



# Sonoco Products Company (SON)

Updated April 23<sup>rd</sup>, 2021 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$64	<b>5 Year CAGR Estimate:</b>	5.3%	<b>Market Cap:</b>	\$6.5 billion
<b>Fair Value Price:</b>	\$57	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	5/7/2021 <sup>1</sup>
<b>% Fair Value:</b>	113%	<b>5 Year Valuation Multiple Estimate:</b>	-2.4%	<b>Dividend Payment Date:</b>	6/10/2021
<b>Dividend Yield:</b>	2.8%	<b>5 Year Price Target</b>	\$72	<b>Years Of Dividend Growth:</b>	38
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Last Dividend Increase:</b>	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 now composed of 2 segments, Consumer Packaging and Industrial Packaging, with all other businesses listed as "all other".

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 4/22/2021, Sonoco Products announced first quarter earnings results. Revenue increased 3.8% to \$1.35 billion, beating expectations by \$20 million. Adjusted earnings-per-share of \$0.90 was a 4.3% decline from the prior year, but \$0.05 above estimates.

Consumer Packaging revenues grew 7.8% to \$582.8 million. Volumes and mix improved 4.5% with the remaining growth coming from the company's acquisition of Can Packaging and higher prices. Rigid paper containers continued its streak of strong quarters as volumes were up 8% due to at-home dining demand. Flexible packaging was flat year-over-year as weaker confection sales offset strength in solid food packaging. Operating margins improved 120 basis points to 13%. Industrial Paper Packing sales grew 12.5% to \$565.4 million. Much of this growth was due to higher selling prices related to higher input costs. Volumes and mix added 2.6% to growth. Global tube, core and cone volumes were higher by 3%, mostly due to demand in Asia, Brazil and Europe. Partially offsetting this was a 2% decline in global paperboard related to winter storm disruptions in the U.S. The operating margin fell 300 basis points to 8.9% due to higher shipping costs. The company offered revised guidance for the year, with adjusted earnings-per-share expected in a range of \$3.50 to \$3.60, compared to \$3.40 to \$3.60 previously. We have updated our estimates accordingly.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>EPS</b>	\$2.29	\$2.21	\$2.30	\$2.54	\$2.51	\$2.72	\$2.78	\$3.37	\$3.53	\$3.41	<b>\$3.55</b>	<b>\$4.53</b>
<b>DPS</b>	\$1.15	\$1.19	\$1.23	\$1.27	\$1.37	\$1.46	\$1.54	\$1.62	\$1.70	\$1.72	<b>\$1.80</b>	<b>\$2.30</b>
<b>Shares<sup>2</sup></b>	100	101	102	101	101	99	99	101	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 4.5% over the past ten years, but we maintain our expected growth rate of 5% due to improvement in volumes and the company's ability to pass costs along to customers. 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

<sup>1</sup> Estimated ex-dividend date

<sup>2</sup> In millions of shares

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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	18.5	15.8	17	15.6	<b>18.0</b>	<b>16.0</b>
Avg. Yld.	3.5%	3.8%	3.4%	3.1%	3.2%	3.0%	3.0%	3.0%	2.8%	3.2%	<b>2.8%</b>	<b>3.2%</b>

Shares of Sonoco Products have increased \$4, or 6.7%, since our 2/12/2021 update. Based off of updated company guidance for 2021, shares trade with a price-to-earnings multiple of 18. We are raising our 2026 target P/E to 16 to better reflect the average P/R since 2011. Reverting to this target would reduce annual returns by 2.9% over the next five years. Shares of Sonoco Products currently yield 2.8%, 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%	<b>51%</b>	<b>51%</b>

