



AptarGroup Inc. (ATR)

Updated May 12th, 2022 by Felix Martinez

Key Metrics

Current Price:	\$106	5 Year CAGR Estimate:	2.8%	Market Cap:	\$7.02 B
Fair Value Price:	\$80	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	08/03/22 ¹
% Fair Value:	132%	5 Year Valuation Multiple Estimate:	-5.3%	Dividend Payment Date:	08/25/22
Dividend Yield:	1.5%	5 Year Price Target	\$113	Years Of Dividend Growth:	28
Dividend Risk Score:	A	Retirement Suitability Score:	C	Rating:	Sell

Overview & Current Events

AptarGroup Inc. (ATR) began trading as an independent company in 1993 and is now one of the leading businesses in the global dispensing systems industry. With a market capitalization of approximately \$7.02 billion, The company has over 14,000 employees in 18 countries and produced \$3.2 billion in revenue in 2021. The company is divided into three business segments: "Beauty + Home," "Food + Beverage," and "Pharma."

The company reported first-quarter results for Fiscal Year (FY)2022 on April 28, 2022. Sales grew 9% for the quarter compared to the first quarter of 2021. Core sales, excluding the impact of changes in currency exchange rates and acquisitions, increased 13% for the quarter. Sales growth was driven by double-digit core sales growth in Pharma, which saw sales increase by 9%. The Food + Beverage segment saw sales increase 16% versus the first quarter of 2021. Net income dropped by (25)% to \$62.3 million from \$83.9 million in the first quarter of last year.

On a per-share basis, The company reported \$0.93 per share compared to \$1.24 during the same period a year ago, decreasing by (24.9)%. Prior year earnings included a \$17 million unrealized gain related to changes in the fair value of an equity investment, which is approximately \$0.19 per share impact and a 17% effective tax rate compared to the current period effective tax rate of 28%.

The company expects EPS for the full year of FY2022 to be \$4.02. This will be an increase of 3.6% compared to FY2021.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$2.48	\$2.79	\$2.85	\$3.00	\$3.13	\$3.40	\$4.00	\$3.95	\$3.64	\$3.88	\$4.02	\$5.64
DPS	\$0.88	\$1.00	\$1.09	\$1.14	\$1.22	\$1.28	\$1.32	\$1.42	\$1.44	\$1.50	\$1.52	\$1.85
Shares²	66.2	65.4	62.0	62.5	62.2	61.9	62.9	66.0	67.0	67.7	67.7	67.7

AptarGroup has grown organically and via occasional acquisitions. In 2018, the company spent \$528 million on acquisitions, which is its most substantial amount spent on investments in recent history and should contribute to significant growth in the coming years. When acquisitions are not notable, the company historically uses cash or debt to repurchase shares and averages a -0.2% share reduction per year. However, in recent years, total shares have been increasing per year. The Pharma segment is AptarGroup's most profitable segment, as it accounts for approximately one-third of company sales but two-thirds of its EBITDA. The company's Pharma segment is its primary growth driver, although currency impacts and tax changes are currently acting as headwinds. We estimate 7.0% annual earnings and a 4.0% dividend growth over the next five years. The dividend growth has slowed down as the company has a 10-year dividend growth average of 6.1%, and the five-year dividend CAGR is 3.5%.

¹ Ex-Dividend and Dividend Payment Date are estimates.

² Share count is 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.



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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	21.5	20.8	22.7	21.6	23.9	24.1	32.1	29.3	37.6	31.6	26.3	20.0
Avg. Yld.	1.7%	1.7%	1.7%	1.7%	1.6%	1.6%	1.4%	1.2%	1.1%	1.2%	1.5%	1.6%

AptarGroup currently trades for a valuation of over 26.3 times earnings, which we consider rich for a company with low growth. The security looks overvalued compared to its 10-year average of 26.5 times earnings. Additionally, the dividend yield is in line with its ten-year average of 1.5%.

From this point, there is more potential for a valuation reduction rather than valuation expansion over the next five years, in our view. We believe that a valuation of 20x earnings, modestly below its 10-year average, is fair given The company's adequate expected growth potential.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	35%	36%	38%	38%	39%	38%	33%	36%	40%	39%	38%	33%

AptarGroup has over 5,000 customers, with no customer accounting for more than 6% of sales. Additionally, three-quarters of sales come from outside the United States, with more than half of Europe's sales. The company has various patents and trademarks to protect its designs. However, it faces stiff competition and has historically achieved returns on invested capital marginally higher than its weighted average capital cost. However, the Pharma segment enjoys high switching costs due to regulatory certification and has higher profit margins.

