AptarGroup Inc. (ATR)

Updated November 19th, 2020 by Felix Martinez

Key Metrics

Current Price:	$126	**5 Year CAGR Estimate:**	-5.4%	**Market Cap:**	$8.3 B
Fair Value Price:	$72	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	1/28/21[1]
% Fair Value:	175%	**5 Year Valuation Multiple Estimate:**	-10.6%	**Dividend Payment Date:**	2/19/21[2]
Dividend Yield:	1.14%	**5 Year Price Target**	$88	**Years Of Dividend Growth:**	26
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	5.9%

Overview & Current Events

AptarGroup Inc. (ATR) began trading as an independent company in 1993 and is now one of the leading businesses in the global dispensing systems industry. With a market capitalization of approximately $8.3 billion, the company has over 14,000 employees in 18 countries and produced $2.86 billion in revenue in 2019. The company is divided into three business segments: "Beauty + Home," "Food + Beverage," and "Pharma."

The company reported third-quarter as well as the nine months FY2020 results on October 29, 2020. The Pharma segment saw sales growth of 17% for the quarter, where the Beauty + Home and Food + Beverage saw an increase in sales of 3% and 2%, respectively. In total, sales increase by 8% for the third quarter compared to 3Q19, from $701 million a year ago to now $759 million. For the nine months of FY2020, sales are flat to slightly down from $2.188 billion to now $2.180 billion. Net income saw a 12.3% increase to a profit of $64 million, and for the nine months, net income is down (16.9)%. The sales of Beauty + Home, and Food + Beverage segments had more difficultly in the first half of the year primarily due to the impacts of COVID-19. These difficultly translated into lower sales and profit for the first nine months of the year. Adjusted earnings per share totaled $1.00, an increase of 3% compared to the prior year. Free cash flow was $208 million in the first nine months of 2020, an increase of 9% compared to the prior year.

Current year adjusted earnings per share, which exclude restructuring costs and acquisition-related expenses, were $2.72 and down (13.7)% from prior year adjusted earnings per share. The company expects EPS for the fourth-quarter results to be in the range of $0.84 to $0.92. Since the company performed slightly better for the quarter, we increased our estimated EPS from $3.36 in the last Sure Dividend report to $3.61. This represents an increase of 7.4%.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$2.48	$2.65	$2.48	$2.79	$2.85	$3.00	$3.13	$3.40	$4.00	$3.95	***$3.61***	***$4.39***
DPS	$0.66	$0.80	$0.88	$1.00	$1.09	$1.14	$1.22	$1.28	$1.32	$1.42	***$1.44***	***$1.67***
Shares[3]	67.0	66.6	66.2	65.4	62.0	62.5	62.2	61.9	62.9	66.0	***66.0***	***66.0***

AptarGroup has grown organically and via occasional acquisitions. In 2018, the company spent $528 million on acquisitions, which is its most substantial amount spent on acquisitions in recent history and should contribute to significant growth in the coming years. When acquisitions are not substantial, the company historically uses cash or debt to repurchase shares and has averaged a -0.2% share reduction per year. The Pharma segment is AptarGroup's most profitable segment, as it accounts for approximately one-third of company sales but two-thirds of its EBITDA. The company's Pharma segment is its primary driver of growth, although currency impacts and tax changes are currently acting as headwinds. We estimate 4.0% annual earnings and a 3.0% dividend growth over the next five years. The dividend growth has been slowing down as the company has a 10-year dividend growth average of 8.9%, and the five-year dividend CAGR is 4.8%.

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[1] Ex-Dividend Date is estimated

[2] Dividend Payment is estimated

[3] 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	16.8	18.7	21.5	20.8	22.7	21.6	23.9	24.1	32.1	29.3	***35.0***	***20.0***
Avg. Yld.	1.6%	1.6%	1.7%	1.7%	1.7%	1.7%	1.6%	1.6%	1.4%	1.2%	***1.1%***	***1.9%***

AptarGroup currently trades for a valuation of over 35.0 times earnings, which we consider to be rich for a company with its low growth level. The security looks overvalued when compared to its 10-year average of 23 times earnings. Additionally, the dividend yield is historically low at approximately 1.1% compared to its average of roughly 1.6%.

From this point, there is more potential for a valuation reduction rather than valuation expansion over the next five years, in our view. We believe that a valuation of 20x earnings, modestly below its 10-year average, is fair given the company's decent but unspectacular expected growth potential.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	27%	30%	35%	36%	38%	38%	39%	38%	33%	36%	***40%***	***38%***

AptarGroup has over 5,000 customers, with no customer accounting for more than 6% of sales. Additionally, three-quarters of sales come from outside of the United States, with more than half of Europe's sales. The company has various patents and trademarks to protect its designs. However, it faces stiff competition and has historically achieved returns on invested capital that is only marginally higher than its weighted average capital cost. However, the Pharma segment enjoys high switching costs due to regulatory certification and has higher profit margins.

