



Sonoco Products (SON)

Updated July 19th, 2018 by Nate Parsh

Key Metrics

Current Price: \$55	5 Year CAGR Estimate: 4.0%	Volatility Percentile: 22.4%
Fair Value Price: \$52	5 Year Growth Estimate: 2.0%	Momentum Percentile: 45.1%
% Fair Value: 106%	5 Year Valuation Multiple Estimate: -1.1%	Valuation Percentile: 50.8%
Dividend Yield: 3.1%	5 Year Price Target \$57	Total Return Percentile: 19.0%

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 a current market capitalization of \$5.3 billion. Sonoco is composed of 4 divisions: Paper & Industrial Converted Products, Consumer, Protective Solutions, and Display and Packaging.

Sonoco reported 2nd quarter earnings on July 19th. The company earned \$0.93 per share, growing 31% year over year and topping estimates by \$0.07. Revenue grew 10.5% to \$1.37 billion, beating estimates by \$30 million.

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	\$3.33	\$3.68
DPS	\$1.07	\$1.08	\$1.11	\$1.15	\$1.19	\$1.23	\$1.27	\$1.37	\$1.46	\$1.54	\$1.64	\$2.12

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. 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 saw growth almost across the board in the 2nd quarter. Consumer Packaging, the largest division of the company, grew 18.2% to \$616.1 million. This growth was due mostly to acquisitions that the company has made. Display & Packaging sales increased 24%, largely on new battery packaging. Paper & Industrial Converted Products, the company's second largest division was up slightly at 1.1% though operating margin for this division improved 3.3%. The only division to decline was Protective Solutions (1.3%). Volumes were up 2.8% companywide, with flexible volumes up 5.5%. Sonoco saw international growth as well as Europe and Asia had volume increases of 2%.

Sonoco has increased its dividend for 35 consecutive years. The company raised its dividend 5.41% on April 18th. Over the past five years, the company has increased its dividend at a rate of 5.3% per year. Based off of this growth rate and the current annualized dividend of \$1.64, shareholders could receive \$2.12 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.

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	16.5	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%	3.7%

Shares of Sonoco had an average price to earnings multiple of 15.6 over the past 10 years. Based off of updated guidance and an increase in share price of \$5 since our April 18th update, shares of Sonoco trade with a forward multiple of 16.5. If shares were to revert to its normal valuation, then the multiple would contract 1.1% per year through 2023.

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

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.

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%	49.2%	57.6%
Std. Dev.	44.2%	39.1%	24.2%	24.6%	18%	15%	15%	18.4%	18.7%	14.8%	16.5%	23.2%

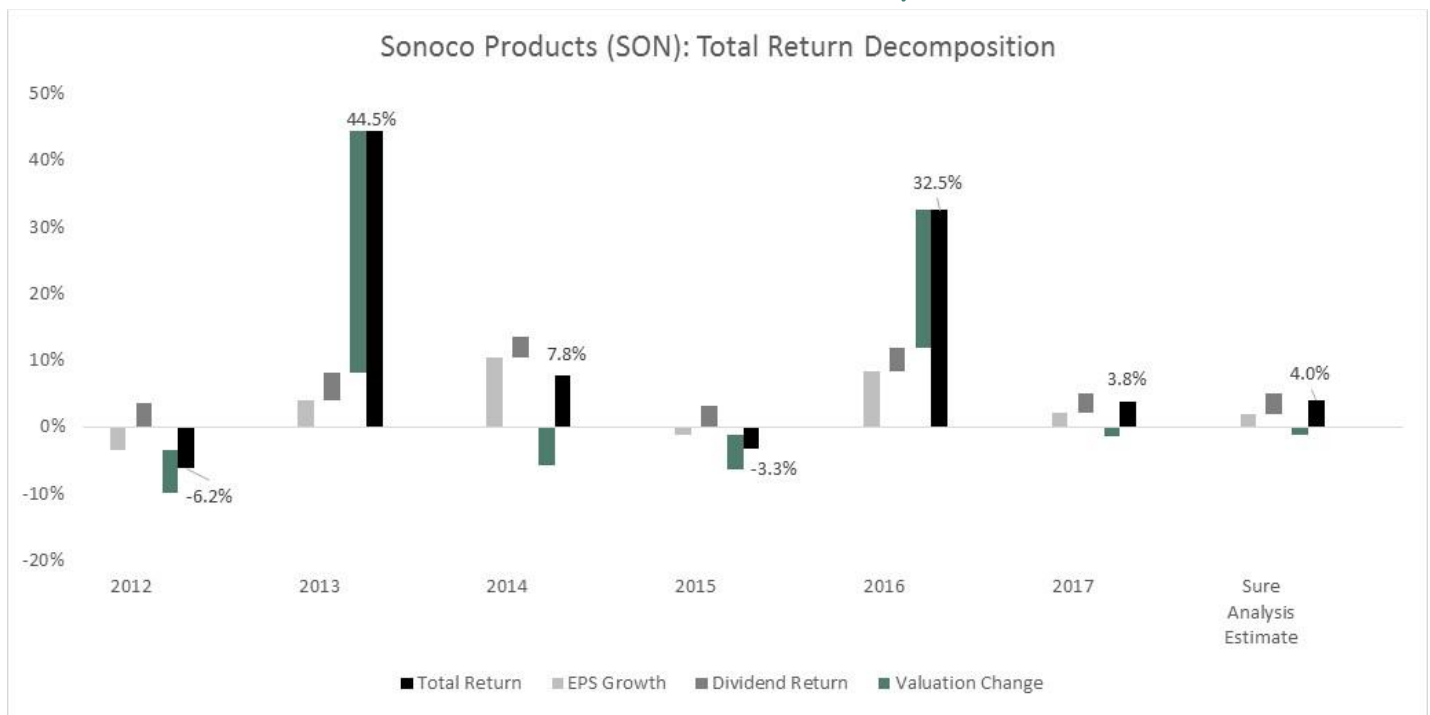
Sonoco showed in the last recession that is somewhat susceptible to deteriorating market conditions. Working in the company's favor is that profitability has been very consistent, even in tough economic conditions. Debt levels have remained consistent as well and Sonoco's management stated on the conference 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.

Final Thoughts & Recommendation

We forecast that Sonoco Products can return 4% per year over the next five years, down from our previous prediction of 5.1%. This is due largely to a 10% increase in share price since our last update. We arrived at this annual return based on earnings growth (2%), dividends (3.1%) and multiple contraction (1.1%). Sonoco demonstrated companywide growth and that has caused shares to increase over the last three months. While earnings and dividend growth have been solid, we would caution potential investors to wait for a pullback before adding Sonoco to their portfolio. We have raised our long-term price target \$2 to \$57 based off of updated guidance.

Total Return Breakdown by Year



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