



Kronos Worldwide, Inc. (KRO)

Updated June 10th, 2024 by Ian Bezek

Key Metrics

Current Price:	\$13.50	5 Year CAGR Estimate:	0.4%	Market Cap:	\$1.6 B
Fair Value Price:	\$8.20	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	06/10/24
% Fair Value:	165%	5 Year Valuation Multiple Estimate:	-9.5%	Dividend Payment Date:	06/20/24
Dividend Yield:	5.6%	5 Year Price Target	\$9.96	Years Of Dividend Growth:	1
Dividend Risk Score:	F	Retirement Suitability Score:	D	Rating:	Sell

Overview & Current Events

Kronos Worldwide is a chemicals company. It generates virtually all of its revenues from the sales of titanium dioxide (TiO₂) pigments. These pigments are used for giving brightness and color to products such as paints, cosmetics, and plastics. Kronos went public in 2003 and it remains a subsidiary of Valhi, Inc. (VHI) which owns 50% of Kronos' outstanding stock. Investors should exercise caution with Kronos stock given its limited trading volume and modest outstanding stock float. That said, the company has given its shareholders an above-average dividend stream in recent years. These have been supported by Kronos' volatile, but generally favorable earnings results. While this is a pure commodity business, Kronos historically has been a strong operator with disciplined cost controls. The firm also saw an uptick in activity in 2021 thanks to the worldwide economic reopening.

However, Kronos' business went into a slump in 2023. The TiO₂ business is a highly cyclical one as it is tied to end markets such as housing. First quarter earnings results, released on May 8th, 2024, reflected a turnaround. Kronos earned 7 cents a share which was a sharp improvement from the 13 cent per share loss in the same period of last year. Revenues of \$479 million jumped 12% year-over-year and easily topped expectations.

This quarter was much better than the past few and reflects the first real strength we've seen from Kronos' operating business since 2022. We are now somewhat more optimistic for the company's 2024 outlook. Despite high interest rates and weak end demand in certain markets, Kronos is on an improving trajectory.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$1.28	-\$1.13	\$0.80	\$1.81	\$2.20	\$1.17	\$1.11	\$1.26	\$0.90	-\$0.43	\$0.63	\$0.77
DPS	\$0.60	\$0.60	\$0.60	\$0.60	\$0.68	\$0.72	\$0.72	\$0.72	\$0.76	\$0.76	\$0.76	\$0.76
Shares¹	116	116	116	116	116	116	116	116	116	116	116	116

Kronos has had an unsteady earnings per share track record. The company has earned as much as \$2 per share on several occasions, while losing money outright at other times. Given that the company derives nearly all its revenues from titanium dioxide, it lives and dies by fluctuations in the supply and demand picture for that product. The company hasn't engaged in major investments or mergers and acquisitions which change the firm's long-term outlook.

Kronos has exceptionally uneven earnings, and it's hard to offer a precise estimate of the firm's earnings power in any given year. Our assumption is that earnings will rebound in 2024 and then slowly grow over the next few years as the company recovers from its 2023 downturn though there is substantial uncertainty around its long-term earnings power.

The company has kept up its current dividend payout despite the Kronos losing a substantial sum of money in 2023. We believe the company will try to maintain the dividend, if possible, but hikes are unlikely for the foreseeable future. While the company's dividend payout ratio is still above 100% at the moment, Kronos' return to profitability this quarter is a helpful sign toward being able to maintain the current dividend payout.

¹ In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	17.4	--	19.2	13.6	11.6	17.8	21.0	19.5	10.4	--	21.4	13.0
Avg. Yld.	4.0%	6.1%	8.5%	3.1%	3.3%	5.4%	6.2%	4.9%	7.0%	8.4%	5.6%	7.6%

Kronos has had a volatile price-to-earnings ratio over the past decade. This is not unexpected, given that the company's underlying earnings have had numerous peaks and valleys. The company appeared cheap in 2022, but then earnings disappeared in 2023. Shares seem overvalued based on projected 2024 earnings.

Given the uncertainty around the company's long-term earnings power, we expect the firm's P/E to remain fairly low on average. Investors should expect to earn more returns from the firm's generous dividend rather than share price appreciation. Kronos has historically offered a highly variable dividend yield. Thanks to a sharp rally in the stock price recently, Kronos' dividend yield has slipped to 5.6% now.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	47%	--	75%	33%	31%	62%	65%	57%	84%	--	121%	99%

