



# WestRock Co. (WRK)

Updated November 23<sup>rd</sup>, 2021 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$48	<b>5 Year CAGR Estimate:</b>	5.7%	<b>Market Cap:</b>	\$13.0 B
<b>Fair Value Price:</b>	\$52	<b>5 Year Growth Estimate:</b>	2.0%	<b>Ex-Dividend Date:</b>	11/9/2021
<b>% Fair Value:</b>	93%	<b>5 Year Valuation Multiple Estimate:</b>	1.5%	<b>Dividend Payment Date:</b>	11/23/2021
<b>Dividend Yield:</b>	2.1%	<b>5 Year Price Target</b>	\$57	<b>Years Of Dividend Growth:</b>	1
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	D	<b>Last Dividend Increase:</b>	4.2%

## Overview & Current Events

WestRock was formed in July 2015 by the merger of Rock-Tenn and Mead-Westvaco. It is a leading provider of differentiated paper and packaging solutions, with a market capitalization of \$13.0 billion. In its fiscal 2021, which ended on 9/30/2021, the corrugated packaging segment and the consumer packaging segment generated 66% and 34% of its total revenues and 71% and 29% of its pre-tax income, respectively.

WestRock completed the acquisition of KapStone Paper in November, 2018. The deal increased the leverage (Net Debt/EBITDA) of WestRock to 2.9 but the company has been reducing its debt at a fast clip since then. The acquisition of KapStone has enhanced the product offerings and the geographical presence of the company.

In early November, WestRock reported (11/9/21) financial results for the fourth quarter of fiscal 2021. The company enjoyed strong demand in all its markets and its price hikes more than offset inflation. As a result, total sales grew 14% over last year's quarter for a second consecutive quarter, to a record level, and adjusted earnings-per-share grew 68%, from \$0.73 to \$1.23, thus exceeding analysts' consensus by \$0.08. WestRock has missed analysts' consensus in only 3 of the last 26 quarters. Thanks to strong momentum in North American box shipments and the recent price hikes, the company raised its quarterly dividend for a second time this year, from \$0.20 at the beginning of the year and \$0.24 in the third fiscal quarter to \$0.25.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2020	2027
<b>EPS</b>	---	---	---	\$3.89	\$2.53	\$2.62	\$4.08	\$3.98	\$2.74	\$3.39	<b>\$4.70</b>	<b>\$5.19</b>
<b>DPS</b>	---	---	---	\$0.38	\$1.50	\$1.60	\$1.72	\$1.82	\$1.07	\$0.93	<b>\$1.00</b>	<b>\$1.47</b>
<b>Shares<sup>1</sup></b>	---	---	---	257.0	251.0	254.5	259.2	259.0	260.0	268.9	<b>270.0</b>	<b>280.0</b>

WestRock has a short and somewhat volatile historical record. Since its foundation in its current form, the company grew its earnings-per-share at a 0.6% average annual rate until 2019 and incurred a decline in its earnings in fiscal 2020 due to the pandemic. Moreover, even before the pandemic, there were concerns over a surge in the global supply of containerboard products in upcoming years. This factor, which is out of WestRock's control, may adversely affect its margins. However, the pandemic has begun to subside and the company has begun to recover strongly. In addition, WestRock is likely to benefit from the growing North American corrugated market in the long run. Given the strong business momentum thanks to pent-up demand, we expect the company to post record earnings this year and then grow its earnings-per-share by 2% per year on average over the next five years off this year's high comparison base.

## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
<b>Avg. P/E</b>	---	---	---	15.2	16.8	20.3	14.9	9.8	12.3	14.3	<b>10.2</b>	<b>11.0</b>
<b>Avg. Yld.</b>	---	---	---	0.6%	3.5%	3.0%	2.8%	4.7%	3.2%	1.9%	<b>2.1%</b>	<b>2.6%</b>

<sup>1</sup> In millions.

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.



