



Sonoco Products Company (SON)

Updated July 19th, 2019 by Nathan Parsh

Key Metrics

Current Price:	\$60	5 Year CAGR Estimate:	6.3%	Volatility Percentile:	12.4%
Fair Value Price:	\$56	5 Year Growth Estimate:	5.0%	Momentum Percentile:	65.7%
% Fair Value:	108%	5 Year Valuation Multiple Estimate:	-1.5%	Growth Percentile:	36.3%
Dividend Yield:	2.8%	5 Year Price Target	\$71	Valuation Percentile:	48.0%
Dividend Risk Score:	A	Retirement Suitability Score:	B	Total Return Percentile:	37.4%

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 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 second quarter results on 7/18/2019. The company earned \$0.95 per share, which was \$0.02 below estimates, but a 2.2% increase from the previous year. Revenue declined 0.5% to \$1.4 billion, which was \$56 million lower than expected.

Revenues for the Consumer Packaging division were down 2.2% during the quarter. A combination of the negative impact from currency exchange and lower product volume and mix were the reasons for the year-over-year declines. Flexible packaging and rigid plastics continue to see weak demand for products. Display & Packaging sales were down almost 6%. Sonoco Products exited a packaging agreement in the third quarter of last year which more than offset volume growth in domestic display and international packaging. Revenues for the Paper & Industrial Converted Products division were up 3.6%; the addition of Conitex aided gains. This offset weak volumes and product mix across the geographies that Sonoco Products operates. Protective Solutions was down 1.6%. While the company's temperature-assured packaging was strong, molded foam and consumer fiber packaging saw decreased demand. Sonoco Products made a \$190 million voluntary contribution to its pension plan. The company reaffirmed its earnings-per-share guidance for the year.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$1.78	\$2.34	\$2.29	\$2.21	\$2.30	\$2.54	\$2.51	\$2.72	\$2.78	\$3.37	\$3.57	\$4.56
DPS	\$1.08	\$1.11	\$1.15	\$1.19	\$1.23	\$1.27	\$1.37	\$1.46	\$1.54	\$1.62	\$1.70	\$2.17
Shares	100	101	100	101	102	101	101	99	99	101	100	100

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 37 consecutive years, making the company a Dividend Aristocrat. The company raised its dividend 5%, near its average raise for the past five years. We see the payout rising to \$2.17 by 2024 as Sonoco keeps its payout around half of earnings.



Sonoco Products Company (SON)

Updated July 19th, 2019 by Nathan Parsh

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%	3.1%

Shares of Sonoco Products have an average price-to-earnings multiple of 15.6 over the past 10 years. Shares are down by \$1, or 1.6%, since our 4/19/2019 update. Based off of the company's guidance for 2019, shares trade with a price-to-earnings multiple of 16.8. If the stock were to revert to our estimate of fair value by 2024, the valuation would be a 1.5% 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%	48%	48%

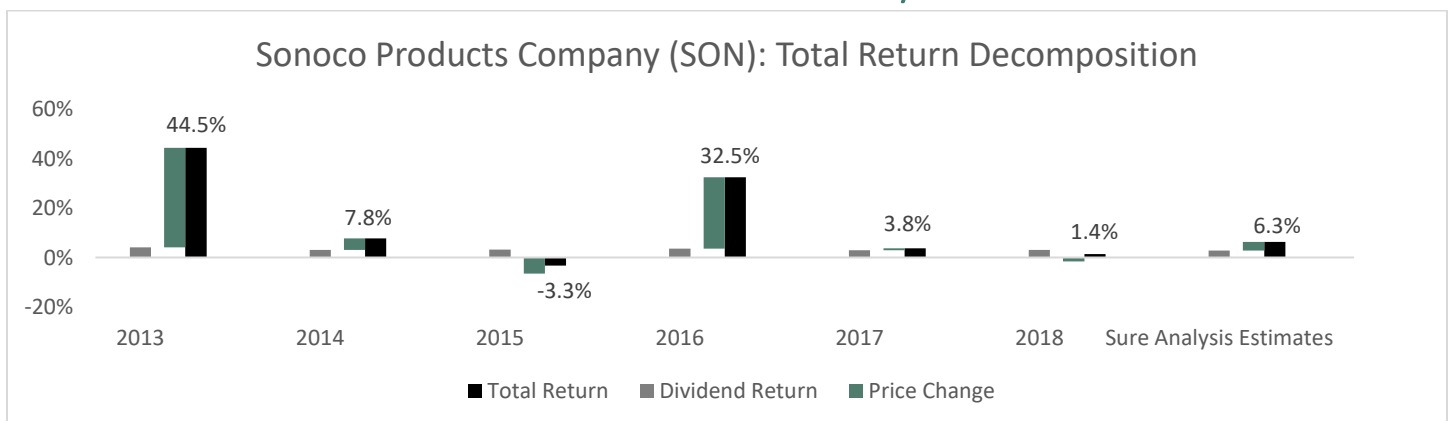
Sonoco Products showed in the last recession that is somewhat susceptible to deteriorating market conditions. Sonoco Products has a very reasonable dividend payout ratio of less than 50% based off of our expectations for 2019. Over the past decade the company has averaged a 53% dividend payout ratio.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

Sonoco Products Company had a mixed quarter. While earnings-per-share was slightly higher than the previous year, revenue was essentially flat. The company only experienced growth in one of its business units, with the others showing year-over-year declines. We anticipate that the stock can offer a total annual return of 6.3% over the next five years, up slightly from our previous estimate of 6%. Sonoco Products does offer an above market yield and has nearly four decades of dividend growth. This isn't enough, in our opinion, to offset middling expected returns through 2024. We maintain both our holding rating and our 2024 price target of \$71 on shares of Sonoco Products.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



Sonoco Products Company (SON)

Updated July 19th, 2019 by Nathan Parsh

Income Statement Metrics

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

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	3063	3281	3993	4176	3975	4194	4014	3923	4558	4583
Cash & Equivalents	185	158	176	373	218	161	182	257	255	120
Accounts Receivable	428	508	607	620	614	654	628	625	725	737
Inventories	289	369	395	383	410	420	385	373	474	494
Goodwill & Int. Ass.	929	970	1409	1387	1343	1459	1386	1317	1573	1661
Total Liabilities	1682	1773	2567	2673	2268	2690	2481	2368	2828	2811
Accounts Payable	375	437	437	427	497	517	508	478	548	556
Long-Term Debt	581	621	1287	1373	981	1253	1128	1053	1447	1385
Shareholder's Equity	1366	1492	1412	1489	1691	1488	1513	1532	1707	1759
D/E Ratio	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
Return on Assets	4.9%	6.3%	6.0%	4.8%	5.1%	5.5%	6.1%	7.2%	4.1%	6.9%
Return on Equity	12.0%	14.1%	15.0%	13.5%	13.2%	14.2%	16.7%	18.8%	10.8%	18.1%
ROIC	7.9%	9.8%	9.0%	7.0%	7.5%	8.3%	9.2%	10.9%	6.1%	9.9%
Shares Out.	100	101	100	101	102	101	101	99	99	101
Revenue/Share	35.61	40.22	44.03	46.93	47.09	48.63	48.48	46.99	49.94	53.37
FCF/Share	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.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.