

Crane Co. (CR)

\$57.00 (As of 07/28/20)

Price Target (6-12 Months): **\$60.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/29/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:D

Value: C

Growth: F

Momentum: B

Summary

Crane's second-quarter 2020 earnings and sales beat the Zacks Consensus Estimate by 36.2% and 10.8%, respectively. The company is poised to gain from product development, repositioning initiatives and policy of rewarding shareholders in the long term. Also, its acquisitions are anticipated to be beneficial, with positive sales impact of 7% in 2020. However, in the past three months, Crane's shares have underperformed the industry. The company is wary of the adverse impacts of the pandemic on its performance. For 2020, it now predicts adjusted earnings of \$3.30-\$4.10 per share, which suggests a decline of 38.5% from that reported in 2019. Net sales are expected to decline 10.9-14.7% from the 2019 level, with core sales likely to fall 17-21% year over year. Also, high debts and forex woes might affect the company's profitability.

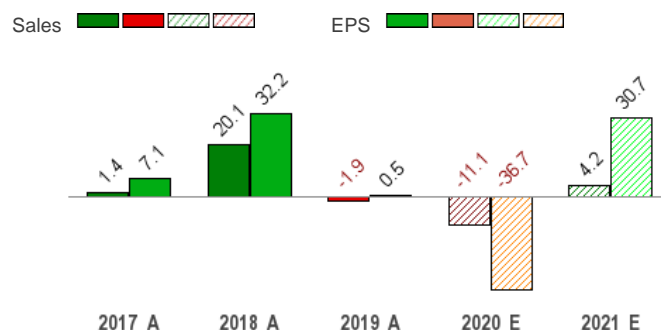
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$89.54 - \$36.77
20 Day Average Volume (sh)	294,723
Market Cap	\$3.3 B
YTD Price Change	-34.0%
Beta	1.51
Dividend / Div Yld	\$1.72 / 3.0%
Industry	Diversified Operations
Zacks Industry Rank	Bottom 30% (177 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	36.2%
Last Sales Surprise	10.8%
EPS F1 Est- 4 week change	1.5%
Expected Report Date	10/26/2020
Earnings ESP	-4.1%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					3,041 E
2020	798 A	678 A	649 E	794 E	2,919 E
2019	832 A	842 A	772 A	838 A	3,283 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$4.98 E
2020	\$1.15 A	\$0.64 A	\$0.86 E	\$1.39 E	\$3.81 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	12.0
P/E F1	15.0
PEG F1	2.4
P/S TTM	1.1

The data in the charts and tables, except sales and EPS estimates, is as of 07/28/2020. The reports text and the analyst-provided sales and EPS estimates are as of 07/29/2020.

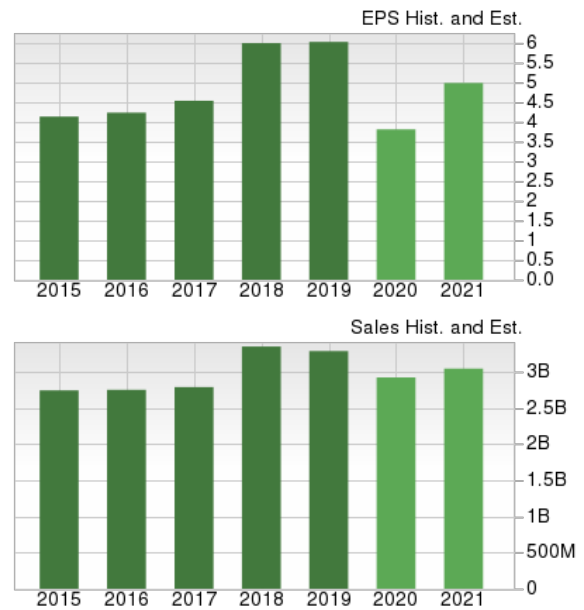
Overview

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** (35.3% of total revenues in the second 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** (36.6%): 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** (23.1%): 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** (5%): 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 Buy:

- ▲ In the present difficult times, Crane is poised to benefit 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, 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. However, costs associated with the repositioning activities should not be ignored.
- ▲ Crane believes in rewarding shareholders handsomely through dividend payments and share buybacks. In the first half of 2020, the company used \$50.4 million for paying dividends, reflecting a 7.9% increase from the year-ago comparable period, and repurchased shares worth \$70 million. It is worth noting here that it hiked the quarterly dividend rate by 10% in January 2020.
- ▲ Crane 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 half of 2020 totaled \$172 million. Acquired assets boosted its sales by 0.1% year over year in 2019 and added 6.8% and 6% to sales in the first and second quarters of 2020, respectively. 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. Also, in January 2020, Crane acquired CIRCOR International's Instrumentation & Sampling business. The buyout has been adding value to Crane's process valve business. For 2020, the company continues to believe that acquisitions will boost its sales by 7%.

