WestRock Co. (WRK)

Updated January 30th, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	$41	**5 Year CAGR Estimate:**	4.4%	**Market Cap:**	$10.5 B
Fair Value Price:	$37	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	2/12/2020[1]
% Fair Value:	111%	**5 Year Valuation Multiple Estimate:**	-2.1%	**Dividend Payment Date:**	2/23/2020[1]
Dividend Yield:	4.5%	**5 Year Price Target**	$41	**Years Of Dividend Growth:**	5
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	2.2%

Overview & Current Events

WestRock was formed in July 2015 by the merger of Rock-Tenn and Mead-Westvaco. It is a leading provider of differentiated paper and packaging solutions, with a market capitalization of $10.5 billion. In its fiscal 2019, which ended on 9/30/2019, the corrugated packaging segment and the consumer packaging segment generated 64% and 36% of its total revenues and 78% and 22% of its pre-tax income, respectively.

WestRock completed the acquisition of KapStone Paper in November, 2018. The deal increased the leverage (Net Debt/EBITDA) of WestRock to 2.9 but the company has been reducing its debt at a fast clip since then. The acquisition of KapStone has enhanced the product offerings and the geographical presence of the company.

In late January, WestRock reported (1/30/20) financial results for the first quarter of fiscal 2020. The company grew its revenue by 2.2% over the prior year's quarter thanks to an additional month of ownership of KapStone, which was partly offset by lower pulp and corrugated prices and lower consumer paperboard volumes. Due to lower margins, earnings-per-share dipped from $0.54 to $0.53 and missed analysts' consensus by $0.01. It was only the second earnings miss in the last 19 quarters. On the bright side, the company has achieved $110 million of run-rate synergies from the acquisition of KapStone towards its $200 million target.

Due to heating competition in the business of WestRock and the resultant pressure on product prices, we continue to expect earnings-per-share to fall from their nearly all-time high level of $3.98 to about $3.35 in this fiscal year.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	---	---	---	---	---	$3.89	$2.53	$2.62	$4.08	$3.98	***$3.35***	***$3.70***
DPS	---	---	---	---	---	$0.38	$1.50	$1.60	$1.72	$1.82	***$1.86***	***$2.16***
Shares[2]	---	---	---	---	---	257.0	251.0	254.5	259.2	259.0	***259.0***	***250.0***

There are increasing concerns over high inventories in the containerboard market right now and a surge in the global supply of containerboard products in upcoming years. This helps explain the -43% decline of the stock of WestRock since early 2018 amid almost record earnings.

WestRock has a short and somewhat volatile historical record and hence we prefer to be somewhat conservative in our growth forecasts. Since its foundation in its current form, the company has grown its earnings-per-share at a 0.6% average annual rate. Moreover, the global supply of containerboard products is expected to surge in the years ahead. This factor, which is out of WestRock's control, will adversely affect its margins. On the other hand, the company is likely to benefit from two major growth drivers, namely the growing North American corrugated market and the synergies from the takeover of KapStone. We expect the company to grow its earnings-per-share by about 2% per year on average over the next five years.

---

[1] Estimated date.

[2] In millions.

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.

WestRock Co. (WRK)

Updated January 30th, 2020 by Aristofanis Papadatos

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	---	---	---	---	---	15.2	16.8	20.3	14.9	9.8	***12.2***	***11.0***
Avg. Yld.	---	---	---	---	---	0.6%	3.5%	3.0%	2.8%	4.7%	***4.5%***	***5.3%***

WestRock is trading at a price-to-earnings ratio of 12.2, which is much lower than its 4-year average of 16.8. Due to its short historical record, its increased amount of debt from the KapStone acquisition, and the increased competition in its business, the stock warrants a reduced valuation. We assume a fair price-to-earnings ratio of 11.0 for the stock. If the stock reaches our fair valuation level over the next five years, it will incur a -2.1% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

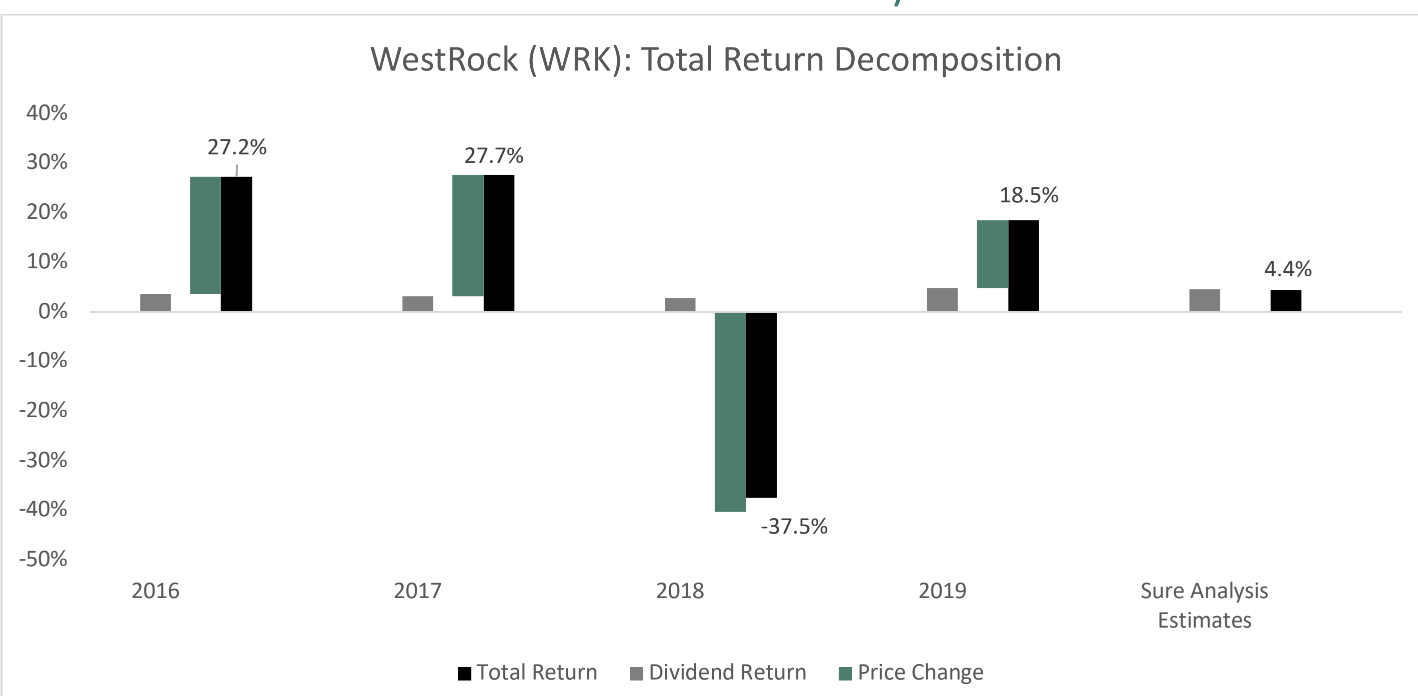
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	---	---	---	9.8%	59.3%	61.1%	42.2%	45.7%	***55.5%***	***58.3%***

