Kontoor Brands Inc. (KTB)

Updated March 8th, 2023 by Jonathan Weber

Key Metrics

Current Price:	$53	**5 Year CAGR Estimate:**	5.2%	**Market Cap:**	$3B
Fair Value Price:	$51	**5 Year Growth Estimate:**	2.5%	**Ex-Dividend Date:**	03/09/23
% Fair Value:	104%	**5 Year Valuation Multiple Estimate:**	-0.7%	**Dividend Payment Date:**	03/20/23
Dividend Yield:	3.6%	**5 Year Price Target**	$58	**Years Of Dividend Growth:**	3
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**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 fourth quarter financial results on February 28. The company reported that its revenue grew by 8% compared to the previous year's quarter, to $730 million. Revenues came in $65 million higher than what the analyst community had forecasted. Kontoor Brands' revenues improved thanks primarily to a strong performance of Kontoor Brands' Wrangler brand, where sales rose by 15% year over year.

Kontoor Brands' earnings-per-share totaled $0.88 during the fourth quarter, beating the analyst consensus estimate by a sizeable $0.21. Kontoor Brands' revenue increase could not be turned into an earnings-per-share increase, as earnings-per-share were flat compared to the previous year's quarter, as costs grew meaningfully as well, which prevented any earnings improvement. Kontoor Brands still delivered solid 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 forecasting earnings-per-share of $4.55 to $4.75, which implies that the company's profits will rise meaningfully during the current year as long as Kontoor Brands manages to hit the guidance range in 2023. The company's guidance for this year's earnings-per-share also came in stronger than what most analysts had predicted, which is why shares reacted very positively to the earnings release.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	N/A	N/A	N/A	N/A	N/A	N/A	$3.84	$2.61	$4.28	$4.49	***$4.65***	***$5.26***
DPS	N/A	N/A	N/A	N/A	N/A	N/A	$2.24	$0.96	$1.66	$1.86	***$1.92***	***$2.23***
Shares[1]	N/A	N/A	N/A	N/A	N/A	N/A	57.9	58.4	58.8	56.7	***56.0***	***52.0***

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 and 2022 were two new record years for the company.

[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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	N/A	N/A	N/A	N/A	N/A	N/A	10.9	15.7	11.9	8.9	***11.4***	***11.0***
Avg. Yld.	N/A	N/A	N/A	N/A	N/A	N/A	5.3%	3.9%	3.3%	4.7%	***3.6%***	***3.8%***

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 slightly ahead of fair value at the current price.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	N/A	N/A	N/A	N/A	N/A	N/A	58.3%	36.8%	38.8%	41.4%	***41.3%***	***42.3%***

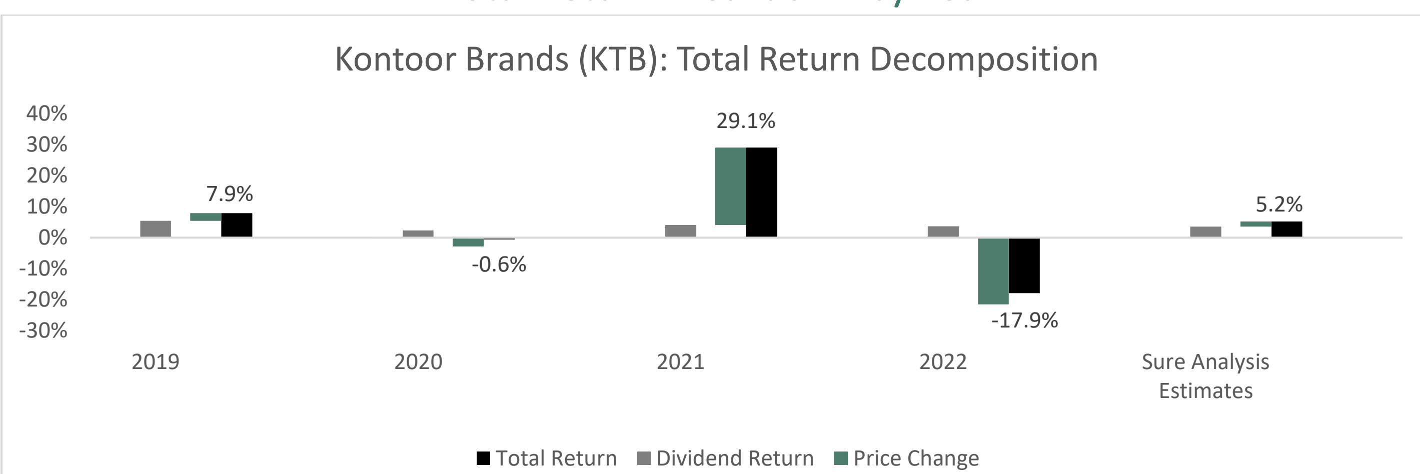
Kontoor Brands' investment case was primarily centered on a high dividend yield that looked like it was covered in a solid way before the pandemic, which devastated the industry. The dividend has been reinstated following a suspension during the peak of the pandemic, but the new payout is lower compared 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 above our fair value estimate right now, and forecasted total returns look solid but not great. We therefore rate Kontoor Brands a hold at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue				2,926	2,830	2,764	2,549	2,098	2,476	2,631
Gross Profit				1,215	1,172	1,115	1,004	864	1,108	1,134
Gross Margin				41.5%	41.4%	40.3%	39.4%	41.2%	44.7%	43.1%
SG&A Exp.				806	815	782	803	740	825	778
D&A Exp.				34	34	31	31	34	37	37
Operating Profit				409	357	333	201	124	283	357
Operating Margin				14.0%	12.6%	12.0%	7.9%	5.9%	11.4%	13.6%
Net Profit				315	116	263	97	68	195	245
Net Margin				10.8%	4.1%	9.5%	3.8%	3.2%	7.9%	9.3%
Free Cash Flow				296	142	(119)	740	180	247	55
Income Tax				95	243	77	39	5	49	74

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets					2,126	2,458	1,517	1,546	1,533	1,582
Cash & Equivalents					81	97	107	248	185	59
Acc. Receivable					240	253	231	242	291	222
Inventories					440	474	458	341	363	597
Goodwill & Int.					291	276	265	302	313	309
Total Liabilities					769	735	1,448	1,461	1,385	1,332
Accounts Payable					174	134	147	167	214	206
Long-Term Debt					274	272	914	914	792	800
Total Equity					1,358	1,723	69	85	148	251
LTD/E Ratio					0.20	0.16	13.20	10.80	5.34	3.19

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets						11.5%	4.9%	4.4%	12.7%	15.8%
Return on Equity						17.1%	10.8%	88.3%	168%	123.1%
ROIC						14.5%	6.5%	6.9%	20.2%	24.7%
Shares Out.							57.9	58.4	58.8	56.7
Revenue/Share				51.67	49.97	48.80	44.55	36.26	41.90	46.20
FCF/Share				5.22	2.51	(2.10)	12.94	3.10	4.18	0.97

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