

Kronos Worldwide (KRO)

\$11.30 (As of 02/12/20)

Price Target (6-12 Months): **\$13.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/13/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: C

Momentum: A

Summary

Earnings estimate for Kronos Worldwide for the fourth quarter of 2019 have been stable over the past month. Kronos Worldwide is poised to gain from rising demand for TiO₂. The company is seeing strong demand for its TiO₂ products across most segments. Higher sales volumes should also drive its revenues. New product development and a solid customer base will also work in the company's favor. It has also outperformed the industry over a year. However, the company faces challenges from declining TiO₂ selling prices. Lower average selling prices are weighing on its sales and profits. Higher raw material costs are another concern. Kronos Worldwide is witnessing higher cost of third-party feedstock ore, which is denting its profitability. Higher production costs are also anticipated to weigh on the company's bottom line.

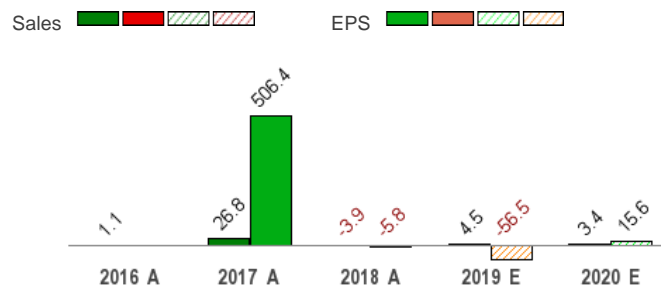
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$16.13 - \$9.65
20 Day Average Volume (sh)	236,658
Market Cap	\$1.3 B
YTD Price Change	-15.7%
Beta	2.04
Dividend / Div Yld	\$0.72 / 6.4%
Industry	Chemical - Diversified
Zacks Industry Rank	Bottom 17% (210 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-15.8%
Last Sales Surprise	2.3%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	03/09/2020
Earnings ESP	0.0%
P/E TTM	12.8
P/E F1	12.8
PEG F1	0.8
P/S TTM	0.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					1,796 E
2019	437 A	485 A	437 A	378 E	1,737 E
2018	430 A	472 A	410 A	349 A	1,662 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020					\$0.89 E
2019	\$0.26 A	\$0.25 A	\$0.16 A	\$0.10 E	\$0.77 E
2018	\$0.61 A	\$0.67 A	\$0.28 A	\$0.21 A	\$1.77 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 02/12/2020. The reports text is as of 02/13/2020.

Overview

Dallas, TX-based Kronos Worldwide, Inc. is a leading producer and marketer of titanium dioxide (TiO₂), a white pigment for providing whiteness, brightness and opacity that is used in a broad range of products. TiO₂ is a key component of applications such as coatings, plastics and paper, inks, food and cosmetics and is the biggest commercially used whitening pigment.

TiO₂ is broadly considered to be superior to other white pigments mostly due to its opacity that is the ability to cover or mask other materials efficiently and effectively. It is developed and marketed based on specific end-use applications.

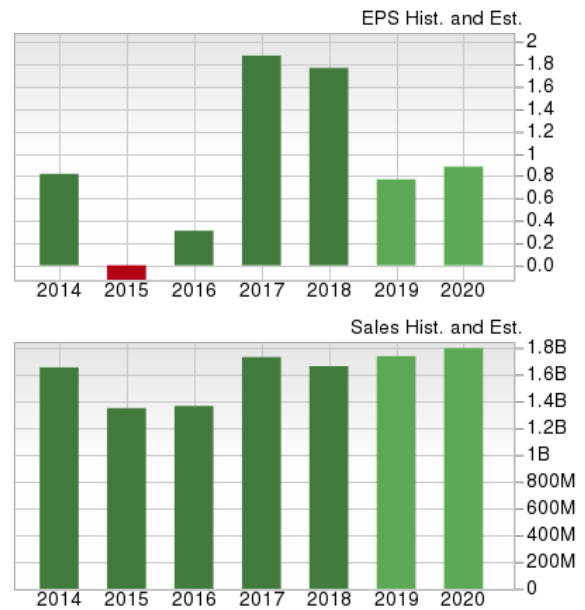
The company provides its customers a vast portfolio of products that include more than 40 different TiO₂ pigment grades that offer a number of performance properties to address customers' specific needs. Its major customers include domestic and international paint, plastics, decorative laminate and paper makers.

