

Crown Holdings Inc. (CCK)

\$46.96 (As of 03/20/20)

Price Target (6-12 Months): **\$50.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/10/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: A

Summary

Crown Holdings expects adjusted earnings per share between \$5.40 and \$5.60 for 2020. The mid-point of the range reflects year-over-year growth of 8%. Beverage can volumes are expected to be up more than 5% in 2020. However, the Transit Packaging segment will be impacted by the weak global manufacturing activity while lower volumes in European food markets remain a concern. Further, the European segment's results might bear the brunt of the coronavirus outbreak. Going forward, the company will benefit from rising global beverage can demand as consumers are favoring cans over other formats. It remains poised to capitalize on this trend through capacity additions to existing plants, and building new plants in existing markets and strategic acquisitions. The company's focus on disciplined pricing and cost control will also aid results.

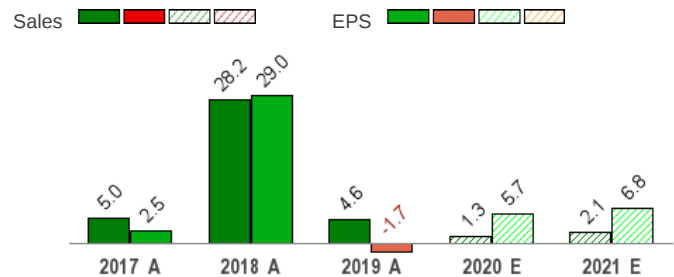
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$80.57 - \$44.61
20 Day Average Volume (sh)	1,856,474
Market Cap	\$6.4 B
YTD Price Change	-35.3%
Beta	1.31
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<u>Containers - Metal and Glass</u>
Zacks Industry Rank	Top 41% (105 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	9.5%
Last Sales Surprise	2.9%
EPS F1 Est- 4 week change	-1.5%
Expected Report Date	04/15/2020
Earnings ESP	-1.2%
P/E TTM	9.2
P/E F1	8.7
PEG F1	1.2
P/S TTM	0.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					12,059 E
2020	2,764 E	3,067 E	3,154 E	2,860 E	11,814 E
2019	2,755 A	3,035 A	3,084 A	2,791 A	11,665 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$5.77 E
2020	\$0.94 E	\$1.58 E	\$1.75 E	\$1.16 E	\$5.40 E
2019	\$1.05 A	\$1.46 A	\$1.56 A	\$1.04 A	\$5.11 A

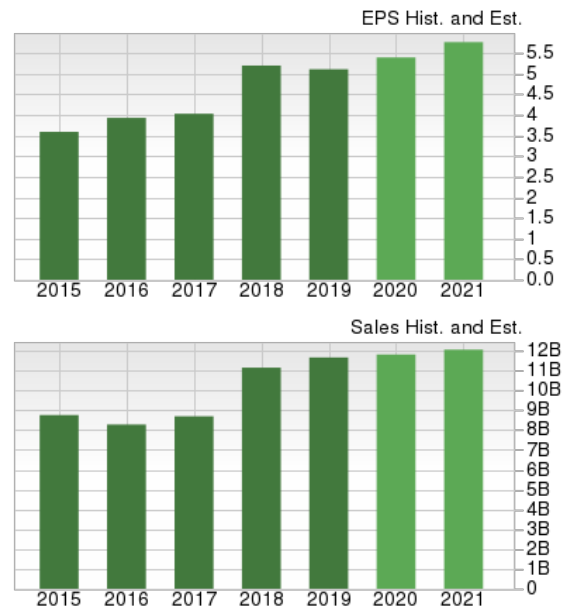
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/20/2020. The reports text is as of 03/23/2020.

Overview

Headquartered at Philadelphia, PA, Crown Holdings is a leading global manufacturer of packaging products for consumer goods. Crown makes a wide variety of steel and aluminum cans for food, beverage, household, and other consumer products and metal vacuum closures, steel crowns and caps. The company reports its performance in five operating segments.

