

Crown Holdings Inc. (CCK)

\$76.97 (As of 08/27/20)

Price Target (6-12 Months): **\$89.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 07/23/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:C

Value: B

Growth: C

Momentum: F

Summary

Crown Holdings' earnings estimates for the current year have undergone upward revisions lately. The company expects adjusted earnings per share (EPS) in the range of \$5.10 to \$5.25 for the current year. For the third quarter, the company expects adjusted EPS between \$1.50 and \$1.60. Crown Holdings will benefit from rising global beverage can demand as consumers are favoring cans over other formats. The company remains poised to capitalize on beverage can demand through capacity additions to existing plants, and building new plants in existing markets as well as strategic acquisitions. Moreover, Crown Holdings' European Food and Asia-Pacific segment will gain from solid demand in the near term. The company is focused on implementing its capacity-expansion projects with its strong liquidity and sound capital structure.

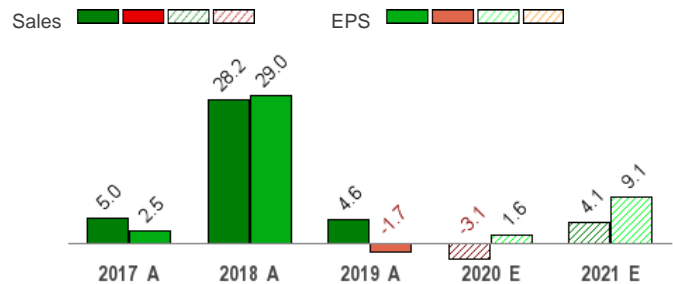
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$80.57 - \$42.97
20 Day Average Volume (sh)	636,940
Market Cap	\$10.4 B
YTD Price Change	6.1%
Beta	1.27
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<u>Containers - Metal and Glass</u>
Zacks Industry Rank	Top 3% (7 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.5%
Last Sales Surprise	-4.0%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	10/21/2020
Earnings ESP	1.0%
P/E TTM	15.2
P/E F1	14.8
PEG F1	2.1
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					11,774 E
2020	2,757 A	2,689 A	3,036 E	2,814 E	11,309 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					\$5.66 E
2020	\$1.13 A	\$1.33 A	\$1.59 E	\$1.15 E	\$5.19 E
2019	\$1.05 A	\$1.46 A	\$1.56 A	\$1.04 A	\$5.11 A

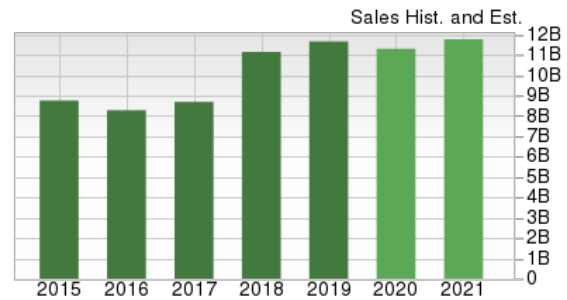
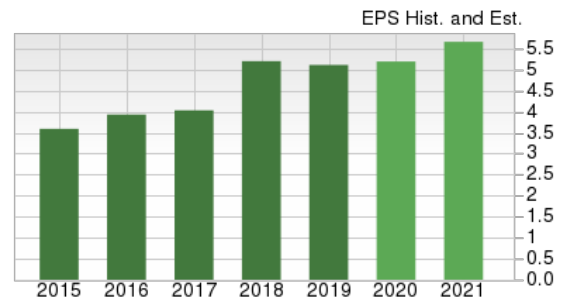
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/27/2020. The reports text is as of 08/28/2020.

