



# Silgan Holdings (SLGN)

Updated January 26<sup>th</sup>, 2022 by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$42	<b>5 Year CAGR Estimate:</b>	14%	<b>Market Cap:</b>	\$4.67 B
<b>Fair Value Price:</b>	\$51	<b>5 Year Growth Estimate:</b>	9.0%	<b>Ex-Dividend Date<sup>1</sup>:</b>	03/16/2022
<b>% Fair Value:</b>	84%	<b>5 Year Valuation Multiple Estimate:</b>	3.6%	<b>Dividend Payment Date:</b>	03/31/2022
<b>Dividend Yield:</b>	1.3%	<b>5 Year Price Target</b>	\$78	<b>Years Of Dividend Growth:</b>	17
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	C	<b>Last Dividend Increase:</b>	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 January 26<sup>th</sup>, 2022, Silgan reported its Q4-2021 results for the period ending December 31<sup>st</sup>, 2021. Quarterly revenues rose 17.34% year-over-year, reaching \$1.44 billion, while adjusted EPS came in at \$0.79, suggesting a 31.6% increase versus Q4-2020. The company's revenue growth was again driven by higher sales volumes across all segments. During FY-2021, metal containers achieved volume growth of 4% year-over-year, which along with price hikes, reached \$2.81 billion in turnover (50% of sales), 9.8% higher vs. the prior-year period. This was powered by higher demand for pet food and customer purchases in advance of significant raw material inflation expected in 2022. The dispensing & closures division delivered record numbers, reaching \$2.16 billion in sales, an increase of 26.2% versus FY-2020. This increase was primarily the result of higher unit volumes of approximately 9% and the pass-through of higher raw material and other manufacturing costs. Finally, custom containers recorded an 8.8% revenue growth to \$708.6 million. During the year, Silgan closed the acquisitions of Gateway Unicep and Easytech to further expand its dispensing and specialty closures segments. For FY2022, management expects improvements in the supply chain and labor issues as well as a more stable resin environment. Following the successful integrations of last year's acquisitions, management estimates adjusted EPS in 2022 in the range of \$3.80 to \$4.00. We have employed the midpoint of this range in our estimates.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$1.09	\$1.44	\$1.44	\$1.41	\$1.28	\$2.44	\$2.03	\$1.75	\$2.79	\$3.25	<b>\$3.90</b>	<b>\$6.00</b>
<b>DPS</b>	\$0.24	\$0.28	\$0.30	\$0.32	\$0.34	\$0.36	\$0.40	\$0.44	\$0.48	\$0.56	<b>\$0.56</b>	<b>\$0.90</b>
<b>Shares<sup>2</sup></b>	139.1	128.5	126.9	122.0	119.7	110.4	110.6	110.9	110.7	110.3	<b>110.3</b>	<b>100.0</b>

Over the past decade, Silgan has averaged an EPS and DPS CAGR of 12.9% and 9.9%, respectively. Following the work-from-home economy, demand for packaged and canned foods, as well as sanitization products, has remained at record levels. Following the strong FY-2021 results and management's positive remarks going forward, 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

<sup>1</sup> Estimated dates based on SLGN's past dividend dates

<sup>2</sup> Share count is in millions.

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hike in line with a low payout ratio and a favorable business environment. Silgan has grown its DPS annually for 17 consecutive years. Silgan is likely to hike the dividend again this February.

## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
<b>Avg. P/E</b>	16	16.8	17.1	19.9	20.1	22.6	11.1	17.6	12.5	13.5	<b>10.9</b>	<b>13.0</b>
<b>Avg. Yld.</b>	1.1%	1.2%	1.2%	1.3%	1.3%	1.1%	1.6%	1.5%	1.5%	1.3%	<b>1.3%</b>	<b>1.2%</b>

Silgan's valuation has remained relatively reasonable over the years, rarely outrunning its underlying financial growth. Based on the management's confident guidance, shares are relatively cheaply priced at 10.9 times their FY2022 expected EPS. We forecast a fair P/E ratio of around 13 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>Payout</b>	22%	19%	21%	23%	27%	15%	20%	25%	17%	17%	14%	<b>15%</b>

