

Crane Co. (CR)

\$60.26 (As of 06/03/20)

Price Target (6-12 Months): **\$52.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 05/25/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:D

Value: D

Growth: F

Momentum: B

Summary

In the past three months, Crane's shares have underperformed the industry. It is wary of the adverse impacts of the pandemic on its performances. For 2020, the company now predicts adjusted earnings of \$3.00-\$4.25 per share, suggesting a decline of 40% from 2019. Net sales are expected to decline 10-16% from the 2019 level, with core sales likely to be down 17-22%. Adjusted earnings in the second quarter will likely be 40-50 cents, suggesting a decline from \$1.15 generated in the first quarter of the year. Also, sales are predicted to be \$650-\$660 million in the second quarter, sequentially below \$797.9 million in first-quarter 2020. In addition, high debts and forex woes (0.5-1% adverse impact expected in 2020) might affect profitability. In the past 60 days, the company's earnings estimates have declined for the second quarter of 2020.

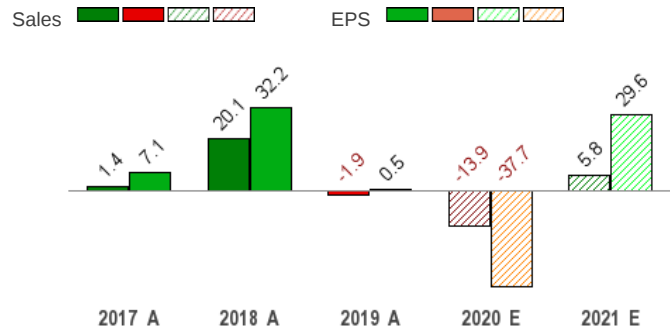
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$91.23 - \$36.77
20 Day Average Volume (sh)	394,611
Market Cap	\$3.5 B
YTD Price Change	-30.2%
Beta	1.51
Dividend / Div Yld	\$1.72 / 2.9%
Industry	Diversified Operations
Zacks Industry Rank	Bottom 13% (219 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-6.5%
Last Sales Surprise	-3.3%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	07/27/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					2,992 E
2020	798 A	603 E	638 E	789 E	2,827 E
2019	832 A	842 A	772 A	838 A	3,283 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$4.86 E
2020	\$1.15 A	\$0.44 E	\$0.82 E	\$1.39 E	\$3.75 E
2019	\$1.45 A	\$1.58 A	\$1.40 A	\$1.58 A	\$6.02 A

*Quarterly figures may not add up to annual.

P/E TTM	10.6
P/E F1	16.1
PEG F1	2.6
P/S TTM	1.1

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/03/2020. The reports text is as of 06/04/2020.

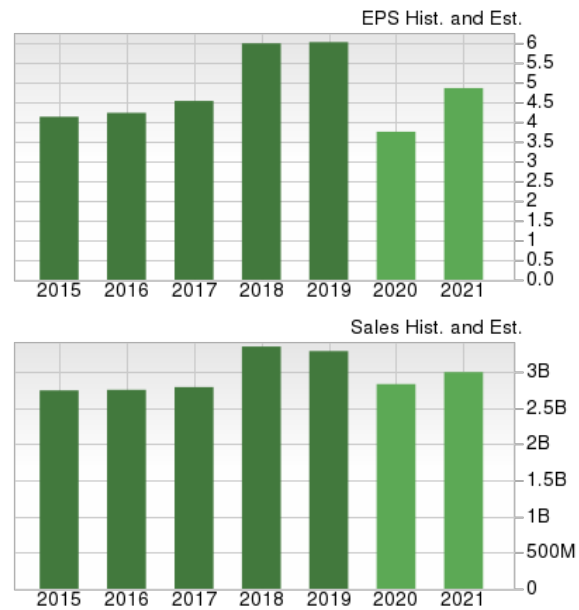
Overview

Crane Co., founded in 1855, is currently headquartered in Stamford, CT. The company is recognized for its diversified product portfolio of engineered industrial products. It employs roughly 12,000 people in the Americas, Australia, the Middle East, Europe and Asia.

