Greif, Inc. (GEF)

Updated December 13th, 2021, by Eli Inkrot

Key Metrics

Current Price:	$60	**5 Year CAGR Estimate:**	10.2%	**Market Cap:**	$3 B
Fair Value Price:	$84	**5 Year Growth Estimate:**	1.0%	**Ex-Dividend Date:**	12/16/21
% Fair Value:	72%	**5 Year Valuation Multiple Estimate:**	6.8%	**Dividend Payment Date:**	01/01/22
Dividend Yield:	3.0%	**5 Year Price Target**	$88	**Years Of Dividend Growth:**	1
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	4.5%

Overview & Current Events

Greif began in 1877 as "Vanderwyst and Greif," a cooperage shop founded by one of four Greif brothers. One year thereafter the other three brothers joined the business, renaming it "Greif Bros. Company," making wooden barrels, casks and kegs to transport post-Civil Wars goods. The company later purchased nearly 300,000 acres of timberland to provide raw materials for its cooperage plants and still owns significant timber properties. Today the Delaware, Ohio-based company, simply known as Greif, is a global leader in industrial packaging products and services. Shares of Greif trade under two classes – non-voting A shares and B shares trading under the GEF.B symbol. This report focuses on the A shares and diluted A share equivalent. The $3 billion market cap company serves customers in 40 countries.

During Q2 2021 Greif completed the sale of 69,200 acres of timberlands to Weyerhaeuser for $149 million.

On August 31st, 2021, after paying the same $0.44 dividend for 12 quarters, Greif increased its dividend 4.5% to $0.46.

On December 8th, 2021, Greif reported Q4 and fiscal year 2021 results for the period ending October 31st, 2021. For the quarter sales increased 35.9% to $1.58 billion. Sales in the Global Industrial Packaging segment increased 45.9%, while sales in the Paper Packaging & Services segment increased 23.8%. Adjusted net income equaled $115.4 million or $1.93 per share compared to $46.4 million or $0.78 per share in Q4 2020.

For the year Greif reported sales of $5.556 billion, a 23.1% increase compared to fiscal year 2020. Sales in the Global Industrial Packaging segment increased 29.0%, while sales in the Paper Packaging & Services segment increased 15.7%. Adjusted net income equaled $334.5 million or $5.60 per share compared to $190.9 million or $3.22 in 2020.

Greif also provided a fiscal 2022 outlook, anticipating $5.85 to $6.45 in earnings-per-share before adjustments.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$2.66	$2.76	$2.36	$2.18	$2.44	$2.95	$3.53	$3.96	$3.22	$5.60	***$6.00***	***$6.31***
DPS	$1.68	$1.68	$1.68	$1.68	$1.68	$1.68	$1.70	$1.76	$1.76	$1.78	***$1.84***	***$2.02***
Shares[1]	47	48	48	48	48	48	48	48	48	49	***49***	***50***

Greif put together an average growth record in the past. In the 2005 through 2019 period, the company was able to grow earnings-per-share by 5.5% annually. 2020 proved to be a down year but results for fiscal 2021 bounced back dramatically. The company has a history of profitable, but cyclical results over the years.

In general Greif has growth opportunities in the way of continued global expansion – especially as more items move about the global marketplace. We believe this is a long-term growth thesis that will continue aiding the company's core business. With that being said, the short-term outlook appears hazy. Previously the U.S. / China trade war threatened the movement of goods. Now the COVID-19 pandemic has significantly impacted demand around the world, and it is not yet clear when it will return to "normal" levels. Further, the company carries a significant debt load after the Caraustar acquisition. As such, additional funds will be diverted towards paying down debt, dampening the growth thesis. To this

[1] 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.

point, sale proceeds from the Weyerhaeuser Timberlands sale went towards this endeavor. Notably, the company's debt ratio declined from 3.7x to 2.5x in Q4 2021. We are expecting solid results for 2022, along with a 1% growth rate.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	17.5	18.1	21.7	17.7	14.6	18.9	15.8	9.8	11.7	11.1	***10.1***	***14.0***
Avg. Yld.	3.6%	3.4%	3.3%	4.3%	4.7%	3.0%	3.1%	4.6%	4.7%	3.1%	***3.0%***	***2.3%***

In the last decade shares of Greif have traded hands with an average P/E ratio of about 16 times earnings. We are discounting this to 14 times earnings, taking into consideration two items. 1) The quality of Greif's underlying earnings power is average, considering its cyclical nature and low expected growth rate. And 2) the company is consistently profitable, and Greif does hold significant timber properties. With shares trading near 10 times expected earnings, this implies a valuation tailwind.

The dividend is also noteworthy. After being held at $0.42 per quarter for seven years, this payment was finally raised to $0.44 at the end of 2018. After being held at $0.44 for three years, the payout is now up to $0.46 and yields 3.0%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	63%	61%	71%	77%	69%	57%	48%	44%	55%	32%	***31%***	***32%***

Greif provides comprehensive packaging solutions, with an emphasis on the industrial economy. The company operates in 40 countries, making the business difficult to replicate and offering a competitive advantage. That being said, Greif is subject to the whims of the global market and the industrial market in particular, which tends to be cyclical. Moreover, while long-term demand will continue to grow, we do not believe the firm has material pricing power.

