AptarGroup Inc. (ATR)

Updated November 7th, 2021 by Felix Martinez

Key Metrics

Current Price:	$131	**5 Year CAGR Estimate:**	-2.2%	**Market Cap:**	$8.66 B
Fair Value Price:	$77	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	01/26/22[1]
% Fair Value:	169%	**5 Year Valuation Multiple Estimate:**	-10.0%	**Dividend Payment Date:**	02/17/21
Dividend Yield:	1.2%	**5 Year Price Target**	$109	**Years Of Dividend Growth:**	28
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	5.6%

Overview & Current Events

AptarGroup Inc. (ATR) began trading as an independent company in 1993 and is now one of the leading businesses in the global dispensing systems industry. With a market capitalization of approximately $8.66 billion, The Company has over 14,000 employees in 18 countries and produced $2.93 billion in revenue in 2020. The Company is divided into three business segments: "Beauty + Home," "Food + Beverage," and "Pharma."

The Company reported third-quarter results for Fiscal Year (FY)2021 on October 28, 2021. Sales grew 9% for the quarter compared to the third quarter of 2020. Sales growth was driven by double-digit core sales growth in Beauty + Home and Food + Beverage from a combination of price increases and volume growth. The Pharma segment saw sales decline slightly versus the third quarter of 2020. Net Income dropped significantly by (26.4)% to $46.894 million from $63.735 million in the third quarter of last year. On a per-share basis, The Company reported $0.70 per share compared to $0.95 during the same period a year ago, decreasing (26.3)%. Lower Income was driven by restructuring charges, acquisitions costs, and the unrealized loss on an equity investment.

Thus far, for the nine months of FY2021, the Company reported sales of $2,180 million vs. $2,413 million in sales in the first nine months of FY2020, an increase of 10.7% Net Income is also up for the nine months of FY2021 to $186 million compared to a net income of $160 million made in the first nine months of FY2020. This represents a growth rate of 15.7% year-over-year. For the nine months year-to-date, Aptar's reported earnings per share were $2.75 and increased 13.6%, compared to $2.42 reported a year ago.

The Company expects EPS for the fourth-quarter results to be between $0.88 to $0.96. Overall, we expect AptarGroup to generate $3.87 per share for FY2021. This will be an increase of 6.3% compared to FY2020.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$2.65	$2.48	$2.79	$2.85	$3.00	$3.13	$3.40	$4.00	$3.95	$3.64	***$3.87***	***$5.43***
DPS	$0.80	$0.88	$1.00	$1.09	$1.14	$1.22	$1.28	$1.32	$1.42	$1.44	***$1.50***	***$1.91***
Shares[2]	66.6	66.2	65.4	62.0	62.5	62.2	61.9	62.9	66.0	67.0	***67.0***	***67.0***

AptarGroup has grown organically and via occasional acquisitions. In 2018, the Company spent $528 million on acquisitions, which is its most substantial amount spent on investments in recent history and should contribute to significant growth in the coming years. When acquisitions are not notable, the Company historically uses cash or debt to repurchase shares and averages a -0.2% share reduction per year. The Pharma segment is AptarGroup's most profitable segment, as it accounts for approximately one-third of company sales but two-thirds of its EBITDA. The Company's Pharma segment is its primary growth driver, although currency impacts and tax changes are currently acting as headwinds. We estimate 7.0% annual earnings and a 5.0% dividend growth over the next five years. The dividend growth has been slowing down as the Company has a 10-year dividend growth average of 6.7%, and the five-year dividend CAGR is 6.2%.

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[1] Ex-Dividend and Dividend Payment Date are estimates.

[2] Share count is in millions.

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	18.7	21.5	20.8	22.7	21.6	23.9	24.1	32.1	29.3	37.6	***33.9***	***20.0***
Avg. Yld.	1.6%	1.7%	1.7%	1.7%	1.7%	1.6%	1.6%	1.4%	1.2%	1.1%	***1.2%***	***1.8%***

AptarGroup currently trades for a valuation of over 33.9 times earnings, which we consider rich for a company with low growth. The security looks overvalued when compared to its 10-year average of 25 times earnings. Additionally, the dividend yield is historically low at approximately 1.2% compared to its average of roughly 1.5%.

From this point, there is more potential for a valuation reduction rather than valuation expansion over the next five years, in our view. We believe that a valuation of 20x earnings, modestly below its 10-year average, is fair given The Company's adequate expected growth potential.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	30%	35%	36%	38%	38%	39%	38%	33%	36%	40%	***39%***	***35%***

AptarGroup has over 5,000 customers, with no customer accounting for more than 6% of sales. Additionally, three-quarters of sales come from outside the United States, with more than half of Europe's sales. The Company has various patents and trademarks to protect its designs. However, it faces stiff competition and has historically achieved returns on invested capital marginally higher than its weighted average capital cost. However, the Pharma segment enjoys high switching costs due to regulatory certification and has higher profit margins.