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:

- ▲ The company expects the North American market to remain solid in the current year with strong beverage can demand. Beverage can volumes remained strong in Brazil, Europe, Southeast Asia and the United States, as consumers continue to increasingly prefer cans over other packaging formats. Sales unit volumes in the European food segment increased 10% during the June-end quarter. The European food can demand remains strong, indicating solid third-quarter crop yields. The company expects the segment's earnings in the current year to be slightly ahead of the 2019 level. Consumer activity in Latin America is strong on robust demand. Moreover, sales unit volumes in Asia Pacific will improve gradually in the third and fourth quarters as demand picks up across the region. Crown Holdings' products are significant part of food and beverage supply chains, and also provide critical support to the transportation industry.
- ▲ Crown Holdings is anticipated to gain from a rise in global beverage-can demand. Developing markets such as Mexico 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.
- ▲ Crown Holdings intends to build new facilities and is poised to gain from the geographic expansion of beverage can lines. Earlier this year, the company commenced production on the third production line at the Toronto, Ontario beverage can plant to meet the increasing demand of customers. In the June-end quarter, Crown Holdings completed the conversion of two beverage can capacity lines in Seville, Spain from steel to aluminum. Last month, the company began commercial production on the third line at the Nichols, NY facility. Earlier this month, it commenced operations at a new one-line beverage plant in NongKhae, Thailand. During the March-end quarter, the company started building a new state-of-the-art beverage can facility in Bowling Green, Kentucky, which is expected to start in second-quarter 2021. Backed by rising demand expectations, the company announced that it will add a second line to that facility that will come online in late third-quarter 2021. To meet the expanding requirements of specialty cans in the Pacific Northwest, the company will construct a third line in the Olympia, Washington plant, which is scheduled to commence production during the third quarter of 2021.
- ▲ Crown Holdings is focused on disciplined pricing, cost control and capital allocation. 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. The company is also focused on maintaining strong liquidity position and a sound capital structure. At the end of the second quarter, the company had cash in hand of \$366 million, up from year-earlier quarter's \$342 million. The company projects adjusted free cash flow of approximately \$475 million and capital expenditures of \$600 million for 2020. As of the quarter's end, Crown Holdings' long-term debt decreased to \$7,999 million from \$8,549 million as of end of the prior-year quarter. The company had \$1.46 billion available under its revolving credit facility of \$1.65 billion. With ample liquidity and solid free cash flow, Crown Holdings is well poised to sail through the current turbulent situation.

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.

Risks

- The company now expects third-quarter adjusted EPS between \$1.50 and \$1.60. For the current year, the company expects adjusted EPS in the range of \$5.10 to \$5.25. However, pandemic-induced uncertainties might impact its earnings this year.
 - The Transit Packaging segment's outlook is grim owing to the slowdown in the global manufacturing activity. Given the impact of the coronavirus pandemic, the company expects lower demand in several of the industries served by its transit packaging businesses. Per the Institute for Supply Management's report, the U.S Purchasing Managers' Index (PMI) came in at 41.5% for April — the lowest since April 2009 when it registered 39.9%. In May, the PMI came in at 43.1%. A reading below 50 denotes contraction. Even though the index climbed to 52.6% in June, the manufacturing index averaged 45.7% for the second quarter. The July PMI reading came in at 54.2%. It remains to be seen whether the recovery in the past two months will sustain considering the surge in coronavirus cases.
 - 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.
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Last Earnings Report

Crown Holdings' Q2 Earnings Beat, Sales Miss Estimates

Crown Holdings reported second-quarter 2020 adjusted earnings per share of \$1.33, surpassing the Zacks Consensus Estimate of \$1.31. The bottom-line figure, however, declined 8.9% year over year.

Including one-time items, earnings per share slid 7.8% year over year to 94 cents in the reported quarter.

Net sales in the quarter came in at \$2,689 million, down from the year-ago quarter's \$3,035 million. The top-line declined on lower sales volumes due to the coronavirus pandemic, the pass through of lower material costs and an unfavorable impact of foreign currency translation. The reported figure lagged the Zacks Consensus Estimate of \$2,801 million.

Cost and Margins

Cost of products sold was down 10.8% year over year to \$2,155 million. On a year-over-year basis, gross profit dropped 13.6% to \$534 million. Gross margin contracted to 19.8% from the year-ago quarter's 20.4%.