Product-development initiatives, repositioning activities, acquisitions and shareholder-friendly policies will likely bode well for Crane in the quarters ahead.

Reasons To Sell:

- ▼ In the past three months, shares of Crane have gained 4.7% compared with the industry's growth of 13.7%. In second-quarter 2020, the company's earnings declined by 59.5% on a year-over-year basis. The decline was attributable to weak sales on account of the coronavirus outbreak-led market downturn and a fall in margin. In the present uncertain environment due to the pandemic, the company expects adjusted earnings of \$3.30-\$4.10 per share for 2020. This suggests a 38.5% fall from earnings of \$6.02 per share generated in 2019. Adjusted earnings in the third quarter are expected to be 70-85 cents, suggesting a decline from \$1.40 generated in the third quarter of 2019.
- ▼ In the second quarter, Crane's sales decreased 19.5% year over year due to a 24% decline in organic sales (due mainly to the coronavirus outbreak) and 1% impact of forex woes. In the reported quarter, Fluid Handling segment's organic sales declined 21%, affected by lower orders at both of its process and commercial side of businesses. Payment & Merchandising Technologies segment's organic sales fell 25% on account of soft end markets. Organic revenues at Aerospace & Electronics and Engineered Materials segments recorded declines of 23% and 39.5%, respectively, owing to softness across original equipment, aftermarket, building products and recreational vehicle end markets. The company expects these headwinds to persist in the quarters ahead. Presently, it predicts net sales of \$2,800-\$2.925 billion, suggesting a decline of 10.9-14.7% from that reported in 2019. Core sales are predicted to decline 17-21%.
- ▼ 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 and second quarters of 2020, forex woes had an adverse impact of \$7 million and \$8 million, respectively, 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 \$842.5 million at the end of the second quarter of 2020, suggesting a marginal increase from the previous quarter. Interest expenses in the quarter increased 26.3%. Also, the company's ability of repay the financial obligations seems to have weakened in the quarter, with times interest earned declining from 4.1 in the first quarter of 2020 to 1.9 in the second quarter. Also, 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.

Last Earnings Report

Crane Q2 Earnings and Revenues Beat Estimates, Down Y/Y

Crane reported better-than-expected results for the second quarter of 2020. Its earnings and sales surpassed the Zacks Consensus Estimate by 36.2% and 10.8%, respectively.

Adjusted earnings in the reported quarter were 64 cents per share, beating the consensus estimate of 47 cents. On a year-over-year basis, the bottom line declined 59.5% from the year-ago quarter figure of \$1.58 due to a decline in sales.

Quarter Ending **06/2020**

Report Date	Jul 27, 2020
Sales Surprise	10.79%
EPS Surprise	36.17%
Quarterly EPS	0.64
Annual EPS (TTM)	4.77

Revenues Decline Y/Y

In the quarter under review, Crane's net sales were \$678 million, reflecting a decline of 19.5% from the year-ago quarter. Results were adversely impacted by a fall in core sales of \$203 million largely due to the coronavirus outbreak-led issues and forex woes of \$8 million, partially offset by the benefit of \$47 million from acquisitions.

Crane's net sales beat the Zacks Consensus Estimate of \$612 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 \$239 million, reflecting a decline of 18% from the year-ago quarter figure. Results reflected a 21% decline in core sales and a 2% impact of forex woes. The segment's order backlog was \$299 million in the reported quarter, reflecting a sequential increase of 1.9%.

Revenues from Payment & Merchandising Technologies totaled \$248 million, decreasing 15% year over year. Results were adversely impacted by a core sales decline of 25%, and an adverse impact of 1% from forex woes, partially offset by an 11% benefit from acquisitions. Order backlog at the end of the reported quarter was \$285.5 million, down 12.5% sequentially.