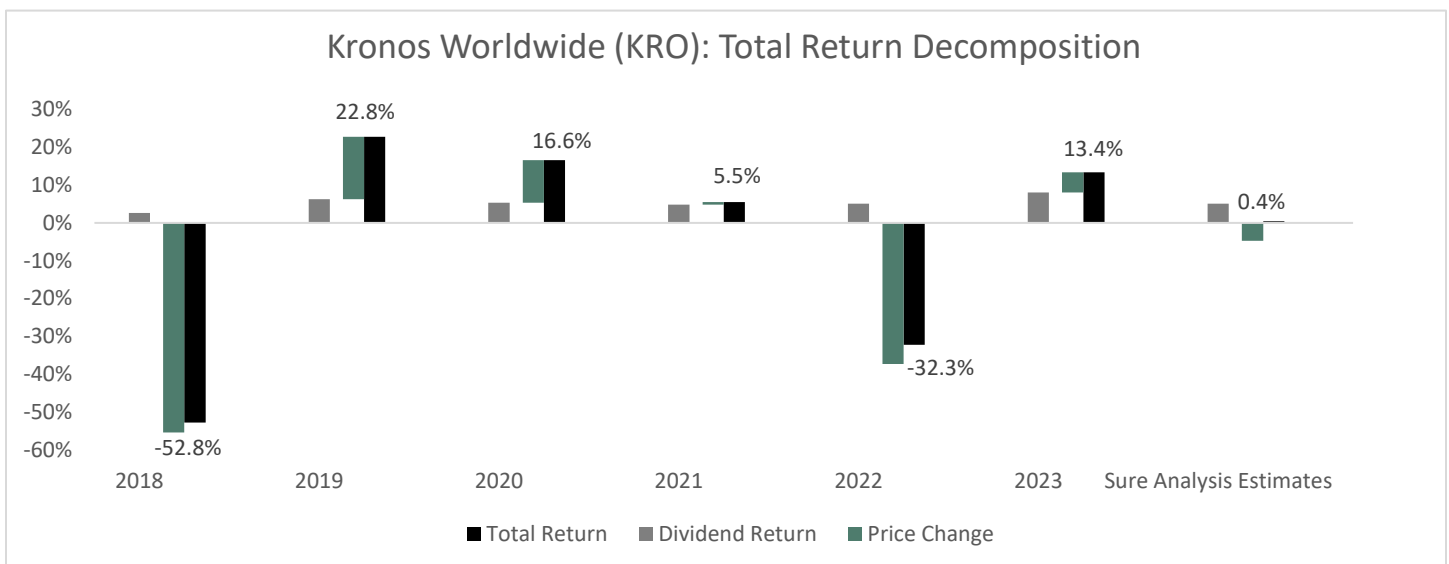
Kronos has maintained its dividend in recent years along with giving investors the occasional small increase in payment. However, without much earnings growth, this has put pressure on the company's payout ratio, which is expected to exceed 100% this year. It could take years for Kronos' earnings to grow enough to cover its current dividend payment.

The company has minimal net debt. It is also controlled by a charitable trust which presumably has reason to maintain a high dividend payout. These are positive signs, but the dividend is clearly still at risk given last year's negative earnings and the uncertain outlook going forward.

Final Thoughts & Recommendation

Kronos' situation remains highly unsettled. The company generated losses throughout 2023 and is still on uneven footing right now. Kronos should return to profitability in 2024, but at a level well below its historic average. Shares have rallied sharply over the past six months and are now far above our fair value estimate; KRO stock earns a sell rating today.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	1,652	1,349	1,364	1,729	1,662	1,731	1,639	1,939	1,930	1,666
Gross Profit	350	192	265	570	562	386	351	446	391	165
Gross Margin	21.2%	14.3%	19.4%	32.9%	33.8%	22.3%	21.4%	23.0%	20.3%	9.9
SG&A Exp.	202	192	181	215	243	243	232	264	246	217
Operating Profit	49	42	41	41	50	55	65	58	148	(63)
Op. Margin	147	(0)	88	356	320	144	120	186	7.7%	(3.8%)
Net Profit	8.9%	0.0%	6.4%	20.6%	19.3%	8.3%	7.3%	9.6%	105	(49)
Net Margin	99	(174)	43	355	205	87	64	113	5.4%	(2.9%)
Free Cash Flow	6.0%	-12.9%	3.2%	20.5%	12.3%	5.0%	3.9%	5.8%	19	(42)
Income Tax	27	5	37	212	132	105	40	148	29	(24)

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,633	1,243	1,180	1,824	1,898	1,966	2,037	2,013	1,934	1,838
Cash & Equivalents	168	93	51	322	373	391	355	406	328	195
Acc. Receivable	231	195	225	301	273	271	295	326	220	274
Inventories	424	387	344	382	498	503	519	432	609	565
Goodwill & Int.	---	---	---	---	---	---	---	---	---	---
Total Liabilities	684	852	781	785	1,070	1,058	1,150	1,240	977	1,030
Accounts Payable	124	121	96	85	108	103	137	111	177	219
Long-Term Debt	184	344	341	339	475	457	446	487	425	441
Total Equity	935	781	462	395	754	840	816	797	957	808
LTD/E Ratio	0.20	0.44	0.74	0.86	0.63	0.54	0.55	0.61	0.44	0.55

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	6.1%	-12.1%	3.6%	23.6%	11.0%	4.5%	3.2%	5.6%	5.3%	(2.6%)
Return on Equity	11.6%	-27.9%	10.1%	61.7%	25.7%	10.5%	7.9%	13.5%	11.4%	(5.6%)
ROIC	8.8%	-18.0%	5.6%	36.1%	16.2%	6.8%	5.0%	8.7%	7.7%	(3.7%)
Shares Out.	116	116	116	116	116	116	116	116	115.5	115
Revenue/Share	14.25	11.64	11.77	14.92	14.34	14.95	14.18	16.79	16.71	14.48
FCF/Share	0.23	0.04	0.32	1.83	1.14	0.91	0.34	1.28	0.16	(0.36)

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

Disclaimer

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