



# Sonoco Products Company (SON)

Updated February 18<sup>th</sup>, 2019 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$59	<b>5 Year CAGR Estimate:</b>	6.3%	<b>Volatility Percentile:</b>	15.8%
<b>Fair Value Price:</b>	\$55	<b>5 Year Growth Estimate:</b>	5.0%	<b>Momentum Percentile:</b>	86.2%
<b>% Fair Value:</b>	107%	<b>5 Year Valuation Multiple Estimate:</b>	-1.5%	<b>Growth Percentile:</b>	34.3%
<b>Dividend Yield:</b>	2.8%	<b>5 Year Price Target</b>	\$70	<b>Valuation Percentile:</b>	35.1%
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Total Return Percentile:</b>	27.3%

## 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 \$5.9 billion. Sonoco Products is composed of 4 divisions: Paper & Industrial Converted Products, Consumer, Protective Solutions, and Display and Packaging.

Sonoco Products released fourth quarter and full year results on 2/14/2019. The company earned \$0.84 per share, topping expectations by \$0.03 and improving nearly 17% from the previous year. Revenue was higher by 4.4%, though this was \$14.4 million below estimates. Earnings-per-share for 2018 increased 21% from the prior year and was \$0.06 above the midpoint for the company's guidance. Revenue grew 7% to a company record \$5.4 billion.

Revenue growth was largely due to acquisitions and higher selling prices. The company increased the prices on its foam packaging and refrigeration products in the U.S. and Mexico by 6%-10%. Sonoco Products completed its acquisition of its remaining 70% interest of Conitex on October 1<sup>st</sup>. Total revenue growth was partially offset by the negative impact of foreign exchange rates and lower volumes in the Consumer Packaging and Paper & Industrial Converted Products segments. While volumes decreased for the Consumer division, net sales were higher by 3.6% for the quarter. The Paper & Industrial Converted Products segment had sales growth of 8.8% in the quarter, primarily due to the company's acquisition of Conitex. Display & Packaging had a slight decline in sales as volume growth in domestic displays and higher net selling prices were offset by foreign exchange and Sonoco Products' exit from its Atlanta packaging center at the end of the third quarter. Protective Solutions' revenue was lower by 2.4%. This division receives much of its revenue from international markets, so foreign exchange was especially difficult during the fourth quarter. For the year, gross margins improved 30 basis points to 19.3% while cash from operations increased almost 70%.

Sonoco Products expects to earn \$3.47 to \$3.57 per share in 2019. The midpoint would represent 4.4% growth from 2018's total. The company expects an effective tax rate of 26% for 2019, versus an effective tax rate of 17.8% last year.

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>EPS</b>	\$1.78	\$2.34	\$2.29	\$2.21	\$2.30	\$2.54	\$2.51	\$2.72	\$2.78	\$3.37	<b>\$3.52</b>	<b>\$4.49</b>
<b>DPS</b>	\$1.08	\$1.11	\$1.15	\$1.19	\$1.23	\$1.27	\$1.37	\$1.46	\$1.54	\$1.62	<b>\$1.64</b>	<b>\$2.12</b>
<b>Shares</b>	100.15	100.51	100.21	100.85	102.15	100.60	100.94	99.19	99.41	101	<b>100</b>	<b>100</b>

Sonoco Products has grown earnings-per-share at a rate of 6.5% over the past ten years. Earnings declined 21% from 2008 to 2009, but Sonoco was able to return to growth the following year. We have increased our expected earnings growth rate to 5%, slightly above the company's guidance for 2019, but below the 10-year average growth rate of 6.5%. Sonoco Products has increased its dividend for 35 consecutive years. The company raised its dividend 5.41% on April 18<sup>th</sup> of last year. Over the past five years, the company has increased its dividend at a rate of 5.3% per year.