# WestRock Co. (WRK)

Updated November 23<sup>rd</sup>, 2021 by Aristofanis Papadatos

WestRock is trading at a price-to-earnings ratio of 10.2, which is lower than its 7-year average of 14.8. Due to its short historical record and its cyclical business, the stock warrants a reduced valuation. We assume a fair price-to-earnings ratio of 11.0 for the stock. If the stock reaches our fair valuation level over the next five years, it will enjoy a 1.5% annualized gain in its returns.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	9.8%	59.3%	61.1%	42.2%	45.7%	39.1%	27.4%	<b>21.3%</b>	<b>28.3%</b>

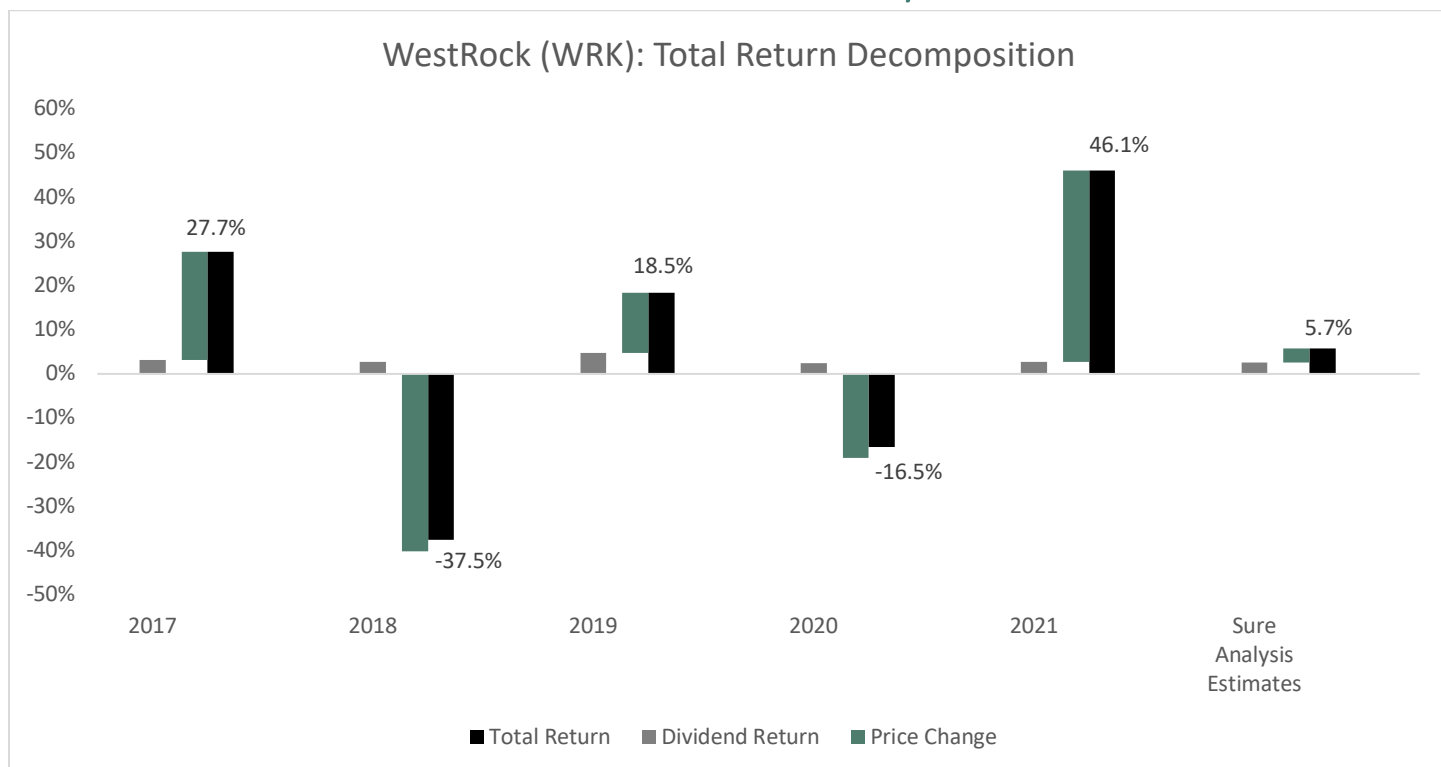
WestRock cannot control the total supply of paper products. As a result, it is vulnerable to the total production volume of its competitors. The business of WestRock is highly cyclical and hence investors should be especially careful before initiating a position in the stock. If they invest near the peak of the cycle, when business prospects usually look bright and the earnings multiple of the stock usually seems too low, they run the risk of incurring excessive losses.

