Silgan Holdings (SLGN)

Updated October 30th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	$40	**5 Year CAGR Estimate:**	11.6%	**Market Cap:**	$4.43B
Fair Value Price:	$43	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date[1]:**	11/30/2021
% Fair Value:	94%	**5 Year Valuation Multiple Estimate:**	1.3%	**Dividend Payment Date:**	12/15/2021
Dividend Yield:	1.4%	**5 Year Price Target**	$66	**Years Of Dividend Growth:**	17
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	16.6%

Overview & Current Events

Silgan Holdings manufactures and sells metal and plastic containers, as well as packaging closures. Its containers are found in everyday food consumables such as pet food, fruits and vegetables, and drinks, while its closures are applied to the beverage, garden, and personal care products. The company generates nearly $5.0 billion in revenues and is based in Stamford, Connecticut.

On October 27th, 2021, Silgan reported its Q3-2020 results for the period ended September 30th, 2021. Quarterly revenues increased 10.92% year-over-year, reaching $1.65 billion, while adjusted EPS came in at $1.02, staying relatively flat vs. $1.04 in Q3-2020. The company's top-line growth was again attributed to expansion in all segments. Metal containers achieved volume growth of 6% year-over-year, which along with price increases, reached $942.1 million in turnover (57% of sales), 10% higher vs. the prior-year period due to higher volumes for pet food and seasonal vegetable markets. The dispensing & closures division delivered record numbers, reaching $533.4 million in sales, an increase of 12.3% vs. Q3-2020. This increase was primarily the result of the pass-through of higher raw material and other manufacturing costs, higher unit volumes of approximately 2% and favorable foreign currency translation, partially offset by a less favorable mix of products sold. The recent acquisition of Gateway Plastics also contributed to higher unit volumes. Finally, custom containers enjoyed a 12.1% revenue increase to $175.6 million.

Silgan closed the acquisitions of Gateway and Unicep to further expand its dispensing and specialty closures segments. On October 1st, Silgan also closed the buyout of Easytech, a European metal ends business. For FY2021, management narrowed its adjusted EPS to be in the range of $3.30 to $3.40, 9.5% growth at the midpoint. Applying that growth rate to FY2020's normalized EPS (to exclude any one-off EPS boosts), FY2021 normalized EPS should land near $3.06.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$1.38	$1.09	$1.44	$1.44	$1.41	$1.28	$2.44	$2.03	$1.75	$2.79	***$3.06***	***$4.71***
DPS	$0.22	$0.24	$0.28	$0.30	$0.32	$0.34	$0.36	$0.40	$0.44	$0.48	***$0.56***	***$0.90***
Shares[2]	140.0	139.1	128.5	126.9	122.0	119.7	110.4	110.6	110.9	110.7	***110.2***	***100.0***

Over the past decade, Silgan has averaged an EPS and DPS CAGR of 8.1% and 9.1%, respectively. Following the work-from-home economy, demand for packaged and canned foods, as well as sanitization products, has remained robust. Due to the most recent quarter's strong results and the possibility for a medium-term margin expansion, we retain our EPS CAGR estimates at 9%. A potential decline in volumes caused by COVID-19 retreating and/or an oversupply of Silgan's products could slow down profitability growth. However, Silgan's sales growth momentum seems to be remaining consistent, challenging the scenario that its sales bump was only temporary. Further, we retain our DPS CAGR forecast at 10% to reflect management's latest bold payout hike in line with a low payout ratio and a favorable business environment. Silgan has grown its DPS annually for 17 consecutive years.

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[1] Estimated dates based on SLGN's past dividend dates

[2] Share count is in millions.

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The company's buyback program remains active. However, no shares were repurchased during Q2. The company had bought back and retired nearly $36M worth of stock during FY2020, or nearly 1% of its shares outstanding, maintaining its humble stock repurchase levels.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	16.9	16	16.8	17.1	19.9	20.1	22.6	11.1	17.6	12.5	***13.1***	***14.0***
Avg. Yld.	1.1%	1.1%	1.2%	1.2%	1.3%	1.3%	1.1%	1.6%	1.5%	1.5%	***1.4%***	***1.4%***

Silgan's valuation has remained relatively reasonable over the years, rarely outrunning its underlying financial growth. Based on the company's confident guidance, shares are relatively cheaply priced at 13.1 times their FY2021 expected EPS. We forecast a fair P/E ratio of around 14 moving forward. The stock's yield has always remained relatively low, at around 1%-2%. Despite the rapid DPS increases, aggregate dividends (as well as buybacks) have remained quite humble as the company reinvests most of its proceeds back into the business.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	16%	22%	19%	21%	23%	27%	15%	20%	25%	17%	18%	***19%***