*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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	14	13.6	14.6	14.2	15.9	16.4	17.2	17.8	18.6	16.6	16.8	15.6
Avg. Yld.	4.3%	3.5%	3.5%	3.8%	3.4%	3.1%	3.2%	3.0%	3.0%	3.0%	2.8%	3.0%

Shares of Sonoco Products have an average price-to-earnings multiple of 15.6 over the past 10 years. Shares are higher by \$4, or 7.3%, since our October 19<sup>th</sup> update. Based off of the company's guidance for 2019, shares trade with a price-to-earnings multiple of 16.8. If shares were to revert to their normal valuation by 2024, then annual returns would be reduced by 1.5%. Sonoco Products shares currently yield 2.8%, above the average yield of the S&P 500.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	60.1%	47.4%	50.2%	53.8%	53.5%	50%	54.6%	53.7%	55.4%	48.1%	46.6%	47.2%

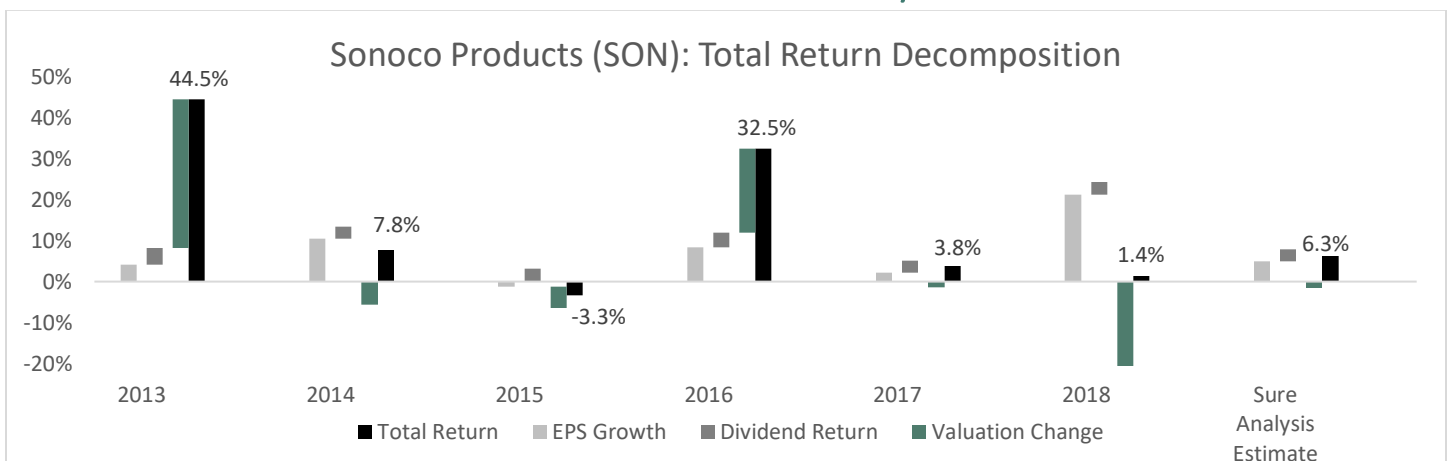
Sonoco Products showed in the last recession that is somewhat susceptible to deteriorating market conditions. Sonoco Products has a very reasonable dividend payout ratio of less than 50% based off of our expectations for 2019. Over the past decade the company has averaged a 53% payout ratio.

Sonoco Products showed in the last quarter that it has been able to pass along rising raw material and transportation costs to its customers without seeing a drastic decline in volumes. Ability to pass along costs is a key competitive advantage for Sonoco Products as this shows that the company's offerings are in demand, even at higher prices. Also helping grow the top and bottom lines are Sonoco Products history of acquisitions. The Conitex acquisition is a prime example of growing through acquisitions.