Moreover, due to the material debt load that has resulted from the acquisition of KapStone, WestRock will be vulnerable if the pandemic takes a turn for the worse. Its interest expense consumes 25% of operating income while its net debt of \$14.5 billion is about 16 times its annual earnings and hence it is high. The weak balance sheet of the company helps explain the -57% dividend cut last year amid the pandemic.

## Final Thoughts & Recommendation

WestRock is recovering strongly from the pandemic this year. However, the stock has doubled off its bottom last year thanks to its positive business momentum. As a result, it may offer just a 5.7% average annual return over the next five years thanks to 1.0% growth of earnings-per-share, a 2.1% dividend and a 1.5% annualized expansion of the valuation level. We thus rate it as a hold. Investors should be aware of the high cyclicity of the business of WestRock.

## Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



# WestRock Co. (WRK)

Updated November 23<sup>rd</sup>, 2021 by Aristofanis Papadatos

## Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Revenue</b>	5399.6	9207.6	9545.4	9895.1	11125	14172	14860	16285	18,289	17,579
<b>Gross Profit</b>	991.9	1532.7	1846.5	1933.6	2138.3	2758.6	2740.2	3393.9	3,749	3,197
<b>Gross Margin</b>	18.4%	16.6%	19.3%	19.5%	19.2%	19.5%	18.4%	20.8%	20.5%	18.2%
<b>SG&amp;A Exp.</b>	541	928	869	938	1,026	1,750	1,457	1,731	1,709	1,623
<b>Operating Profit</b>	451	605	892	910	993	797	1,031	1,335	1,640	1,173
<b>Op. Margin</b>	8.3%	6.6%	9.3%	9.2%	8.9%	5.6%	6.9%	8.2%	9.0%	6.7%
<b>Net Profit</b>	141	249	727	480	507	(396)	708	1,906	863	(691)
<b>Net Margin</b>	2.6%	2.7%	7.6%	4.8%	4.6%	-2.8%	4.8%	11.7%	4.7%	-3.9%
<b>Free Cash Flow</b>	262	187	592	618	618	892	685	931	941	1,093
<b>Income Tax</b>	70	137	(22)	287	233	90	159	(875)	277	164

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets</b>	10,566	10,687	10,733	11,040	25,372	23,038	25,089	25,361	30,157	28,780
<b>Cash &amp; Equivalents</b>	42	37	36	33	208	341	298	637	152	251
<b>Accounts Receivable</b>	1,110	1,076	1,135	1,119	1,575	1,592	1,887	2,011	2,193	2,143
<b>Inventories</b>	850	862	938	1,029	1,761	1,638	1,797	1,830	2,108	2,023
<b>Goodwill &amp; Int. Ass.</b>	2,639	2,660	2,562	2,618	7,442	7,377	8,858	8,700	11,345	9,629
<b>Total Liabilities</b>	7,187	7,281	6,421	6,732	13,589	13,208	14,703	13,878	18,473	18,132
<b>Accounts Payable</b>	781	709	802	813	1,231	1,054	1,492	1,717	1,832	1,674
<b>Long-Term Debt</b>	3,446	3,413	2,845	2,985	5,622	5,789	6,555	6,415	10,063	9,431
<b>Shareholder's Equity</b>	3,372	3,406	4,312	4,307	11,652	9,729	10,343	11,469	11,670	10,631
<b>D/E Ratio</b>	1.02	1.00	0.66	0.69	0.48	0.60	0.63	0.56	0.86	0.89

## Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Return on Assets</b>	2.1%	2.3%	6.8%	4.4%	2.8%	-1.6%	2.9%	7.6%	3.1%	-2.3%
<b>Return on Equity</b>	6.4%	7.4%	18.8%	11.1%	6.4%	-3.7%	7.1%	17.5%	7.5%	-6.2%
<b>ROIC</b>	3.1%	3.7%	10.4%	6.6%	4.1%	-2.4%	4.4%	10.9%	4.4%	-3.3%
<b>Shares Out.</b>	---	---	---	---	257.0	251.0	254.5	259.2	259.0	260.0
<b>Revenue/Share</b>	53.46	63.90	65.33	67.77	64.19	54.95	58.11	62.68	70.59	67.82
<b>FCF/Share</b>	2.60	1.30	4.05	4.23	3.57	3.46	2.68	3.58	3.63	4.22

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

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.