- **Americas Beverage** (33% of fiscal 2019 revenues) — The division manufactures aluminum beverage cans and ends, steel crowns, glass bottles and aluminum closures and supplies a variety of customers from its operations in the United States, Brazil, Canada, Colombia and Mexico.
- **European Beverage** (15%) — The segment manufactures steel and aluminum beverage cans, and ends and supplies a variety of customers from its operations throughout Europe, the Middle East and North Africa.
- **European Food** (18%) — The segment manufactures steel and aluminum food cans, ends and metal vacuum closures, and supplies a variety of customers from its operations throughout Europe and Africa.
- **Asia-Pacific** (13%) — The segment primarily consists of beverage can operations in Cambodia, China, Indonesia, Malaysia, Singapore, Thailand and Vietnam and also includes the company's non-beverage can operations, primarily food cans and specialty packaging in China, Singapore, Thailand and Vietnam.
- **Transit Packaging** (22%) — In April 2018, the company completed acquisition of Signode, which is reported as the Transit Packaging segment. The Transit Packaging segment includes the company's global industrial and protective solutions and equipment and tools businesses.



Reasons To Buy:

- ▲ Crown Holdings expects adjusted earnings per share to be \$5.40-\$5.60 for 2020. The mid-point of the guidance range reflects year-over-year growth of 8%. This will be aided by the ongoing momentum in beverage can volume growth. Beverage can volumes remain particularly strong in Brazil, Europe, Southeast Asia and the United States, as consumers continue to increasingly prefer cans over other packaging. In 2019, the North American beverage can industry grew at its fastest pace in 25 years. Overall in 2019, beverage can volumes were up 3%. The company expects beverage can volumes to be up more than 5% in 2020.
- ▲ Crown Holdings is anticipated to gain from a rise in global beverage-can demand. Developing markets such as Southeast Asia and Brazil have experienced higher growth rates due to rising per capita income and the consequent increase in beverage consumption. While the economies in Europe and North America are more mature, there are still growth opportunities aided by beverages, such as energy drinks, teas, juices, sparkling water and craft beer, and an increased preference for cans over certain other forms of beverage packaging. With its many inherent benefits, including being infinitely recyclable, the beverage can continue to become the increasingly preferred package for marketers and consumers globally.
- ▲ To meet the rising beverage-can demand, Crown Holdings intends to build new facilities and is poised to gain from the geographic expansion of beverage can lines. The company installed a new aluminum beverage can line at the Weston, Ontario plant, which began production in January. Crown Holdings is adding a third high-speed line at the Nichols, NY facility, which is expected to commence operations in the second quarter. Both the Nichols and Weston lines will be capable of producing multiple sizes. Crown Holdings has commenced operations at a new facility in Rio Verde, Brazil. It also begun construction of a new beverage can plant in Nong Khae, Thailand, which will begin production during third-quarter 2020. Further, its multi-year project to convert beverage can capacity in Spain from steel to aluminum is close to completion. Both lines in the Seville plant, which have multi-size capability, will be in commercial production early in the second quarter.
- ▲ Crown Holdings is focused on disciplined pricing, cost control and capital allocation. The company's free cash flow guidance is at \$600 million after capital spending of \$600 million for fiscal 2020. Through 2020, the company's primary capital-allocation focus will be to reduce leverage while still investing in its business. Crown Holdings continues to pursue growth opportunities through capacity additions to existing plants, new plants in existing markets, along with strategic acquisitions in geographic areas and product lines.
- ▲ In April 2018 Crown Holdings acquired Signode Industrial Group Holdings, which is a leading global provider of transit packaging systems and solutions. This broad and diversified Crown Holdings' customer base and product offerings will benefit earnings and cash flow in 2019. Further, its previous acquisition of EMPAQUE, a leading manufacturer for the beverage industry in Mexico, significantly fortified the company's presence in the growing Mexican market.

