



Sonoco Products (SON)

Updated October 19th, 2018 by Nate Parsh

Key Metrics

Current Price:	\$55	5 Year CAGR Estimate:	3.8%	Volatility Percentile:	22.5%
Fair Value Price:	\$52	5 Year Growth Estimate:	2.0%	Momentum Percentile:	59.7%
% Fair Value:	106%	5 Year Valuation Multiple Estimate:	-1.2%	Growth Percentile:	5.0%
Dividend Yield:	3.0%	5 Year Price Target	\$57	Valuation Percentile:	39.8%
Dividend Risk Score:	C	Retirement Suitability Score:	C	Total Return Percentile:	14.3%

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 Products is composed of 4 divisions: Paper & Industrial Converted Products, Consumer, Protective Solutions, and Display and Packaging.

Sonoco Products reported third quarter earnings on October 18th. Excluding a charge for exiting a packaging center contract in Atlanta and plant closures, the company earned \$0.86 per share, a 13.2% increase year over year and topping estimates by \$0.03. Revenue grew 3% to \$1.36 billion, though this was \$20 million below estimates. Consumer Packaging, Sonoco Products' largest division, had sales growth of 6.1% to \$600.2 million. As with the previous quarter, sales were positively impacted by acquisitions. Volumes were down slightly, likely due to price increases. Sales for Display & Packing grew nearly 22% due to higher volumes. Paper & Industrial Converted Products had revenue declines of more than 4% due in part to interrupted operations from Hurricane Florence. Protective Solutions revenues dropped 3% primarily due to foreign exchange rates and lower product demand. Sonoco Products' effective tax rate was 21% during the 3rd quarter, down from 33.4% from last year.

Hurricane Florence affected the company's operations and could impact 4th quarter earnings by \$0.03. As such, Sonoco Products lowered the midpoint for its full year EPS guidance to \$3.31, from \$3.33 previously. Another headwind for Sonoco Products is the rising input and freight costs. The company is increasing the prices on its foam packaging and refrigeration products in the U.S. and Mexico by 6%-10%. The price increases are set to take effect by early November.

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	\$3.31	\$3.65
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
Shares	99.73	100.15	100.51	100.21	100.85	102.15	100.60	100.94	99.19	99.41	97.5	95.0

Sonoco Products 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 Products' 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 Products can achieve this growth rate going forward, then shares are undervalued against their historical multiple.

Sonoco Products 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.

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	16.6	15.6
Avg. Yld.	3.6%	4.3%	3.5%	3.5%	3.8%	3.4%	3.1%	3.2%	3.0%	3.0%	3.0%	3.7%

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Shares of Sonoco Products have an average price to earnings multiple of 15.6 over the past 10 years. Shares are flat since our July 19th update and trade with a P/E of 16.6. If shares were to revert to its normal valuation, then the multiple would contract 1.2% per year through 2023. Sonoco Products shares currently yield 3.1%. This is well above the yield for the S&P 500 and slightly higher than the yield of 10-year Treasury Bond.

Safety, Quality, Competitive Advantage, & Recession Resiliency

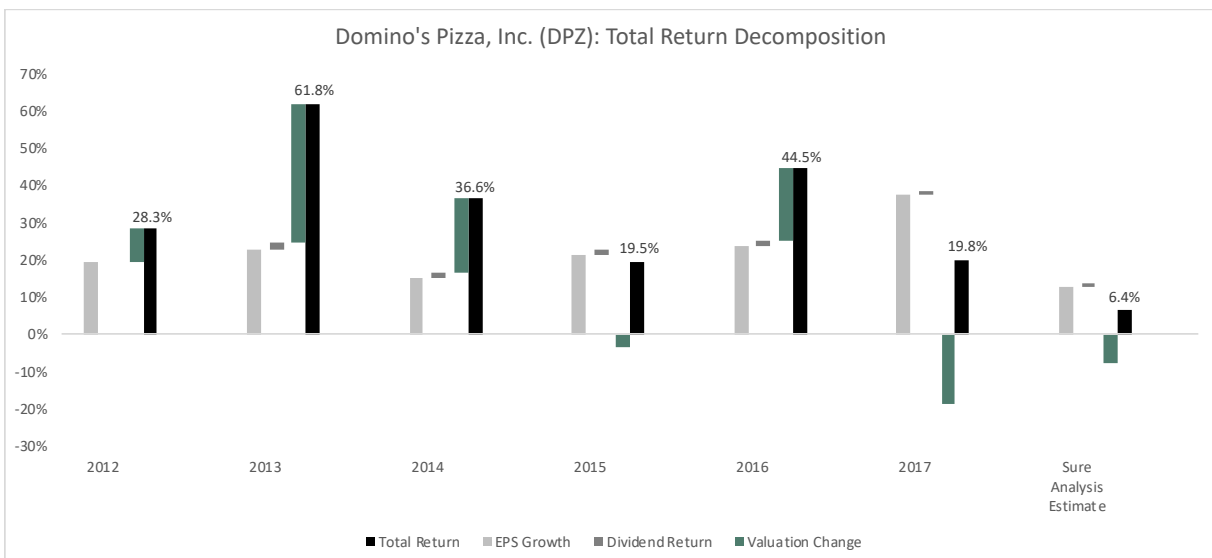
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	23.5%	21.7%	23.4%	19%	20.1%	21.7%	21.6%	23.2%	23.9%	20.8%	21%	21.9%
Debt/A	62.3%	55.4%	54.5%	64.6%	64.3%	57.4%	64.5%	62.3%	60.9%	62.5%	62.2%	60.9%
Int. Cov.	5.4	6.6	8.3	8.6	5.8	6.2	7.3	7.1	9.6	7	7	7.2
Payout	47.8%	60.1%	47.4%	50.2%	53.8%	53.5%	50%	54.6%	53.7%	55.4%	49.5%	58.1%
Std. Dev.	44.2%	39.1%	24.2%	24.6%	18%	15%	15%	18.4%	18.7%	14.8%	16.5%	23.2%

