



# Sonoco Products Company (SON)

Updated October 22<sup>nd</sup>, 2020 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$54	<b>5 Year CAGR Estimate:</b>	7.2%	<b>Market Cap:</b>	\$5.6 billion
<b>Fair Value Price:</b>	\$52	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	11/9/2020
<b>% Fair Value:</b>	104%	<b>5 Year Valuation Multiple Estimate:</b>	-0.7%	<b>Dividend Payment Date:</b>	12/10/2020
<b>Dividend Yield:</b>	3.2%	<b>5 Year Price Target</b>	\$66	<b>Years Of Dividend Growth:</b>	37
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Last Dividend Increase:</b>	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 billion in annual sales. Sonoco Products is composed of 4 divisions: Paper & Industrial Converted Products, Consumer, Protective Solutions, and Display & Packaging.

Sonoco Products purchased Can Packaging, a privately-owned sustainable paper packaging manufacturer in France for \$49 million in cash. On 10/9/2020, the company agreed to sell its Europe contract packaging business for \$120 million in cash.

On 10/22/2020, Sonoco Products reported third quarter earnings results. The company's adjusted earnings-per-share of \$0.86 was 11.3% lower than the previous year, but \$0.04 higher than expected. Revenue declined 3% to \$1.3 billion, missing estimates by \$10 million. Sales for the Consumer Packaging segment grew 0.4% to \$583.7 million. Acquisitions aided results, especially in the area of medical packaging, but were mostly offset by price decreases. Rigid paper containers had a 2.3% increase in volumes and mix due to food product demand related to COVID-19. Flexible packaging was hampered by less foot traffic in convenience stores. Segment operating margins improved 180 bps to 11.6%. Display & Packaging sales dropped 5.1% to \$137.6 million due to lower volumes and product mix in domestic displays, retail security packaging and paper amenities. This segment benefited from productivity improvements and cost controls. Operating margins were up 170 basis points to 7.8%. Paper & Industrial Converted Products decreased 7.4% to \$459.3 million. Weakness in global tube, core and cone volumes were the primary culprits for the decline in sales. These products were negatively impacted by the ongoing pandemic. Segment operating margins were down 450 basis points to 7.5%. The company expects to earn \$3.34 per share for the year, up from analysts' projections of \$3.25 previously.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>EPS</b>	\$2.34	\$2.29	\$2.21	\$2.30	\$2.54	\$2.51	\$2.72	\$2.78	\$3.37	\$3.53	<b>\$3.34</b>	<b>\$4.26</b>
<b>DPS</b>	\$1.11	\$1.15	\$1.19	\$1.23	\$1.27	\$1.37	\$1.46	\$1.54	\$1.62	\$1.72	<b>\$1.72</b>	<b>\$2.20</b>
<b>Shares<sup>1</sup></b>	101	100	101	102	101	101	99	99	101	101	<b>101</b>	<b>100</b>

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 noted that the company did not increase its dividend as it normally does for the June payment. The dividend has

<sup>1</sup> In millions of shares

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remained unchanged for seven 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	16.2	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%	3.3%

Shares of Sonoco Products are flat since our 7/17/2020 update. Based off of our revised expectations for 2020, shares trade with a price-to-earnings multiple of 16.2. Reverting to the 10-year average valuation of 15.6x earnings by 2025 would reduce annual returns by 0.7% 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%	51%	51%