Crown Holdings will benefit from investment in capacity to meet solid global beverage-can demand, strategic acquisitions to increase geographic presence and product line and focus on cost control.

Reasons To Sell:

- ▼ The European Beverage segment's results will be impacted in first-quarter 2020 as the Seville plant will be down as the company completes the conversion from steel to aluminium. Sales unit volumes in European food segment were up 1.5% in 2019, much lower than the expected growth of 6%. The European food can market is a mature market and has been witnessing lower volumes in recent years. The European Food segment's performance is likely to be impacted in the first quarter due to the build-up of inventory in fourth-quarter 2019. In the steel aerosols and food can businesses, the company will adjust selling prices according to contract, which will result in margin pressure in the first quarter as it works through higher cost inventories. Further, the coronavirus outbreak in Europe is likely to impact its results this year.
- ▼ The Transit Packaging segment's outlook is grim given the slowdown in the global manufacturing activity. The U.S.-China trade tensions and waning global demand seems to have taken its toll on the U.S manufacturing sector. Even though the index climbed to 50.9 in January and came in at 50.1 in February, it seems unlikely that this recovery will stay, considering that manufacturing has been impacted by the coronavirus outbreak.
- ▼ To fund the Signode deal, Crown Holdings issued €500 million of 2.875% senior unsecured notes due 2026, €335 million of 2.250% senior unsecured notes due 2023, and \$875 million of 4.750% senior unsecured notes due 2026. Higher interest expenses will continue to thwart margins.
- ▼ Crown Holdings uses various raw materials, such as steel, aluminum, tin, water, natural gas, electricity and other processed energy, in its manufacturing operations. Signode, which its subsidiary now, also uses steel and materials derived from crude oil and natural gas, such as polyethylene and polypropylene resins. The prices of certain raw materials used by the company, such as steel, aluminum and processed energy, have historically been subject to volatility. Also, the company is subject to fluctuations in the cost of these raw materials due to the tariffs imposed in the United States, which may escalate costs. The company may not be able to pass through the rise in raw materials costs to its customers, without suffering loss in unit volume, revenues and operating income.

Crown Holdings' results are likely to be hurt by lower volume in the European food can market. The Transit Packaging segment is likely to bear the brunt of the weak global manufacturing activity.

Last Earnings Report

Crown Holdings Q4 Earnings & Revenues Beat Estimates

Crown Holdings reported fourth-quarter 2019 adjusted earnings per share of \$1.04, which surpassed the Zacks Consensus Estimate of 95 cents. The bottom line also improved 4% year over year and came in higher than management's guidance of 93-98 cents.

Including one-time items, earnings per share improved 60% year over year to 64 cents in the reported quarter.

Net sales in the quarter came in at \$2,791 million, up from the year-ago quarter's \$2,734 million. The reported figure also outpaced the Zacks Consensus Estimate of \$2,712 million.

Quarter Ending **12/2019**

Report Date	Feb 04, 2020
Sales Surprise	2.92%
EPS Surprise	9.47%
Quarterly EPS	1.04
Annual EPS (TTM)	5.11

Cost and Margins

Cost of products sold was up 2% year over year to \$2,267 million. On a year-over-year basis, gross profit rose 3% to \$524 million. Gross margin expanded to 18.8% from the year-ago quarter's 18.7%.

Selling and administrative expenses were up 3% year over year to \$124 million. Segment operating income increased 2% year over year to \$285 million during the fourth quarter. Operating margin came in at 10.2%, flat year over year.

Segment Performance

Net sales in the Americas Beverage segment came in at \$856 million, up 6.5% from the prior-year quarter's tally of \$804 million. Segment operating profit improved 25% year over year to \$148 million.

The European Beverage segment's sales went up 12.5% year over year to \$332 million. Operating income was up 108% year over year to \$27 million.

Revenues in the European Food segment fell 4% year over year to \$400 million. Segment operating profit declined 39% year over year to \$16 million.

The Asia-Pacific segment's revenues inched up 1.5% year over year to \$331 million. Operating profit improved to \$51 million from prior-year quarter figure of \$49 million.