Key end markets served by the company includes aerospace, electronics, chemical, power, non-residential construction, automated payment solutions and various general industrial as well as consumer related end markets. Products are either sold directly or through sales representatives and industrial distributors.

The company operates through four reporting segments, briefly discussed below:

- **Fluid Handling** (32.2% of total revenues in the first quarter of 2020): This segment manufactures and services valves for industrial usage as well as makes pumps and water treatment equipment for a variety of applications. The segment comprises businesses, including Pumps and Systems, Process Valves and Related Products, and Commercial Valves.
- **Payment & Merchandising Technologies** (37.3%): This segment deals with Crane Payment Innovations, Crane Merchandising Systems and Crane Currency businesses. Crane Payment Innovations offers coin accepters and dispensers, coin hoppers, coin recyclers, bill validators, and bill recyclers. Crane Merchandising Systems specializes in providing vending equipment and related solutions comprising food, snack, and beverage-vending machines, as well as vending machine software and online solutions. Crane Currency is engaged in supplying highly-engineered banknotes for central banks throughout the world.
- **Aerospace & Electronics** (24.2%): This segment's Aerospace group designs, manufactures, and supports critical aircraft systems and components; while the Electronic group provides high-density, high-reliability electronics for aerospace, space, military, industrial, and commercial applications.
- **Engineered Materials** (6.3%): This segment produces fiberglass-reinforced plastic panels. These products are mainly used in truck trailer and recreational vehicle markets, industrial markets, and the commercial construction industry.



Reasons To Sell:

- ▼ In the past three months, shares of Crane have moved down 9% compared with the industry's decline of 7.3%. In first-quarter 2020, the company's earnings and sales lagged estimates by 6.5% and 3.3%, respectively. Compared with the year-ago quarter, the bottom line declined 20.7% due to weak sales and a fall in margin. The pandemic's impact on the quarter's earnings is estimated to be 15-20 cents per share. For 2020, the company suspended its earnings projection provided along with the fourth-quarter 2019 results. But now in the present uncertain environment due to the pandemic, it expects adjusted earnings of \$3.00-\$4.25 per share. This suggests a 40% fall from earnings of \$6.02 per share generated in 2019. Adjusted earnings in the second quarter are expected to be 40-50 cents, suggesting a decline from \$1.15 generated in the first quarter of the year. In the past 60 days, its earnings estimates have declined by 72.5% to 44 cents for the second quarter and by 48.4% to 82 cents for the third quarter.
- ▼ In the first quarter, Crane's sales decreased 4% year over year due to a 10% decline in organic sales (due mainly to the coronavirus outbreak) and 1% impact of forex woes. However, acquisitions benefited results by 7%. Presently, the company predicts net sales of \$2,750-\$2,950 million, suggesting a decline of 10-16% from that reported in 2019. Core sales are predicted to decline 17-22%. In the second quarter, sales are predicted to be \$650-\$660 million, sequentially lower than \$797.9 million generated in the first quarter of 2020.
- ▼ With operations across the Americas, Australia, the Middle East, Europe and Asia, Crane's performance is exposed to the adverse impacts of macroeconomic cycles in the United States and international markets. Also, it faces headwinds from unfavorable foreign currency movements. In the first quarter of 2020, forex woes had an adverse impact of \$7 million on sales. The company believes that unfavorable movements in foreign currencies will continue to be a headwind in 2020, impacting sales by 0.5-1%.
- ▼ A highly leveraged balance sheet can inflate Crane's financial obligations and subsequently hurt profitability. In the last three years (2017-2019), the company's long-term debt rose 19.4% (CAGR). Notably, the metric was \$842.2 million at the end of the first quarter of 2020, suggesting a marginal increase from the previous quarter. Interest expenses in the quarter increased 5%. The company's total debt to total capital was 46.5% at first-quarter end, up from 40.2% at the end of fourth-quarter 2019. Also, the company's ability to repay the financial obligations seems to have weakened in the quarter, with times interest earned declining from 4.6 in the fourth quarter of 2019 to 4.1 in the first quarter of 2020. Also, cash and cash equivalents in the quarter have fallen 23.1% sequentially, while free cash flow was (\$43) million. For 2020, the company predicts a year-over-year decline in free cash flow of 31% to \$200-\$250 million.

