Greif, Inc. (GEF)

Updated June 5th, 2020 by Eli Inkrot

Key Metrics

Current Price:	$40	**5 Year CAGR Estimate:**	7.4%	**Market Cap:**	$1.9 B
Fair Value Price:	$42	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	06/17/20
% Fair Value:	96%	**5 Year Valuation Multiple Estimate:**	0.9%	**Dividend Payment Date:**	07/01/20
Dividend Yield:	4.4%	**5 Year Price Target**	$49	**Years Of Dividend Growth:**	2
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	4.8%

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 $2 billion market cap company serves customers in over 40 countries.

On February 27th, 2020 Greif announced a definitive agreement to sell its Consumer Packaging Group for $85 million to Graphic Packaging Holding Company (GPK), which has since been completed.

On June 3rd, 2020 Greif reported Q2 fiscal 2020 results for the period ending April 30th, 2020. (Greif's fiscal year ends October 31st.) For the quarter net sales declined -4.5% to $1.158 billion. Sales were down -4.8%, up 0.1% and down -13.0% in the Rigid Industrial Packaging, Paper Packaging and Flexible Product segments respectively, as the company dealt with the ongoing COVID-19 pandemic. Reported net income equaled $11.4 million ($0.19 per share) compared to $13.6 million ($0.23 per share) previously. On an adjusted basis, earnings-per-share equaled $0.95 versus $0.81 prior.

Previously Greif provided a 2020 outlook, anticipating adjusted earnings-per-share of $3.55 to $3.91 and adjusted free cash flow of $265 to $305 million. However, this guidance has been suspended due to the coronavirus crisis.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$4.35	$3.73	$2.66	$2.76	$2.36	$2.18	$2.44	$2.95	$3.53	$3.96	***$3.50***	***$4.06***
DPS	$1.60	$1.68	$1.68	$1.68	$1.68	$1.68	$1.68	$1.68	$1.70	$1.76	***$1.76***	***$1.80***
Shares[1]	47	47	47	48	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 5.5% annually. However, since 2010 the growth rate has been negative. 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 marketplace. We believe this is a long-term growth thesis that will continue aiding the company's core business. With that being said, the short-term outlook appears hazy. Previously the U.S. / China trade war threatened the movement of goods. Now the COVID-19 pandemic has significantly impacted demand around the world and it is not yet clear when it will return to "normal" levels. Further, the company carries a significant debt load after the Caraustar acquisition. As such, additional funds will be diverted towards paying down debt, dampening the growth thesis.

We are forecasting a down year on the earnings front, as a result of a variety of headwinds. We are also expecting 3% annual growth, which still implies reduced expectations over the intermediate term.

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[1] In millions.

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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	12.9	16.0	17.5	18.1	21.7	17.7	14.6	18.9	15.8	9.8	***11.5***	***12.0***
Avg. Yld.	2.9%	2.8%	3.6%	3.4%	3.3%	4.3%	4.7%	3.0%	3.1%	4.6%	***4.4%***	***3.7%***

In the last decade shares of Greif have traded hands with an average P/E ratio of about 16 times earnings. We are discounting this materially - using 12 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 250,000 acres of timber properties. With shares trading at 11.5 times expected earnings, this implies a small 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 2018 and shares now offer a 4.4% starting dividend yield.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	37%	45%	63%	61%	71%	77%	69%	57%	48%	44%	***50%***	***44%***

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. Moreover, the short-term is particular hazy at the moment.