Revenues from the Aerospace & Electronics segment were \$157 million, declining 23% 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 \$506 million, down 7.6% sequentially.

Revenues from the Engineered Materials segment dipped 40% year over year to \$34 million on lower sales to recreational vehicle customers. Order backlog at the end of the reported quarter was \$10.1 million, down 6.5% sequentially.

Operating Margin Declines Y/Y

In the second quarter, Crane's cost of sales decreased 15.5% year over year to \$452.1 million. It represented 66.7% of net sales compared with 63.6% in the year-ago quarter. Selling, general and administrative expenses grew 6.3% year over year to \$195.3 million. It represented 28.8% of net sales versus 21.8% in the year-ago quarter.

Operating income in the quarter under review decreased 74.8% year over year to \$31 million. Moreover, adjusted operating margin contracted 670 basis points to 8.9%.

Balance Sheet and Cash Flow

Exiting the second quarter, Crane had cash and cash equivalents of \$592.1 million, up 95.5% from \$302.8 million at the end of the last reported quarter. Long-term debt balance was marginally up sequentially to \$842.5 million.

In the first six months of 2020, the company generated net cash of \$76.6 million from operating activities compared with \$52.5 million generated in the year-ago comparable period. Capital expenditure in the same period was \$13.5 million, down 62.6% year over year.

In the second quarter, free cash flow was \$106.4 million versus \$136.6 million in the year-ago quarter. In the quarter, Crane used \$24.9 million for paying dividends, whereas it distributed \$23.3 million in the year-ago comparable quarter.

Outlook

For 2020, the company currently anticipates adjusted earnings per share of \$3.30-\$4.10 compared with \$3.00-\$4.25 mentioned earlier. Sales are predicted to be \$2,800-\$2,925 million, suggesting a year-over-year core sales decline of 17-21%. Free cash flow is projected to be \$200-\$250 million for 2020.

Recent News

Dividend

On **Jul 27, 2020**, Crane approved the payout of a quarterly dividend of 43 cents per share to shareholders of record as of Aug 31, 2020. The payment will be made on Sep 9.

Valuation

Crane's shares have moved down 34% in the year-to-date period and 32.8% over the trailing 12 months. Stocks in both the Zacks sub-industry and the Zacks Conglomerates sector are down 9.8% in the year-to-date period. Over the past year, both the Zacks sub-industry and sector are down 7.3%.

The S&P 500 Index has moved up 0.8% year to date and increased 8.1% in the past year.

The stock is currently trading at 12.72x forward 12-month earnings, which compares to 26.54x for the Zacks sub-industry, 26.54x for the Zacks sector and 22.61x for the S&P 500 index.

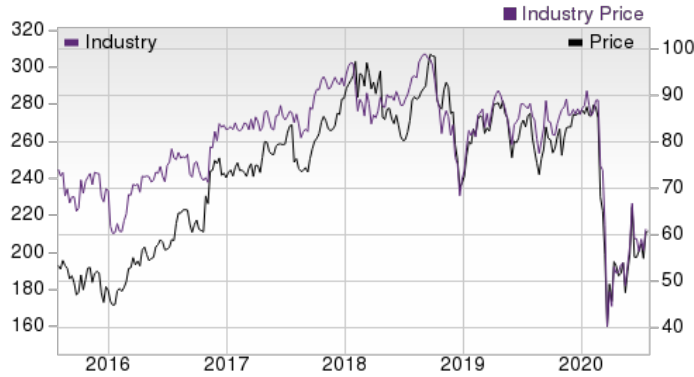
Over the past five years, the stock has traded as high as 20.1x and as low as 5.9x, with a 5-year median of 13.62x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$60 price target reflects 13.39x forward 12-month earnings per share.

The table below shows summary valuation data for CR.