For coatings, TiO₂ is used to provide opacity, durability, tinting strength and brightness in industrial coatings, and coatings for commercial and residential interiors and exteriors, automobiles, aircraft, machines, appliances and traffic paint, among others. For plastics, TiO₂ improves the optical and physical properties of plastics, including whiteness and opacity. The company's TiO₂ is also used in the production of several types of paper including laminate paper and filled paper.

Kronos Worldwide is among the top six producers of TiO₂ globally. It produced 536,000 metric tons of TiO₂ in 2018. Sales of the company's core TiO₂ pigments accounted for around 94% of its total sales in 2018.

Kronos Worldwide along with its distributors and agents market and provide technical services for its products in about 100 countries. It had an estimated 8% share of global TiO₂ sales volumes in 2018. The company's primary markets are North America (17% market share in 2018) and Europe (13%). Europe, North America, Asia Pacific and Rest of the World accounted for 44%, 37%, 10% and 9% of its TiO₂ sales volumes in 2018. Coatings, plastics, paper and other accounted for 56%, 27%, 7% and 10% of sales volumes last year.

Roughly 50% of the company's common stock was owned by Valhi, Inc. (VHI) and around 30% was owned by a fully-owned subsidiary of NL Industries, Inc. (NL) at the end of 2017.



Reasons To Buy:

- ▲ Kronos Worldwide's shares are down 22.2% year in the past year, outperforming the industry's decline of 25.9%. The company is poised to gain from rising demand for TiO₂. Demand for TiO₂ has been growing at an annual rate of 3% over the last several years on the back of strong consumptions across Western Europe and North America. The company is seeing strong demand for its TiO₂ products across most segments, which is expected to continue moving ahead. In particular, markets for TiO₂ are rising in South America, Eastern Europe, the Asia Pacific region and China. The company expects demand to grow 2-3% annually over the long term.
- ▲ While Kronos Worldwide faced challenges from lower sales and production volumes in 2018, it is expected to gain from higher volumes in 2019. The company expects its production and sales volumes to rise on a year over year basis in 2019. It also expects its sales to be higher year over year in 2019, mainly due to higher expected sales volumes.
- ▲ Development of new products and improvement of existing facilities as well as solid customer base in paper, coatings, and plastics end markets and overseas markets are likely to work in the company's favor. Also, strengthening operations in international arenas and effective marketing strategies will be advantageous. Research and development, aimed at uplifting the product quality, production process and application areas, also remain a priority for Kronos Worldwide.

Kronos Worldwide is poised to gain from rising demand for TiO₂. Higher sales volumes should also drive its revenues.

Reasons To Sell:

- ▼ Kronos Worldwide faces challenges from lower selling prices as witnessed in the last reported quarter. Lower average TiO2 selling prices weighed on its profits in the third quarter. Its average selling prices fell 5% year over year during the quarter. Kronos Worldwide expects its income from operations to be lower year over year in 2019 factoring in lower expected average selling prices.
- ▼ The company is exposed to raw material cost inflation. It is seeing higher cost of third-party feedstock ore as witnessed in the last reported quarter, which is hurting its profitability. The company saw higher cost of third-party feedstock ore it purchased in the quarter, which dented profitability in the TiO2 segment by around 40% year over year. The company expects cost of sales per metric ton of TiO2 sold in 2019 to be higher year over year due to higher feedstock costs.
- ▼ Kronos Worldwide is facing headwinds from higher production costs, which is weighing on its bottom line. Increased production costs contributed to a 20% rise in cost of sales in the last reported quarter. Higher costs are expected to hurt the company's profits in 2019.