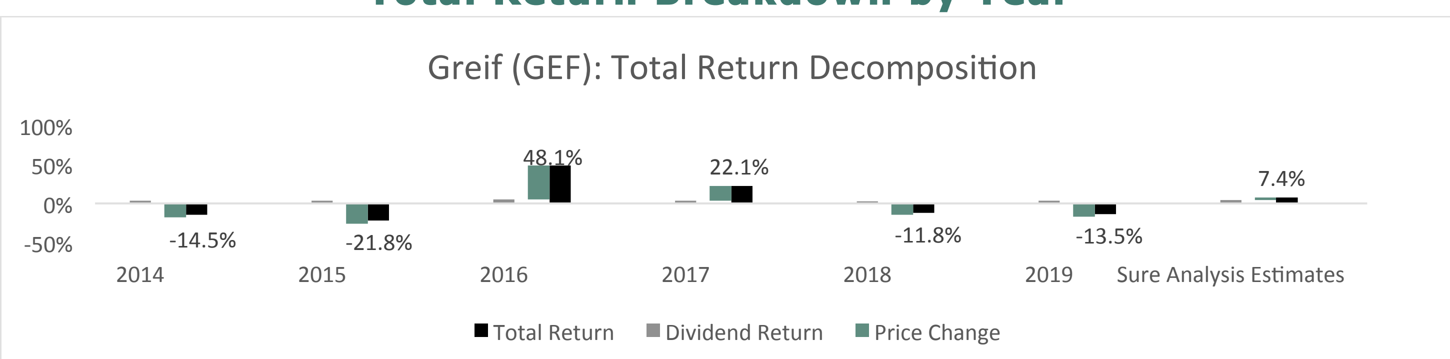
During the last recession Greif posted earnings-per-share of $4.18, $3.32 and $4.35 during the 2008 through 2010 stretch. Furthermore, the dividend kept on increasing during this time as well.

As of the most recent report Greif held $72 million in cash, $1.2 billion in current assets and $5.5 billion in total assets (29% of which was property and equipment) against $841 million in current liabilities and $4.4 billion in total liabilities. Long-term debt stood at $2.6 billion, requiring ~$120 million in annual interest expense.

Final Thoughts & Recommendation

Shares are up 11% since our last report. Greif has put together a reasonable, albeit cyclical operating record during the last decade. We see total return potential of 7.4% per annum stemming from 3% growth, a 4.4% starting dividend yield and a small valuation tailwind. Risks to this thesis include a slowing global economy due to the COVID-19 pandemic along with the company's now significant debt load. We are reiterating our hold rating.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	3462	4248	4130	4220	4239	3617	3324	3638	3874	4595
Gross Profit	701	798	780	832	811	670	685	715	789	960
Gross Margin	20.3%	18.8%	18.9%	19.7%	19.1%	18.5%	20.6%	19.6%	20.4%	
SG&A Exp.	365	449	470	477	497	413	377	408	399	507
Operating Profit	336	349	310	355	314	257	308	307	390	453
Operating Margin	9.7%	8.2%	7.5%	8.4%	7.4%	7.1%	9.3%	8.4%	10.1%	
Net Profit	203	175	118	145	92	72	75	119	209	171
Net Margin	5.9%	4.1%	2.9%	3.4%	2.2%	2.0%	2.3%	3.3%	5.4%	
Free Cash Flow	13	6	304	105	67	32	189	199	104	227
Income Tax	44	67	61	99	115	48	67	67	73	71

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	3498	4189	3853	3887	3667	3316	3153	3232	3195	5427
Cash & Equivalents	107	127	92	78	85	106	104	142	94	77
Accounts Receivable	480	561	454	482	501	404	399	447	457	664
Inventories	397	429	374	374	381	297	277	280	290	358
Goodwill & Int. Ass.	883	1231	1175	1184	1047	940	897	883	857	2294
Total Liabilities	2163	2847	2543	2507	2444	2256	2195	2185	2041	4236
Accounts Payable	468	493	466	431	471	355	372	399	404	435
Long-Term Debt	1026	1521	1276	1281	1153	1188	1026	967	910	2752
Shareholder's Equity	1234	1214	1191	1265	1142	1016	947	1011	1108	1133
D/E Ratio	0.83	1.25	1.07	1.01	1.01	1.17	1.08	0.96	0.82	2.43

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	6.4%	4.5%	2.9%	3.7%	2.4%	2.1%	2.3%	3.7%	6.5%	4.0%
Return on Equity	17.4%	14.3%	9.8%	11.8%	7.6%	6.7%	7.6%	12.1%	19.8%	15.3%
ROIC	9.6%	6.7%	4.3%	5.5%	3.6%	3.1%	3.5%	5.9%	10.3%	5.7%
Shares Out.	47	47	48	48	48	48	48	48	48	48
Revenue/Share	59.05	72.53	70.69	72.01	72.18	61.45	56.48	61.84	65.68	77.62
FCF/Share	0.22	0.10	5.20	1.79	1.14	0.55	3.22	3.38	1.76	3.84

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