



# Sonoco Products Company (SON)

Updated April 19<sup>th</sup>, 2019 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$61	<b>5 Year CAGR Estimate:</b>	6.0%	<b>Volatility Percentile:</b>	13.0%
<b>Fair Value Price:</b>	\$56	<b>5 Year Growth Estimate:</b>	5.0%	<b>Momentum Percentile:</b>	82.6%
<b>% Fair Value:</b>	110%	<b>5 Year Valuation Multiple Estimate:</b>	-1.8%	<b>Growth Percentile:</b>	35.6%
<b>Dividend Yield:</b>	2.8%	<b>5 Year Price Target</b>	\$71	<b>Valuation Percentile:</b>	41.1%
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Total Return Percentile:</b>	33.0%

## 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 has a market capitalization of \$6.1 billion, with more than \$5.5 billion in annual sales. Sonoco Products is composed of 4 divisions: Paper & Industrial Converted Products, Consumer, Protective Solutions, and Display and Packaging. The company bought the remaining 70% of Conitex, a leading manufacturer of thermoformed packaging for fresh fruit, vegetables and eggs, that it didn't already own for \$143 million in cash on 10/1/2018.

Sonoco Products reported first quarter results on 4/18/2019. The company earned \$0.85 per share, \$0.05 above estimates and a 15% increase from the previous year. Revenue improved 3.6% to \$1.4 billion, though this was \$20 million below what analysts had expected.

The Consumer Packaging segment grew 3.5% despite a decrease in volumes. Growth came mostly due to increases in prices. Rigid paper containers were strong while adverse weather conditions negatively impacted the harvesting of fresh fruit, and thus the company's rigid plastic product line in North America. Display & Packaging sales dropped 3.6% primarily due to Sonoco Products' exit from its Atlanta packaging center at the end of the third quarter. Volumes for domestic displays and international packaging were higher during the quarter. Paper & Industrial Converted Products grew nearly 8% because of higher prices and the company's acquisition of Conitex. Protective Solutions declined 2% as improved sales for temperature-assured packaging was offset by lower volumes for molded foam and consumer fiber packaging. Sonoco Products did increase the midpoint for earnings-per-share guidance for 2019 to \$3.57 from \$3.52.

## 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>\$3.57</b>	<b>\$4.56</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>\$1.70</b>	<b>\$2.17</b>
<b>Shares</b>	100	101	100	101	102	101	101	99	99	101	<b>100</b>	<b>100</b>

Earnings-per-share declined 21% from 2008 to 2009, but Sonoco Products was able to return to growth the following year. The company has grown earnings-per-share at a rate of 6.5% over the past ten years, though we expect this rate to decline to 5% due to lower rates of revenue growth than in the past. Volume has been a bit of an issue of late, but Sonoco's ability to pass along pricing increases should keep a steady tailwind behind revenue.

Sonoco Products has increased its dividend for 36 consecutive years, making the company a Dividend Aristocrat. The company raised its dividend 5%, near its average raise for the past five years, for the upcoming 6/10/2019 payment.

## Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
<b>Avg. P/E</b>	14	13.6	14.6	14.2	15.9	16.4	17.2	17.8	18.6	16.6	<b>17.1</b>	<b>15.6</b>
<b>Avg. Yld.</b>	4.3%	3.5%	3.5%	3.8%	3.4%	3.1%	3.2%	3.0%	3.0%	3.0%	<b>2.8%</b>	<b>3.1%</b>

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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 higher by \$2, or 3.4%, since our February 18<sup>th</sup> update. Based off of the company's updated guidance for 2019, shares trade with a price-to-earnings multiple of 17.1. If the stock were to revert to our estimate of fair value by 2024, the valuation would be a 1.8% headwind to annual returns over this time frame. Shares of Sonoco Products currently yield 2.8%, above the average yield of the S&P 500, and we see the yield rising slightly over time thanks mostly to a lower valuation.

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

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	60%	47%	50%	54%	54%	50%	55%	54%	55%	48%	<b>48%</b>	<b>48%</b>

