Greif (GEF)

Updated September 3rd, 2019 by Eli Inkrot

Key Metrics

Current Price:	$35	**5 Year CAGR Estimate:**	12.7%	**Volatility Percentile:**	82.2%
Fair Value Price:	$49	**5 Year Growth Estimate:**	2.0%	**Momentum Percentile:**	8.2%
% Fair Value:	71%	**5 Year Valuation Multiple Estimate:**	7.0%	**Growth Percentile:**	9.0%
Dividend Yield:	5.0%	**5 Year Price Target**	$55	**Valuation Percentile:**	92.7%
Dividend Risk Score:	C	**Retirement Suitability Score:**	A	**Total Return Percentile:**	80.4%

Overview & Current Events

Greif began in 1877 as "Vanderwyst and Greif," a cooperage shop founded by one of four Greif brothers. One year thereafter the other three brothers joined the business, renaming it "Greif Bros. Company," making wooden barrels, casks and kegs to transport post-Civil Wars goods. The company later purchased nearly 300,000 acres of timberland to provide raw materials for its cooperage plants and still owns significant timber properties. Today the Delaware, Ohio-based company, simply known as Greif, is a global leader in industrial packaging products and services. Shares of Greif trade under two classes – non-voting A shares and B shares trading under the GEF.B symbol. This report focuses on the A shares and diluted A share equivalent. The $1.7 billion market cap company serves customers in over 40 countries.

On August 28th, 2019 Greif reported Q3 fiscal year 2019 results for the period ending July 31st, 2019 (Greif's fiscal year ends October 31st, 2019). For the quarter net sales increased by $240.5 million to $1.252 billion. However, this improvement was entirely due to the recently completed $1.8 billion all-cash Caraustar acquisition – a leader in manufacturing high-quality recycled materials and paper products – which significantly increased Greif's debt load. Prior to accounting for this addition, sales were down 6.9%, 11.3% and 7.9% in the Rigid Industrial Packaging, Paper Packaging and Flexible Product segments respectively. As it stands, quarter-over-quarter sales were up 23.8% due to the acquisition and Caraustar results will be included in the Paper Packaging segment moving forward. Meanwhile, gross profit increased $62.3 million to $279.4 million. Net income per share equaled $1.06 against $1.15 previously, while adjusted net income per share came in at $1.26 compared to $1.20 in the prior year period.

Greif also provided an updated fiscal year 2019 outlook. The company continues to anticipate adjusted earnings-per-share of $3.70 to $4.00 and adjusted free cash flow of $230 million to $250 million.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$3.32	$4.35	$3.73	$2.66	$2.76	$2.36	$2.18	$2.44	$2.95	$3.53	***$3.80***	***$4.20***
DPS	$1.52	$1.60	$1.68	$1.68	$1.68	$1.68	$1.68	$1.68	$1.68	$1.70	***$1.76***	***$1.94***
Shares[1]	47	47	47	47	48	48	48	48	48	48	***48***	***48***

Greif has put together an average growth record in the past. Dating back to 2005, the company was able to grow earnings-per-share by 5% annually. However, since 2009 this growth rate has slowed to just 1%. While the last couple of years have shown marked improvement, the company has a history of profitable, but cyclical results over the years.

In general Greif has growth opportunities in the way of continued global expansion – especially as more items move about the global market place. We believe this is a long-term growth thesis that we continue aiding the company's core business. With that being said, the short-term outlook appears hazy as the U.S. / China trade war heats up and threatens the movement of goods.

Further, the company now carries a significant debt load after the Caraustar acquisition. As such, additional funds will be diverted towards paying down debt, dampening the growth thesis. Collectively we are forecasting 2% growth.

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[1] In millions

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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	12.5	12.9	16.0	17.5	18.1	21.7	17.7	14.6	18.9	15.8	***9.3***	***13.0***
Avg. Yld.	3.7%	2.9%	2.8%	3.6%	3.4%	3.3%	4.3%	4.7%	3.0%	3.1%	***5.0%***	***3.1%***

In the last decade shares of Greif have traded hands with an average P/E ratio of about 17 times earnings. We are discounting this materially - using 13 times earnings - taking into consideration two items. 1) The quality of Greif's underlying earnings power is average, considering its cyclical nature and low expected growth rate. And 2) the company is consistently profitable, and Greif holds approximately 251,000 acres of timber properties. With shares trading around 9 times expected earnings, this could still imply the potential for a meaningful valuation tailwind.

The dividend is also noteworthy. After being held at $0.42 per quarter for seven years, this payment was finally raised to $0.44 at the end of last year and shares now offer a 5% starting dividend yield.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	46%	37%	45%	63%	61%	71%	77%	69%	57%	48%	***46%***	***46%***

Greif provides comprehensive packaging solutions, with an emphasis on the industrial economy. The company operates in over 40 countries, making the business difficult to replicate and offering a competitive advantage. That being said, Greif is subject to the whims of the global market and the industrial market in particular, which tends to be cyclical. Moreover, while long-term demand will continue to grow, we do not believe the firm has material pricing power.

