Kontoor Brands Inc. (KTB)

Updated November 11th, 2024 by Jonathan Weber

Key Metrics

Current Price:	$90	**5 Year CAGR Estimate:**	-2.6%	**Market Cap:**	$4.8B
Fair Value Price:	$58	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	12/09/24
% Fair Value:	155%	**5 Year Valuation Multiple Estimate:**	-8.4%	**Dividend Payment Date:**	12/19/24
Dividend Yield:	2.3%	**5 Year Price Target**	$67	**Years Of Dividend Growth:**	5
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Sell

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 October 31. The company reported that its revenue improved by 2% compared to the previous year's quarter, to $670 million. Kontoor Brands' revenue performance was better compared to the previous quarter, during which Kontoor Brands had experienced a revenue decline on a year-over-year basis. Kontoor Brands was able to grow its gross margin by 150 basis points over the last year.

Kontoor Brands' earnings-per-share totaled $1.37 during the third quarter. Despite the fact that Kontoor Brands' revenue was up by only 2% year over year, the company experienced healthy earnings-per-share growth of 12% compared to the previous year's quarter. Kontoor Brands' costs, as a percentage of sales, declined, which had a positive impact on the company's margins. Kontoor Brands' share repurchases over the last year also had a positive impact on the company's earnings-per-share growth rate.

For the current year, management is forecasting earnings-per-share of $4.83, up compared to the previous guidance, which implies that the company's profits will rise at a nice pace during the current year, relative to 2023. Revenues are forecasted to remain relatively flat this year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	N/A	N/A	N/A	N/A	N/A	$3.84	$2.61	$4.28	$4.49	$4.45	***$4.83***	***$5.60***
DPS	N/A	N/A	N/A	N/A	N/A	$2.24	$0.96	$1.66	$1.86	$1.94	***$2.08***	***$2.53***
Shares[1]	N/A	N/A	N/A	N/A	N/A	57.9	58.4	58.8	56.7	56.7	***56.0***	***54.0***

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 can be expected that this is a vulnerable business during deep recessions. The spread of COVID in the US and around the world hurt Kontoor Brands' fiscal 2020 results badly, for example, and a prolonged recession such as the Great Recession could result in an even bigger earnings decline.

Once the impact of the pandemic had passed, Kontoor recovered to substantially higher profitability levels once again. We estimate that 2024 will be a new record year for the company, following earnings-per-share records in 2021, 2022, and 2023. 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 could be some ups and downs over the years, depending on factors such as economic growth and consumer sentiment. Buybacks should add to Kontoor Brands' earnings-per-share growth. All in all, Kontoor Brands could grow its earnings-per-share by 3% per year, on average, in the long run, we believe.

[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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	N/A	N/A	N/A	N/A	N/A	10.9	15.7	11.9	8.9	13.9	***18.6***	***12.0***
Avg. Yld.	N/A	N/A	N/A	N/A	N/A	5.3%	3.9%	3.3%	4.7%	3.2%	***2.3%***	***3.8%***

Finding a fair value for Kontoor Brands is difficult because the company does not have a decade+ history as a standalone business. We can, however, look at the historical valuation of its prior parent company. V.F. Corporation has oftentimes traded at a high-teens multiple in the past. Since Kontoor Brands was created to separate V.F. Corporation's slow-growing brands from its faster-growing core businesses, a discount for Kontoor Brands is justified, which is why we have a 12x earnings multiple fair value target. Today, shares are trading well ahead of fair value.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	N/A	N/A	N/A	N/A	N/A	58.3%	36.8%	38.8%	41.4%	44.9%	***43.1%***	***45.2%***