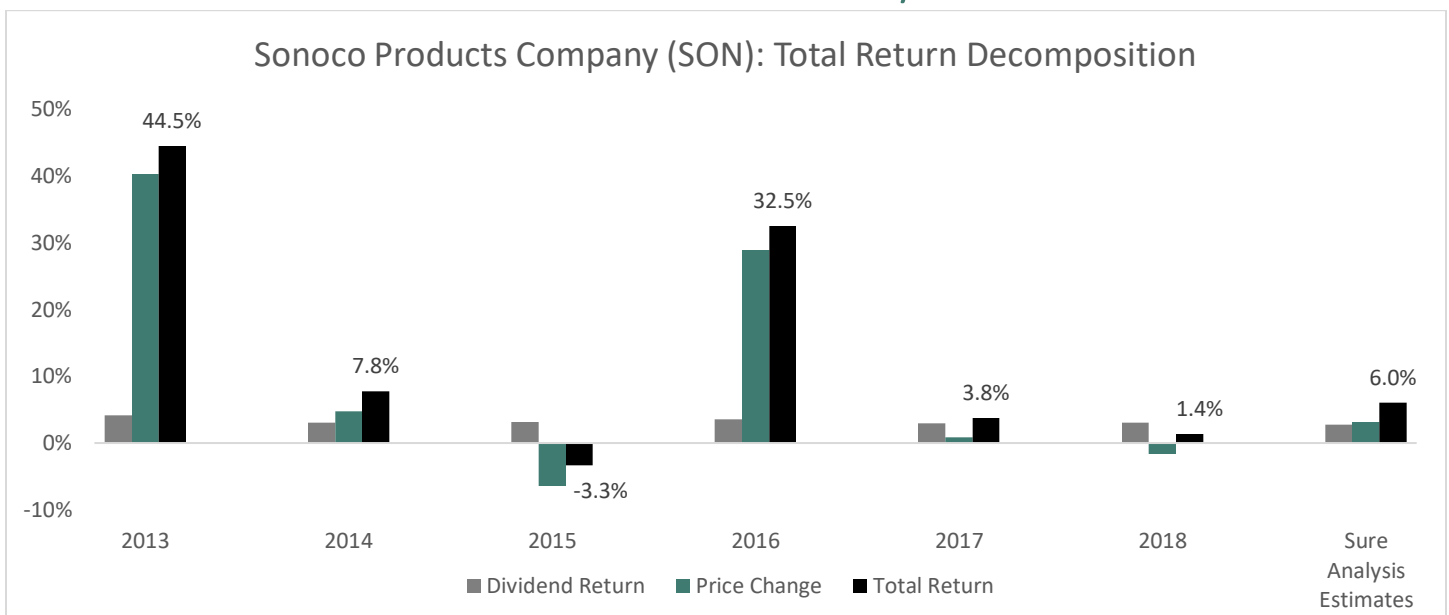
Sonoco Products showed in the last recession that is somewhat susceptible to deteriorating market conditions. Sonoco Products has a very reasonable dividend payout ratio of less than 50% based off of our expectations for 2019. Over the past decade the company has averaged a 53% dividend payout ratio. Given Sonoco's relatively stable earnings, we see the dividend as safe.

A key competitive advantage for Sonoco Products is that the company has been able to pass along rising raw material and transportation costs to its customers. This was how the company was able to grow revenue even as volumes largely declined. Ability to pass along costs is a Sonoco Products as this shows that the company's offerings are in demand. 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

Following first quarter results and the recent share price increase, we have lowered our total expected annual returns for Sonoco Products to 6% through 2024, down from 6.3% previously. Not much has changed with the company since our last report. Price increase have allowed Sonoco Products to grow revenue even in the face of lower volumes. Due to relatively low expected total annual returns, Sonoco Products receives a hold rating from Sure Dividend. Investors looking to initiate a position in this Dividend Aristocrat should wait until shares trade closer to fair value. We have increased our 2024 price target \$1 to \$71 due to the slight uptick in earnings-per-share guidance for the current year.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Revenue</b>	3597	4124	4499	4814	4862	5017	4964	4783	5037	5391
<b>Gross Profit</b>	666	768	757	840	862	908	929	946	959	1041
<b>Gross Margin</b>	18.5%	18.6%	16.8%	17.4%	17.7%	18.1%	18.7%	19.8%	19.0%	19.3%
<b>SG&amp;A Exp.</b>	386	405	397	464	487	507	496	503	508	563
<b>Operating Profit</b>	280	362	359	376	374	401	433	443	451	478
<b>Operating Margin</b>	7.8%	8.8%	8.0%	7.8%	7.7%	8.0%	8.7%	9.3%	9.0%	8.9%
<b>Net Profit</b>	151	201	218	195	210	226	250	286	175	314
<b>Net Margin</b>	4.2%	4.9%	4.8%	4.1%	4.3%	4.5%	5.0%	6.0%	3.5%	5.8%
<b>Free Cash Flow</b>	287	229	72	189	366	241	261	212	159	397
<b>Income Tax</b>	67	64	78	100	94	109	88	165	147	75

## Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Total Assets</b>	3063	3281	3993	4176	3975	4194	4014	3923	4558	4583
<b>Cash &amp; Equivalents</b>	185	158	176	373	218	161	182	257	255	120
<b>Accounts Receivable</b>	428	508	607	620	614	654	628	625	725	737
<b>Inventories</b>	289	369	395	383	410	420	385	373	474	494
<b>Goodwill &amp; Int. Ass.</b>	929	970	1409	1387	1343	1459	1386	1317	1573	1661
<b>Total Liabilities</b>	1682	1773	2567	2673	2268	2690	2481	2368	2828	2811
<b>Accounts Payable</b>	375	437	437	427	497	517	508	478	548	556
<b>Long-Term Debt</b>	581	621	1287	1373	981	1253	1128	1053	1447	1385
<b>Shareholder's Equity</b>	1366	1492	1412	1489	1691	1488	1513	1532	1707	1759
<b>D/E Ratio</b>	0.43	0.42	0.91	0.92	0.58	0.84	0.75	0.69	0.85	0.79

## Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Return on Assets</b>	4.9%	6.3%	6.0%	4.8%	5.1%	5.5%	6.1%	7.2%	4.1%	6.9%
<b>Return on Equity</b>	12.0%	14.1%	15.0%	13.5%	13.2%	14.2%	16.7%	18.8%	10.8%	18.1%
<b>ROIC</b>	7.9%	9.8%	9.0%	7.0%	7.5%	8.3%	9.2%	10.9%	6.1%	9.9%
<b>Shares Out.</b>	100	101	100	101	102	101	101	99	99	101
<b>Revenue/Share</b>	35.61	40.22	44.03	46.93	47.09	48.63	48.48	46.99	49.94	53.37
<b>FCF/Share</b>	2.84	2.24	0.70	1.84	3.54	2.33	2.55	2.08	1.58	3.93

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

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