

Crown Holdings Inc. (CCK)

\$73.20 (As of 12/27/19)

Price Target (6-12 Months): **\$78.00**

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:D

Value: C

Growth: D

Momentum: F

Summary

Crown Holdings' fiscal 2019 adjusted earnings per share guidance is at \$5.00-\$5.05. Compared with earnings of \$5.20 in fiscal 2018, the mid-point of the range reflects a drop of 3%. This reflects poor harvest in Europe and the impact of weak economic activity on the Transit Packaging business. Further, input cost inflation and higher interest expenses are likely to hurt margins in the near term. Nevertheless, 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 growth prospect through capacity additions to existing plants and building new plants in existing markets. It will also benefit from strategic acquisitions to increase geographic presence and product lines. The Signode and EMPAQUE acquisition are in sync with this strategy.

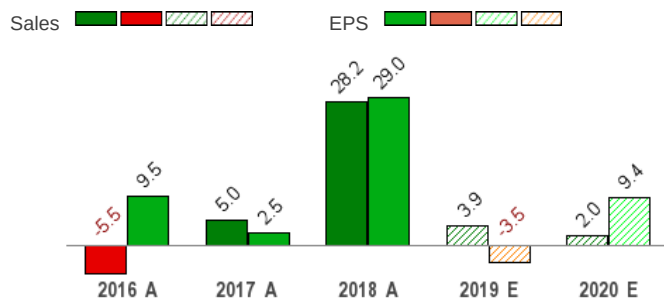
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$78.29 - \$40.21
20 Day Average Volume (sh)	1,040,236
Market Cap	\$9.9 B
YTD Price Change	76.1%
Beta	1.55
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Containers - Metal and Glass
Zacks Industry Rank	Top 41% (103 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-0.6%
Last Sales Surprise	-3.2%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/05/2020
Earnings ESP	0.0%
P/E TTM	14.4
P/E F1	14.6
PEG F1	2.1
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	2,731 E	3,056 E	3,159 E	2,737 E	11,811 E
2019	2,755 A	3,035 A	3,084 A	2,712 E	11,581 E
2018	2,197 A	3,046 A	3,174 A	2,734 A	11,151 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.10 E	\$1.57 E	\$1.70 E	\$1.08 E	\$5.49 E
2019	\$1.05 A	\$1.46 A	\$1.56 A	\$0.95 E	\$5.02 E
2018	\$0.94 A	\$1.55 A	\$1.71 A	\$1.00 A	\$5.20 A

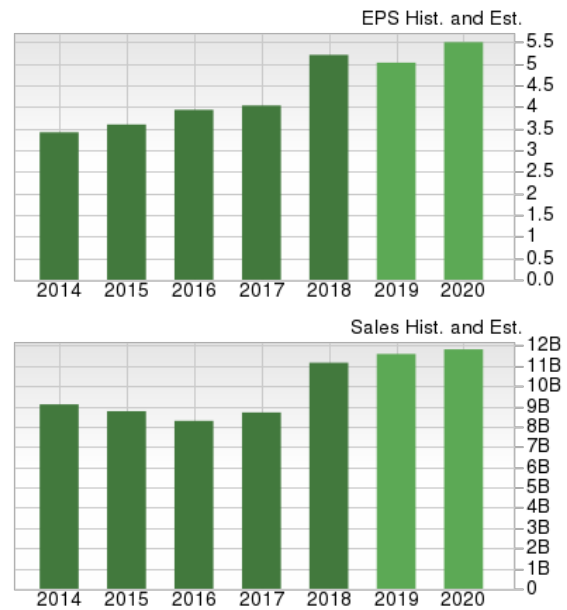
*Quarterly figures may not add up to annual.

The data in the charts and tables, except sales and EPS estimates, is as of 12/27/2019. The reports text and the analyst-provided sales and EPS estimates are as of 12/30/2019.

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 2018 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** (20%) — 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** (18%) — 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 is focused on disciplined pricing, cost control and capital allocation. The company's free cash flow guidance is at \$725 million and capital spending at \$450 million for fiscal 2019. 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 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 positioned to gain from the geographic expansion of its beverage can lines. The company's recently installed beverage-can capacity additions, including a third line at the its existing plant in Phnom Penh, Cambodia, a new one line high-speed plant in Parma, Italy and a new two line high-speed plant in Valencia, Spain, helped it meet this increased demand. The company will commence operations in a one-line beverage can plant in Rio Verde, Brazil in November this year.
- ▲ The company has started construction of a third high-speed line at Nichols, New York facility, which is expected to commence production during the second quarter of 2020. The company is also installing a new aluminum beverage can line at its Weston, Ontario plant, slated to be operational from the first quarter of 2020. Both the Nichols and Weston lines will be capable of producing multiple sizes. Crown Holdings also began construction of a new one line beverage can plant in Nong Khae, Thailand, which is likely to start operating during the third quarter of 2020.

