



International Paper (IP)

Updated October 29th, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	\$50	5 Year CAGR Estimate:	6.7%	Market Cap:	\$19.6 B
Fair Value Price:	\$46	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	11/12/2021
% Fair Value:	109%	5 Year Valuation Multiple Estimate:	-1.7%	Dividend Payment Date:	12/15/2021
Dividend Yield:	3.7%	5 Year Price Target	\$59	Years Of Dividend Growth:	0
Dividend Risk Score:	D	Retirement Suitability Score:	C	Last Dividend Increase:	N/A

Overview & Current Events

International Paper is a leading global producer of renewable fiber-based packaging, pulp and paper products. It has manufacturing operations in North America, Latin America, Europe, North Africa, Russia and India, serving more than 25,000 customers in 150 countries and trades with a market capitalization of \$19.6 billion.

On October 1st, 2021, International Paper spun off its printing papers business into a separate business called Sylvamo (SLVM) in order to focus on its more promising segment, industrial packaging. As a result, International Paper now operates in two segments: Industrial packaging and global cellulose fibers. In 2020, these segments generated 74% and 11% of total revenues, respectively, while the former generated essentially all the profits of the company.

In late October, International Paper reported (10/27/21) financial results for the third quarter of fiscal 2021. Despite significant cost inflation and supply chain challenges, adjusted earnings-per-share nearly doubled over last year's quarter, from \$0.71 to \$1.35, thanks to material price hikes in all business segments. Management expects demand to remain strong and margins to expand significantly in the upcoming quarters thanks to recent price hikes, which will outpace inflation. The company missed the analysts' earnings-per-share estimates by \$0.09. It was only the second earnings miss in the last 21 quarters.

International Paper is recovering strongly from the pandemic and expects the positive business momentum to remain in place thanks to strong demand and price hikes. On the other hand, the company reduced its quarterly dividend by -10%, partly due to the spin-off of its printing papers business, but also to secure a wider margin of safety.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$2.96	\$1.70	\$3.01	\$1.31	\$2.23	\$2.19	\$2.88	\$5.32	\$4.43	\$2.80	\$4.60	\$5.87
DPS	\$0.98	\$1.09	\$1.25	\$1.45	\$1.64	\$1.78	\$1.86	\$1.95	\$2.01	\$2.05	\$1.85	\$2.30
Shares¹	437.0	439.9	436.3	420.2	412.1	411.2	412.9	406.6	395.6	395.9	392.0	380.0

International Paper posted record earnings in 2018 and strong earnings in 2019 but it stumbled last year due to intense competition and the global recession caused by the pandemic. Moreover, the performance record of the company is markedly volatile due to the cyclical nature of its business and the high sensitivity of its results to the underlying dynamics of supply and demand. On the bright side, containerboard sales have received a boost thanks to increased sales in grocery channels and e-commerce. In addition, the pandemic has begun to subside. Overall, we expect International Paper to grow its earnings-per-share at a 5% average annual rate over the next five years.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	9.5	19.8	15.2	37.2	21.5	19.8	19.0	9.8	9.9	14.1	10.9	10.0
Avg. Yld.	3.5%	3.2%	2.7%	3.0%	3.4%	4.1%	3.4%	3.7%	4.6%	5.2%	3.7%	3.9%

¹ In millions.

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Excluding the outlier year 2014, in which the depressed earnings resulted in an abnormally high price-to-earnings ratio, International Paper has traded at an average price-to-earnings ratio of 15.4. The stock is now trading at an earnings multiple of 10.9. Due to the cyclical nature of this business and the vulnerability of the company to recessions, we believe that a price-to-earnings ratio around 10.0 is fair for the stock, particularly given that we expect the earnings in 2026 to be at the upper part of the business cycle. If the stock reaches our fair value estimate over the next five years, it will incur a -1.7% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

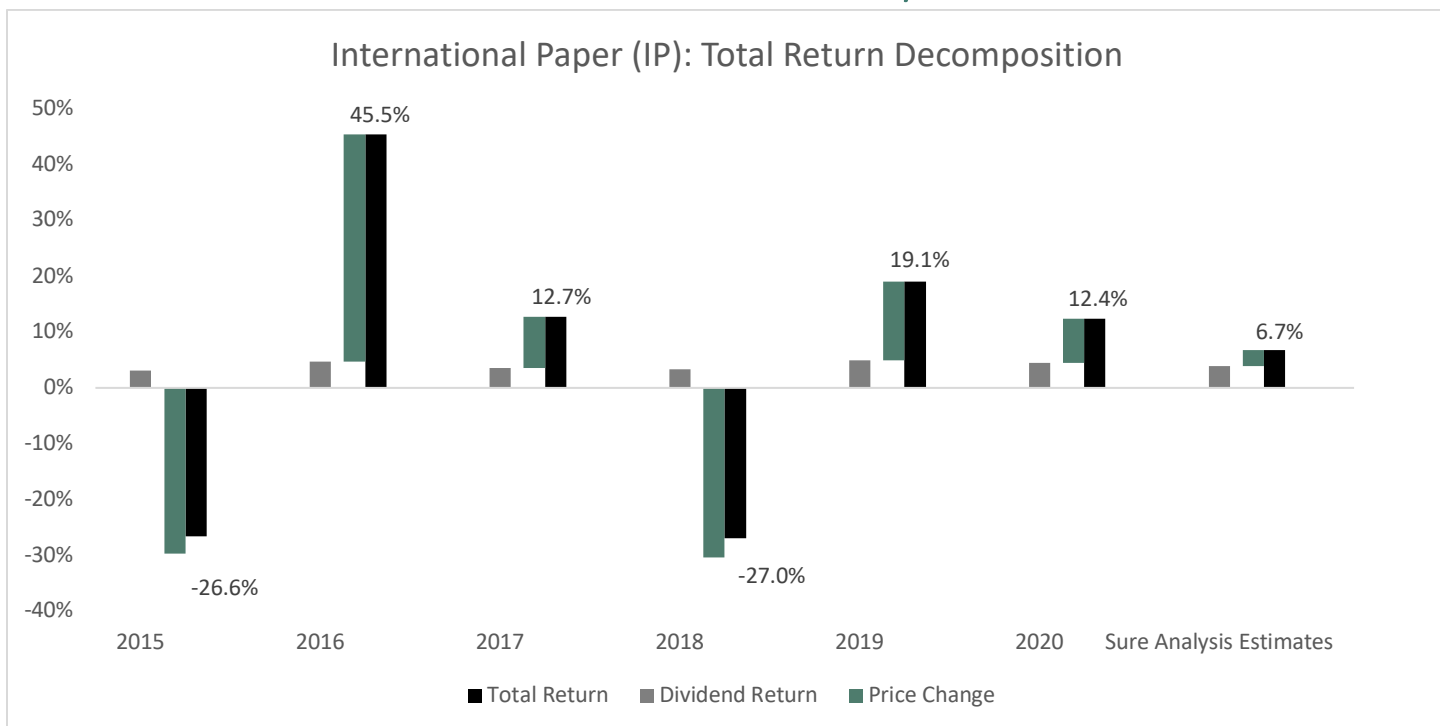
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	33.1%	64.1%	41.5%	111%	73.5%	81.3%	64.6%	36.7%	45.4%	73.2%	40.2%	39.2%