Kronos Worldwide faces challenges from declining TiO2 selling prices. Higher raw material and production costs are also expected to weigh on its margins.

Last Earnings Report

Kronos Worldwide's Q3 Earnings Miss, Sales Top Estimates

Kronos Worldwide recorded profit of \$17.9 million or 16 cents per share in third-quarter 2019, down 45% from \$32.6 million or 28 cents in the year-ago quarter. Earnings per share also missed the Zacks Consensus Estimate of 19 cents.

Results in the reported quarter were hurt by lower average selling prices as well as higher raw materials and other production costs, partly offset by increased sales volumes.

Net sales rose 7% year over year to \$437.4 million as higher sales volumes offset TiO2 selling prices. The figure beat the Zacks Consensus Estimate of \$427.5 million.

Volumes and Pricing

Average TiO2 selling prices fell 5% year over year in the reported quarter.

The company's TiO2 sales volume rose 17% year over year on higher sales across all key markets. TiO2 production volumes in the third quarter were up 4% on a year-over-year basis.

Profit in the TiO2 segment was \$36.8 million in the reported quarter, down around 40% year over year. The decline reflects lower TiO2 selling prices and higher raw materials as well as other production costs that more than offset higher sales volumes.

Balance Sheet

Kronos Worldwide ended the quarter with cash and cash equivalents of \$385.8 million, down 11% year over year. Long-term debt was \$434.6 million, down 7% year over year.

Cash flow from operating activities was \$123.8 million for the first nine months of 2019, down from \$199 million in the year-ago period.

Outlook

Kronos Worldwide expects production volumes to be modestly higher year over year in 2019. The company also sees sales volumes for 2019 to be higher year over year based on expected production levels and assuming global economic conditions to remain stable. The company will continue to examine current and expected customer demand levels and align production and inventories accordingly.

The company expects sales to be higher year over year in 2019, resulting from higher expected sales volumes, partly offset by lower anticipated average selling prices.

Moreover, Kronos Worldwide expects its income from operations to be lower year over year in 2019 as benefits of higher expected sales volumes are expected to be more than offset by reduced expected average selling prices and increased raw material and other operating costs.

Quarter Ending **09/2019**

Report Date	Nov 07, 2019
Sales Surprise	2.31%
EPS Surprise	-15.79%
Quarterly EPS	0.16
Annual EPS (TTM)	0.88

Valuation

Kronos Worldwide's shares are down 22.2% over the trailing 12-month period. Stocks in the Zacks Chemicals-Diversified industry and the Zacks Basic Materials sector are down 25.9% and 5% over the past year, respectively.

The S&P 500 index is up 21.4% in the past year.

The stock is currently trading at 6.21X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 7.09X for the Zacks sub-industry, 9.23X for the Zacks sector and 11.36X for the S&P 500 index.

Over the past five years, the stock has traded as high as 36.02X and as low as 2.72X, with a 5-year median of 7.66X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$13 price target reflects 1.77X tangible book value.

The table below shows summary valuation data for KRO:

Valuation Multiples - KRO					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	6.21	7.09	9.23	11.36
	5-Year High	36.02	12.49	18.36	12.85
	5-Year Low	2.72	5.12	7.34	8.47
	5-Year Median	7.66	7.28	10.6	10.7
P/B TTM	Current	1.54	1.67	2.24	4.33
	5-Year High	5.42	3.54	3.54	4.42
	5-Year Low	1	0.89	1.34	2.85
	5-Year Median	2	2.51	2.19	3.62
P/S TTM	Current	0.77	0.77	2.09	4.01
	5-Year High	2.11	1.77	3.1	4.01
	5-Year Low	0.34	0.68	1.82	2.49
	5-Year Median	0.93	1.06	2.5	3.14

