

Kronos Worldwide (KRO)

\$10.64 (As of 07/20/20)

Price Target (6-12 Months): **\$11.00**

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:C

Value: B

Growth: F

Momentum: B

Summary

Earnings estimates for Kronos Worldwide for the second quarter of 2020 have been stable over the past month. The company is poised to gain from higher demand for TiO2. Kronos Worldwide is witnessing healthy demand for its TiO2 products across most segments. New product development and a solid customer base will also work in the company's favor. However, the company is exposed to challenges from declining TiO2 selling prices. Lower average selling prices are denting sales and profits. Higher raw material costs are another concern. Kronos Worldwide is witnessing higher cost of third-party feedstock ore, which is hurting its profitability. Higher production costs are anticipated to put pressure on the bottom line in 2020. The company has also underperformed the industry it belongs to over the past year.

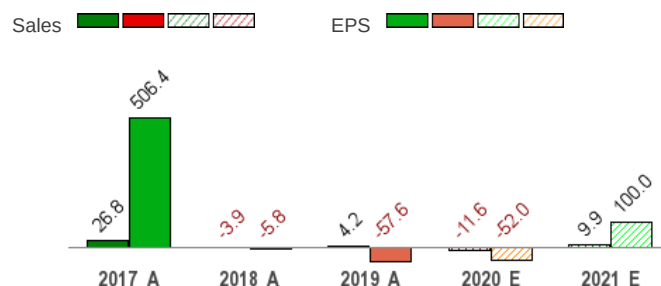
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$15.09 - \$6.81
20 Day Average Volume (sh)	340,208
Market Cap	\$1.2 B
YTD Price Change	-20.6%
Beta	1.66
Dividend / Div Yld	\$0.72 / 6.8%
Industry	Chemical - Diversified
Zacks Industry Rank	Bottom 40% (150 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	53.3%
Last Sales Surprise	1.2%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	08/05/2020
Earnings ESP	0.0%
P/E TTM	14.8
P/E F1	29.6
PEG F1	1.9
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					1,682 E
2020	421 A	370 E	390 E	350 E	1,531 E
2019	437 A	485 A	437 A	373 A	1,731 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$0.72 E
2020	\$0.23 A	\$0.04 E	\$0.07 E	\$0.03 E	\$0.36 E
2019	\$0.26 A	\$0.25 A	\$0.16 A	\$0.08 A	\$0.75 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 07/20/2020. The reports text is as of 07/21/2020.

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.

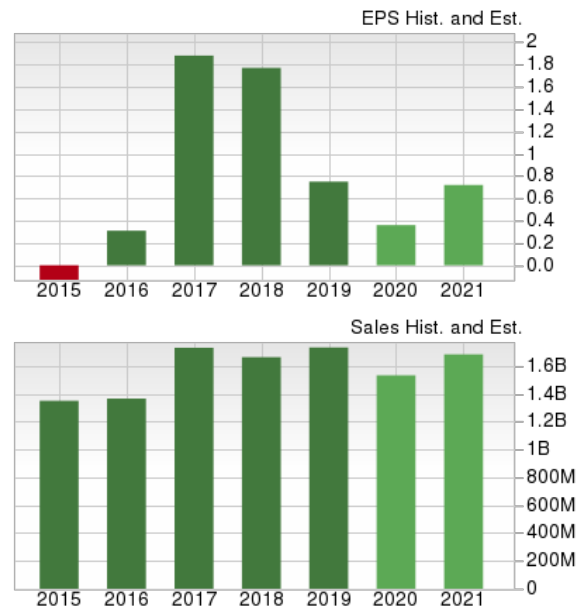
The company provides its customers a vast portfolio of products that include more than 40 different TiO₂ pigment grades that offer a number of performance properties to address customers' specific needs. Its major customers include domestic and international paint, plastics, decorative laminate and paper 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 546,000 metric tons of TiO₂ in 2019, up 1.9% year over year. Sales of the company's core TiO₂ pigments accounted for around 94% of its total sales in 2019.

