

Crown Holdings Inc.

4Q Flash: Disappointing results and guide even though Americas doing ok

Maintain Rating: BUY | PO: 105.00 USD | Price: 88.33 USD

Adj. EPS of \$1.24 vs. BofA @ \$1.40 and Street at \$1.44

We have maintained a Buy on Crown given our views of its relative valuation. CCK adj. EPS of \$1.24 was below BofA's forecast of \$1.40 and the Street at \$1.44 (Visible Alpha). This also compares to CCK's guidance of \$1.40-\$1.50 for 4Q. Total segment income (including corporate and Other) of \$382mn was about in line with our \$381mn estimate, although the composition was weaker. Meantime, lower pension and post-retirement expense added 4c compared to our model while slightly lower net interest expense added 1c. Meantime, balance-sheet impacts of FX were a 6c drag compared to our model and a slightly higher adj. tax rate was a 2c deduction. Lastly, the combination of equity earnings and non-controlling interests were a 14c drag on EPS. The company also mentioned that it has made the decision to shut two plants in North America (Batesville, MS and Decatur, IL) as well as its Ho Chi Minh City, Vietnam and Singapore facilities (with this capacity being relocated to the new Vung Tau, Vietnam plant). While 4Qs can be messy given year-end accruals and catch-ups, these results and the guide were disappointing, and we would have preferred CCK pre-announce in light of the >10% variance v. its prior guidance and the prior Street consensus for 2024. **Crown will present at our Global Ag & Materials Conference, 2/28-29.** Please contact your BofA rep. for details.

'24 EPS guide light on weak consumer + NA Aerosol/equip.

Looking ahead, CCK is guiding to 2024 EPS of \$5.80-6.20, which compares to our \$6.35 estimate and the Street at \$6.85. The company mentioned that this guidance reflects pressured consumers in most of its markets along with demand softness in CCK's North American aerosol and beverage can making equipment businesses. The company also guides to EPS of \$0.90-1.00 for 1Q (against our \$1.08 est. and the Street at \$1.42). We also surmise that, because they trended below our forecasts for 4Q, that Europe and Transit (Signode) are a further cause of variance v. our estimates. While the press release doesn't mention this (and this doesn't explain the 4Q miss for Europe), perhaps 1Q is also being impacted by steel inventory charges given that the steel-exposed Other, Transit and equity units were below our forecasts. Meantime, CCK expects 2024 cash from operations (CFO) of \$1.23bn (BofAe \$1.237bn) along with "no more than" \$500mn of capex in '24/'25 (in line with our estimates). This puts FCF at \$730mn compared to our \$737mn estimate and the Street at \$780.4mn. Given the lower-than-expected earnings guidance, we expect the balance on CFO was likely driven by working capital performance.

We discuss additional points below...

05 February 2024

Equity

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Stock Data

Price	88.33 USD
Price Objective	105.00 USD
Date Established	2-Jan-2024
Investment Opinion	B-1-7
52-Week Range	75.61 USD - 96.35 USD
Mrkt Val (mn) / Shares Out (mn)	10,555 USD / 119.5
Free Float	99.2%
Average Daily Value (mn)	77.38 USD
BofA Ticker / Exchange	CCK / NYS
Bloomberg / Reuters	CCK US / CCK.N
ROE (2023E)	32.8%
Net Dbt to Eqty (Dec-2022A)	347.6%
ESGMeter™	High

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Timestamp: 05 February 2024 06:35PM EST

Americas + Asia above our f'casts but others below

At the segment level, Americas EBIT was \$32.8mn above (or +21c on EPS) our \$222.2mn estimate and CCK mentioned that North America (NA) can volumes were up 5% y/y and Brazil was up 2%. We modeled 3% aggregate volume growth for the Americas in 4Q. European Beverage EBIT was \$28.6mn below our forecast (or -18c on EPS) at \$18mn. We'll inquire for additional details on the call regarding the weaker result in Europe – one partial explanation for the variance may be that Crown recast its segment reporting to reclassify European corp. costs (that were previously in Corporate) into the European Beverage segment, but we suspect the primary driver of the lower result was fixed-cost under-absorption. As for Transit Packaging, segment EBIT was \$7mn below our estimate (or -4c on EPS). Other (which includes North American food and closures, aerosol, and equipment) was \$19.5mn below our \$37mn estimate (-12c on EPS). Asia Pacific was above our model by \$17.1mn at \$47mn. Lastly, Corporate was \$6mn ahead of our -\$36mn estimate (again, there is potential that a recast explains part of the variance).

