



Sonoco Products Company (SON)

Updated February 14th, 2020 by Nathan Parsh

Key Metrics

Current Price:	\$57	5 Year CAGR Estimate:	7.7%	Market Cap:	\$5.7 billion
Fair Value Price:	\$57	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	2/25/2020
% Fair Value:	100%	5 Year Valuation Multiple Estimate:	0.0%	Dividend Payment Date:	3/10/2020
Dividend Yield:	3.0%	5 Year Price Target	\$73	Years Of Dividend Growth:	37
Dividend Risk Score:	B	Retirement Suitability Score:	A	Last Dividend Increase:	4.9%

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 generates more than \$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.

On 2/13/2020, Sonoco Products released earnings results for the fourth quarter and full year. The company's adjusted earnings-per-share was \$0.75 for the quarter, which was in-line with consensus, but a nearly 11% decrease from the previous year. Revenue was down 3.7% to \$1.31 billion, which was \$30 million below estimates. For the year, adjusted earnings-per-share improved to \$3.53 while revenue was flat at \$5.37 billion.

Revenue for the Consumer Packaging division dropped 2.5% during the quarter due to lower volumes and product mix, particularly in North America paperboard containers. Currency exchange offset higher average selling prices. While the division saw an improvement in costs for flexible packaging, rigid plastics saw an increase in operations costs. Display & Packaging had a 3.2% decline in sales as higher selling prices only partially made up for a drop in retail security volumes. Paper & Industrial Converted Products were lower by 4% due to lower selling prices in several product categories, including global paperboard, corrugating and recycling operations. Revenues for Protective Solutions decreased 5.5% due to weakness in automotive components and consumer-molded and fiber-based protective packaging. One positive note; temperature-assured packaging remains in high demand. Sonoco Products expects adjusted earnings-per-share of \$3.60 to \$3.70 for 2020.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$2.34	\$2.29	\$2.21	\$2.30	\$2.54	\$2.51	\$2.72	\$2.78	\$3.37	\$3.53	\$3.65	\$4.66
DPS	\$1.11	\$1.15	\$1.19	\$1.23	\$1.27	\$1.37	\$1.46	\$1.54	\$1.62	\$1.72	\$1.72	\$2.20
Shares¹	101	100	101	102	101	101	99	99	101	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 \$2.20 by 2025 as Sonoco Products 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	13.6	14.6	14.2	15.9	16.4	17.2	17.8	18.6	16.6	17.5	15.6	15.6
Avg. Yld.	3.5%	3.5%	3.8%	3.4%	3.1%	3.2%	3.0%	3.0%	3.0%	2.8%	3.0%	3.0%

Shares of Sonoco Products are flat since our 10/18/2019 update. Based off of the company's guidance for 2020, shares trade with a price-to-earnings multiple of 15.6. This matches our expected valuation for 2020 so valuation isn't expected to be a major contributor to total returns over the next five years. Shares of Sonoco Products currently yield 3.0%, which is above the average yield of the S&P 500.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	47%	50%	54%	54%	50%	55%	54%	55%	48%	49%	47%	47%