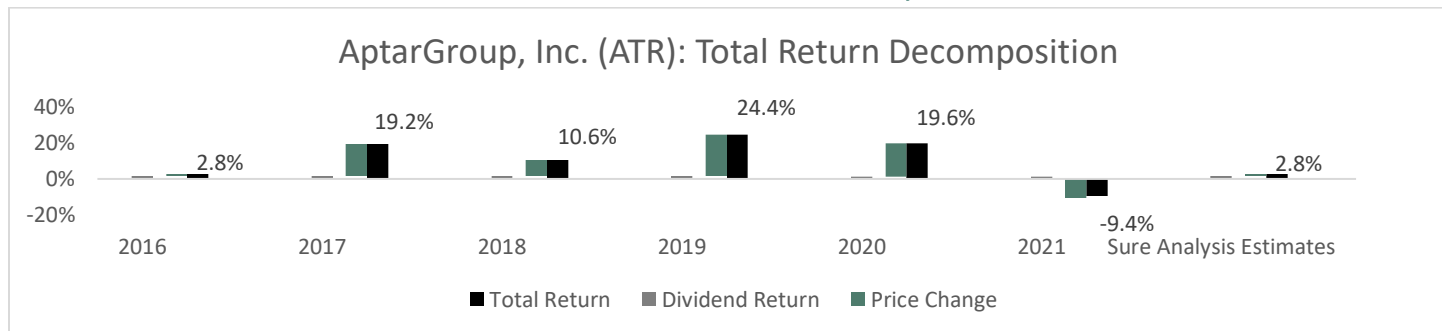
AptarGroup has paid growing dividends for 28 consecutive years and maintains a low payout ratio. The company was only mildly affected by the previous recession, as it remained profitable and quickly recovered to all-time high sales and earnings in 2010. Its products across all three business segments are not very cyclical.

The company has nearly doubled its long-term debt over the past four years, but its interest coverage ratio remains healthy at over 11.6x. With a ratio of long-term debt to net income of approximately 8x, AptarGroup makes substantial use of leverage, although its consistent earnings should allow it to support that leverage safely.

Final Thoughts & Recommendation

In our view, AptarGroup is a durable company with a long history of growing dividends. However, the valuation is higher than its historical average and what we consider fair for this growth level. The company's sizeable foreign exposure is both a source of opportunity and a risk. We rate AptarGroup as a sell now due to its low expected total returns of just 2.8% per year for the next five years.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	2331	2520	2598	2317	2331	2469	2765	2860	2929	3227
Gross Profit	741	811	843	814	835	866	952	1041	1087	1157
Gross Margin	31.8%	32.2%	32.4%	35.2%	35.8%	35.1%	34.4%	36.4%	37.1%	35.8%
SG&A Exp.	342	365	384	351	366	387	430	455	500	551
D&A Exp.	137	150	152	139	155	153	172	195	220	235
Operating Profit	262	296	306	324	314	326	350	392	366	371
Operating Margin	11.2%	11.8%	11.8%	14.0%	13.5%	13.2%	12.7%	13.7%	12.5%	11.5%
Net Profit	163	172	192	199	206	220	195	242	214	244
Net Margin	7.0%	6.8%	7.4%	8.6%	8.8%	8.9%	7.0%	8.5%	7.3%	7.6%
Free Cash Flow	140	134	154	174	194	168	102	267	318	56
Income Tax	79	92	95	95	75	75	71	100	87	78

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	2324	2498	2437	2437	2607	3138	3378	3562	3990	4141
Cash & Equivalents	230	310	400	490	466	713	262	242	300	123
Accounts Receivable	397	438	407	392	433	510	570	562	573	671
Inventories	322	353	311	295	297	337	381	376	379	441
Goodwill & Int. Ass.	404	409	370	342	502	539	967	1055	1243	1337
Total Liabilities	944	1017	1333	1287	1433	1826	1955	1990	2139	2157
Accounts Payable	137	150	116	115	116	154	165	193	244	285
Long-Term Debt	428	495	841	818	947	1257	1290	1196	1173	1193
Shareholder's Equity	1380	1480	1103	1149	1174	1312	1423	1572	1850	1969
LTD/E Ratio	0.31	0.33	0.76	0.71	0.81	0.96	0.91	0.76	0.63	0.61

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	7.3%	7.1%	7.8%	8.2%	8.2%	7.7%	6.0%	7.0%	5.7%	6.0%
Return on Equity	12.2%	12.0%	14.8%	17.7%	17.7%	17.7%	14.2%	16.2%	12.5%	12.8%
ROIC	9.2%	9.1%	9.8%	10.2%	10.1%	9.4%	7.4%	8.8%	7.4%	7.9%
Shares Out.	66.2	65.4	62.0	62.5	62.2	61.9	62.9	66.0	67.0	67.7
Revenue/Share	34.08	36.95	38.61	35.93	35.94	38.23	42.56	43.23	43.95	47.68
FCF/Share	2.04	1.96	2.29	2.70	2.99	2.60	1.57	4.04	4.77	0.82

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

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