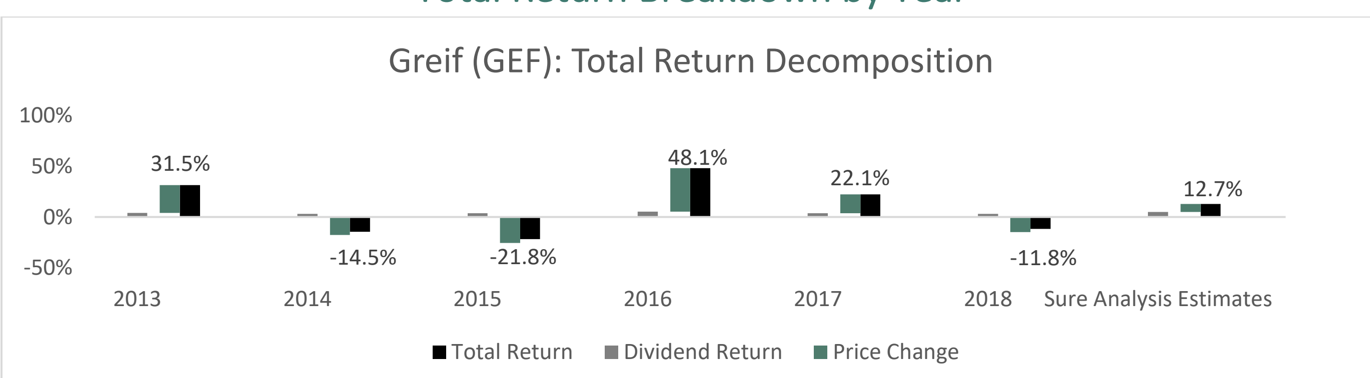
During the last recession Greif posted earnings-per-share of $4.18, $3.32 and $4.35 during the 2008 through 2010 stretch. Furthermore, the dividend kept on increasing during this time as well.

As of the most recent report Greif held $76 million in cash, $1.3 billion in current assets and $5.6 billion in total assets (30% of which was property and equipment) against $837 million in current liabilities and $4.4 billion in total liabilities. Long-term debt stood at $2.8 billion (up from $880 million) requiring ~$120 million in interest expense this year.

Final Thoughts & Recommendation

Greif has put together a reasonable, albeit cyclical operating record during the last decade. Recently short-term concerns have pushed shares to a historically low valuation. We see total return potential of nearly 13% per annum stemming from 2% growth, a 5% starting dividend yield and a meaningful valuation tailwind. Risks to this thesis include a prolonged trade war / slowing global economy along with the company's now significant debt load. Still, we do not believe our assumptions are overly optimistic and rate shares as a buy at the current quotation.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	2792	3462	4248	4130	4220	4239	3617	3324	3638	3874
Gross Profit	500	701	798	780	832	811	670	685	715	789
Gross Margin	17.9%	20.3%	18.8%	18.9%	19.7%	19.1%	18.5%	20.6%	19.6%	20.4%
SG&A Exp.	268	365	449	470	477	497	413	377	408	399
Operating Profit	232	336	349	310	355	314	257	308	307	390
Operating Margin	8.3%	9.7%	8.2%	7.5%	8.4%	7.4%	7.1%	9.3%	8.4%	10.1%
Net Profit	111	203	175	118	145	92	72	75	119	209
Net Margin	4.0%	5.9%	4.1%	2.9%	3.4%	2.2%	2.0%	2.3%	3.3%	5.4%
Free Cash Flow	136	13	6	304	105	67	32	189	199	104
Income Tax	24	44	67	61	99	115	48	67	67	73

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	2824	3498	4189	3853	3887	3667	3316	3153	3232	3195
Cash & Equivalents	112	107	127	92	78	85	106	104	142	94
Accounts Receivable	337	480	561	454	482	501	404	399	447	457
Inventories	239	397	429	374	374	381	297	277	280	290
Goodwill & Int. Ass.	723	883	1231	1175	1184	1047	940	897	883	857
Total Liabilities	1717	2163	2847	2543	2507	2444	2256	2195	2185	2041
Accounts Payable	336	468	493	466	431	471	355	372	399	404
Long-Term Debt	758	1026	1521	1276	1281	1153	1188	1026	967	910
Shareholder's Equity	1100	1234	1214	1191	1265	1142	1016	947	1011	1108
D/E Ratio	0.69	0.83	1.25	1.07	1.01	1.01	1.17	1.08	0.96	0.82

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	4.0%	6.4%	4.5%	2.9%	3.7%	2.4%	2.1%	2.3%	3.7%	6.5%
Return on Equity	10.3%	17.4%	14.3%	9.8%	11.8%	7.6%	6.7%	7.6%	12.1%	19.8%
ROIC	6.1%	9.6%	6.7%	4.3%	5.5%	3.6%	3.1%	3.5%	5.9%	10.3%
Shares Out.	58.35	58.62	58.57	58.41	58.60	58.73	58.85	58.85	58.84	58.98
Revenue/Share	47.85	59.05	72.53	70.69	72.01	72.18	61.45	56.48	61.84	65.68
FCF/Share	2.33	0.22	0.10	5.20	1.79	1.14	0.55	3.22	3.38	1.76

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