Uncertainties caused by the coronavirus outbreak have marred Crane's earnings and sales prospects for the quarters ahead. Also, forex woes and high debts might impact near-term profitability.

Risks

- In the present difficult times, Crane anticipates gaining from its diverse portfolio and efficient management team. It has exposure in end-markets, including non-residential construction, aerospace, electronics, automated payment solutions, chemical, power and various general industrial. Weakness in one or more markets can be offset by gains in others. Also, its focus on product development, strong operating leverage, growth investments, acquired assets and repositioning initiatives are likely to benefit in the years ahead.
 - Crane initiated certain proactive repositioning actions for Fluid Handling in the fourth quarter of 2019. The actions are in addition to the company's repositioning activities for Payment & Merchandising, Fluid Handling, and Aerospace & Electronics segments started in the fourth quarter of 2017. The initiatives — including facility consolidations, especially in Europe and North America, and 3% reduction in the global workforce — might benefit, going forward. In the first quarter of 2020, gains of \$1.5 million related to the repositioning activities were recorded. However, costs associated with the repositioning activities should not be ignored.
 - Crane believes in rewarding shareholders handsomely through dividend payments and share buybacks. In first-quarter 2020, the company used \$25.5 million for paying dividends, reflecting a 9% increase from the previous year, and repurchased shares worth \$70 million. It is worth noting here that it hiked the quarterly dividend rate by 10% in January 2020. In addition, the company has been steadily strengthening business through acquisitions. In 2019, the company's investment in buyouts (net of acquired cash) totaled \$156.2 million, while that in the first quarter totaled \$172 million. Acquired assets boosted its sales by 0.1% year over year in 2019 and added 6.8% to sales in the first quarter of 2020. It is worth mentioning here that Crane acquired Cummins Allison in December 2019. Since then, the buyout has been strengthening the Crane Payment Innovations business. In the same month, Crane agreed to buy CIRCOR International's Instrumentation & Sampling business. The buyout is adding to Crane's process valve business in the quarters ahead. For 2020, the company believes that acquisitions will boost its sales by 7%.
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Last Earnings Report

Crane Q1 Earnings and Revenues Miss Estimates, Down Y/Y

Crane reported weaker-than-expected results for the first quarter of 2020. Its earnings and sales missed estimates by 6.5% and 3.3%, respectively.

Adjusted earnings in the reported quarter were \$1.15 per share, missing the Zacks Consensus Estimate of \$1.23. On a year-over-year basis, the bottom line declined 20.7% from the year-ago quarter figure of \$1.45 due to poor sales performance.

Quarter Ending **03/2020**

Report Date	Apr 27, 2020
Sales Surprise	-3.32%
EPS Surprise	-6.50%
Quarterly EPS	1.15
Annual EPS (TTM)	5.71

Revenues Decline Y/Y

In the quarter under review, Crane's net sales were \$797.9 million, reflecting a decline of 4.1% from the year-ago quarter. Results were adversely impacted by a fall in core sales of \$80 million largely due to coronavirus outbreak-led issues and forex woes of \$7 million, partially offset by the benefit of \$54 million from acquisitions.

Crane's net sales missed the Zacks Consensus Estimate of \$825 million.

The company reports net sales under four segments — Fluid Handling, Payment & Merchandising Technologies, Aerospace & Electronics, and Engineered Materials. The segmental information is briefly discussed below:

Revenues from the **Fluid Handling** segment were \$256.7 million, reflecting a decline of 6% from the year-ago quarter figure. Results were adversely impacted by forex woes and an organic sales decline. The segment's order backlog was \$293.4 million in the reported quarter, reflecting a sequential increase of 9.7%.

Revenues from **Payment & Merchandising Technologies** totaled \$297.4 million, decreasing 2% year over year. Results were adversely impacted by an organic sales decline of 15%, and an adverse impact of 1% from forex woes, partially offset by 15% benefit from acquisitions. Order backlog at the end of the reported quarter was \$326.3 million, up 4.8% sequentially.