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:

- ▼ In the Brazilian markets, can demand remains high, but Crown Holdings is unable to meet the demand due to shortage of capacity till the new Rio Verde projects comes online. In European beverage segment, continuing uncertainty surrounding Brexit and weakening Turkish economy is likely to impact results in the fourth quarter. Sales unit volumes in the Middle East have declined in the recent years owing to geopolitical tensions.
- ▼ Crown Holdings now expects adjusted earnings per share to be \$5.00-\$5.05 for 2019, compared with prior range of \$5.05 and \$5.20. The trimmed guidance is primarily owing to poor harvest in Europe and the impact of slowing economic activity on the Transit Packaging. High heat and poor growing season this year were particularly notable in few of the company's bigger food businesses in France and the U.K. Moreover, the European food can market is a mature market, which has witnessed stable to slightly declining volumes in recent years. The Transit Packaging segment's outlook is cloudy given the slowdown in the global manufacturing activity. Moreover, the company projects adjusted earnings per share for fourth-quarter 2019 at 93-98 cents, lower than \$1.00 reported in the prior-year quarter.
- ▼ For the nine months period ended Sep 30, 2019, interest expense increased 3% year over year to \$290 million due to higher outstanding debt from borrowings incurred to finance the Signode acquisition. To fund this 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. However, the company expects to generate free cash generation of more than \$2 billion over the next three years, risk of rising interest rates remains a matter of concern as 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 will likely be hurt by near-term capacity constraints in Brazil and lower volume in the European food can market. A weak Transit Packaging segment also remains a concern.

Last Earnings Report

Crown Holdings Lags Q3 Earnings Estimates, Trims View

Quarter Ending **09/2019**

Report Date	Oct 16, 2019
Sales Surprise	-3.23%
EPS Surprise	-0.64%
Quarterly EPS	1.56
Annual EPS (TTM)	5.07

Including one-time items, earnings per share improved 11% year over year to \$1.36 in the quarter.

Net sales in the quarter came in at \$3,084 million, down from the year-ago quarter's \$3,174 million. The reported figure also fell short of the Zacks Consensus Estimate of \$3,187 million. The top line figure reflects the impact of unfavorable currency translation of \$64 million.

Cost and Margins

Cost of products sold was down 3% year over year to \$2,455 million. On a year-over-year basis, gross profit dipped 2.3% to \$629 million. However, gross margin surged 20.4% from the year-ago quarter's 20.3%.

Selling and administrative expenses were down 5% year over year to \$121 million. Segment operating income declined 5% year over year to \$396 million during the July-September quarter. Operating margin came in at 12.8%, a 30 basis points contraction year on year.

Segment Performance

Net sales in the Americas Beverage segment came in at \$835 million, down 4% from the prior-year quarter's tally of \$871 million. Segment operating profit improved 8% year over year to \$134 million.

The European Beverage segment's sales went down 0.5% year over year to \$416 million. Operating income was down 3% year over year to \$64 million.

Revenues in the European Food segment fell 7% year over year to \$581 million. Segment operating profit dropped 12% year over year to \$79 million.

The Asia-Pacific segment's revenues were down 0.6% year over year to \$319 million. Operating profit went up to \$47 million from prior-year quarter's figure of \$46 million.

Revenues in the Transit Packaging segment totaled \$564 million compared with \$585 million recorded in the year-ago period. Operating profit declined 9% year over year to \$74 million.

Financial Update

Crown Holdings had cash and cash equivalents of \$3339 million at the end of the reported quarter compared with the \$298 million at the end of the prior-year quarter. The company generated \$201 million of cash from operating activities for the nine-month period ended Sep 30, 2019 compared with cash usage of \$232 million recorded in the year-earlier comparable period.

As of the quarter's end, Crown Holdings' long-term debt decreased to \$8,042 million from \$8,928 million as of the year-ago quarter end.

Expansion Plans in Motion

During the reported quarter, Crown Holdings' recently installed beverage-can capacity additions, including a third line at the its existing plant in Phnom Penh, Cambodia, a new one line high-speed plant in Parma, Italy and a new two line high-speed plant in Valencia, Spain, have helped it meet the continuing expansion in demand. The company will commence operations in a one-line beverage can plant in Rio Verde, central Brazil in November this year.

In order to support volume requirements in the North American beverage can business, the company has started construction of a third high-speed line at Nichols, New York facility. It is expected to commence production during the second quarter of 2020. The company is also installing a new aluminum beverage can line at its Weston, Ontario plant, slated to be operational from the first quarter of 2020. Both the Nichols and Weston lines will be capable of producing multiple sizes. The company has also begun construction of a new one line beverage can plant in Nong Khae, Thailand, which is likely to start operating during the third quarter of 2020.

Outlook

Crown Holdings now expects adjusted earnings per share to be \$5.00-\$5.05 for 2019, compared with prior range of \$5.05 and \$5.20. The trimmed guidance is primarily owing to poor harvest in Europe and the impact of slowing economic activity on the Transit Packaging business.

