



# Sonoco Products Company (SON)

Updated April 21<sup>st</sup>, 2022 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$66	<b>5 Year CAGR Estimate:</b>	12.8%	<b>Market Cap:</b>	\$6.4 billion
<b>Fair Value Price:</b>	\$86	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	5/10/2022
<b>% Fair Value:</b>	77%	<b>5 Year Valuation Multiple Estimate:</b>	5.3%	<b>Dividend Payment Date:</b>	6/10/2022
<b>Dividend Yield:</b>	3.0%	<b>5 Year Price Target</b>	\$109	<b>Years Of Dividend Growth:</b>	39
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Rating:</b>	Buy

## 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 \$7.2 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".

On April 21<sup>st</sup>, 2022, Sonoco Products reported first quarter earnings results for the period ending April 3<sup>rd</sup>, 2022. Revenue grew 31.1% to a company record \$1.77 billion, which was in-line with analysts' expectations. Adjusted earnings-per-share of \$1.85 compared to \$0.90 in the prior year and was \$0.13 above estimates.

Consumer Packaging revenues grew 49% to a segment record \$868.1 million, due in large part to the purchase of Ball Metalpack that closed in the fourth quarter. Higher selling prices also factored into results. Flexible packaging and plastics saw strength in confectionery and food service products. Demand for fresh and prepared foods was also strong, though supply chain issues impacted results. The segment operating margin improved 600 basis points to 20% as price increases more than offset higher input costs. Industrial Paper Packing sales improved 23.7% to a segment record \$699.1 million as higher selling prices more than offset a small volume decline. The segment operating margin expanded 120 basis points to 10.4%.

Sonoco Products provided an updated outlook for 2022 as well, with the company expecting adjusted earnings-per-share of \$5.25 to \$5.45 for the year, up from \$4.60 to \$4.80 previously. We have updated 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>\$5.35</b>	<b>\$6.83</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>\$1.96</b>	<b>\$2.50</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.

On April 20<sup>th</sup>, 2022, Sonoco Products raised its dividend 8.9% to a quarterly rate of \$0.49. This extends the company's dividend growth streak to 39 years. The dividend remained unchanged for the five prior consecutive quarters. We see the payout rising to \$2.50 by 2027.

<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.



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## 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	12.3	16.0
Avg. Yld.	3.8%	3.4%	3.1%	3.2%	3.0%	3.0%	3.0%	2.8%	3.2%	3.1%	3.0%	2.3%

Shares of Sonoco Products have increased \$10, or 17.9%, since our February 11<sup>th</sup>, 2022 update. Based off of company's revised guidance for 2022, shares trade with a price-to-earnings multiple of 12.3. We reaffirm our 2027 target P/E of 16 as this reflects the average P/E since 2012. Reaching this target would add 5.3% annual returns over the next five years. Shares of Sonoco Products currently yield 3.0%, which is more than twice 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%	37%	37%

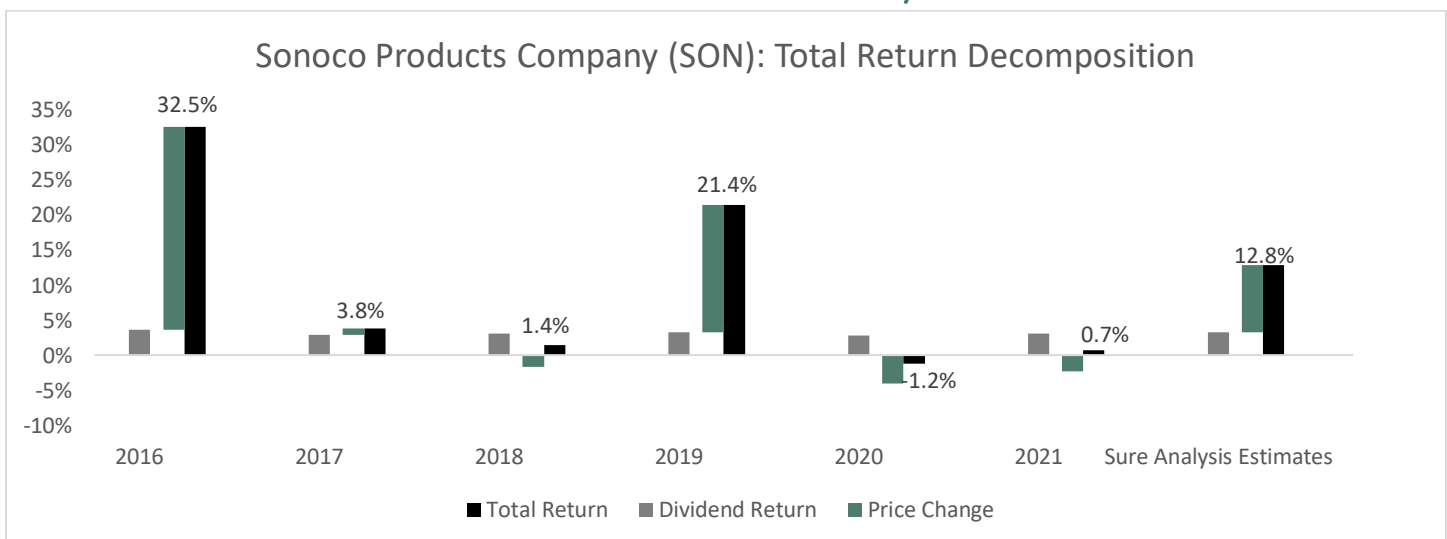
Sonoco Products showed in the last recession that it is somewhat susceptible to deteriorating market conditions. Sonoco Products has a very reasonable dividend payout ratio of just over 37% based off of our expectations for 2021. Over the past decade the company has averaged a 52% dividend payout ratio. Sonoco Products' dividend appears extremely safe.