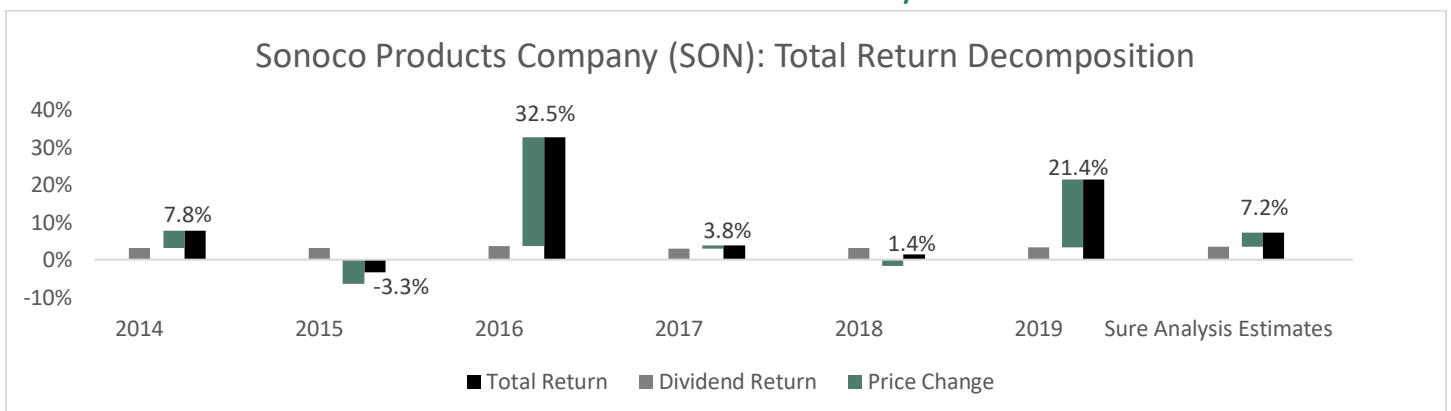
Sonoco Products showed in the last recession that it is somewhat susceptible to deteriorating market conditions. Sonoco Products has a very reasonable dividend payout ratio of just over 50% based off of our expectations for 2020. Over the past decade the company has averaged a 53% dividend payout ratio.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

A key competitive advantage for Sonoco Products is that the company is usually 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 7.2% through 2025, up from our previous estimate of 6.7%. The company continues to be impacted by the COVID-19 pandemic, which has weighed on demands for products. The gains seen in containers for takeout food have been offset by lower demand in other areas. That said, shares offer a solid 3%+ yield. We have raised our 2025 price target \$1 to \$66 due to company's EPS guidance, but Sure Dividend continues to rate Sonoco Products as a hold due to projected returns.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Revenue</b>	4,124	4,499	4,814	4,862	5,017	4,964	4,783	5,037	5,391	5,374
<b>Gross Profit</b>	768	757	840	862	908	929	946	959	1,041	1,058
<b>Gross Margin</b>	18.6%	16.8%	17.4%	17.7%	18.1%	18.7%	19.8%	19.0%	19.3%	19.7%
<b>SG&amp;A Exp.</b>	405	397	464	487	507	496	503	508	563	531
<b>Operating Profit</b>	362	359	376	374	401	433	443	451	478	527
<b>Operating Margin</b>	8.8%	8.0%	7.8%	7.7%	8.0%	8.7%	9.3%	9.0%	8.9%	9.8%
<b>Net Profit</b>	201	218	195	210	226	250	286	175	314	292
<b>Net Margin</b>	4.9%	4.8%	4.1%	4.3%	4.5%	5.0%	6.0%	3.5%	5.8%	5.4%
<b>Free Cash Flow</b>	229	72	189	366	241	261	212	159	397	230
<b>Income Tax</b>	64	78	100	94	109	88	165	147	75	93

## Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Total Assets</b>	3,281	3,993	4,176	3,975	4,194	4,014	3,923	4,558	4,583	5,126
<b>Cash &amp; Equivalents</b>	158	176	373	218	161	182	257	255	120	145
<b>Accounts Receivable</b>	508	607	620	614	654	628	625	725	737	698
<b>Inventories</b>	369	395	383	410	420	385	373	474	494	504
<b>Goodwill &amp; Int. Ass.</b>	970	1,409	1,387	1,343	1,459	1,386	1,317	1,573	1,661	1,818
<b>Total Liabilities</b>	1,773	2,567	2,673	2,268	2,690	2,481	2,368	2,828	2,811	3,311
<b>Accounts Payable</b>	437	437	427	497	517	508	478	548	556	538
<b>Long-Term Debt</b>	621	1,287	1,373	981	1,253	1,128	1,053	1,447	1,385	1,681
<b>Shareholder's Equity</b>	1,492	1,412	1,489	1,691	1,488	1,513	1,532	1,707	1,759	1,803
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	6.3%	6.0%	4.8%	5.1%	5.5%	6.1%	7.2%	4.1%	6.9%	6.0%
<b>Return on Equity</b>	14.1%	15.0%	13.5%	13.2%	14.2%	16.7%	18.8%	10.8%	18.1%	16.4%
<b>ROIC</b>	9.8%	9.0%	7.0%	7.5%	8.3%	9.2%	10.9%	6.1%	9.9%	8.8%
<b>Shares Out.</b>	101	100	101	102	101	101	99	99	101	101
<b>Revenue/Share</b>	40.22	44.03	46.93	47.09	48.63	48.48	46.99	49.94	53.37	53.12
<b>FCF/Share</b>	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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