Revenues in the Transit Packaging segment totaled \$549 million compared with \$595 million recorded in the year-ago period. Operating profit declined 21% year over year to \$63 million.

Financial Update

Crown Holdings had cash and cash equivalents of \$607 million at the end of 2019, flat compared with 2018-end. The company generated \$1,163 million of cash from operating activities in 2019 compared with the prior-year figure of \$571 million.

As of 2019 end, Crown Holdings' long-term debt decreased to \$7,818 million from \$8,517 million as of end of the prior year.

2019 Results

Crown Holdings reported adjusted earnings per share of \$5.11 in 2019, down 2% from the prior-year reported figure of \$5.20. Earnings beat the Zacks Consensus Estimate of \$5.02 and management's guidance of \$5.00-\$5.05. Including one-time items, the bottom line came in at \$3.78, up 15% from \$3.28 reported in 2018.

Sales rose 5% year over year to \$11.7 billion from the prior-year figure of \$11.2 billion. The top line surpassed the Zacks Consensus Estimate of \$11.6 billion.

Outlook

Crown Holdings now expects adjusted earnings per share to be \$5.40-\$5.60 for 2020. The mid-point of the guidance range reflects year-over-year growth of 8%. Beverage can volumes are expected to be up more than 5% in 2020.

Valuation

Crown Holdings' shares are down 15.4% over the trailing 12-month period. Over the past year, the Zacks sub-industry and the sector were down 9.8% and 30.8%, respectively.

The S&P 500 index has declined 18.2% in the past year.

The stock is currently trading at 8.53X forward 12-month earnings, which compares with 13.46X for the Zacks sub-industry, 11.92X for the Zacks sector and 13.75X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.23X and as low as 7.02X, with a 5-year median of 12.95X.

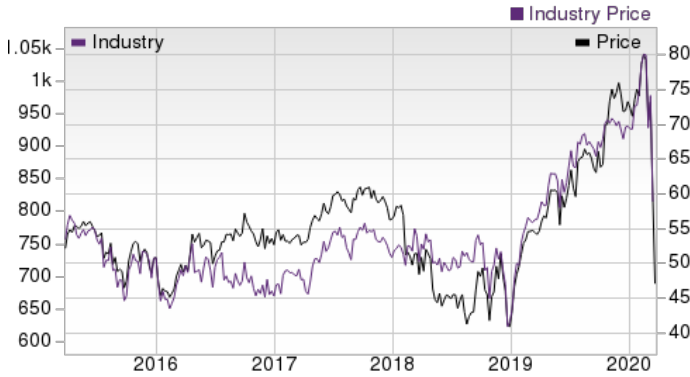
Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$50 price target reflects 9.08X Forward 12-month earnings.

The table below shows summary valuation data for CCK:

Valuation Multiples - CCK					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	8.53	13.46	11.92	13.75
	5-Year High	15.23	19.8	19.96	19.34
	5-Year Low	7.02	12.02	11.92	13.75
	5-Year Median	12.95	16.23	16.48	17.42
P/S F12M	Current	0.54	1.03	1.76	2.5
	5-Year High	0.98	1.5	2.72	3.43
	5-Year Low	0.45	0.91	1.52	2.5
	5-Year Median	0.8	1.11	1.99	3
EV/EBITDA TTM	Current	11.57	10.04	11.57	8.52
	5-Year High	13.31	16.46	17.38	12.88
	5-Year Low	7.82	8.86	10.72	8.31
	5-Year Median	9.8	11.95	14.76	10.78

As of 03/20/2020

Industry Analysis Zacks Industry Rank: Top 41% (105 out of 254)



Top Peers

Ardagh Group S.A. (ARD)	Neutral
Ball Corporation (BLL)	Neutral
Graphic Packaging Holding Company (GPK)	Neutral
Mobile Mini, Inc. (MINI)	Neutral
Sealed Air Corporation (SEE)	Neutral
Silgan Holdings Inc. (SLGN)	Neutral
Sonoco Products Company (SON)	Neutral
AptarGroup, Inc. (ATR)	Underperform