Selling and administrative expenses declined 11.5% year over year to \$139 million. Segment operating income decreased 16.5% year over year to \$322 million during the second quarter. Operating margin came in at 11.9% compared with the 12.7% recorded in the prior-year quarter.

Segment Performance

Net sales in the Americas Beverage segment came in at \$777 million, down 12.7% from the prior-year quarter's tally of \$890 million. Segment operating profit declined 7.2% year over year to \$129 million.

The European Beverage segment's sales went down 19.5% year over year to \$330 million. Operating income came in at \$37 million, down 38.3% year on year.

Revenues in the European Food segment climbed 3.3% year over year to \$499 million. Segment operating profit increased 9.6% year over year to \$68 million.

The Asia-Pacific segment's revenues declined 15.4% year over year to \$270 million. Operating profit fell 23.5% year over year to \$39 million.

Revenues in the Transit Packaging segment totaled \$462 million compared with the \$592 million recorded in the year-ago period. Operating profit plunged 36.2% year over year to \$51 million.

Financial Update

Crown Holdings had cash and cash equivalents of \$366 million at the end of the reported quarter compared with the year-earlier quarter's \$342 million. The company utilized \$238 million cash in operating activities in the first half of 2020 compared with \$227 million in the comparable period in 2019.

As of the quarter's end, Crown Holdings' long-term debt decreased to \$7,999 million from \$8,549 million as of end of the prior year quarter. The company had \$1.46 billion available under its revolving credit facility of \$1.65 billion.

Outlook

Crown Holdings now expects third-quarter adjusted earnings per share (EPS) between \$1.50 and \$1.60. For the current year, the company expects adjusted EPS in the range of \$5.10 to \$5.25. The company projects adjusted free cash flow of approximately \$475 million and capital expenditures of \$600 million for 2020.

The company's products are significant part of the food and beverage supply chains, and also provide critical support to the transportation industry. It is focused on ensuring that its manufacturing facilities across the globe remain operational while continuing to meet the evolving customer demand by delivering high quality products.

Crown Holdings remains on track to meet future global growth of beverage-can demand. Also, it is committed to implement the previously-announced capacity-expansion projects with its strong liquidity position and sound capital structure.

Quarter Ending **06/2020**

Report Date	Jul 20, 2020
Sales Surprise	-3.98%
EPS Surprise	1.53%
Quarterly EPS	1.33
Annual EPS (TTM)	5.06

Valuation

Crown Holdings' shares are up 6.1% in the year-to-date and 16.1% over the trailing 12-month period. Stocks in the Zacks Containers - Metals and Glass industry and the Industrial Products sector are up 17.9% and down 0.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 4.9% and 14.2%, respectively.

The S&P 500 index is up 8.2% in the year-to-date period and 19.4% in the past year.

The stock is currently trading at 14.0X forward 12-month earnings, which compares with 19.70X for the Zacks sub-industry, 21.99X for the Zacks sector and 23.37X for the S&P 500 index.

Over the past five years, the stock has traded as high as 14.56X and as low as 7.02X, with a 5-year median of 12.79X.

Our Outperform recommendation indicates that the stock will perform better than the market. Our \$89 price target reflects 16.18X 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	14	19.7	21.99	23.37
	5-Year High	14.56	20.04	21.99	23.37
	5-Year Low	7.02	11.41	12.55	15.25
	5-Year Median	12.79	15.99	17.48	17.58
P/S F12M	Current	0.89	1.61	2.97	3.77
	5-Year High	0.98	1.61	2.97	3.77
	5-Year Low	0.45	0.89	1.52	2.53
	5-Year Median	0.78	1.15	2.04	3.05
EV/EBITDA TTM	Current	10.88	14.2	20.06	13.27
	5-Year High	12.09	16.66	20.14	13.09
	5-Year Low	7.57	8.9	10.74	8.25
	5-Year Median	9.73	12.23	14.96	10.92