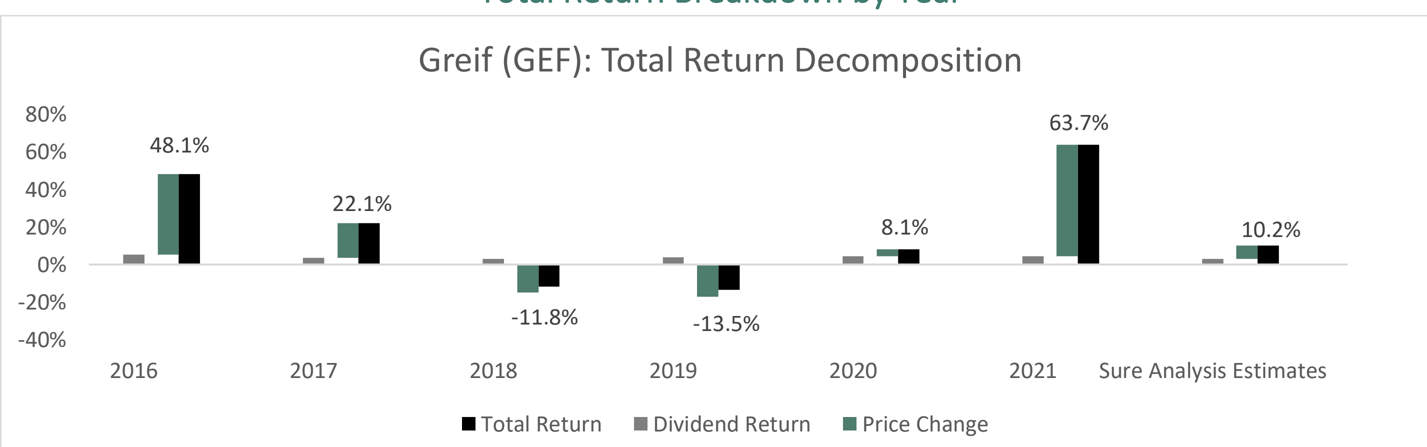
During the Great Recession Greif posted earnings-per-share of $4.18, $3.32 and $4.35 during the 2008 through 2010 stretch. Furthermore, the dividend kept on increasing during this time as well.

As of the most recent report Greif held $125 million in cash, $1.7 billion in current assets and $5.8 billion in total assets against $1.3 billion in current liabilities and $4.2 billion in total liabilities. Long-term debt stood at $2.1 billion.

Final Thoughts & Recommendation

Shares are up 21% in the last year. Greif has put together a reasonable, albeit cyclical operating record during the last decade. We forecast total return potential of 10.2% per annum stemming from 1% growth, a 3.0% starting dividend yield and a valuation tailwind. Shares earn a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	4130	4220	4239	3617	3324	3638	3874	4595	4515
Gross Profit	780	832	811	670	685	715	789	960	915
Gross Margin	18.9%	19.7%	19.1%	18.5%	20.6%	19.6%	20.4%	20.9%	20.3%
SG&A Exp.	470	477	497	413	377	408	399	507	516
Operating Profit	310	355	314	257	308	307	390	453	398
Operating Margin	7.5%	8.4%	7.4%	7.1%	9.3%	8.4%	10.1%	9.9%	8.8%
Net Profit	118	145	92	72	75	119	209	171	109
Net Margin	2.9%	3.4%	2.2%	2.0%	2.3%	3.3%	5.4%	3.7%	2.4%
Free Cash Flow	304	105	67	32	189	199	104	227	318
Income Tax	61	99	115	48	67	67	73	71	63

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	3853	3887	3667	3316	3153	3232	3195	5427	5511
Cash & Equivalents	92	78	85	106	104	142	94	77	106
Accounts Receivable	454	482	501	404	399	447	457	664	637
Inventories	374	374	381	297	277	280	290	358	294
Goodwill & Int. Ass.	1175	1184	1047	940	897	883	857	2294	2234
Total Liabilities	2543	2507	2444	2256	2195	2185	2041	4236	4310
Accounts Payable	466	431	471	355	372	399	404	435	451
Long-Term Debt	1276	1281	1153	1188	1026	967	910	2752	2487
Shareholder's Equity	1191	1265	1142	1016	947	1011	1108	1133	1155
D/E Ratio	1.07	1.01	1.01	1.17	1.08	0.96	0.82	2.43	2.16

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	2.9%	3.7%	2.4%	2.1%	2.3%	3.7%	6.5%	4.0%	2.0%
Return on Equity	9.8%	11.8%	7.6%	6.7%	7.6%	12.1%	19.8%	15.3%	9.5%
ROIC	4.3%	5.5%	3.6%	3.1%	3.5%	5.9%	10.3%	5.7%	2.9%
Shares Out.	48	48	48	48	48	48	48	48	48
Revenue/Share	70.69	72.01	72.18	61.45	56.48	61.84	65.68	77.62	93.29
FCF/Share	5.20	1.79	1.14	0.55	3.22	3.38	1.76	3.84	6.57

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