Price objective basis & risk

Crown Holdings Inc. (CCK)

We calculate our PO of \$105 by using our 2024 estimates and averaging the fair values derived from (1) a 16-17x 2024E P/E multiple (adj. for asbestos), (2) a 10-13x 2024E EV/EBITDA multiple, and (3) our intrinsic FCF valuation, which assumes \$900mn normalized FCF, a 11% cost of equity and a 2% growth rate. Multiple ranges are in line with past valuation levels reached when fundamentals are positive, and are targeted with past normalized ranges in mind for rigid packaging (10-17x).

Downside risks to our PO are (1) weather uncertainties during key seasonal periods in 2Q-3Q, (2) asbestos liabilities that could present a greater drain on cash flow than we currently expect, (3) FX translation, as the majority of sales are outside the US, (4) increasing investment, particularly in EM, (5) share loss to aseptic or plastic/flexible pkgg or other materials, particularly as regards its food can ops, (6) unfavorable demand trends in key food & beverage end markets, and the overall risks to valuation, demand and pricing should growth slow, (7) unfavorable volume and pricing trends, (8) potential governmental policy and regulatory changes in the US and elsewhere.

And, as with most packaging companies, there are numerous macro risks and other risks around volumes, pricing, input costs and other factors that could negatively affect fundamental & stock price performance. Similarly should these factors prove more constructive than expected, CCK's performance/PO could exceed our forecasts.

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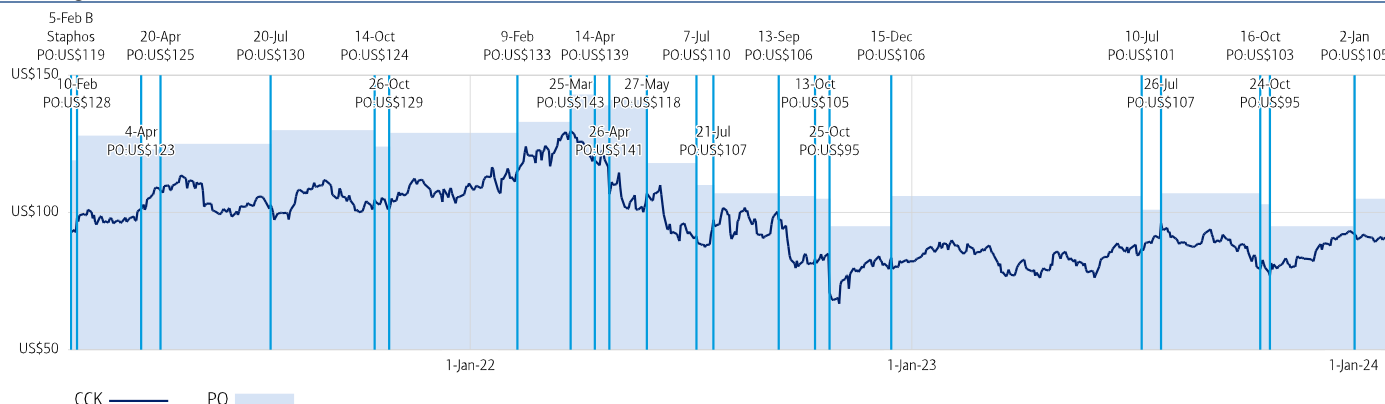
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Crown Holdings (CCK) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	14	60.87%	Buy	10	71.43%
Hold	6	26.09%	Hold	5	83.33%
Sell	3	13.04%	Sell	2	66.67%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
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Sell	807	22.84%	Sell	383	47.46%

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Underperform	N/A	≥ 20%

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