	17.8	21.0	19.5	10.4	17.6	11.5
Avg. Yld.	3.6%	4.0%	6.1%	8.5%	3.1%	3.3%	5.4%	6.2%	4.9%	7.0%	8.6%	8.2%

Kronos has had a volatile price-to-earnings ratio over the past decade. This is not unexpected, given that the company's underlying earnings have had numerous peaks and valleys. The company appeared cheap in 2022 but shares have now become much more expensive given the projected sharp decline in earnings this year.

Given the uncertainty around the company's long-term earnings power, we expect the firm's P/E to remain relatively low on average. Investors should expect to earn more returns from the firm's generous dividend rather than share price appreciation. Kronos has historically offered a highly variable dividend payout. The dividend yield is now far above average, but that comes with significant risk of a potential dividend cut if earnings fail to stabilize.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	--	47%	--	75%	33%	31%	62%	65%	57%	84%	152%	94%

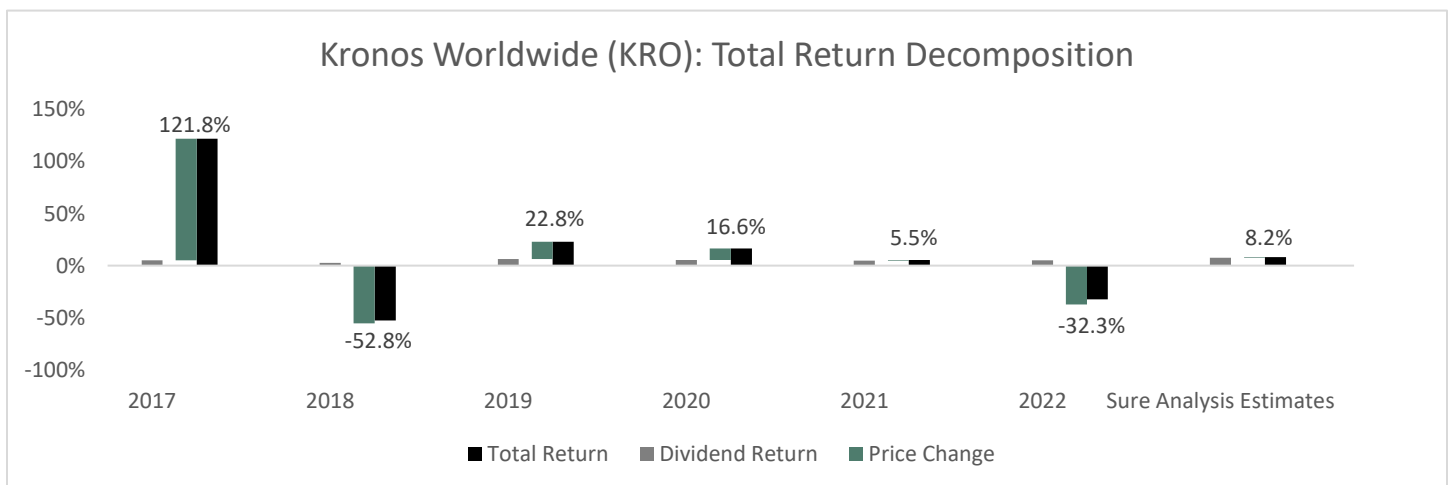
Kronos has maintained its dividend in recent years along with giving investors the occasional small increase in payment. However, without much earnings growth, this has put pressure on the company's payout ratio, which is expected to top 100% this year.

The company has minimal net debt. It is also controlled by a charitable trust which presumably has reason to maintain a high dividend payout. This is an optimistic sign for the safety of the current dividend payout even though earnings are under significant pressure.

Final Thoughts & Recommendation

Kronos' situation has deteriorated significantly since our last update. The company's fourth quarter results were far short of expectations and the stock plunged following the results. We think that plunge was justified both given the poor results and markedly lower outlook for this year. The dividend's safety is now in question and the total return forecast merits merely a hold rating, even from this lower starting share price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	1,976	1,732	1,652	1,349	1,364	1,729	1,662	1,731	1,639	1,939
Gross Profit	560	112	350	192	265	570	562	386	351	446
Gross Margin	28.4%	6.5%	21.2%	14.3%	19.4%	32.9%	33.8%	22.3%	21.4%	23.0%
SG&A Exp.	197	239	202	192	181	215	243	243	232	264
Operating Profit	48	50	49	42	41	41	50	55	65	58
Op. Margin	362	(128)	147	(0)	88	356	320	144	120	186
Net Profit	18.3%	-7.4%	8.9%	0.0%	6.4%	20.6%	19.3%	8.3%	7.3%	9.6%
Net Margin	219	(102)	99	(174)	43	355	205	87	64	113
Free Cash Flow	11.1%	-5.9%	6.0%	-12.9%	3.2%	20.5%	12.3%	5.0%	3.9%	5.8%
Income Tax	2	63	27	5	37	212	132	105	40	148

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	2,027	1,619	1,633	1,243	1,180	1,824	1,898	1,966	2,037	2,013
Cash & Equivalents	283	54	168	93	51	322	373	391	355	406
Acc. Receivable	230	226	231	195	225	301	273	271	295	326
Inventories	638	417	424	387	344	382	498	503	519	432
Goodwill & Int.										
Total Liabilities	965	684	852	781	785	1,070	1,058	1,150	1,240	1,143
Accounts Payable	161	124	121	96	85	108	103	137	111	144
Long-Term Debt	400	184	344	341	339	475	457	446	487	451
Total Equity	1,062	935	781	462	395	754	840	816	797	870
LTD/E Ratio	0.38	0.20	0.44	0.74	0.86	0.63	0.54	0.55	0.61	0.52

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	11.3%	-5.6%	6.1%	-12.1%	3.6%	23.6%	11.0%	4.5%	3.2%	5.6%
Return on Equity	22.0%	-10.2%	11.6%	-27.9%	10.1%	61.7%	25.7%	10.5%	7.9%	13.5%
ROIC	15.9%	-7.9%	8.8%	-18.0%	5.6%	36.1%	16.2%	6.8%	5.0%	8.7%
Shares Out.	116	116	116	116	116	116	116	116	116	116
Revenue/Share	17.05	14.95	14.25	11.64	11.77	14.92	14.34	14.95	14.18	16.79
FCF/Share	0.02	0.54	0.23	0.04	0.32	1.83	1.14	0.91	0.34	1.28

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

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