Silgan Holdings (SLGN)

Updated October 22nd, 2020 by Nikolaos Sismanis

Key Metrics

Current Price:	$35	**5 Year CAGR Estimate:**	9.8%	**Market Cap:**	$3.86B
Fair Value Price:	$37.50	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date[1]:**	11/29/2020
% Fair Value:	93%	**5 Year Valuation Multiple Estimate:**	1.5%	**Dividend Payment Date:**	12/31/2020
Dividend Yield:	1.3%	**5 Year Price Target**	$53	**Years Of Dividend Growth:**	16
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	9.1%

Overview & Current Events

Silgan Holdings manufactures and sells metal and plastic containers, as well as packaging closures. Its containers are found in everyday food consumables such as pet food, fruits and vegetables, and drinks, while its closures are applied to the beverage, garden, and personal care products. The company generates around $4.5 billion in annual revenues and is based in Stamford, Connecticut.

On October 21st, Silgan reported its Q3 results for the period ending September 30th, 2020. Revenues increased by 12.9%, reaching a quarterly record of $1.49 billion. The quarter's EPS was $1.04, growing by 37% year-over-year, also reaching a quarterly high. Metal containers saw volume growth of 17%, accounting for $856.7 million of turnover (57% of sales) due to the increased at-home food consumption and favorable foreign currency translation. Closures also delivered spectacular results, reaching $471.1 million in sales, an increase of 34.4%. The segment's sales were boosted by COVID-19, which helped dispensing closure volumes increase by 22%, driven by strong demand for sprayers, foamers, and pumps amid increased demand for cleaning and hygiene products. Finally, plastic containers enjoyed a 7.6% revenue increase to $156.7 million, also delivering satisfactory quarterly performance.

For Q4-2020, management expects EPS of $0.47 to $0.52 and raised FY2020 EPS guidance of $2.92 to $2.97 (previously $2.70 to $2.85), further increasing investor confidence for the short term.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$0.95	$1.38	$1.09	$1.44	$1.44	$1.41	$1.28	$2.44	$2.03	$1.75	***$2.95***	***$3.51***
DPS	$0.21	$0.22	$0.24	$0.28	$0.30	$0.32	$0.34	$0.36	$0.40	$0.44	***$0.47***	***$0.69***
Shares[2]	151.8	140	139.1	128.5	126.9	122	119.7	110.4	110.6	110.9	110.9	**110.9**

Over the past decade, Silgan has averaged an EPS and DPS CAGR of 7% and 8.6%, respectively. Considering that the company's performance will continue to benefit from the ongoing pandemic, its revenues, and subsequently earnings, should outperform its decade average, similarly to its current results. As COVID-19 continues to persist across the globe, demand for packaged and canned foods, as well as sanitization products should remain robust.

However, to remain prudent, we will stick to a medium-term EPS CAGR estimate of 7%. The recent EPS jump is not guaranteed to be permanent. A potential decline in volumes caused by COVID-19 retreating and/or an oversupply of Silgan products could reverse growth. We can't ignore such a scenario, hence avoiding a more exciting estimate, similar to its recent quarter. We peg 'normalized' fiscal 2020 EPS at $2.50 and expect 7% growth off of this base.

Further, we estimate a DPS CAGR of 8% over the next few years, which has been a consistent average in the company's past-decade distributions. The payout ratio remains incredibly low, so we find it unlikely for management to decelerate its growth in the medium term. The company has paused buybacks over the past few years, though a resumption is quite possible, based on its recent extraordinary net cash generation.

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[1] Estimated dates based on PLD's past dividend dates

[2] Share count is in millions.

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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	17.1	16.9	16	16.8	17.1	19.9	20.1	22.6	11.1	17.6	***11.8***	***15.0***
Avg. Yld.	1.2%	1.1%	1.1%	1.2%	1.2%	1.3%	1.3%	1.1%	1.6%	1.5%	***1.3%***	***1.1%***

Silgan's valuation has remained reasonable over the years, rarely outrunning its underlying financial growth. Based on the company's narrow guidance, shares are currently trading at only 11.8 their 2020 EPS. However, as we mentioned earlier, this may be a temporary boost so we are using normalized EPS of $2.50 for our fair value calculation of $37.50. We believe that a fair, medium-term P/E ratio would be around 15, slightly lower than the stock's decade average. The stock's yield has always remained relatively low, around 1%-2%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	22.1%	15.94%	22.0%	19.4%	20.8%	22.7%	26.5%	14.7%	19.7%	25.1%	**15.9%**	**16.7%**