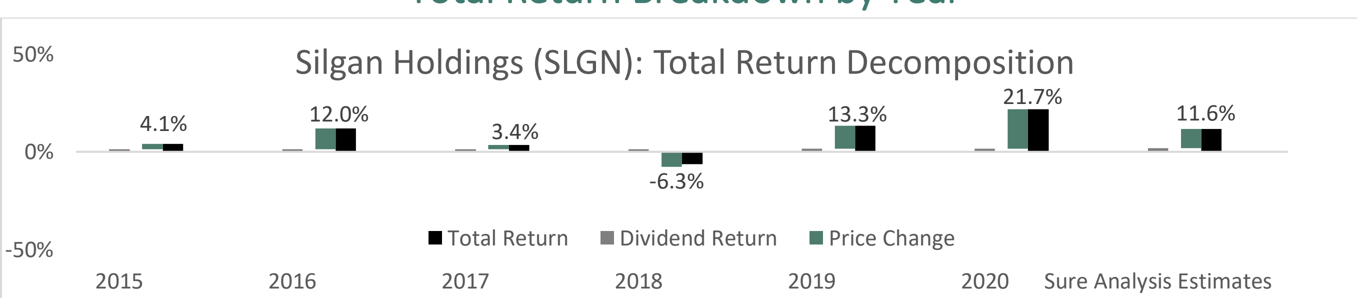
Investors can rely on Silgan's dividends since the company's payout ratio has always remained incredibly low, below 20%. Since the company's IPO in 1996, Silgan has never reported a money-losing quarter. Its products are vital for various consumer staples. Hence its operations are quite stable, displayed in its 17-year dividend growth record. At the same time, however, Silgan operates in a massively competitive space, with quite thin margins. The company's competitors include firms that are multiple times larger than Silgan, such as the Ball Corp. (BLL), the Packaging Corporation of America (PKG), keeping Silgan's net profit margins as low as 6%.

Overall, we believe that the company has showcased decades of robust cash flow generation, with little volatility to its financials. Its operations should remain quite stable even under adverse economic conditions, though the company is unlikely to grow faster than its industry's slow-paced and mature rate. Silgan's financial resiliency is evident by the 2026 senior secured notes issue earlier this year, in which Silgan managed to get $500 million at an ultra-low rate of 1.4%.

Final Thoughts & Recommendation

Silgan has a long history of stable returns, lacking any wild fluctuations in its share price throughout the decades. Despite the stock's tiny dividend yield, combining its relatively modest growth expectations and potential for a valuation expansion near its average, we estimate annualized returns of around 11.6% in the medium term. Hence, we rate shares a buy at their current levels. Nonetheless, investors must be aware of the company's razor-thin net income margin, which could easily compress father amid increased competition, limiting the stock's potential returns over this period.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	3509	3588	3709	3912	3764	3613	4090	4449	4490	4922
Gross Profit	519	518	547	600	554	512	635	690	714	867
Gross Margin	14.8%	14.4%	14.8%	15.3%	14.7%	14.2%	15.5%	15.5%	15.9%	17.6%
SG&A Exp.	157	183	211	224	220	220	305	308	316	378
D&A Exp.	159	165	168	148	142	143	174	192	206	224
Operating Profit	362	334	336	375	334	319	363	418	416	582
Op. Margin	10.3%	9.3%	9.1%	9.6%	8.9%	8.8%	8.9%	9.4%	9.3%	10.7%
Net Profit	193	151	185	182	172	153	270	224	194	309
Net Margin	5.5%	4.2%	5.0%	4.7%	4.6%	4.2%	6.6%	5.0%	4.3%	6.3%
Free Cash Flow	187	232	248	208	98	203	215	316	276	378
Income Tax	97	72	69	102	80	79	-30	69	58	98

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	2979	3294	3321	3274	3193	3149	4645	4579	4931	6520
Cash & Equivalents	397	466	160	223	100	25	54	73	204	410
Accounts Receivable	340	327	333	311	281	288	455	511	505	620
Inventories	554	516	516	549	628	603	721	635	633	678
Goodwill & Int. Ass.	486	683	880	842	808	785	1589	1532	1497	---
Total Liabilities	2321	2540	2607	2564	2553	2680	3879	3698	3908	5267
Accounts Payable	319	319	352	424	477	505	660	713	727	---
Long-Term Debt	1376	1671	1704	1584	1514	1562	2547	2305	2244	3251
Total Equity	658	754	714	710	639	469	766	881	1023	1253
D/E Ratio	2.1	2.2	2.4	2.2	2.4	3.3	3.3	2.6	2.2	2.6

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	7.5%	4.8%	5.6%	5.5%	5.3%	4.8%	6.9%	4.9%	4.1%	5.4%
Return on Equity	31.9%	21.4%	25.3%	25.6%	25.6%	27.7%	43.7%	27.2%	20.4%	27.1%
ROIC	11.1%	6.8%	7.7%	7.7%	7.8%	7.3%	10.1%	6.9%	6.0%	7.9%
Shares Out.	140.8	139.8	129.3	127.5	122.6	120.5	111.4	111.6	111.5	111.4
Revenue/Share	24.93	25.67	28.68	30.68	30.70	29.98	36.73	39.85	40.27	44.18
FCF/Share	1.33	1.66	1.91	1.63	0.80	1.68	1.93	2.83	2.48	3.40

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