



Sonoco Products Company (SON)

Updated October 18th, 2019 by Nathan Parsh

Key Metrics

Current Price:	\$57	5 Year CAGR Estimate:	7.0%	Volatility Percentile:	18.9%
Fair Value Price:	\$55	5 Year Growth Estimate:	5.0%	Momentum Percentile:	45.0%
% Fair Value:	104%	5 Year Valuation Multiple Estimate:	-0.7%	Growth Percentile:	40.8%
Dividend Yield:	3.0%	5 Year Price Target	\$70	Valuation Percentile:	54.9%
Dividend Risk Score:	B	Retirement Suitability Score:	B	Total Return Percentile:	43.8%

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 \$5.8 billion, with \$5.5 billion in annual sales. Sonoco Products is composed of 4 divisions: Paper & Industrial Converted Products, Consumer, Protective Solutions, and Display & 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 third quarter earnings results on 10/17/2019. The company earned \$0.97 per share, which was \$0.06 above estimates and a 12.8% improvement from the previous year. Revenue declined 0.8% to \$1.35 billion, which was \$37 million lower than expected.

Consumer Packaging sales were lower by 3.1%, largely due to lower volume and product mix. Currency exchange also negatively impacted results. Ridged paper containers volumes were lower in North America. Partially offsetting this decline was higher revenues in international markets, most notably Europe and Latin America. Operating profit improved 1.3% due to cost controls and productivity improvements. Display & Packing sales dropped more than 12% mostly due to the company exiting a pack center contract at the end of Q3 2018. This segment saw gains in volumes in international pack centers and domestic displays. Sales for Paper & Industrial Converted Products segment grew almost 7% due to acquisitions. Excluding this, the segment was impacted by the combination of lower volumes/mix and lower prices. Protective Solutions sales were down 3% on lower volumes. This segment did have strong sales growth for temperature-assured packaging. Sonoco Products lowered its earnings-per-share guidance for 2019 to a midpoint of \$3.52, down from \$3.57 previously.

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	\$3.52	\$4.49
DPS	\$1.08	\$1.11	\$1.15	\$1.19	\$1.23	\$1.27	\$1.37	\$1.46	\$1.54	\$1.62	\$1.72	\$2.17
Shares¹	100	101	100	101	102	101	101	99	99	101	101	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% for the 6/10/2019 payment, 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.

¹ In millions of shares

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	16.2	15.6
Avg. Yld.	4.3%	3.5%	3.5%	3.8%	3.4%	3.1%	3.2%	3.0%	3.0%	3.0%	3.0%	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 \$3, or 5%, since our 7/19/2019 update. Based off of the company's updated guidance for 2019, shares trade with a price-to-earnings multiple of 16.2. If the stock were to revert to our estimate of fair value by 2024, the valuation would be a 0.7% headwind to annual returns over this time frame. Shares of Sonoco Products currently yield 3.0%, 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%	49%	48%

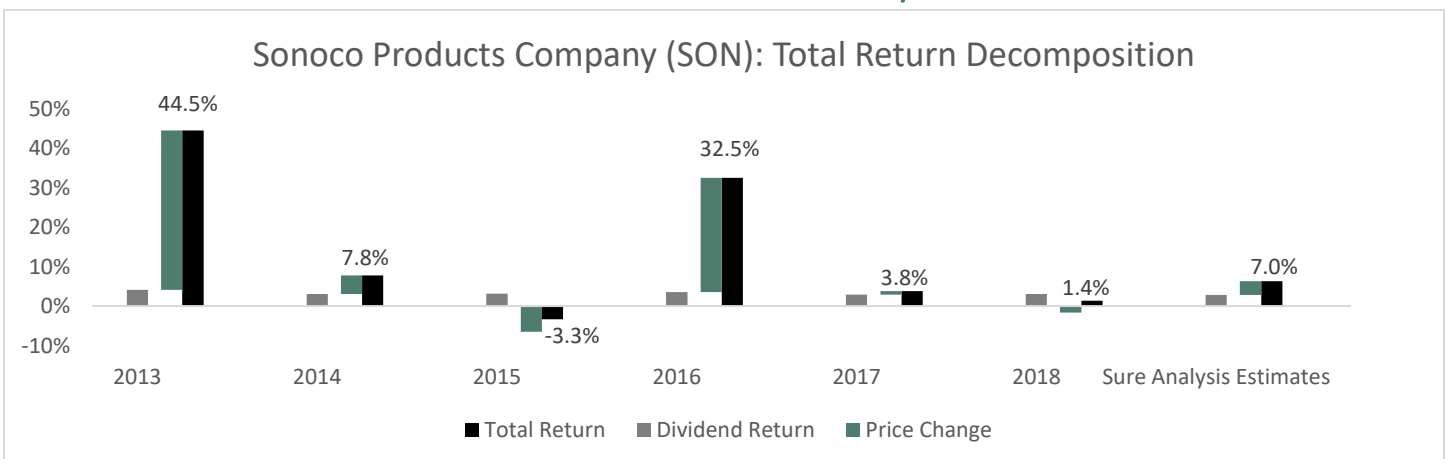
Sonoco Products showed in the last recession that it is somewhat susceptible to deteriorating market conditions. Sonoco Products has a very reasonable dividend payout ratio of less than 50% based off of our expectations for 2019. Over the past decade the company has averaged a 53% dividend payout ratio. 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 shows that the company's offerings are in demand. Also helping grow the top and bottom lines is Sonoco Products' history of acquisitions. The Conitex acquisition is a prime example of growing through acquisitions.

Final Thoughts & Recommendation

Sonoco Products Company is expected to offer a total annual return of 7% through 2024, up from our previous estimate of 6.3%. Sonoco Products continues to see mixed results among its different segments. Currency translation also continues to negatively impact the company's performance. The pullback in share price has raised our total annual return expectations slightly, but we maintain our hold rating on shares of Sonoco Products as the company is seeing declines in several businesses. We lower our 2024 price target \$1 to \$70 due to revised earnings-per-share guidance.

Total Return Breakdown by Year



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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.

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