



Sonoco Products Company (SON)

Updated October 22nd, 2021 by Nathan Parsh

Key Metrics

Current Price:	\$60	5 Year CAGR Estimate:	6.5%	Market Cap:	\$6 billion
Fair Value Price:	\$56	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	11/9/2021
% Fair Value:	107%	5 Year Valuation Multiple Estimate:	-1.3%	Dividend Payment Date:	12/10/2021
Dividend Yield:	3.0%	5 Year Price Target	\$72	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 about \$5.5 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 reported third quarter earnings results on 10/21/2021. Revenue increased 7.6% to \$1.41 billion, \$40 million above expectations. Adjusted earnings-per-share of \$0.91 was a \$0.05, or a 5.8%, improvement from the prior year and \$0.02 above estimates.

Consumer Packaging revenues increased nearly 10% to \$599 million. Growth was due to higher prices, which were meant to offset higher inflation. The Can Packaging acquisition also aided results. Volume and mix fell 1% as gains in flexible packaging were offset by the other businesses within the segment. Volume and mix for global rigid paper fell marginally as North American food packaging demand normalizes to pre-pandemic levels. The segment operating margin decreased 160 basis points to 10.2% on a difficult comparable period. Industrial Paper Packing sales grew 29.5% to \$635.2 million. Again, higher prices related to higher input costs and a 5% improvement in volume and mix were the primary reasons for gains. Global tube, core and cone benefited from a 7% improvement in volume and mix. Global paperboard was up 3%. The segment operating margin remained unchanged at 8.4%.

The company provided revised guidance for the year. The company now expects adjusted earnings-per-share in a range of \$3.49 to \$3.55 for 2021 compared to \$3.50 to \$3.60 previously.

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	\$3.52	\$4.49
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	99	99

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 consecutive quarters. We see the payout rising to \$2.30 by 2026 as Sonoco Products keeps its payout around half of earnings.

¹ In millions of shares

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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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	17.0	16.0
Avg. Yld.	3.5%	3.8%	3.4%	3.1%	3.2%	3.0%	3.0%	3.0%	2.8%	3.2%	3.0%	3.2%

Shares of Sonoco Products have decreased \$2, or 3.2%, since our 7/23/2021 update. Based off of company guidance for 2021, shares trade with a price-to-earnings multiple of 17. We reaffirm our 2026 target P/E of 16 as this better reflects the average P/E since 2011. Reverting to this target would reduce annual returns by 1.3% over the next five years. Shares of Sonoco Products currently yield 3.0%, which is more than 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%

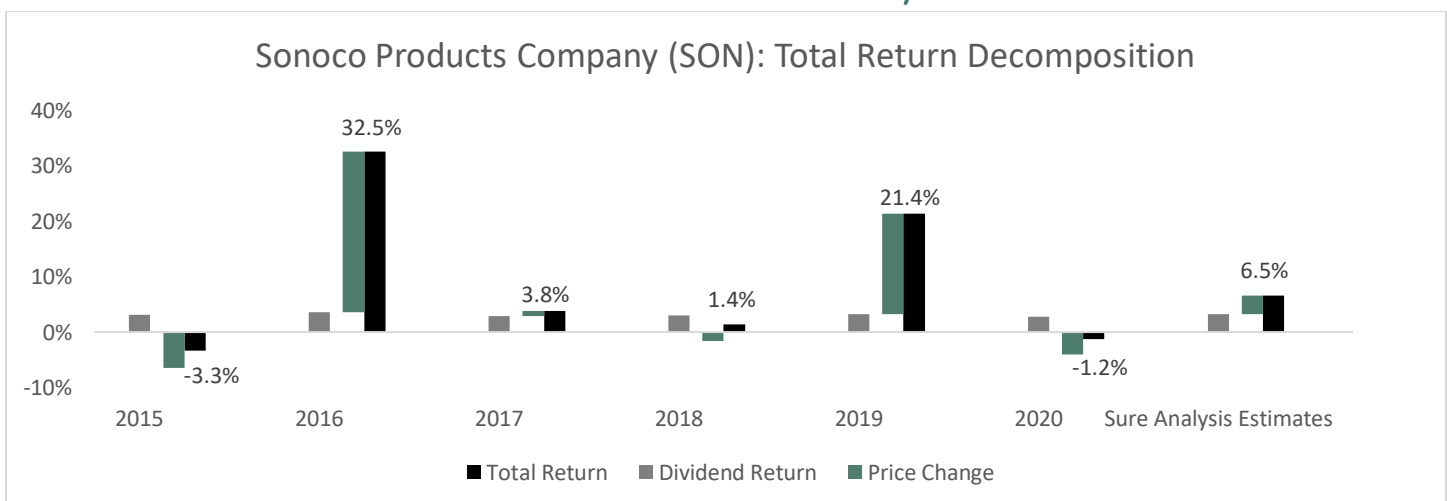
Sonoco Products showed in the last recession that it is somewhat susceptible to deteriorating market conditions. Sonoco Products has a very reasonable dividend payout ratio of just over 50% based off of our expectations for 2021. Over the past decade the company has averaged a 52% dividend payout ratio. 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 an advantage as this shows that the company's offerings are in demand. Also helping grow the top and bottom lines is 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 6.5% through 2026, up from our previous estimate of 6.0%. Our projected return stems from a 5% earnings growth rate and 3.0% starting yield offset by a low single-digit headwind from valuation reversion. Sonoco Products had another quarter of growth in both of its key businesses. Higher inflation costs remain an issue, something that is likely to continue in the near-term. However, the company has been able to pass along costs to customers without much drop off in demand. We maintain our hold rating on Sonoco Products 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
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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