Kronos Worldwide along with its distributors and agents market and provide technical services for its products in about 100 countries. The company's primary markets are North America (19% market share in 2019) and Europe (18%). Europe, North America, Asia Pacific and Rest of the World accounted for 46%, 34%, 10% and 10% of its TiO₂ sales volumes in 2019. Coatings, plastics, paper and other accounted for 57%, 28%, 5% 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 2019.



Reasons To Buy:

- ▲ Kronos Worldwide 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.
- ▲ 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.
- ▲ The company had total long-term debt of \$513 million at the end of the first quarter of 2020, down from \$523 million at the end of the sequentially prior quarter. Its total debt-to-total capital stood at 39.7% as of Mar 31, 2020, lower than its industry's 43.4%. As such, the company appears to have a lower default risk.

Kronos Worldwide is poised to gain from rising demand for TiO₂. New product development and a solid customer base will also work in the company's favor.

Reasons To Sell:

- ▼ Kronos Worldwide's shares are down 21.7% year in the past year, underperforming the industry's decline of 5.7%. Kronos Worldwide faces challenges from weak selling prices. The company's average selling prices at the end of the first quarter of 2020 was 2% lower on a year-over-year basis. Lower average selling prices are likely to continue to weigh on the company's bottom line moving ahead.
- ▼ 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 11% year over year. The company expects cost of sales per metric ton of TiO₂ sold in 2020 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 2% rise in cost of sales in the last reported quarter. Higher costs are expected to hurt the company's profits in 2020.

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 Earnings & Sales Beat Estimates in Q1

Kronos Worldwide logged a profit of \$27 million or 23 cents per share in first-quarter 2020, down from \$30.3 million or 26 cents in the year-ago quarter. Earnings, however, topped the Zacks Consensus Estimate of 15 cents.

Results in the reported quarter were impacted by lower sales volumes and increased raw materials as well as other production costs.

Net sales fell 4% year over year to \$421 million, hurt by lower sales volumes. However, the figure beat the Zacks Consensus Estimate of \$416 million.

Volumes and Pricing

The company's TiO2 sales volumes fell 5% year over year due to lower volumes in North American, Latin American and export markets, partly offset by increased volumes in the European market. TiO2 production volumes were down 1% year over year in the reported quarter.

Average TiO2 selling prices were flat year over year in the reported quarter.

Financials

Kronos Worldwide ended the quarter with cash and cash equivalents of \$341.5 million, up around 1% year over year. Long-term debt was \$436.3 million, down around 2% year over year.

Net cash used in operating activities was \$9.8 million for the reported quarter.

Outlook

Kronos Worldwide said that the coronavirus pandemic had limited impact on its operations and financial performance in the first quarter of 2020. The company expects global gross domestic product to be considerably impacted for an indeterminate period. Factoring in the impact of the pandemic on the world economy, the company envisions its sales and earnings to be lower than what it had originally expected for 2020.

Quarter Ending	03/2020
Report Date	May 06, 2020
Sales Surprise	1.21%
EPS Surprise	53.33%
Quarterly EPS	0.23
Annual EPS (TTM)	0.72

Valuation

Kronos Worldwide's shares are down 20.6% in the year-to-date period and down 21.7% over the trailing 12-month period. Stocks in the Zacks Chemical - Diversified industry and Zacks Basic Materials sector are down 8.5% and 0.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 5.7% and up 0.2%, respectively.

The S&P 500 index is up 0.3% in the year-to-date period and up 8.7% in the past year.

The stock is currently trading at 7.03X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 8.03X for the Zacks sub-industry, 9.91X for the Zacks sector and 11.98X for the S&P 500 index.

Over the past five years, the stock has traded as high as 36.41X and as low as 2.67X, with a 5-year median of 6.77X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$11 price target reflects 1.62X 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	7.03	8.03	9.91	11.98
	5-Year High	36.41	13.21	18.37	12.86
	5-Year Low	2.67	5.27	6.5	8.25
	5-Year Median	6.77	7.47	10.39	10.88
P/B TTM	Current	1.57	1.8	2.71	4.41
	5-Year High	5.42	2.85	3.07	4.56
	5-Year Low	1	0.88	1.23	2.83
	5-Year Median	1.93	1.75	2.2	3.71
P/S TTM	Current	0.72	1.23	2.47	3.47
	5-Year High	2.11	3.94	3.43	3.68
	5-Year Low	0.34	0.68	1.45	2.43
	5-Year Median	0.92	1.2	2.6	3.21

