



Sonoco Products Company (SON)

Updated July 17th, 2020 by Nathan Parsh

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|----------------------------------|---------------|
| Current Price: | \$54 | 5 Year CAGR Estimate: | 6.7% | Market Cap: | \$5.4 billion |
| Fair Value Price: | \$51 | 5 Year Growth Estimate: | 5.0% | Ex-Dividend Date: | 8/7/2020 |
| % Fair Value: | 107% | 5 Year Valuation Multiple Estimate: | -1.3% | Dividend Payment Date: | 9/10/2020 |
| Dividend Yield: | 3.2% | 5 Year Price Target | \$65 | 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 4/17/2020, Sonoco Products reported earnings results for the second quarter. The company's adjusted earnings-per-share declined \$0.16, or 17%, to \$0.79, though this was \$0.02 higher than analysts had expected. Revenue declined 8.4% to \$1.3 billion, which was \$71 million lower than expected.

The Consumer Packaging segment had sales growth of 2% to \$614.6million. This segment benefited from an improvement in volume and mix and saw a benefit from acquisitions. Foreign currency exchange and lower prices offset this growth. Food product demand in North America, Europe and Asia drove 8% growth for global rigid paper containers. Segment operating margins improved 360 bps to 14%. Display & Packaging sales declined 20% to \$107.3 million on lower volumes for domestic displays, paper amenities and retail security packaging. Productivity improvements and cost reductions did allow operating margins to improve to 5.6% from 4.4% in the prior year. Sales for Paper & Industrial Converted Products were down nearly 12% to \$434.5 million. Lower volumes and mix along with lower prices and currency exchange were the primary reasons for the year-over-year sales decline. Global tube, core and cone volumes were especially weak. Operating margins declined 560 bps to 6.9%. Protective Solutions sales of \$89.1 million were lower by 32% compared to the previous year mostly due to COVID-19-related customer shutdowns. Operating margins were 5% compared to 10.9% in Q1 2019. Sonoco Products expects EPS of \$0.73 to \$0.83 for the third quarter. Analysts expect the company to produce earnings-per-share of \$3.25 for the year, down from \$3.44 previously.

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 | \$3.25 | \$4.15 |
| 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 in certain segments 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

¹ In millions of shares

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noted that the company did not increase its dividend as it normally does for the June payment. The dividend has remained unchanged for six consecutive quarters. We see the payout rising to \$2.20 by 2025 as Sonoco Products keeps its payout around half of earnings.

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 | 16.6 | 15.6 |
| Avg. Yld. | 3.5% | 3.5% | 3.8% | 3.4% | 3.1% | 3.2% | 3.0% | 3.0% | 3.0% | 2.8% | 3.2% | 3.4% |

Shares of Sonoco Products have increased \$9, or 20%, since our 4/16/2020 update. Based off of our revised expectations for 2020, shares trade with a price-to-earnings multiple of 16.6. Reverting to the 10-year average valuation of 15.6x earnings by 2025 would reduce annual returns by 1.3% over this period of time. Shares of Sonoco Products currently yield 3.2%, 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% | 53% | 53% |

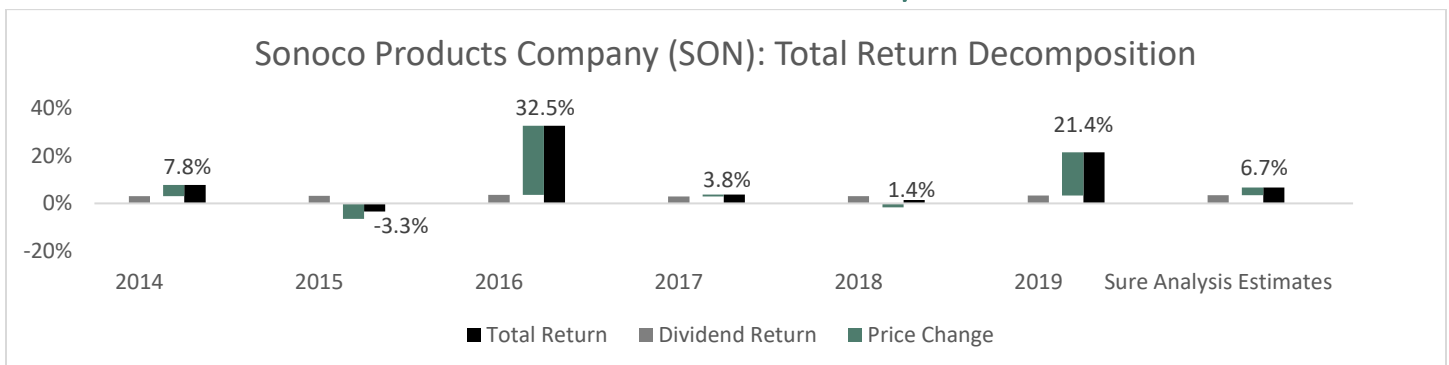
Sonoco Products showed in the last recession that it is somewhat susceptible to deteriorating market conditions. Sonoco Products has a very reasonable dividend payout ratio of just over 50% based off of our expectations for 2020. Over the past decade the company has averaged a 53% dividend payout ratio. Sonoco Products' dividend appears safe even with reduced earnings estimates.

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 6.7% through 2025, down from our previous estimate of 11.8%. The company had a mixed quarter, missing on revenue, but beating on earnings-per-share. The company's segments also saw a mixed quarter, though some of this weakness was related to ongoing coronavirus pandemic. Shares have had a strong appreciation since our last update and we now rate shares as a hold due to projected returns. We have lowered our 2025 price target \$3 to \$65 due to revised EPS estimates.

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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