



Sonoco Products Company (SON)

Updated April 16th, 2020 by Nathan Parsh

Key Metrics

Current Price:	\$45	5 Year CAGR Estimate:	11.8%	Market Cap:	\$4.5 billion
Fair Value Price:	\$54	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	5/7/2020
% Fair Value:	84%	5 Year Valuation Multiple Estimate:	3.6%	Dividend Payment Date:	6/10/2020
Dividend Yield:	3.8%	5 Year Price Target	\$68	Years Of Dividend Growth:	37
Dividend Risk Score:	A	Retirement Suitability Score:	B	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 \$5.3 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 4/16/2020, Sonoco Products reported first quarter earnings results. The company's adjusted earnings-per-share of \$0.94 was \$0.10 higher than expected and a 10.6% increase from the previous year. Revenue decreased 3.7% to \$1.3 billion, which was \$60 million below consensus estimates.

Sales for Consumer Packaging were down 0.2% as acquisitions only partially offset lower volumes, product mix, reduced selling prices and foreign currency translation. This division did see volume growth in Asia and Latin America, though North America and Europe had a 2% decline. Display & Packaging suffered a nearly 12% decrease in sales, due to the exit of a packaging center contract in 2018. Lower volumes and product mix also impacted results. Paper & Industrial Converted Products was down 4.2% on reduced pricing and lower volumes. Protective Solutions was down 8% due to weakness in molded foam automotive components and consumer fiber packaging for appliances. Due to the unknown impact and duration of COVID-19, Sonoco Products is pulling its guidance, including earnings, revenue and cash flow, for the year. The company does expect a midpoint of earnings-per-share of \$0.78 for the second quarter, 18% below results for the previous year. We have lowered our earnings forecast to \$3.44 from \$3.65 to match consensus estimates.

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	\$3.44	\$4.39
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 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. It should be noted that the company did not increase its dividend as it normally does for the upcoming June payment. 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	13.1	15.6
Avg. Yld.	3.5%	3.5%	3.8%	3.4%	3.1%	3.2%	3.0%	3.0%	3.0%	2.8%	3.8%	3.2%

Shares of Sonoco Products have decreased \$12, or 21%, since our 2/14/2020 update. Based off of our revised expectations for 2020, shares trade with a price-to-earnings multiple of 13.1. Reverting to the 10-year average valuation of 15.6x earnings by 2025 would add 3.6% to annual returns over this period of time. Shares of Sonoco Products currently yield 3.8%, 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%	50%	50%

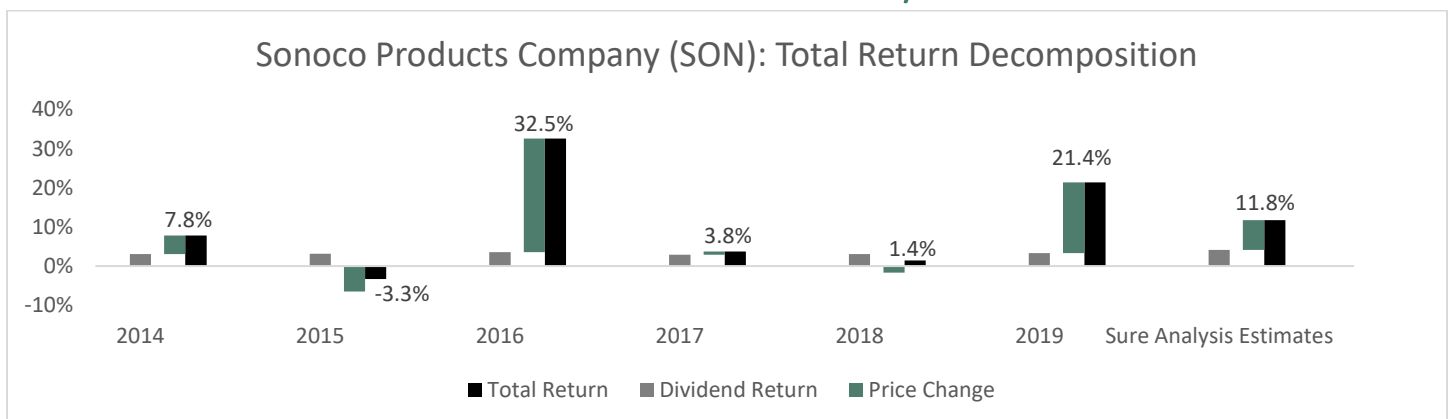
Sonoco Products showed in the last recession that is somewhat susceptible to deteriorating market conditions. Sonoco Products has a very reasonable dividend payout ratio of about 50% based off of our expectations for 2020. Over the past decade the company has averaged a 53% dividend payout ratio. Given 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 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 is now projected to offer a total annual return of 11.8% through 2025, up from our previous estimate of 7.7%. Volumes were once again an issue for the company in the first quarter, but product mix and currency exchange also impacted results. Pricing, which had been a positive in recent quarters, was lower for some segments as well. We have lowered our 2025 price target \$5 to \$68 to reflect our lowered guidance for 2020, but raise our rating on the stock to buy from hold due to projected returns. While there is some uncertainty regarding Sonoco Products due to COVID-19, investors with a higher appetite for risk could do well buying the stock at the current price. Shares also offer a high yield that appears well-covered.

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	230
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	538
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	1,803
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%	16.4%
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	2.27

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

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