International Paper is highly vulnerable to the supply/demand dynamics of its business, which are out of its control. As a result, the company is vulnerable to recessions. In the Great Recession, its earnings-per-share plunged -60%, from \$2.22 in 2007 to \$0.88 in 2009. In the downturn caused by the pandemic, International Paper was caught with a high amount of debt last year but the situation has improved thanks to the ongoing recovery and the recent spin-off of the printing papers business. The net debt of the company stands at \$13.7 billion (~12 times last year's earnings) while its interest expense consumes 17% of its operating income.

Final Thoughts & Recommendation

International Paper has been more resilient than expected amid the pandemic. Moreover, the stock has incurred a -17% correction off its summer peak, primarily due to a rich valuation level back then, concerns over cost inflation and the recent dividend cut. We expect the stock to offer a 6.7% average annual return over the next five years and thus rate the stock as a hold. Nevertheless, we note the lackluster long-term business fundamentals and the cyclical nature of this stock.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	26,034	21,852	23,483	23,617	20,675	19,495	21,743	23,306	22,376	20,580
Gross Profit	7,074	6,565	7,201	7,363	6,362	6,076	6,941	7,751	7,108	6,207
Gross Margin	27.2%	30.0%	30.7%	31.2%	30.8%	31.2%	31.9%	33.3%	31.8%	30.2%
SG&A Exp.	3,277	3,144	3,379	3,314	2,787	3,359	3,585	3,784	3,243	3,071
D&A Exp.	1,332	1,486	1,547	1,414	1,294	1,227	1,423	1,328	1,306	1,287
Operating Profit	2,319	1,789	2,113	2,463	2,250	1,439	1,844	2,468	2,389	1,678
Op. Margin	8.9%	8.2%	9.0%	10.4%	10.9%	7.4%	8.5%	10.6%	10.7%	8.2%
Net Profit	1,322	794	1,395	555	938	904	2,144	2,012	1,225	482
Net Margin	5.1%	3.6%	5.9%	2.4%	4.5%	4.6%	9.9%	8.6%	5.5%	2.3%
Free Cash Flow	2,675	2,967	3,028	3,077	2,580	2,478	1,757	3,226	3,610	2,312
Income Tax	311	306	(498)	123	417	193	(1,085)	445	634	245

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	27,018	32,153	31,528	28,684	30,531	33,093	33,903	33,576	33,471	31,718
Cash & Equivalents	3,994	1,302	1,802	1,881	1,050	1,033	1,018	589	511	595
Acc. Receivable	3,486	3,562	3,756	3,083	2,675	2,852	3,287	3,521	3,280	3,064
Inventories	2,320	2,730	2,825	2,424	2,228	2,233	2,313	2,241	2,208	2,050
Goodwill & Int.	2,667	5,181	4,635	4,312	3,730	3,911	3,893	3,767	3,715	3,315
Total Liabilities	20,033	25,517	23,244	23,421	26,622	28,734	27,362	26,193	25,753	23,850
Accounts Payable	2,500	2,775	2,900	2,664	2,078	2,199	2,458	2,413	2,423	---
Long-Term Debt	9,908	12,176	11,531	11,423	15,547	17,598	17,448	16,952	16,070	14,405
Total Equity	6,645	6,304	8,105	5,115	3,884	4,341	6,522	7,362	7,713	7,854
D/E Ratio	1.49	1.93	1.42	2.23	4.00	4.05	2.68	2.30	2.08	1.83

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	5.0%	2.7%	4.4%	1.8%	3.2%	2.8%	6.4%	6.0%	3.7%	1.5%
Return on Equity	19.6%	12.3%	19.4%	8.4%	20.8%	22.0%	39.5%	29.0%	16.3%	6.2%
ROIC	8.1%	4.4%	7.2%	3.0%	5.2%	4.4%	9.3%	8.3%	5.1%	2.1%
Shares Out.	437.0	439.9	436.3	420.2	412.1	411.2	412.9	406.6	395.6	395.9
Revenue/Share	59.57	49.64	52.41	54.67	49.16	46.91	52.05	56.27	56.11	52.01
FCF/Share	3.47	3.60	4.08	3.96	2.60	2.72	0.88	3.99	5.85	5.84

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

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