As of 08/27/2020

Industry Analysis Zacks Industry Rank: Top 3% (7 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
AptarGroup, Inc. (ATR)	Outperform	3
Berry Global Group, Inc. (BERY)	Outperform	2
Graphic Packaging Holding Company (GPK)	Outperform	2
Silgan Holdings Inc. (SLGN)	Outperform	2
Amcor PLC (AMCR)	Neutral	3
Ball Corporation (BLL)	Neutral	3
Sealed Air Corporation (SEE)	Neutral	3
Sonoco Products Company (SON)	Neutral	3

Industry Comparison Industry: Containers - Metal And Glass				Industry Peers		
	CCK	X Industry	S&P 500	BLL	SEE	SLGN
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	1	-	-	3	3	2
VGM Score	C	-	-	B	A	A
Market Cap	10.37 B	10.37 B	23.67 B	25.91 B	6.33 B	4.23 B
# of Analysts	7	7	14	8	6	4
Dividend Yield	0.00%	0.76%	1.64%	0.76%	1.57%	1.26%
Value Score	B	-	-	C	B	B
Cash/Price	0.04	0.04	0.07	0.03	0.05	0.05
EV/EBITDA	10.82	12.58	13.33	20.14	13.88	12.58
PEG Ratio	2.12	2.97	3.05	5.74	2.16	2.67
Price/Book (P/B)	4.67	4.67	3.18	9.14	NA	3.88
Price/Cash Flow (P/CF)	8.66	9.37	12.81	16.86	10.66	9.37
P/E (F1)	14.83	14.83	21.68	28.68	13.94	13.38
Price/Sales (P/S)	0.92	0.92	2.50	2.30	1.31	0.92
Earnings Yield	6.74%	6.74%	4.43%	3.49%	7.18%	7.48%
Debt/Equity	3.67	2.85	0.74	2.53	-53.51	2.85
Cash Flow (\$/share)	8.88	4.70	6.94	4.70	3.82	4.07
Growth Score	C	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	9.93%	10.45%	10.41%	10.45%	2.63%	13.28%
Proj. EPS Growth (F1/F0)	1.59%	10.46%	-4.94%	9.34%	3.43%	31.94%
Curr. Cash Flow Growth	7.40%	5.44%	5.22%	4.20%	10.79%	5.44%
Hist. Cash Flow Growth (3-5 yrs)	12.67%	12.67%	8.50%	13.04%	-2.40%	4.92%
Current Ratio	1.15	1.15	1.35	0.97	1.20	1.34
Debt/Capital	78.59%	74.03%	43.86%	71.67%	NA	74.03%
Net Margin	4.28%	4.28%	10.25%	3.28%	8.24%	5.50%
Return on Equity	32.53%	29.73%	14.66%	29.73%	-240.81%	27.83%
Sales/Assets	0.73	0.73	0.50	0.67	0.85	0.84
Proj. Sales Growth (F1/F0)	-3.05%	0.36%	-1.43%	0.36%	-0.72%	6.84%
Momentum Score	F	-	-	C	A	C
Daily Price Chg	0.03%	0.53%	0.43%	0.53%	-0.05%	1.14%
1 Week Price Chg	-1.82%	-0.82%	-1.45%	1.48%	-0.70%	-0.82%
4 Week Price Chg	6.90%	6.90%	3.75%	8.02%	13.42%	-0.55%
12 Week Price Chg	10.72%	10.72%	3.95%	5.23%	20.15%	12.61%
52 Week Price Chg	16.16%	16.16%	2.75%	-1.36%	1.70%	27.58%
20 Day Average Volume	636,940	636,940	1,887,168	1,622,690	1,165,940	501,689
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.21%	0.79%	4.04%	9.41%	0.21%
(F1) EPS Est 12 week change	3.54%	3.88%	3.43%	3.88%	8.14%	18.50%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	2.74%	6.65%	-0.16%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	C
Momentum Score	F
VGM Score	C

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.

Disclosures

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