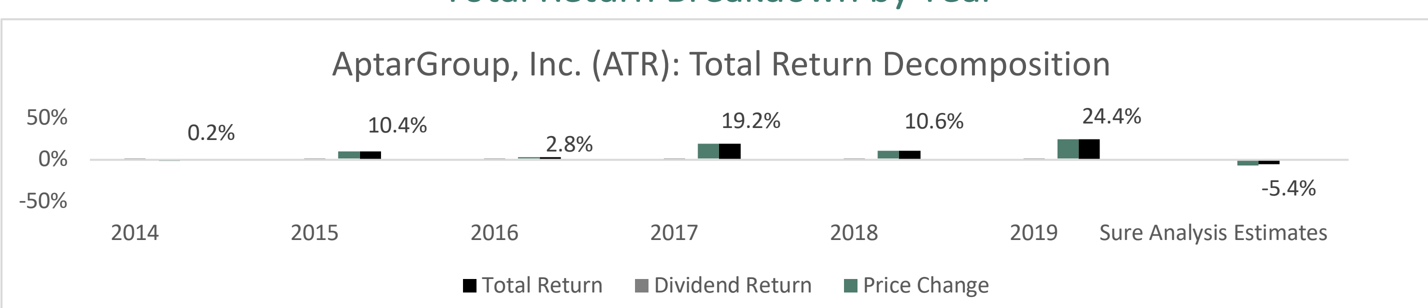
AptarGroup has paid growing dividends for 26 consecutive years and maintains a low payout ratio. The company was only mildly affected by the previous recession, as it remained profitable and quickly recovered to all-time high sales and earnings in 2010. Its products across all three business segments are not very cyclical.

The company has nearly doubled its long-term debt over the past four years, but its interest coverage ratio remains healthy at over 9.5x. With a ratio of long-term debt to net income of approximately 8x, AptarGroup makes substantial use of leverage, although its consistent earnings should allow it to support that leverage safely.

Final Thoughts & Recommendation

In our view, AptarGroup is a durable company with a long history of growing dividends. However, the valuation is higher than its historical average compared to what we consider fair for this growth level. The company's sizeable foreign exposure is both a source of opportunity and a risk. The exchange rates of various foreign currencies, especially the euro, will substantially impact AptarGroup's earnings due to its significant international exposure. We rate AptarGroup as a sell at the current time due to its low expected total returns of just (5.4)% per year.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	2077	2337	2331	2520	2598	2317	2331	2469	2765	2860
Gross Profit	698	769	741	811	843	814	835	866	952	1041
Gross Margin	33.6%	32.9%	31.8%	32.2%	32.4%	35.2%	35.8%	35.1%	34.4%	36.4%
SG&A Exp.	297	348	342	365	384	351	366	387	430	455
D&A Exp.	133	134	137	150	152	139	155	153	172	195
Operating Profit	268	287	262	296	306	324	314	326	350	392
Operating Margin	12.9%	12.3%	11.2%	11.8%	11.8%	14.0%	13.5%	13.2%	12.7%	13.7%
Net Profit	173	184	163	172	192	199	206	220	195	242
Net Margin	8.4%	7.9%	7.0%	6.8%	7.4%	8.6%	8.8%	8.9%	7.0%	8.5%
Free Cash Flow	159	81	140	134	154	174	194	168	102	267
Income Tax	81	91	79	92	95	95	75	75	71	100

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	2033	2159	2324	2498	2437	2437	2607	3138	3378	3562
Cash & Equivalents	376	378	230	310	400	490	466	713	262	242
Accounts Receivable	357	389	397	438	407	392	433	510	570	562
Inventories	272	285	322	353	311	295	297	337	381	376
Goodwill & Int. Ass.	232	238	404	409	370	342	502	539	967	1055
Total Liabilities	753	869	944	1017	1333	1287	1433	1826	1955	1990
Accounts Payable	124	109	137	150	116	115	116	154	165	193
Long-Term Debt	354	439	428	495	841	818	947	1257	1290	1196
Shareholder's Equity	1279	1290	1380	1480	1103	1149	1174	1312	1423	1572
D/E Ratio	0.28	0.34	0.31	0.33	0.76	0.71	0.81	0.96	0.91	0.76

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	8.7%	8.8%	7.3%	7.1%	7.8%	8.2%	8.2%	7.7%	6.0%	7.0%
Return on Equity	13.7%	14.3%	12.2%	12.0%	14.8%	17.7%	17.7%	17.7%	14.2%	16.2%
ROIC	10.8%	10.9%	9.2%	9.1%	9.8%	10.2%	10.1%	9.4%	7.4%	8.8%
Shares Out.	67.02	66.55	66.21	65.40	62.00	62.52	62.15	61.86	62.92	66.00
Revenue/Share	29.75	33.74	34.08	36.95	38.61	35.93	35.94	38.23	42.56	43.231
FCF/Share	2.28	1.17	2.04	1.96	2.29	2.70	2.99	2.60	1.57	4.042

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