Valuation Multiples - CR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	12.72	26.54	26.54	22.61
	5-Year High	20.1	26.54	26.54	22.61
	5-Year Low	5.9	15.76	15.76	15.25
	5-Year Median	13.62	18.4	18.4	17.52
P/Sales F12M	Current	1.12	3.77	3.77	3.57
	5-Year High	2.04	3.77	3.77	3.57
	5-Year Low	0.65	2.29	2.29	2.53
	5-Year Median	1.47	3.03	3.03	3.02

As of 07/28/2020

Industry Analysis Zacks Industry Rank: Bottom 30% (177 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Griffon Corporation (GFF)	Outperform	1
Carlisle Companies Incorporated (CSL)	Neutral	3
Dover Corporation (DOV)	Neutral	3
Flowserve Corporation (FLS)	Neutral	2
Honeywell International Inc. (HON)	Neutral	3
Ingersoll Rand Inc. (IR)	Neutral	2
ITT Inc. (ITT)	Neutral	3
ParkerHannifin Corporation (PH)	Neutral	3

Industry Comparison Industry: Diversified Operations				Industry Peers		
	CR	X Industry	S&P 500	CSL	DOV	PH
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	3	3	3
VGM Score	D	-	-	A	A	A
Market Cap	3.30 B	4.95 B	22.47 B	6.42 B	15.08 B	23.13 B
# of Analysts	3	3	14	3	8	10
Dividend Yield	3.02%	2.07%	1.84%	1.70%	1.87%	1.95%
Value Score	C	-	-	A	B	A
Cash/Price	0.09	0.26	0.07	0.11	0.04	0.03
EV/EBITDA	11.61	8.07	13.04	8.95	14.05	11.89
PEG Ratio	2.39	2.95	2.97	1.38	1.75	1.60
Price/Book (P/B)	2.35	1.14	3.11	2.55	4.88	3.67
Price/Cash Flow (P/CF)	7.15	6.70	12.07	9.75	13.30	11.59
P/E (F1)	14.96	19.68	21.52	20.76	20.18	18.81
Price/Sales (P/S)	1.07	0.91	2.35	1.43	2.23	1.63
Earnings Yield	6.68%	4.68%	4.34%	4.81%	4.95%	5.32%
Debt/Equity	0.60	0.83	0.76	0.83	0.97	1.28
Cash Flow (\$/share)	7.97	2.35	7.01	12.06	7.88	15.57
Growth Score	F	-	-	B	B	B
Hist. EPS Growth (3-5 yrs)	10.44%	10.27%	10.85%	10.24%	16.20%	17.20%
Proj. EPS Growth (F1/F0)	-36.77%	-22.27%	-7.56%	-31.02%	-12.44%	-1.50%
Curr. Cash Flow Growth	-1.40%	9.67%	5.47%	19.98%	10.20%	6.37%
Hist. Cash Flow Growth (3-5 yrs)	7.00%	7.02%	8.55%	13.96%	1.28%	7.55%
Current Ratio	1.37	1.56	1.31	3.51	1.32	1.49
Debt/Capital	37.44%	45.22%	44.41%	45.22%	49.27%	56.22%
Net Margin	1.22%	3.43%	10.44%	8.43%	9.99%	9.32%
Return on Equity	18.74%	11.66%	15.10%	15.60%	27.33%	24.30%
Sales/Assets	0.71	0.72	0.54	0.77	0.76	0.72
Proj. Sales Growth (F1/F0)	-13.11%	-1.99%	-1.97%	-11.76%	-9.13%	0.45%
Momentum Score	B	-	-	B	A	C
Daily Price Chg	-7.18%	0.00%	-0.80%	-3.62%	-1.39%	-2.84%
1 Week Price Chg	0.56%	-0.37%	0.37%	-3.25%	1.86%	-1.14%
4 Week Price Chg	-4.14%	0.00%	3.64%	-1.75%	8.50%	-1.58%
12 Week Price Chg	11.44%	6.20%	11.56%	2.62%	14.02%	17.47%
52 Week Price Chg	-32.85%	-22.78%	-3.92%	-18.26%	7.03%	2.02%
20 Day Average Volume	294,723	60,526	1,867,919	519,597	753,481	848,798
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.78%	8.66%	0.00%
(F1) EPS Est 4 week change	1.51%	0.00%	0.21%	1.04%	9.78%	0.87%
(F1) EPS Est 12 week change	0.18%	-9.51%	-1.29%	0.00%	9.78%	6.08%
(Q1) EPS Est Mthly Chg	0.61%	0.00%	0.09%	-13.23%	2.79%	3.96%

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	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.

Disclosures

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