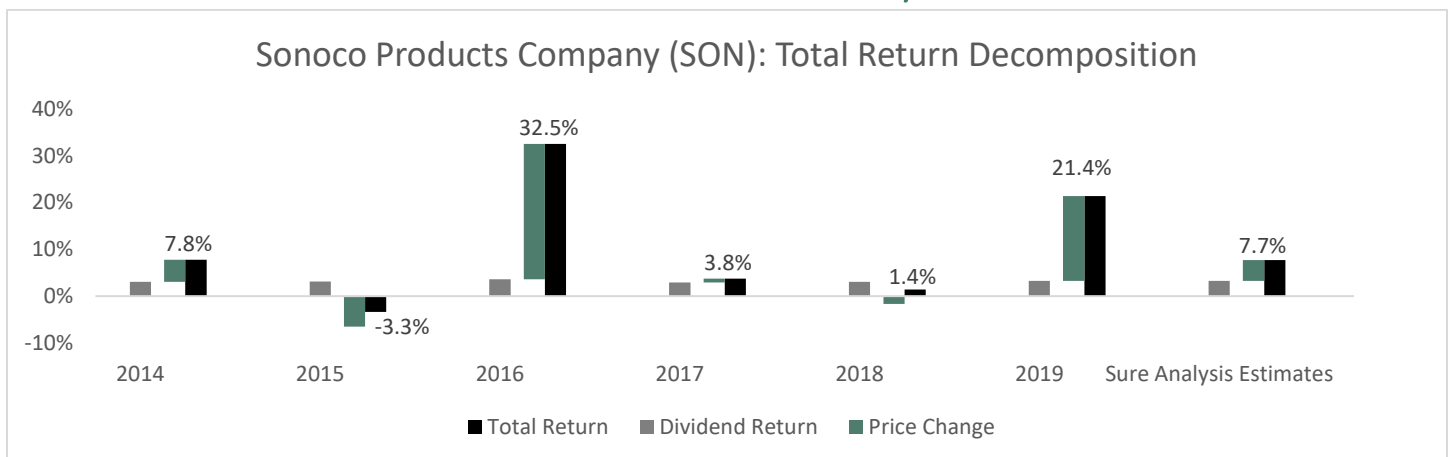
Sonoco Products showed in the last recession that is somewhat susceptible to deteriorating market conditions. Sonoco Products has a very reasonable dividend payout ratio of less than 50% based off of our expectations for 2020. Over the past decade the company has averaged a 53% dividend payout ratio. 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 are 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 7.7% through 2025, up from our previous estimate of 7.0%. Volumes continue to be an issue for the company, but Sonoco Products has managed to increase pricing in multiple product categories. Shares offer a solid yield, which might have some appeal to investors looking for income. We have increased our 2025 price target \$3 to \$73, but rate shares as a hold due to projected returns. In the low \$50s, Sonoco Products would offer more than 10% annual returns. Investors interested in the name are encouraged to wait for a pullback to this range before buying.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	4,124	4,499	4,814	4,862	5,017	4,964	4,783	5,037	5,391	5,374
Gross Profit	768	757	840	862	908	929	946	959	1,041	1,058
Gross Margin	18.6%	16.8%	17.4%	17.7%	18.1%	18.7%	19.8%	19.0%	19.3%	19.7%
SG&A Exp.	405	397	464	487	507	496	503	508	563	531
Operating Profit	362	359	376	374	401	433	443	451	478	527
Operating Margin	8.8%	8.0%	7.8%	7.7%	8.0%	8.7%	9.3%	9.0%	8.9%	9.8%
Net Profit	201	218	195	210	226	250	286	175	314	292
Net Margin	4.9%	4.8%	4.1%	4.3%	4.5%	5.0%	6.0%	3.5%	5.8%	5.4%
Free Cash Flow	229	72	189	366	241	261	212	159	397	245
Income Tax	64	78	100	94	109	88	165	147	75	93

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	3,281	3,993	4,176	3,975	4,194	4,014	3,923	4,558	4,583	5,126
Cash & Equivalents	158	176	373	218	161	182	257	255	120	145
Accounts Receivable	508	607	620	614	654	628	625	725	737	698
Inventories	369	395	383	410	420	385	373	474	494	504
Goodwill & Int. Ass.	970	1,409	1,387	1,343	1,459	1,386	1,317	1,573	1,661	1,818
Total Liabilities	1,773	2,567	2,673	2,268	2,690	2,481	2,368	2,828	2,811	3,311
Accounts Payable	437	437	427	497	517	508	478	548	556	905
Long-Term Debt	621	1,287	1,373	981	1,253	1,128	1,053	1,447	1,385	1,681
Shareholder's Equity	1,492	1,412	1,489	1,691	1,488	1,513	1,532	1,707	1,759	1,816
D/E Ratio	0.42	0.91	0.92	0.58	0.84	0.75	0.69	0.85	0.79	0.93

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	6.3%	6.0%	4.8%	5.1%	5.5%	6.1%	7.2%	4.1%	6.9%	6.0%
Return on Equity	14.1%	15.0%	13.5%	13.2%	14.2%	16.7%	18.8%	10.8%	18.1%	16.3%
ROIC	9.8%	9.0%	7.0%	7.5%	8.3%	9.2%	10.9%	6.1%	9.9%	8.8%
Shares Out.	101	100	101	102	101	101	99	99	101	101
Revenue/Share	40.22	44.03	46.93	47.09	48.63	48.48	46.99	49.94	53.37	53.12
FCF/Share	2.24	0.70	1.84	3.54	2.33	2.55	2.08	1.58	3.93	2.42

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

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