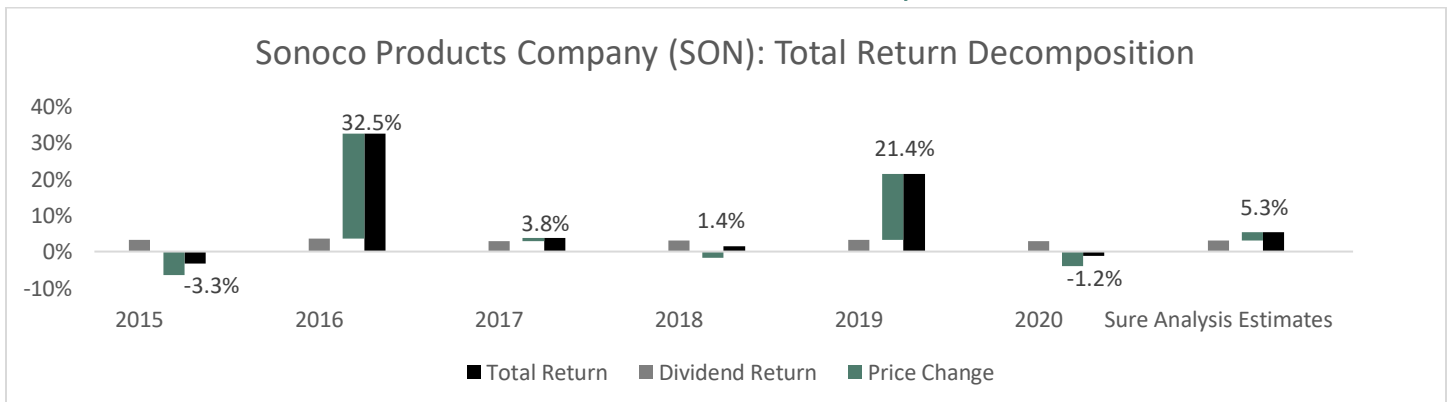
Sonoco Products showed in the last recession that it is somewhat susceptible to deteriorating market conditions. Sonoco Products has a very reasonable dividend payout ratio of just over 50% based off of our expectations for 2021. Over the past decade the company has averaged a 52% dividend payout ratio. 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. 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 and Can Packaging acquisitions are prime examples of growing through acquisitions.

## Final Thoughts & Recommendation

Sonoco Products Company is now expected to offer a total annual return of 5.3% through 2026, down from our previous estimate of 6.0%. Our projected return stems from a 5% earnings growth rate and 2.8% starting yield offset by a low single-digit headwind from valuation reversion. Both reportable segments showed solid growth during the quarter. We find the company's ability to pass along some costs attractive, though note that shipping rates were a headwind for Industrial Paper Packaging. We have increased our 2026 price target \$2 to \$72 due to updated earnings guidance as well as a slightly higher target multiple. However, shares remain a hold in our view due to projected returns.

## Total Return Breakdown by Year



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## Income Statement Metrics

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

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets</b>	3,993	4,176	3,975	4,194	4,014	3,923	4,558	4,583	5,126	5,277
<b>Cash &amp; Equivalents</b>	176	373	218	161	182	257	255	120	145	565
<b>Accounts Receivable</b>	607	620	614	654	628	625	725	737	698	659
<b>Inventories</b>	395	383	410	420	385	373	474	494	504	451
<b>Goodwill &amp; Int. Ass.</b>	1,409	1,387	1,343	1,459	1,386	1,317	1,573	1,661	1,818	1,711
<b>Total Liabilities</b>	2,567	2,673	2,268	2,690	2,481	2,368	2,828	2,811	3,311	3,367
<b>Accounts Payable</b>	437	427	497	517	508	478	548	556	538	1,048
<b>Long-Term Debt</b>	1,287	1,373	981	1,253	1,128	1,053	1,447	1,385	1,681	1,700
<b>Shareholder's Equity</b>	1,412	1,489	1,691	1,488	1,513	1,532	1,707	1,759	1,803	1,911
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	6.0%	4.8%	5.1%	5.5%	6.1%	7.2%	4.1%	6.9%	6.0%	4.0%
<b>Return on Equity</b>	15.0%	13.5%	13.2%	14.2%	16.7%	18.8%	10.8%	18.1%	16.4%	11.2%
<b>ROIC</b>	9.0%	7.0%	7.5%	8.3%	9.2%	10.9%	6.1%	9.9%	8.8%	5.8%
<b>Shares Out.</b>	100	101	102	101	101	99	99	101	101	101
<b>Revenue/Share</b>	44.03	46.93	47.09	48.63	48.48	46.99	49.94	53.37	53.12	51.75
<b>FCF/Share</b>	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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