WestRock cannot control the total supply of paper products. As a result, it is vulnerable to the total production volume of its competitors. The company currently offers a 4.5% dividend yield, which is more than twice as much as the current yield of the S&P (1.7%). The stock has a reasonable payout ratio. Even in a negative scenario, the company's dividend would still be covered by earnings. On the other hand, investors should be aware of the leverage of the company, as interest expense consumes 28% of operating income. This renders the stock vulnerable to a potential downturn.

Final Thoughts & Recommendation

WestRock has rallied 25% in the last five months. As a result, the stock has become less attractive. In the absence of a recession, we expect WestRock to offer just a 4.4% average annual return over the next five years thanks to its 4.5% dividend and 2% earnings growth, which could be offset by a small valuation headwind. Consequently, we maintain our hold rating.

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.

WestRock Co. (WRK)

Updated January 30th, 2020 by Aristofanis Papadatos

Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	3001.4	5399.6	9207.6	9545.4	9895.1	11125	14172	14860	16285	18,289
Gross Profit	720.1	991.9	1532.7	1846.5	1933.6	2138.3	2758.6	2740.2	3393.9	3,749
Gross Margin	24.0%	18.4%	16.6%	19.3%	19.5%	19.2%	19.5%	18.4%	20.8%	20.5%
SG&A Exp.	340	541	928	869	938	1,026	1,750	1,457	1,731	1,709
D&A Exp.	147.4	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Operating Profit	380	451	605	892	910	993	797	1,031	1,335	1,640
Op. Margin	12.7%	8.3%	6.6%	9.3%	9.2%	8.9%	5.6%	6.9%	8.2%	9.0%
Net Profit	226	141	249	727	480	507	(396)	708	1,906	863
Net Margin	7.5%	2.6%	2.7%	7.6%	4.8%	4.6%	-2.8%	4.8%	11.7%	4.7%
Free Cash Flow	271	262	187	592	618	618	892	685	931	941
Income Tax	65	70	137	(22)	287	233	90	159	(875)	277

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	2,915	10,566	10,687	10,733	11,040	25,372	23,038	25,089	25,361	30,157
Cash & Equivalents	16	42	37	36	33	208	341	298	637	152
Accounts Receivable	334	1,110	1,076	1,135	1,119	1,575	1,592	1,887	2,011	2,193
Inventories	270	850	862	938	1,029	1,761	1,638	1,797	1,830	2,108
Goodwill & Int. Ass.	900	2,639	2,660	2,562	2,618	7,442	7,377	8,858	8,700	11,345
Total Liabilities	1,898	7,187	7,281	6,421	6,732	13,589	13,208	14,703	13,878	18,473
Accounts Payable	252	781	709	802	813	1,231	1,054	1,492	1,717	1,832
Long-Term Debt	1,129	3,446	3,413	2,845	2,985	5,622	5,789	6,555	6,415	10,063
Shareholder's Equity	1,011	3,372	3,406	4,312	4,307	11,652	9,729	10,343	11,469	11,670
D/E Ratio	1.12	1.02	1.00	0.66	0.69	0.48	0.60	0.63	0.56	0.86

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	7.8%	2.1%	2.3%	6.8%	4.4%	2.8%	-1.6%	2.9%	7.6%	3.1%
Return on Equity	25.2%	6.4%	7.4%	18.8%	11.1%	6.4%	-3.7%	7.1%	17.5%	7.5%
ROIC	10.5%	3.1%	3.7%	10.4%	6.6%	4.1%	-2.4%	4.4%	10.9%	4.4%
Shares Out.	---	---	---	---	---	257.0	251.0	254.5	259.2	259.0
Revenue/Share	38.38	53.46	63.90	65.33	67.77	64.19	54.95	58.11	62.68	70.59
FCF/Share	3.47	2.60	1.30	4.05	4.23	3.57	3.46	2.68	3.58	3.63

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