As of 02/12/2020

Industry Analysis Zacks Industry Rank: Bottom 17% (210 out of 254)



Top Peers

Lithium Americas Corp. (LAC)	Outperform
The Chemours Company (CC)	Neutral
Huntsman Corporation (HUN)	Neutral
Koppers Holdings Inc. (KOP)	Neutral
Orion Engineered Carbons S.A (OEC)	Neutral
Tronox Limited (TROX)	Neutral
Venator Materials PLC (VNTR)	Neutral
Cabot Corporation (CBT)	Underperform

Industry Comparison Industry: Chemical - Diversified				Industry Peers		
	KRO Neutral	X Industry	S&P 500	CC Neutral	KOP Neutral	VNTR Neutral
VGM Score	A	-	-	B	A	B
Market Cap	1.31 B	2.77 B	24.53 B	2.55 B	726.92 M	336.73 M
# of Analysts	2	3	13	3	4	6
Dividend Yield	6.37%	1.72%	1.75%	6.41%	0.00%	0.00%
Value Score	A	-	-	A	A	A
Cash/Price	0.30	0.07	0.04	0.30	0.06	0.13
EV/EBITDA	3.95	7.37	13.98	3.72	10.68	53.44
PEG Ratio	0.80	1.61	2.09	0.32	0.46	0.63
Price/Book (P/B)	1.55	2.12	3.29	3.02	6.49	0.40
Price/Cash Flow (P/CF)	5.14	6.65	13.69	2.01	5.74	0.92
P/E (F1)	12.56	14.34	19.19	5.03	8.30	6.65
Price/Sales (P/S)	0.77	0.92	2.68	0.45	0.40	0.16
Earnings Yield	7.79%	6.95%	5.21%	19.88%	12.04%	14.87%
Debt/Equity	0.61	0.50	0.71	5.05	9.32	0.91
Cash Flow (\$/share)	2.20	3.41	6.92	7.77	6.12	3.45
Growth Score	C	-	-	C	A	D
Hist. EPS Growth (3-5 yrs)	30.01%	11.02%	10.85%	45.80%	35.94%	NA
Proj. EPS Growth (F1/F0)	14.94%	5.15%	7.30%	30.70%	22.33%	147.82%
Curr. Cash Flow Growth	-1.74%	-3.46%	8.56%	30.94%	-4.05%	17.25%
Hist. Cash Flow Growth (3-5 yrs)	60.63%	6.20%	8.36%	14.17%	8.41%	NA
Current Ratio	5.22	1.83	1.23	1.72	1.96	2.36
Debt/Capital	37.78%	35.68%	42.91%	83.48%	90.31%	47.74%
Net Margin	5.95%	5.57%	11.81%	7.24%	2.40%	-3.26%
Return on Equity	11.94%	12.26%	16.92%	58.38%	81.83%	6.36%
Sales/Assets	0.89	0.85	0.54	0.76	1.16	0.88
Proj. Sales Growth (F1/F0)	3.41%	2.28%	3.96%	4.11%	3.73%	4.39%
Momentum Score	A	-	-	D	C	D
Daily Price Chg	0.44%	0.66%	0.64%	4.35%	2.78%	1.94%
1 Week Price Chg	1.29%	1.57%	2.47%	1.23%	4.59%	4.38%
4 Week Price Chg	-11.02%	-1.28%	1.87%	-12.17%	1.06%	-12.22%
12 Week Price Chg	-19.17%	-4.83%	6.69%	-8.56%	-8.85%	-16.62%
52 Week Price Chg	-21.53%	-5.50%	16.42%	-59.77%	47.25%	-45.04%
20 Day Average Volume	236,658	108,238	2,019,212	2,546,332	107,260	252,828
(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%	-0.06%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	0.00%	-1.45%	-0.19%	-2.98%	-0.29%	-20.61%
(Q1) EPS Est Mthly Chg	NA%	0.00%	-0.16%	NA	0.00%	NA

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	A
Growth Score	C
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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