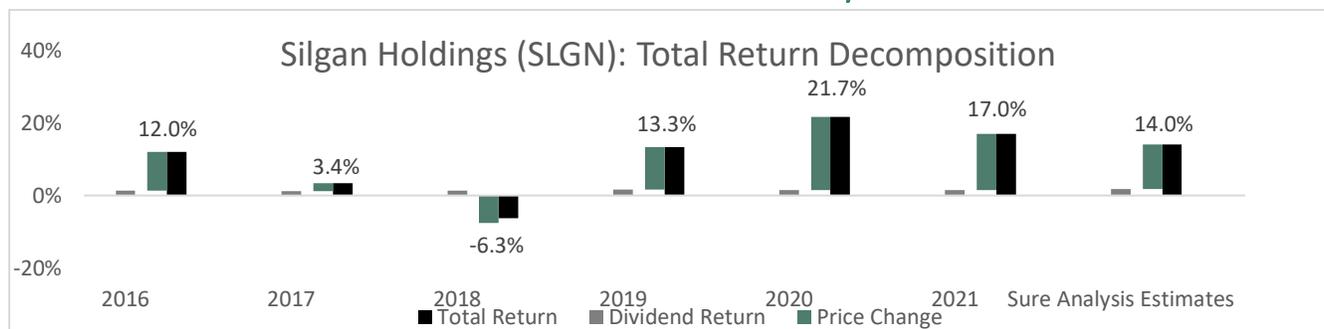
Investors can rely on Silgan's dividends since the company's payout ratio has always remained incredibly low, below 20%. Since the company's IPO in 1996, Silgan has never reported a money-losing quarter. Its products are vital for various consumer staples. Hence its operations are quite stable, displayed 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. Silgan's financial resiliency is evident by the 2026 senior secured notes issue last year, in which Silgan managed to secure \$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. Combining our relatively modest growth expectations, the dividend yield, and potential for a valuation expansion towards its average, we estimate annualized returns of around 14% in the medium term. Hence, we rate shares a buy. However, investors must be aware of the company's razor-thin net income margins, which could easily be compressed following increased competition, limiting the stock's potential returns over this period.

## Total Return Breakdown by Year



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## Income Statement Metrics

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

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets</b>	2979	3294	3321	3274	3193	3149	4645	4579	4931	6520
<b>Cash &amp; Equivalents</b>	397	466	160	223	100	25	54	73	204	410
<b>Accounts Receivable</b>	340	327	333	311	281	288	455	511	505	620
<b>Inventories</b>	554	516	516	549	628	603	721	635	633	678
<b>Goodwill &amp; Int. Ass.</b>	486	683	880	842	808	785	1589	1532	1497	---
<b>Total Liabilities</b>	2321	2540	2607	2564	2553	2680	3879	3698	3908	5267
<b>Accounts Payable</b>	319	319	352	424	477	505	660	713	727	---
<b>Long-Term Debt</b>	1376	1671	1704	1584	1514	1562	2547	2305	2244	3251
<b>Total Equity</b>	658	754	714	710	639	469	766	881	1023	1253
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	7.5%	4.8%	5.6%	5.5%	5.3%	4.8%	6.9%	4.9%	4.1%	5.4%
<b>Return on Equity</b>	31.9%	21.4%	25.3%	25.6%	25.6%	27.7%	43.7%	27.2%	20.4%	27.1%
<b>ROIC</b>	11.1%	6.8%	7.7%	7.7%	7.8%	7.3%	10.1%	6.9%	6.0%	7.9%
<b>Shares Out.</b>	140.8	139.8	129.3	127.5	122.6	120.5	111.4	111.6	111.5	111.4
<b>Revenue/Share</b>	24.93	25.67	28.68	30.68	30.70	29.98	36.73	39.85	40.27	44.18
<b>FCF/Share</b>	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.

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