Industry Comparison Industry: Containers - Metal And Glass				Industry Peers		
	CCK Neutral	X Industry	S&P 500	BLL Neutral	MINI Neutral	SLGN Neutral
VGM Score	A	-	-	C	A	A
Market Cap	6.37 B	4.63 B	15.82 B	17.88 B	896.17 M	2.89 B
# of Analysts	6	5.5	13	7	3	6
Dividend Yield	0.00%	1.47%	2.79%	1.09%	6.00%	1.84%
Value Score	B	-	-	D	B	B
Cash/Price	0.07	0.07	0.06	0.09	0.01	0.07
EV/EBITDA	8.18	8.41	9.77	13.93	5.35	8.64
PEG Ratio	1.18	1.56	1.42	3.78	0.64	1.88
Price/Book (P/B)	3.04	2.94	2.07	5.95	1.06	2.83
Price/Cash Flow (P/CF)	5.29	5.95	8.39	11.67	5.48	6.42
P/E (F1)	8.24	10.15	12.42	18.92	9.00	11.30
Price/Sales (P/S)	0.55	1.05	1.68	1.56	1.46	0.64
Earnings Yield	11.50%	9.96%	7.97%	5.28%	11.09%	8.84%
Debt/Equity	3.81	2.13	0.70	2.10	0.38	2.16
Cash Flow (\$/share)	8.88	4.39	7.01	4.70	3.68	4.07
Growth Score	A	-	-	A	A	A
Hist. EPS Growth (3-5 yrs)	10.68%	9.50%	10.85%	8.00%	9.01%	9.98%
Proj. EPS Growth (F1/F0)	5.61%	11.70%	4.90%	14.68%	11.05%	7.02%
Curr. Cash Flow Growth	7.40%	6.42%	6.03%	4.20%	13.92%	5.44%
Hist. Cash Flow Growth (3-5 yrs)	12.67%	12.22%	8.55%	13.04%	11.76%	4.92%
Current Ratio	1.03	0.96	1.23	0.88	0.16	1.38
Debt/Capital	79.22%	68.06%	42.57%	67.73%	27.65%	68.40%
Net Margin	4.37%	4.65%	11.57%	4.93%	13.67%	4.32%
Return on Equity	37.68%	25.11%	16.74%	25.14%	10.95%	25.07%
Sales/Assets	0.76	0.72	0.54	0.68	0.29	0.90
Proj. Sales Growth (F1/F0)	1.28%	2.32%	3.13%	5.37%	3.37%	0.63%
Momentum Score	A	-	-	F	A	C
Daily Price Chg	-6.79%	-4.25%	-4.39%	-8.68%	-1.70%	-1.06%
1 Week Price Chg	-18.14%	-14.08%	-11.01%	-16.06%	-12.10%	-10.06%
4 Week Price Chg	-40.47%	-34.41%	-36.57%	-28.34%	-52.96%	-18.99%
12 Week Price Chg	-35.77%	-25.94%	-34.28%	-15.44%	-46.13%	-16.12%
52 Week Price Chg	-16.01%	-13.43%	-27.95%	-6.71%	-41.74%	-10.85%
20 Day Average Volume	1,856,474	1,323,014	3,981,936	3,240,690	789,555	711,046
(F1) EPS Est 1 week change	-1.52%	-0.74%	-0.01%	-1.12%	0.00%	-0.36%
(F1) EPS Est 4 week change	-1.52%	-0.74%	-0.85%	-1.12%	0.00%	-0.36%
(F1) EPS Est 12 week change	-1.76%	-0.99%	-1.70%	-2.92%	0.45%	-0.22%
(Q1) EPS Est Mthly Chg	0.18%	0.00%	-0.88%	-0.47%	0.00%	0.00%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	A
Momentum Score	A
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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