



Sonoco Products Company (SON)

Updated February 12th, 2021 by Nathan Parsh

Key Metrics

Current Price:	\$60	5 Year CAGR Estimate:	6.0%	Market Cap:	\$6.0 billion
Fair Value Price:	\$55	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	2/23/2021
% Fair Value:	110%	5 Year Valuation Multiple Estimate:	-1.9%	Dividend Payment Date:	3/10/2021
Dividend Yield:	3.0%	5 Year Price Target	\$70	Years Of Dividend Growth:	38
Dividend Risk Score:	A	Retirement Suitability Score:	A	Last Dividend Increase:	4.7%

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. This transaction was completed during the fourth quarter of 2020.

On 2/11/2021, Sonoco Products reported fourth quarter and full year earnings results. Revenue grew 5.3% to \$1.38 billion, beating estimates by \$60 million. Adjusted earnings-per-share of \$0.82 represented a 9.3% improvement from the prior year and was \$0.06 better than expected. For the year, revenue declined 2.4% to \$5.24 and adjusted earnings-per-share fell 3.4% to \$3.41 but topped our estimates by \$0.07.

Revenue for Consumer Packaging was higher by 10% to \$616.1 million, driven by a 6% increase in volumes as well as contribution from acquisitions. Rigid paper containers had double-digit growth as consumer demand for at-home dining increased. Flexible packaging returned to growth due again to higher demand for at-home meals partially offset by lower rates of convenience store foot traffic. Segment operating margins expanded 281 basis points to 11.1%. Display & Packaging sales dropped 20% to \$109.4 million. The year-over-year decline was attributed to the company's divestiture of its European contract packaging business. Retail point-of-purchase display was weaker as stores had fewer in-store promotions related to the COVID-19 pandemic. Operating margins improved 60 basis points to 5.3%. Paper & Industrial Converted Products increased 3.6% to \$509.1 million due to a combination of product mix and higher selling prices. Global paperboard demand improved over the course of the quarter while the international recycled pulp business was challenged. Tube, core and cone volumes and mix improved in Europe Asia and Brazil, but were down in the U.S. and Canada. Operating margins contracted 310 basis points to 7.1%. The company expects earnings-per-share in a range of \$3.40 to \$3.60 for 2021, including earnings-per-share of \$0.80 to \$0.90 in the first quarter.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$2.29	\$2.21	\$2.30	\$2.54	\$2.51	\$2.72	\$2.78	\$3.37	\$3.53	\$3.41	\$3.50	\$4.47
DPS	\$1.15	\$1.19	\$1.23	\$1.27	\$1.37	\$1.46	\$1.54	\$1.62	\$1.70	\$1.72	\$1.80	\$2.30
Shares¹	100	101	102	101	101	99	99	101	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

¹ In millions of shares

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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 38 consecutive years. The company raised its dividend 4.7% for the 3/10/2021 payment, near its average raise for the past five years. The dividend remained unchanged for the seven prior consecutive quarters. We see the payout rising to \$2.30 by 2026 as Sonoco Products keeps its payout around half of earnings.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	14.6	14.2	15.9	16.4	17.2	17.8	18.6	16.6	17.5	17.4	17.1	15.6
Avg. Yld.	3.5%	3.8%	3.4%	3.1%	3.2%	3.0%	3.0%	3.0%	2.8%	2.9%	3.0%	3.3%

Shares of Sonoco Products have increased \$6, or 11.1%, since our 10/22/2020 update. Based off of company guidance for 2021, shares trade with a price-to-earnings multiple of 17.1. Reverting to the 10-year average valuation of 15.6x earnings by 2026 would reduce annual returns by 1.9% over this period of time. Shares of Sonoco Products currently yield 3.0%, which is twice the average yield of the S&P 500.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	50%	54%	54%	50%	55%	54%	55%	48%	49%	50%	51%	51%

