



Kontoor Brands Inc. (KTB)

Updated November 12th, 2023 by Jonathan Weber

Key Metrics

Current Price:	\$48	5 Year CAGR Estimate:	7.4%	Market Cap:	\$2.7B
Fair Value Price:	\$50	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	12/07/23
% Fair Value:	97%	5 Year Valuation Multiple Estimate:	0.6%	Dividend Payment Date:	12/18/23
Dividend Yield:	4.2%	5 Year Price Target	\$57	Years Of Dividend Growth:	4
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 third quarter financial results on November 2. The company reported that its revenue improved by 8% compared to the previous year’s quarter, to \$655 million. Revenues came in \$14 million higher than what the analyst community had forecasted. Kontoor Brands’ revenue performance was stronger compared to the previous quarter, during which Kontoor Brands had experienced a very small revenue increase only.

Kontoor Brands’ earnings-per-share totaled \$1.22 during the third quarter, beating the analyst consensus estimate by a small \$0.03. Kontoor Brands’ revenue was up solidly year over year, but the company experienced a slightly more pronounced increase in its earnings-per-share. Kontoor Brands’ costs, as a percentage of sales, grew, which had a negative impact on the company’s margins, but this was more than offset by operating cost improvements. Kontoor Brands delivered attractive earnings-per-share considering the harsh macro environment for consumer discretionary companies. For the current year, management is forecasting earnings-per-share of around \$4.50 excluding a one-time duty charge, which implies that the company’s profits will rise very slightly during the current year, relative to 2022. Revenues are forecasted to increase only very slightly this year.

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	\$4.50	\$5.22
DPS	N/A	N/A	N/A	N/A	N/A	N/A	\$2.24	\$0.96	\$1.66	\$1.86	\$2.00	\$2.43
Shares¹	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.

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.

Management has stated that sales could grow at a low single digit rate in the long run, which seems like a reasonable target. The apparel industry isn’t growing quickly, but thanks to price increases, some revenue growth should be achievable over time. However, there will likely be some ups and downs over the years. Consumers cut back their spending during recessions, for example. Buybacks could add to Kontoor Brands’ earnings-per-share growth.

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	10.7	11.0
Avg. Yld.	N/A	N/A	N/A	N/A	N/A	N/A	5.3%	3.9%	3.3%	4.7%	4.2%	4.2%

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 around 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%	44.4%	46.6%

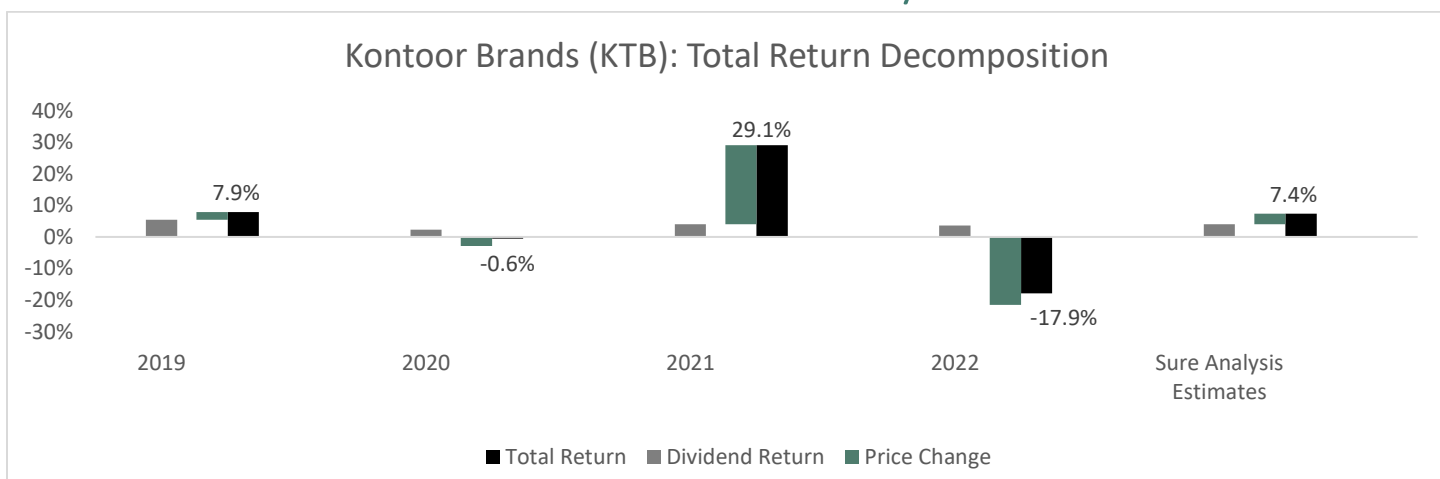
Kontoor Brands' investment case was primarily centered on a high dividend yield that looked like it was covered in a solid way before the pandemic, which devastated the industry. The dividend has been reinstated following a suspension during the peak of the pandemic, but the new payout is lower compared 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 from V.F. Corporation. We believe that the company's earnings and revenues could continue to grow slightly in the coming years. Shares are trading around our fair value estimate right now, and forecasted total returns look solid right here. 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	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.

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