## Final Thoughts & Recommendation

After reviewing financial results and increasing our expected earnings growth rate, we now anticipate that Sonoco Products can offer a total annual return of 6.3% through 2024. While currency translation was a headwind for the company, Sonoco Products performed fairly well during the fourth quarter and 2018. EPS, revenues and cash from operations all saw improvements. Management expects that these metrics will improve in 2019, despite a higher tax rate. We have increased our 2024 price target \$13 to \$70 due to higher expectations for growth, but maintain our hold position on the stock. The stock doesn't earn a buy recommendation from Sure Dividend at this time due to our expected total return. However, we would become more interested in this Dividend Aristocrat at or below fair value.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Revenue</b>	4122	3597.3	4124.1	4498.9	4813.6	4861.7	5017.0	4964.4	4782.9	5036.7
<b>Gross Profit</b>	724.0	666.0	767.5	756.8	839.6	861.6	907.9	929.4	937.4	949.4
<b>Gross Margin</b>	17.6%	18.5%	18.6%	16.8%	17.4%	17.7%	18.1%	18.7%	19.6%	18.8%
<b>SG&amp;A Exp.</b>	374.4	386.5	385.6	366.4	443.2	466.6	473.6	472.5	478.9	514.6
<b>Operating Profit</b>	349.6	279.6	364.1	371.6	376.2	375.0	410.1	434.8	436.0	413.8
<b>Operating Margin</b>	8.5%	7.8%	8.8%	8.3%	7.8%	7.7%	8.2%	8.8%	9.1%	8.2%
<b>Net Profit</b>	164.6	151.5	201.1	217.5	195.3	209.8	225.9	250.1	286.4	175.3
<b>Net Margin</b>	4.0%	4.2%	4.9%	4.8%	4.1%	4.3%	4.5%	5.0%	6.0%	3.5%
<b>Free Cash Flow</b>	256.3	286.8	229.2	71.9	189.1	365.6	240.8	260.6	211.9	160.4
<b>Income Tax</b>	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
<b>Total Assets</b>	3087	3062.6	3281.0	3992.8	4176.1	3974.5	4193.9	4013.7	3923.2	4557.7
<b>Cash &amp; Equivalents</b>	101.7	185.2	158.2	175.5	373.1	217.6	161.2	182.4	257.2	254.9
<b>Accounts Receivable</b>	392.2	428.3	508.1	606.8	619.8	614.1	653.7	628.0	625.4	725.3
<b>Inventories</b>	314.2	288.5	369.4	395.3	383.3	409.6	420.3	385.5	372.8	474.1
<b>Goodwill &amp; Int. Ass.</b>	903.5	928.6	970.1	1409.4	1387.3	1343.1	1458.9	1385.6	1317.2	1573.2
<b>Total Liabilities</b>	1912	1682.0	1773.3	2567.4	2672.9	2268.5	2690.1	2480.8	2368.5	2827.7
<b>Accounts Payable</b>	353.8	375.4	436.8	436.7	426.8	496.9	517.2	508.1	477.8	548.3
<b>Long-Term Debt</b>	689.8	580.8	620.9	1286.6	1373.1	981.5	1253.2	1128.4	1052.7	1447.3
<b>Shareholder's Equity</b>	1163	1366.4	1491.8	1411.8	1489.0	1691.5	1488.2	1512.9	1532.4	1707.1
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	5.1%	4.9%	6.3%	6.0%	4.8%	5.1%	5.5%	6.1%	7.2%	4.1%
<b>Return on Equity</b>	12.6%	12.0%	14.1%	15.0%	13.5%	13.2%	14.2%	16.7%	18.8%	10.8%
<b>ROIC</b>	7.9%	7.9%	9.8%	9.0%	7.0%	7.5%	8.3%	9.2%	10.9%	6.1%
<b>Shares Out.</b>	99.73	100.15	100.51	100.21	100.85	102.15	100.60	100.94	99.19	99.41
<b>Revenue/Share</b>	40.82	35.61	40.22	44.03	46.93	47.09	48.63	48.48	46.99	49.94
<b>FCF/Share</b>	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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