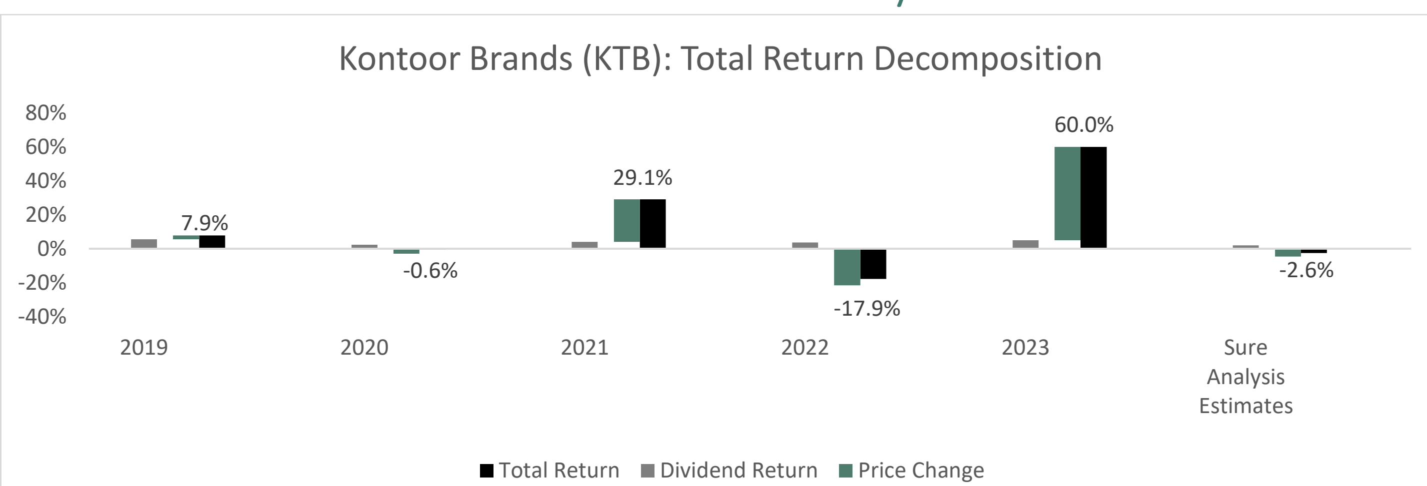
Kontoor Brands' investment case was primarily centered on a high dividend yield that looked like it was covered in a solid way before the pandemic, but the dividend cut during the pandemic hurt the stock's appeal. The dividend is, for now, below pre-crisis levels still. The dividend payout ratio of less than 50% looks very reasonable.

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 was showcased during the COVID 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 above our fair value estimate right now. Forecasted total returns do not look attractive at current prices, which is why we rate the company a sell right here.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue			2,926	2,830	2,764	2,549	2,098	2,476	2,631	2,607
Gross Profit			1,215	1,172	1,115	1,004	864	1,108	1,134	1,088
Gross Margin			41.5%	41.4%	40.3%	39.4%	41.2%	44.7%	43.1%	41.7%
SG&A Exp.			806	815	782	803	740	825	778	769
D&A Exp.			34	34	31	31	34	37	37	38
Operating Profit			409	357	333	201	124	283	357	319
Operating Margin			14.0%	12.6%	12.0%	7.9%	5.9%	11.4%	13.6%	12.2%
Net Profit			315	116	263	97	68	195	245	231
Net Margin			10.8%	4.1%	9.5%	3.8%	3.2%	7.9%	9.3%	8.9%
Free Cash Flow			296	142	(119)	740	180	247	55	319
Income Tax			95	243	77	39	5	49	74	41

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets				2,126	2,458	1,517	1,546	1,533	1,582	1,645
Cash & Equivalents				81	97	107	248	185	59	215
Acc. Receivable				240	253	231	242	291	222	201
Inventories				440	474	458	341	363	597	500
Goodwill & Int.				291	276	265	302	313	309	301
Total Liabilities				769	735	1,448	1,461	1,385	1,332	1,274
Accounts Payable				174	134	147	167	214	206	180
Long-Term Debt				274	272	914	914	792	800	784
Total Equity				1,358	1,723	69	85	148	251	372
LTD/E Ratio				0.20	0.16	13.20	10.80	5.34	3.19	2.11

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets					11.5%	4.9%	4.4%	12.7%	15.8%	14.3%
Return on Equity					17.1%	10.8%	88.3%	168%	123%	74.2%
ROIC					14.5%	6.5%	6.9%	20.2%	24.7%	20.9%
Shares Out.						57.9	58.4	58.8	56.7	56.7
Revenue/Share			51.67	49.97	48.80	44.55	36.26	41.90	46.20	45.80
FCF/Share			5.22	2.51	(2.10)	12.94	3.10	4.18	0.97	5.61

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