Revenues from the **Aerospace & Electronics** segment were \$192.9 million, declining 1% year over year. The fall was mainly attributable to a decline in core sales. Order backlog at the end of the quarter under review was \$547.5 million, down 3.5% sequentially.

Revenues from the **Engineered Materials** segment dipped 15% year over year to \$50.9 million on weak business in the recreational vehicle end market. Order backlog at the end of the reported quarter was \$10.8 million, up 14.9% sequentially.

Operating Margin Declines Y/Y

In the first quarter, Crane's cost of sales decreased 2.8% year over year to \$513.3 million. It represented 64.3% of net sales compared with 63.5% in the year-ago quarter. Selling, general and administrative expenses grew 3.2% year over year to \$196 million. It represented 24.6% of net sales versus 22.8% in the year-ago quarter.

Operating income in the quarter under review decreased 21.9% year over year to \$89 million. Moreover, adjusted operating margin contracted 260 basis points to 11.1%.

Balance Sheet and Cash Flow

Exiting the first quarter, Crane had cash and cash equivalents of \$302.8 million, down 23.1% from \$393.9 million at the end of the last reported quarter. Long-term debt balance was marginally up sequentially to \$842.2 million.

In the first quarter, the company used net cash of \$35.5 million from operating activities compared with \$100.4 million used in the year-ago quarter. Capital expenditure was \$7.8 million, down 60.6% year over year. Free cash flow in the quarter was \$43.3 million versus \$120.2 million in the year-ago quarter.

In the first quarter, Crane used \$25.5 million for paying dividends, with \$23.4 million distributed in the year-ago comparable quarter. Also, \$70 million worth shares were reacquired by the company in the quarter.

Outlook

On uncertainties, regarding the impacts of the coronavirus outbreak on financial and operating results, Crane has withdrawn its previously issued guidance for 2020.

For 2020, the company currently anticipates adjusted earnings per share of \$3.00-\$4.25. Sales are predicted to be \$2.75-\$2.95 billion, suggesting a year-over-year core sales decline of 17-22%. It anticipates operating cash flow of \$245-\$295 million and capital expenditure of \$45 million for 2020. Free cash flow is projected to be \$200-\$250 million.

Recent News

Dividend

On **Apr 27, 2020**, Crane announced that its board of directors approved the payment of a quarterly dividend of 43 cents per share to shareholders of record as of May 29, 2020. The disbursement will be made on Jun 10, 2020.

Valuation

Crane's shares have moved down 30.2% in the year-to-date period and 25.3% over the trailing 12 months. Stocks in both the Zacks sub-industry and the Zacks Conglomerates sector are down 15.1% in the year-to-date period. Over the past year, both the Zacks sub-industry and sector are down 7.8%.

The S&P 500 Index has moved down 4.4% year to date and increased 9.1% in the past year.

The stock is currently trading at 5.66x forward 12-month EBITDA, which compares to 23.88x for the Zacks sub-industry, 23.88x for the Zacks sector and 12.31x for the S&P 500 index.

Over the past five years, the stock has traded as high as 10.22x and as low as 5.66x, with a 5-year median of 8.33x. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$52 price target reflects 12.32x forward 12-month earnings per share.

The table below shows summary valuation data for CR.

Valuation Multiples - CR					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA F12M	Current	5.66	23.88	23.88	12.31
	5-Year High	10.22	79.69	79.69	12.65
	5-Year Low	5.66	17.51	17.51	9.05
	5-Year Median	8.33	21.59	21.59	10.81
P/E F12M	Current	14.28	26.59	26.59	22.3
	5-Year High	20.1	26.59	26.59	22.3
	5-Year Low	5.9	15.76	15.76	15.23
	5-Year Median	13.59	18.34	18.34	17.49
EV/Sales F12M	Current	1.43	3.39	3.39	3.21
	5-Year High	1.93	4.1	4.1	3.52
	5-Year Low	0.85	2.53	2.53	2.28
	5-Year Median	1.64	3.39	3.39	2.82