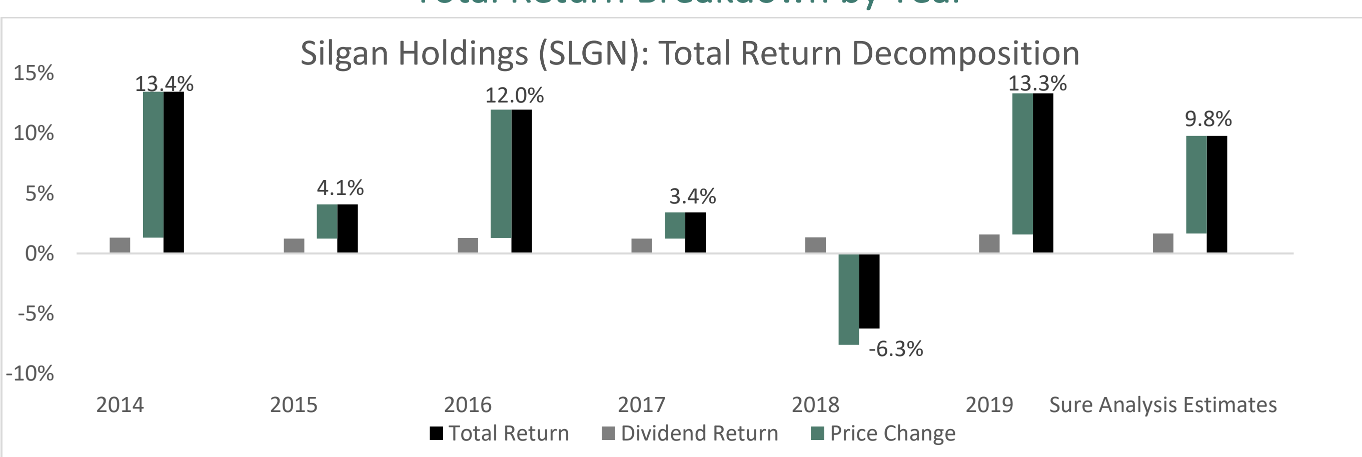
Investors can comfortably trust Silgan's dividends since the company's payout ratio remains incredibly low, below 20%. Since the company's IPO in 1996, Silgan has never reported a money-losing quarter. Its products are vital for various consumer staples. Hence its operations are quite stable, displayed in its 16-year dividend growth record. At the same time, however, Silgan operates in a massively competitive space, with quite thin margins. The company's competitors include firms that are multiple times larger than Silgan, such as the Ball Corp. (BLL), the Packaging Corporation of America (PKG), keeping Silgan's net profit margins as low as 6%.

Overall, the company has showcased decades of robust cash flow generation, with little volatility to its financials. Its operations should remain quite stable even under adverse economic conditions, though the company is unlikely to grow significantly faster than its industry's slow-paced and mature rate over the long run.

Final Thoughts & Recommendation

Silgan has a long history of stable returns, lacking any wild fluctuations in its share price throughout the decades. Despite the stock's tiny dividend yield, combining its relative modest growth rates and a potential valuation expansion near its average, we can see shares delivering nearly double-digit returns in the medium term. Simultaneously, investors bust me aware of the company's already razor-thin net income margin, which could easily compress father amid increased competition, limiting the stock's potential returns over this period.

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	3072	3509	3588	3709	3912	3764	3613	4090	4449	4490
Gross Profit	472	519	518	547	600	554	512	635	690	714
Gross Margin	15.4%	14.8%	14.4%	14.8%	15.3%	14.7%	14.2%	15.5%	15.5%	15.9%
SG&A Exp.	167	157	183	211	224	220	220	305	308	316
D&A Exp.	143	159	165	168	148	142	143	174	192	206
Operating Profit	306	362	334	336	375	334	319	363	418	416
Op. Margin	9.9%	10.3%	9.3%	9.1%	9.6%	8.9%	8.8%	8.9%	9.4%	9.3%
Net Profit	145	193	151	185	182	172	153	270	224	194
Net Margin	4.7%	5.5%	4.2%	5.0%	4.7%	4.6%	4.2%	6.6%	5.0%	4.3%
Free Cash Flow	82	187	232	248	208	98	203	215	316	276
Income Tax	77	97	72	69	102	80	79	-30	69	58

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	2176	2979	3294	3321	3274	3193	3149	4645	4579	4931
Cash & Equivalents	175	397	466	160	223	100	25	54	73	204
Accounts Receivable	214	340	327	333	311	281	288	455	511	505
Inventories	439	554	516	516	549	628	603	721	635	633
Goodwill & Int. Ass.	397	486	683	880	842	808	785	1589	1532	1497
Total Liabilities	1622	2321	2540	2607	2564	2553	2680	3879	3698	3908
Accounts Payable	289	319	319	352	424	477	505	660	713	727
Long-Term Debt	905	1376	1671	1704	1584	1514	1562	2547	2305	2244
Total Equity	554	658	754	714	710	639	469	766	881	1023
D/E Ratio	1.6	2.1	2.2	2.4	2.2	2.4	3.3	3.3	2.6	2.2

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	6.6%	7.5%	4.8%	5.6%	5.5%	5.3%	4.8%	6.9%	4.9%	4.1%
Return on Equity	23.3%	31.9%	21.4%	25.3%	25.6%	25.6%	27.7%	43.7%	27.2%	20.4%
ROIC	9.8%	11.1%	6.8%	7.7%	7.7%	7.8%	7.3%	10.1%	6.9%	6.0%
Shares Out.	153.0	140.8	139.8	129.3	127.5	122.6	120.5	111.4	111.6	111.5
Revenue/Share	20.07	24.93	25.67	28.68	30.68	30.70	29.98	36.73	39.85	40.27
FCF/Share	0.54	1.33	1.66	1.91	1.63	0.80	1.68	1.93	2.83	2.48

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