



Sonoco Products (SON)

Updated April 18th, 2018 by Nate Parsh

Key Metrics

Current Price: \$50	5 Year CAGR Estimate: 5.1%	Quality Percentile: N/A
Fair Value Price: \$50	5 Year Growth Estimate: 2.0%	Momentum Percentile: N/A
% Fair Value: 100%	5 Year Valuation Multiple Estimate: 0.0%	Total Return Percentile: N/A
Dividend Yield: 3.1%	5 Year Price Target: \$55	Valuation Percentile: N/A

Overview & Current Events

Sonoco Products provides packaging, industrial products and supply chain services to its customers. The markets that use the company's products include those in the appliances, electronics, beverage, construction and food industries. Sonoco was founded in Hartsville, South Carolina in 1899 and introduced the first paper textile cone. The company now has more than \$5 billion in sales and has a current market cap of almost \$5 billion. Sonoco is composed of 4 divisions: Paper & Industrial Converted Products, Consumer, Protective Solutions, and Display and Packaging.

Sonoco reported 4th quarter 2017 earnings on 2/15/2018. The company earned \$0.72 per share, \$0.01 below estimates. Revenue grew 14% year over year to \$1.3 billion. This topped estimates by \$30 million. Revenues grew due to organic growth, acquisitions and higher selling prices. Volumes for the company increased 2.8% from Q4 2016. Consumer Packaging and Paper & Industrial Converted Products, the company's two largest divisions, each grew 14%. Protective Solutions saw a 5% volume decline. The company said on the conference call that higher freight, materials and labor costs will be a major headwind in 2018.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$2.24	\$1.78	\$2.34	\$2.29	\$2.21	\$2.30	\$2.54	\$2.51	\$2.72	\$2.78	\$3.21	\$3.54
DPS	\$1.07	\$1.08	\$1.11	\$1.15	\$1.19	\$1.23	\$1.27	\$1.37	\$1.46	\$1.54	\$1.56	\$1.92

Sonoco has grown earnings per share at a rate of ~2% over the past ten years. Earnings declined 21% from 2008 to 2009, but Sonoco was able to return to growth the following year. Sonoco's earnings have fluctuated at times over the years, but have generally been trending higher. The company raised the midpoint of their 2018 guidance to \$3.21 per share from \$3.05 because of a lower tax rate (26%-27% for 2018) due to tax reform legislation. Investors might want to take note that the EPS growth rate over the past 5 years is close to 4%. If Sonoco can achieve this growth rate going forward, then shares are undervalued against their historical multiple.

Sonoco has increased its dividend for 35 consecutive years. The company raised its dividend 5.4% on 4/19/2017. If the company remains true to form, then shareholders should receive their next increase by the end of April. Over the past 10 years, the company has raised its dividend an average of 4.2% per year. Based off of this growth rate and the current annualized dividend of \$1.56, shareholders could receive \$1.92 per share by 2023. The company's management forecasted higher cash flows due to tax reform, so there is the possibility of higher dividend growth in future years. Dividend growth has been more robust in recent years, 5.3% over the past 5 years and 6.6% over the past 3 years.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	13.2	14	13.6	14.6	14.2	15.9	16.4	17.2	17.8	18.6	15.6	15.6
Avg. Yld.	3.6%	4.3%	3.5%	3.5%	3.8%	3.4%	3.1%	3.2%	3.0%	3.0%	3.1%	3.5%

Shares of Sonoco had an average price to earnings multiple of 15.6 over the past 10 years. Based off of guidance, the stock currently trades at this exact multiple. If the company performs as it has over the past decade, shareholders might not see any multiple expansion. Growth would have to come from earnings increases and dividends.

Sonoco shares currently yield 3.1%. This is above the yields for both the S&P 500 and the 10-year Treasury Bond. This yield might make shares attractive to income orientated investors, especially if the expectant cash flow increases come to fruition.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	23.5%	21.7%	23.4%	19%	20.1%	21.7%	21.6%	23.2%	23.9%	20.8%	21%	21.9%
Debt/A	62.3%	55.4%	54.5%	64.6%	64.3%	57.4%	64.5%	62.3%	60.9%	62.5%	62.2%	60.9%
Int. Cov.	5.4	6.6	8.3	8.6	5.8	6.2	7.3	7.1	9.6	7	7	7.2
Payout	47.8%	60.1%	47.4%	50.2%	53.8%	53.5%	50%	54.6%	53.7%	55.4%	48.6%	54.2%
Std. Dev.	44.2%	39.1%	24.2%	24.6%	18%	15%	15%	18.4%	18.7%	14.8%	16.5%	23.2%

Sonoco showed in the last recession that is somewhat susceptible to deteriorating market conditions. Working in the company's favor is that profitability has been very consistent, even in tough economic conditions. Debt levels have remained consistent as well and Sonoco's management stated on the conference call that they would make an acquisition if presented with the appropriate opportunity.

Sonoco has a very reasonable dividend payout ratio of 48.6% based off of 2018's expectations. Over the past decade the company has averaged a 53% payout ratio. This is impressive because dividend growth has more than doubled earnings growth over that time frame. Any uptick in earnings growth would enable the company to increase its dividend at a higher rate.

Final Thoughts & Recommendation

Shareholders of Sonoco Products can expect a return of ~5% per year through 2023. This total return is a combination of growth (2%) and dividends (3.1%). Shares have an above average yield that might draw interest from those investors looking for income, but Sonoco doesn't offer much upside from the current share price. The company's earnings growth has been very low over the past decade. While earnings will benefit from tax reform, it remains to be seen if Sonoco can achieve a higher rate of earnings growth on its own. Shares would naturally be much more attractive if the earnings growth rate were to accelerate. As of now, investors should look elsewhere for a ~3% yield and attractive expected total returns.

Total Return Breakdown by Year