Further, adjusted earnings per share for fourth-quarter 2019 are projected at 93-98 cents. Adjusted free cash flow is expected at \$725 million for the ongoing year after capital spending of approximately \$450 million.

Valuation

Crown Holdings' shares are up 76.1% over the trailing 12-month period. Over the past year, the Zacks sub-industry and the sector were up 46.3% and 23.9%, respectively.

The S&P 500 index has gained 28% in the past year.

The stock is currently trading at 13.33X forward 12-month earnings, which compares with 17.46X for the Zacks sub-industry, 18.23X for the Zacks sector and 18.77X 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 12.93X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$78 price target reflects 14.20X 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	13.33	17.46	18.23	18.77
	5-Year High	15.23	19.8	19.88	19.34
	5-Year Low	7.02	12.02	12.58	15.17
	5-Year Median	12.93	16.22	16.43	17.43
P/S F12M	Current	0.84	1.34	2.74	3.41
	5-Year High	0.98	1.5	2.74	3.41
	5-Year Low	0.45	0.91	1.51	2.54
	5-Year Median	0.78	1.1	1.96	3
EV/EBITDA TTM	Current	10.01	12.7	17.04	12.01
	5-Year High	13.22	16.46	17.4	12.86
	5-Year Low	8.03	9.02	10.89	8.49
	5-Year Median	9.84	11.83	14.67	10.65

As of 12/27/2019

Industry Analysis Zacks Industry Rank: Top 41% (103 out of 252)



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	D	-	-	C	C	B
Market Cap	9.92 B	6.68 B	23.80 B	21.16 B	1.68 B	3.44 B
# of Analysts	6	5.5	13	7	3	6
Dividend Yield	0.00%	1.17%	1.78%	0.93%	2.88%	1.42%
Value Score	C	-	-	C	C	B
Cash/Price	0.03	0.03	0.04	0.02	0.00	0.03
EV/EBITDA	11.47	14.10	13.88	16.72	18.72	8.50
PEG Ratio	2.08	1.98	2.13	4.69	1.44	1.88
Price/Book (P/B)	4.91	4.24	3.33	6.20	2.09	3.57
Price/Cash Flow (P/CF)	8.82	10.27	13.55	14.91	11.73	8.06
P/E (F1)	14.58	17.17	19.62	25.82	20.11	14.41
Price/Sales (P/S)	0.85	1.35	2.66	1.83	2.74	0.76
Earnings Yield	6.86%	5.97%	5.09%	3.88%	4.98%	6.95%
Debt/Equity	4.06	1.89	0.71	1.91	0.39	1.87
Cash Flow (\$/share)	8.29	4.11	6.94	4.35	3.20	3.86
Growth Score	D	-	-	B	A	B
Hist. EPS Growth (3-5 yrs)	10.60%	8.36%	10.48%	6.37%	7.96%	8.75%
Proj. EPS Growth (F1/F0)	-3.46%	9.02%	6.14%	13.90%	15.65%	3.69%
Curr. Cash Flow Growth	41.18%	20.17%	14.75%	1.37%	22.38%	17.96%
Hist. Cash Flow Growth (3-5 yrs)	15.14%	11.69%	8.93%	13.35%	10.04%	4.01%
Current Ratio	1.12	1.01	1.24	1.01	0.16	1.01
Debt/Capital	80.23%	65.40%	42.92%	65.65%	28.06%	65.14%
Net Margin	4.10%	4.60%	11.06%	4.82%	11.23%	4.37%
Return on Equity	41.91%	24.46%	17.10%	22.86%	10.31%	26.05%
Sales/Assets	0.75	0.72	0.54	0.69	0.30	0.92
Proj. Sales Growth (F1/F0)	3.85%	2.33%	2.49%	-0.05%	4.06%	0.80%
Momentum Score	F	-	-	F	F	F
Daily Price Chg	0.65%	0.08%	0.21%	-0.49%	-2.17%	0.94%
1 Week Price Chg	0.25%	1.07%	1.46%	2.90%	-0.11%	1.88%
4 Week Price Chg	-3.90%	-2.10%	1.98%	-2.46%	-1.73%	0.52%
12 Week Price Chg	17.81%	5.77%	9.78%	-9.39%	4.75%	6.79%
52 Week Price Chg	77.19%	39.40%	28.47%	46.03%	18.00%	32.78%
20 Day Average Volume	1,040,236	724,003	1,778,443	1,910,726	279,432	407,770
(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%	-0.12%	0.00%	-0.24%	-0.52%	0.00%
(F1) EPS Est 12 week change	-1.45%	-1.62%	0.12%	-3.07%	-1.39%	-1.78%
(Q1) EPS Est Mthly Chg	0.00%	-0.38%	0.00%	-0.76%	-1.68%	0.00%

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	C
Growth Score	D
Momentum Score	F
VGM Score	D

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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