As of 07/20/2020

Industry Analysis Zacks Industry Rank: Bottom 40% (150 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Cabot Corporation (CBT)	Neutral	3
The Chemours Company (CC)	Neutral	3
Huntsman Corporation (HUN)	Neutral	3
Koppers Holdings Inc. (KOP)	Neutral	3
Lithium Americas Corp. (LAC)	Neutral	3
Orion Engineered Carbons S.A (OEC)	Neutral	3
Tronox Limited (TROX)	Neutral	3
Venator Materials PLC (VNTR)	Neutral	3

Industry Comparison Industry: Chemical - Diversified				Industry Peers		
	KRO	X Industry	S&P 500	CC	KOP	VNTR
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	D	C	D
Market Cap	1.23 B	2.64 B	22.29 B	2.64 B	415.65 M	181.68 M
# of Analysts	2	3	14	4	4	6
Dividend Yield	6.77%	1.85%	1.85%	6.23%	0.00%	0.00%
Value Score	B	-	-	C	B	C
Cash/Price	0.27	0.11	0.06	0.26	0.13	0.13
EV/EBITDA	7.19	7.68	13.06	15.26	7.46	6.48
PEG Ratio	1.94	3.11	2.98	NA	NA	NA
Price/Book (P/B)	1.57	1.78	3.12	3.99	3.80	0.28
Price/Cash Flow (P/CF)	8.67	6.63	12.03	3.55	3.28	1.34
P/E (F1)	30.39	19.55	22.15	10.92	8.66	NA
Price/Sales (P/S)	0.72	0.80	2.35	0.48	0.24	0.09
Earnings Yield	3.38%	4.64%	4.30%	9.16%	11.56%	-3.51%
Debt/Equity	0.66	0.62	0.75	6.42	9.43	1.17
Cash Flow (\$/share)	1.23	3.41	6.94	4.52	6.03	1.28
Growth Score	F	-	-	D	D	F
Hist. EPS Growth (3-5 yrs)	26.42%	9.92%	10.82%	39.47%	23.93%	NA
Proj. EPS Growth (F1/F0)	-52.00%	-29.97%	-9.08%	-41.43%	-30.89%	-125.00%
Curr. Cash Flow Growth	-44.25%	-8.95%	5.51%	-44.39%	-0.48%	-62.94%
Hist. Cash Flow Growth (3-5 yrs)	-0.18%	6.01%	8.55%	0.80%	13.81%	31.76%
Current Ratio	5.03	1.87	1.30	1.93	1.87	2.00
Debt/Capital	39.61%	39.57%	44.41%	86.53%	90.41%	53.88%
Net Margin	4.88%	4.85%	10.54%	-0.82%	3.09%	-7.86%
Return on Equity	10.12%	12.72%	15.74%	56.54%	55.33%	3.13%
Sales/Assets	0.89	0.77	0.54	0.75	1.11	0.91
Proj. Sales Growth (F1/F0)	-11.54%	-7.36%	-2.36%	-13.47%	-8.74%	-11.60%
Momentum Score	B	-	-	F	D	B
Daily Price Chg	-3.27%	-0.89%	-0.77%	-2.25%	-3.97%	-6.83%
1 Week Price Chg	7.95%	4.90%	3.82%	3.86%	10.14%	12.96%
4 Week Price Chg	8.46%	3.48%	2.71%	1.65%	2.70%	-9.79%
12 Week Price Chg	14.65%	15.15%	9.79%	43.95%	68.88%	36.40%
52 Week Price Chg	-21.71%	-12.90%	-3.79%	-13.80%	-24.51%	-58.01%
20 Day Average Volume	340,208	90,048	2,095,914	1,732,952	192,693	219,126
(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%	0.09%	-0.68%	0.00%	2.70%
(F1) EPS Est 12 week change	-10.00%	-10.37%	-4.60%	-44.53%	-25.00%	-153.73%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	3.05%	0.00%	10.00%

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	B
Growth Score	F
Momentum Score	B
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.

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