As of 06/03/2020

Industry Analysis Zacks Industry Rank: Bottom 13% (219 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Dover Corporation (DOV)	Neutral	4
Honeywell International Inc. (HON)	Neutral	3
Ingersoll Rand Inc. (IR)	Neutral	3
ParkerHannifin Corporation (PH)	Neutral	3
Carlisle Companies Incorporated (CSL)	Underperform	4
Flowserve Corporation (FLS)	Underperform	5
Griffon Corporation (GFF)	Underperform	5
ITT Inc. (ITT)	Underperform	5

Industry Comparison Industry: Diversified Operations				Industry Peers		
	CR	X Industry	S&P 500	CSL	DOV	PH
Zacks Recommendation (Long Term)	Underperform	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	4	4	3
VGM Score	D	-	-	B	C	A
Market Cap	3.49 B	4.51 B	22.50 B	7.14 B	14.89 B	25.17 B
# of Analysts	3	3	14	4	7	9
Dividend Yield	2.85%	1.80%	1.88%	1.54%	1.89%	1.79%
Value Score	D	-	-	C	C	B
Cash/Price	0.09	0.25	0.06	0.18	0.04	0.03
EV/EBITDA	12.18	9.02	12.98	9.84	13.98	12.69
PEG Ratio	2.62	3.21	3.05	1.48	1.92	1.73
Price/Book (P/B)	2.48	1.04	3.11	2.84	5.00	3.99
Price/Cash Flow (P/CF)	7.56	6.85	12.18	10.78	13.13	12.61
P/E (F1)	16.36	20.48	22.19	22.16	22.12	20.33
Price/Sales (P/S)	1.08	0.78	2.40	1.50	2.11	1.77
Earnings Yield	6.22%	4.60%	4.31%	4.51%	4.52%	4.92%
Debt/Equity	0.60	0.77	0.76	1.02	0.99	1.28
Cash Flow (\$/share)	7.97	2.43	7.01	12.06	7.88	15.57
Growth Score	F	-	-	B	C	B
Hist. EPS Growth (3-5 yrs)	10.44%	10.44%	10.87%	11.33%	14.55%	17.20%
Proj. EPS Growth (F1/F0)	-37.71%	-21.63%	-10.74%	-28.53%	-21.13%	-18.53%
Curr. Cash Flow Growth	-1.40%	2.77%	5.48%	19.98%	10.20%	6.37%
Hist. Cash Flow Growth (3-5 yrs)	7.00%	5.78%	8.55%	13.96%	1.28%	7.55%
Current Ratio	1.37	1.65	1.29	4.33	1.29	1.49
Debt/Capital	37.44%	42.26%	44.75%	50.57%	49.85%	56.22%
Net Margin	3.50%	3.62%	10.59%	9.54%	10.59%	9.32%
Return on Equity	22.07%	11.52%	16.29%	17.88%	29.80%	24.30%
Sales/Assets	0.76	0.76	0.55	0.84	0.81	0.72
Proj. Sales Growth (F1/F0)	-13.88%	0.00%	-2.65%	-11.05%	-10.52%	-6.53%
Momentum Score	B	-	-	D	B	C
Daily Price Chg	5.18%	1.93%	2.42%	5.60%	4.25%	6.02%
1 Week Price Chg	7.46%	2.60%	4.60%	3.88%	8.33%	7.84%
4 Week Price Chg	21.64%	10.17%	13.40%	16.13%	14.50%	28.00%
12 Week Price Chg	4.22%	-3.33%	12.78%	-2.88%	8.29%	32.94%
52 Week Price Chg	-25.14%	-21.83%	0.89%	-4.57%	8.44%	20.90%
20 Day Average Volume	394,611	73,935	2,528,787	472,588	802,810	1,397,141
(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%	0.00%	-0.14%	0.00%	0.00%	0.88%
(F1) EPS Est 12 week change	-40.79%	-33.53%	-16.00%	-32.46%	-25.28%	-8.40%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.02%	0.00%	0.00%	-1.52%

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	D
Growth Score	F
Momentum Score	B
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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