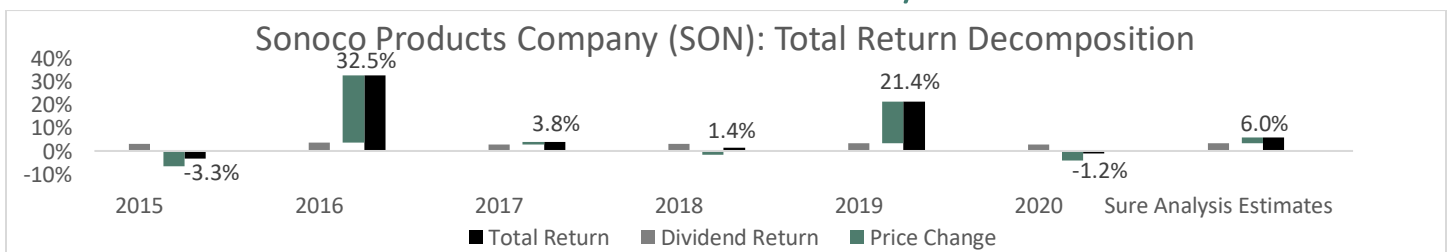
Sonoco Products showed in the last recession that it is somewhat susceptible to deteriorating market conditions. Sonoco Products has a very reasonable dividend payout ratio of just over 50% based off of our expectations for 2021. Over the past decade the company has averaged a 53% dividend payout ratio. 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 expected to offer a total annual return of 6.0% through 2026, down from our previous estimate of 7.2%. Our projected return stems from a 5% earnings growth rate and 3% starting yield offset by a low single-digit headwind from valuation reversion. The company was less impacted by the COVID-19 pandemic during the fourth quarter and saw solid volume growth in most businesses. We have raised our five-year price target \$4 to \$70 based on company guidance for the year, but maintain our hold rating on Sonoco Products due to expected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	4,499	4,814	4,862	5,017	4,964	4,783	5,037	5,391	5,374	5,237
Gross Profit	757	840	862	908	929	946	959	1,041	1,058	1,046
Gross Margin	16.8%	17.4%	17.7%	18.1%	18.7%	19.8%	19.0%	19.3%	19.7%	20.0%
SG&A Exp.	397	464	487	507	496	515	553	564	556	559
Operating Profit	359	376	374	401	433	431	406	477	502	488
Operating Margin	8.0%	7.8%	7.7%	8.0%	8.7%	9.0%	8.1%	8.8%	9.3%	9.3%
Net Profit	218	195	210	226	250	286	175	314	292	207
Net Margin	4.8%	4.1%	4.3%	4.5%	5.0%	6.0%	3.5%	5.8%	5.4%	4.0%
Free Cash Flow	72	189	366	241	261	212	159	397	230	522
Income Tax	78	100	94	109	88	165	147	75	93	53

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	3,993	4,176	3,975	4,194	4,014	3,923	4,558	4,583	5,126	5,277
Cash & Equivalents	176	373	218	161	182	257	255	120	145	565
Accounts Receivable	607	620	614	654	628	625	725	737	698	659
Inventories	395	383	410	420	385	373	474	494	504	451
Goodwill & Int. Ass.	1,409	1,387	1,343	1,459	1,386	1,317	1,573	1,661	1,818	1,711
Total Liabilities	2,567	2,673	2,268	2,690	2,481	2,368	2,828	2,811	3,311	3,367
Accounts Payable	437	427	497	517	508	478	548	556	538	1,048
Long-Term Debt	1,287	1,373	981	1,253	1,128	1,053	1,447	1,385	1,681	1,700
Shareholder's Equity	1,412	1,489	1,691	1,488	1,513	1,532	1,707	1,759	1,803	1,911
D/E Ratio	0.91	0.92	0.58	0.84	0.75	0.69	0.85	0.79	0.93	0.89

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	6.0%	4.8%	5.1%	5.5%	6.1%	7.2%	4.1%	6.9%	6.0%	4.0%
Return on Equity	15.0%	13.5%	13.2%	14.2%	16.7%	18.8%	10.8%	18.1%	16.4%	11.2%
ROIC	9.0%	7.0%	7.5%	8.3%	9.2%	10.9%	6.1%	9.9%	8.8%	5.8%
Shares Out.	100	101	102	101	101	99	99	101	101	101
Revenue/Share	44.03	46.93	47.09	48.63	48.48	46.99	49.94	53.37	53.12	51.75
FCF/Share	0.70	1.84	3.54	2.33	2.55	2.08	1.58	3.93	2.27	5.16

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

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