



# Sonoco Products Company (SON)

Updated February 11<sup>th</sup>, 2022 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$56	<b>5 Year CAGR Estimate:</b>	13.7%	<b>Market Cap:</b>	\$5.6 billion
<b>Fair Value Price:</b>	\$75	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	2/22/2022
<b>% Fair Value:</b>	74%	<b>5 Year Valuation Multiple Estimate:</b>	6.1%	<b>Dividend Payment Date:</b>	3/10/2022
<b>Dividend Yield:</b>	3.2%	<b>5 Year Price Target</b>	\$96	<b>Years Of Dividend Growth:</b>	38
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Last Dividend Increase:</b>	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 \$7 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 fourth quarter and full year earnings results on 2/10/2022. Revenue increased 4.3% to \$1.44 billion, which was \$40 million above estimates. Adjusted earnings-per-share of \$0.90 compared favorably to \$0.82 in the prior year and was \$0.02 ahead of expectations. For the year, revenue grew 6.7% to \$5.59 billion while adjusted earnings-per-share of \$3.55 compared to \$3.41 in the 2020.

For the quarter, Consumer Packaging revenues grew 3.3% to \$588.8 million. Growth was again due to higher prices, which were meant to offset higher inflation. Flexible packaging and plastics saw a recovery from the pandemic, but gains were largely offset by volume and mix in global rigid paper containers. The segment operating margin declined 196 basis points to 9.6% due to inflationary pressures. Industrial Paper Packing sales increased 20.5% to \$655.2 million. Again, higher prices related to higher input costs drove sales higher with volume and mix a slight contributor to results. The segment operating margin improved 80 basis points to 8.7%. The company also closed on its Ball Metalpack acquisition, which is expected to be accretive to results in the new year.

Sonoco Products provided an outlook for 2022 as well, with the company expecting adjusted earnings-per-share of \$4.60 to \$4.80 for the year. We have initiated our forecast accordingly.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$2.21	\$2.30	\$2.54	\$2.51	\$2.72	\$2.78	\$3.37	\$3.53	\$3.41	\$3.55	<b>\$4.70</b>	<b>\$6.00</b>
<b>DPS</b>	\$1.19	\$1.23	\$1.27	\$1.37	\$1.46	\$1.54	\$1.62	\$1.70	\$1.72	\$1.80	<b>\$1.80</b>	<b>\$2.30</b>
<b>Shares<sup>1</sup></b>	101	102	101	101	99	99	101	101	101	99	<b>99</b>	<b>99</b>

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 5.4% over the past ten years. We maintain our expected growth rate of 5% due to improvement in volumes and the company's ability to pass inflationary costs 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 2027 as Sonoco Products keeps its payout around a third of earnings.

<sup>1</sup> 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.



# Sonoco Products Company (SON)

Updated February 11<sup>th</sup>, 2022 by Nathan Parsh

## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	14.2	15.9	16.4	17.2	17.8	18.5	15.8	17.0	15.6	16.3	11.9	16.0
Avg. Yld.	3.8%	3.4%	3.1%	3.2%	3.0%	3.0%	3.0%	2.8%	3.2%	3.1%	3.2%	2.4%

Shares of Sonoco Products have decreased \$4, or 6.7%, since our 10/22/2021 update. Based off of company guidance for 2022, shares trade with a price-to-earnings multiple of 11.9. We reaffirm our 2027 target P/E of 16 as this reflects the average P/E since 2012. Reaching this target would add 6.1% annual returns over the next five years. Shares of Sonoco Products currently yield 3.2%, which is nearly three times the average yield of the S&P 500.

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

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	54%	54%	50%	55%	54%	55%	48%	49%	50%	51%	38%	38%

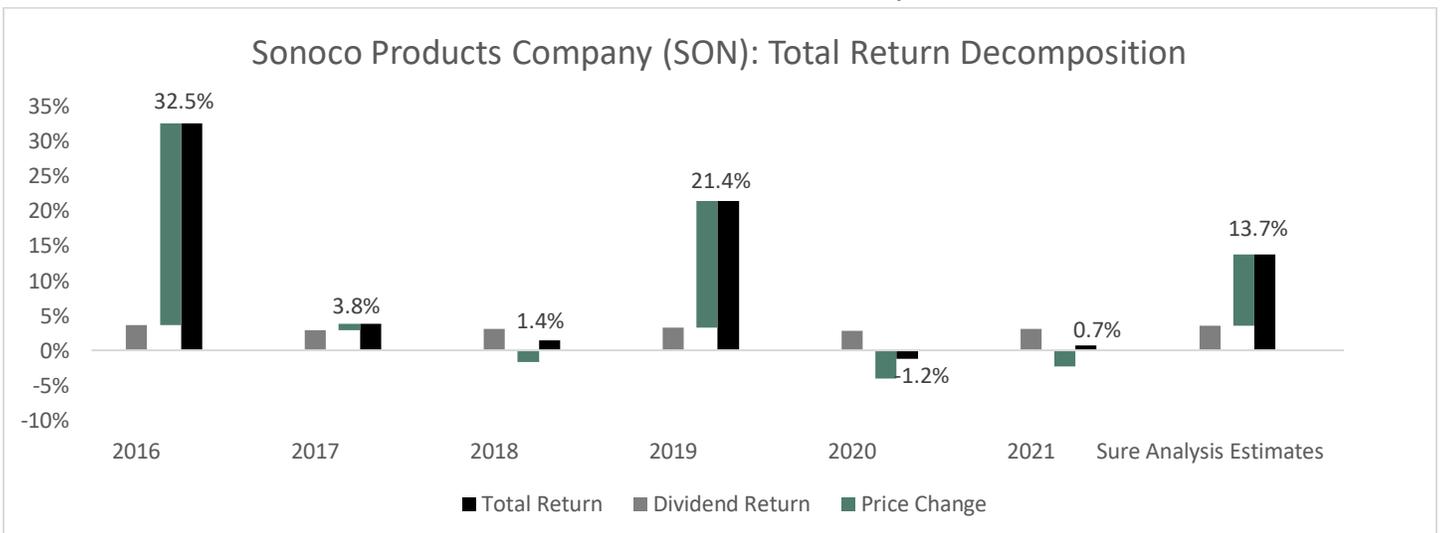
Sonoco Products showed in the last recession that it is somewhat susceptible to deteriorating market conditions. Sonoco Products has a very reasonable dividend payout ratio of just over 50% based off of our expectations for 2021. Over the past decade the company has averaged a 52% dividend payout ratio. 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 13.7% through 2027, up from our previous estimate of 6.5%. Our projected return stems from a 5% earnings growth rate, 3.2% starting yield, and a mid-single-digit tailwind from valuation expansion. Sonoco Products had another quarter of growth in both of its key businesses as the company has managed to pass higher inflation costs along to customers. We have raised our five-year price target \$24 to \$96 due to earnings estimates and now rate shares of Sonoco Products as a buy due to projected returns.

## 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.



# Sonoco Products Company (SON)

Updated February 11<sup>th</sup>, 2022 by Nathan Parsh

## 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
LTD/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.

### 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.