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 12.8% through 2027, down from our previous estimate of 13.7%. Our projected return stems from a 5% earnings growth rate, a 3.0% starting yield, and a mid-single-digit tailwind from valuation expansion. Sonoco Products had another strong quarter of growth in both of its key businesses. An acquisition has aided results, but the core business is performing well as price increases have more than offset higher raw material costs without much loss of demand. We have raised our five-year price target \$13 to \$109 due to revised earnings estimate. Sonoco Products continues to receive a buy rating due to projected returns.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	4,814	4,862	5,017	4,964	4,783	5,037	5,391	5,374	5,237	5,590
<b>Gross Profit</b>	840	862	908	929	946	959	1,041	1,058	1,046	1,062
<b>Gross Margin</b>	17.4%	17.7%	18.1%	18.7%	19.8%	19.0%	19.3%	19.7%	20.0%	19.0%
<b>SG&amp;A Exp.</b>	464	487	507	496	515	553	564	556	559	558
<b>Operating Profit</b>	376	374	401	433	431	406	477	502	488	504
<b>Operating Margin</b>	7.8%	7.7%	8.0%	8.7%	9.0%	8.1%	8.8%	9.3%	9.3%	9.0%
<b>Net Profit</b>	195	210	226	250	286	175	314	292	207	(85)
<b>Net Margin</b>	4.1%	4.3%	4.5%	5.0%	6.0%	3.5%	5.8%	5.4%	4.0%	-1.5%
<b>Free Cash Flow</b>	189	366	241	261	212	159	397	230	522	43
<b>Income Tax</b>	100	94	109	88	165	147	75	93	53	(67)

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	4,176	3,975	4,194	4,014	3,923	4,558	4,583	5,126	5,277	5,073
<b>Cash &amp; Equivalents</b>	373	218	161	182	257	255	120	145	565	171
<b>Accounts Receivable</b>	620	614	654	628	625	725	737	698	659	756
<b>Inventories</b>	383	410	420	385	373	474	494	504	451	562
<b>Goodwill &amp; Int. Ass.</b>	1,387	1,343	1,459	1,386	1,317	1,573	1,661	1,818	1,711	1,603
<b>Total Liabilities</b>	2,673	2,268	2,690	2,481	2,368	2,828	2,811	3,311	3,367	3,224
<b>Accounts Payable</b>	427	497	517	508	478	548	556	538	1,048	721
<b>Long-Term Debt</b>	1,373	981	1,253	1,128	1,053	1,447	1,385	1,681	1,700	1,611
<b>Shareholder's Equity</b>	1,489	1,691	1,488	1,513	1,532	1,707	1,759	1,803	1,911	1,837
<b>LTD/E Ratio</b>	0.92	0.58	0.84	0.75	0.69	0.85	0.79	0.93	0.89	0.88

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Return on Assets</b>	4.8%	5.1%	5.5%	6.1%	7.2%	4.1%	6.9%	6.0%	4.0%	-1.7%
<b>Return on Equity</b>	13.5%	13.2%	14.2%	16.7%	18.8%	10.8%	18.1%	16.4%	11.2%	-4.6%
<b>ROIC</b>	7.0%	7.5%	8.3%	9.2%	10.9%	6.1%	9.9%	8.8%	5.8%	-2.4%
<b>Shares Out.</b>	101	102	101	101	99	99	101	101	99	99
<b>Revenue/Share</b>	46.93	47.09	48.63	48.48	46.99	49.94	53.37	53.12	51.75	56.12
<b>FCF/Share</b>	1.84	3.54	2.33	2.55	2.08	1.58	3.93	2.27	5.16	0.43

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

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