Sonoco Products 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 Products' management stated on the conference call that they would make an acquisition if presented with the appropriate opportunity.

Sonoco Products has a very reasonable dividend payout ratio of less than 50% based off of our expectations for 2018. 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 3.8% per year over the next five years, down from our previous forecast of 4%. We arrived at this annual return based on earnings growth (2%), dividends (3.0%) and multiple contraction (1.2%). It was a mixed quarter for Sonoco Products. The company's Consumer Packaging and Display & Packaging showed strong growth numbers, but the other divisions had declines. Operation issues related Hurricane Florence have also caused management to lower their EPS guidance for 2018. Perhaps more importantly, Sonoco Products is raising prices on some of its products in the very near future due to higher raw costs. Some of the lower demand for products in the 3rd quarter could carry over into the coming quarters. We see Sonoco Products as a sell and maintain our 2023 price target of \$57.



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	4122	3597.3	4124.1	4498.9	4813.6	4861.7	5017.0	4964.4	4782.9	5036.7
Gross Profit	724.0	666.0	767.5	756.8	839.6	861.6	907.9	929.4	937.4	949.4
Gross Margin	17.6%	18.5%	18.6%	16.8%	17.4%	17.7%	18.1%	18.7%	19.6%	18.8%
SG&A Exp.	374.4	386.5	385.6	366.4	443.2	466.6	473.6	472.5	478.9	514.6
Operating Profit	349.6	279.6	364.1	371.6	376.2	375.0	410.1	434.8	436.0	413.8
Operating Margin	8.5%	7.8%	8.8%	8.3%	7.8%	7.7%	8.2%	8.8%	9.1%	8.2%
Net Profit	164.6	151.5	201.1	217.5	195.3	209.8	225.9	250.1	286.4	175.3
Net Margin	4.0%	4.2%	4.9%	4.8%	4.1%	4.3%	4.5%	5.0%	6.0%	3.5%
Free Cash Flow	256.3	286.8	229.2	71.9	189.1	365.6	240.8	260.6	211.9	160.4
Income Tax	54.8	66.8	64.5	78.4	100.4	93.6	108.8	87.7	164.6	146.6

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	3087	3062.6	3281.0	3992.8	4176.1	3974.5	4193.9	4013.7	3923.2	4557.7
Cash & Equivalents	101.7	185.2	158.2	175.5	373.1	217.6	161.2	182.4	257.2	254.9
Accounts Receivable	392.2	428.3	508.1	606.8	619.8	614.1	653.7	628.0	625.4	725.3
Inventories	314.2	288.5	369.4	395.3	383.3	409.6	420.3	385.5	372.8	474.1
Goodwill & Int. Ass.	903.5	928.6	970.1	1409.4	1387.3	1343.1	1458.9	1385.6	1317.2	1573.2
Total Liabilities	1912	1682.0	1773.3	2567.4	2672.9	2268.5	2690.1	2480.8	2368.5	2827.7
Accounts Payable	353.8	375.4	436.8	436.7	426.8	496.9	517.2	508.1	477.8	548.3
Long-Term Debt	689.8	580.8	620.9	1286.6	1373.1	981.5	1253.2	1128.4	1052.7	1447.3
Shareholder's Equity	1163	1366.4	1491.8	1411.8	1489.0	1691.5	1488.2	1512.9	1532.4	1707.1
D/E Ratio	0.59	0.43	0.42	0.91	0.92	0.58	0.84	0.75	0.69	0.85

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	5.1%	4.9%	6.3%	6.0%	4.8%	5.1%	5.5%	6.1%	7.2%	4.1%
Return on Equity	12.6%	12.0%	14.1%	15.0%	13.5%	13.2%	14.2%	16.7%	18.8%	10.8%
ROIC	7.9%	7.9%	9.8%	9.0%	7.0%	7.5%	8.3%	9.2%	10.9%	6.1%
Shares Out.	99.73	100.15	100.51	100.21	100.85	102.15	100.60	100.94	99.19	99.41
Revenue/Share	40.82	35.61	40.22	44.03	46.93	47.09	48.63	48.48	46.99	49.94
FCF/Share	2.54	2.84	2.24	0.70	1.84	3.54	2.33	2.55	2.08	1.59

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

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