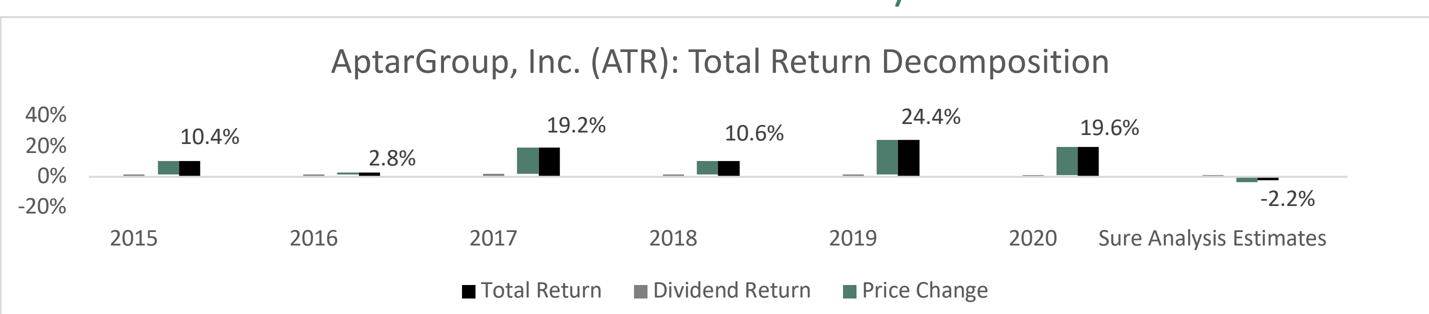
AptarGroup has paid growing dividends for 28 consecutive years and maintains a low payout ratio. The Company was only mildly affected by the previous recession, as it remained profitable and quickly recovered to all-time high sales and earnings in 2010. Its products across all three business segments are not very cyclical.

The Company has nearly doubled its long-term debt over the past four years, but its interest coverage ratio remains healthy at over 11.5x. With a ratio of long-term debt to net income of approximately 8x, AptarGroup makes substantial use of leverage, although its consistent earnings should allow it to support that leverage safely.

Final Thoughts & Recommendation

In our view, AptarGroup is a durable company with a long history of growing dividends. However, the valuation is higher than its historical average than what we consider fair for this growth level. The Company's sizeable foreign exposure is both a source of opportunity and a risk. We rate AptarGroup as a sell now due to its low expected total returns of just (2.2)% per year for the next five years.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	2337	2331	2520	2598	2317	2331	2469	2765	2860	2929
Gross Profit	769	741	811	843	814	835	866	952	1041	1087
Gross Margin	32.9%	31.8%	32.2%	32.4%	35.2%	35.8%	35.1%	34.4%	36.4%	37.1%
SG&A Exp.	348	342	365	384	351	366	387	430	455	500
D&A Exp.	134	137	150	152	139	155	153	172	195	220
Operating Profit	287	262	296	306	324	314	326	350	392	366
Operating Margin	12.3%	11.2%	11.8%	11.8%	14.0%	13.5%	13.2%	12.7%	13.7%	12.5%
Net Profit	184	163	172	192	199	206	220	195	242	214
Net Margin	7.9%	7.0%	6.8%	7.4%	8.6%	8.8%	8.9%	7.0%	8.5%	7.3%
Free Cash Flow	81	140	134	154	174	194	168	102	267	318
Income Tax	91	79	92	95	95	75	75	71	100	87

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	2159	2324	2498	2437	2437	2607	3138	3378	3562	3990
Cash & Equivalents	378	230	310	400	490	466	713	262	242	300
Accounts Receivable	389	397	438	407	392	433	510	570	562	573
Inventories	285	322	353	311	295	297	337	381	376	379
Goodwill & Int. Ass.	238	404	409	370	342	502	539	967	1055	1243
Total Liabilities	869	944	1017	1333	1287	1433	1826	1955	1990	2139
Accounts Payable	109	137	150	116	115	116	154	165	193	244
Long-Term Debt	439	428	495	841	818	947	1257	1290	1196	1173
Shareholder's Equity	1290	1380	1480	1103	1149	1174	1312	1423	1572	1850
D/E Ratio	0.34	0.31	0.33	0.76	0.71	0.81	0.96	0.91	0.76	0.63

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	8.8%	7.3%	7.1%	7.8%	8.2%	8.2%	7.7%	6.0%	7.0%	5.7%
Return on Equity	14.3%	12.2%	12.0%	14.8%	17.7%	17.7%	17.7%	14.2%	16.2%	12.5%
ROIC	10.9%	9.2%	9.1%	9.8%	10.2%	10.1%	9.4%	7.4%	8.8%	7.4%
Shares Out.	66.55	66.21	65.40	62.00	62.52	62.15	61.86	62.92	66.00	67.00
Revenue/Share	33.74	34.08	36.95	38.61	35.93	35.94	38.23	42.56	43.23	43.95
FCF/Share	1.17	2.04	1.96	2.29	2.70	2.99	2.60	1.57	4.04	4.77

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