



WestRock Co. (WRK)

Updated May 27th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	\$47	5 Year CAGR Estimate:	7.2%	Market Cap:	\$11.5 B
Fair Value Price:	\$54	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	8/11/2022 ¹
% Fair Value:	86%	5 Year Valuation Multiple Estimate:	3.0%	Dividend Payment Date:	8/23/2022
Dividend Yield:	2.1%	5 Year Price Target	\$60	Years Of Dividend Growth:	1
Dividend Risk Score:	C	Retirement Suitability Score:	D	Rating:	Hold

Overview & Current Events

WestRock was formed in July 2015 by the merger of Rock-Tenn and Mead-Westvaco. It is a leading provider of differentiated paper and packaging solutions, with a market capitalization of \$11.5 billion. In its fiscal 2021, which ended on 9/30/2021, the corrugated packaging segment and the consumer packaging segment generated 66% and 34% of its total revenues and 71% and 29% of its pre-tax income, respectively.

WestRock completed the acquisition of KapStone Paper in November, 2018. The deal increased the leverage (Net Debt/EBITDA) of WestRock to 2.9 but the company has been reducing its debt at a fast clip since then. The acquisition of KapStone has enhanced the product offerings and the geographical presence of the company.

In early May, WestRock reported (5/5/22) financial results for the second quarter of fiscal 2022. The company enjoyed strong demand in all its markets and its price hikes more than offset inflation and the effect of supply chain disruptions due to the pandemic. As a result, total sales grew 21% over the prior year's quarter, to a new all-time high of \$5.4 billion, and adjusted earnings-per-share more than doubled, from \$0.54 to \$1.17, thus exceeding the analysts' consensus by \$0.16. WestRock has missed the analysts' consensus in only 3 of the last 28 quarters. Thanks to strong momentum in North American box shipments and the recent price hikes, which have offset the effect of cost inflation, we have raised our forecast for the earnings-per-share of WestRock in 2022 from \$4.70 to \$4.95.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	---	---	---	\$3.89	\$2.53	\$2.62	\$4.08	\$3.98	\$2.74	\$3.39	\$4.95	\$5.47
DPS	---	---	---	\$0.38	\$1.50	\$1.60	\$1.72	\$1.82	\$1.07	\$0.93	\$1.00	\$1.47
Shares²	---	---	---	257.0	251.0	254.5	259.2	259.0	260.0	268.9	260.0	250.0

WestRock has a short and somewhat volatile historical record. Since its foundation in its current form, the company grew its earnings-per-share at a 0.6% average annual rate until 2019 and incurred a decline in its earnings in fiscal 2020 due to the pandemic. Moreover, even before the pandemic, there were concerns over a surge in the global supply of containerboard products in upcoming years. This factor, which is out of WestRock's control, may adversely affect its margins. However, the pandemic has begun to subside and the company has begun to recover strongly. In addition, WestRock is likely to benefit from the growing North American corrugated market in the long run. Given the strong business momentum thanks to pent-up demand, we expect the company to post record earnings this year and then grow its earnings-per-share by 2% per year on average over the next five years off this year's high comparison base.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	---	---	---	15.2	16.8	20.3	14.9	9.8	12.3	14.3	9.5	11.0
Avg. Yld.	---	---	---	0.6%	3.5%	3.0%	2.8%	4.7%	3.2%	1.9%	2.1%	2.4%

¹ Estimated date.

² 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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WestRock is trading at a price-to-earnings ratio of 9.5, which is lower than its 7-year average of 14.8. Due to its short historical record and its cyclical business, the stock warrants a reduced valuation. We assume a fair price-to-earnings ratio of 11.0 for the stock. If the stock trades at our fair valuation level in five years, it will enjoy a 3.0% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	9.8%	59.3%	61.1%	42.2%	45.7%	39.1%	27.4%	20.2%	26.9%

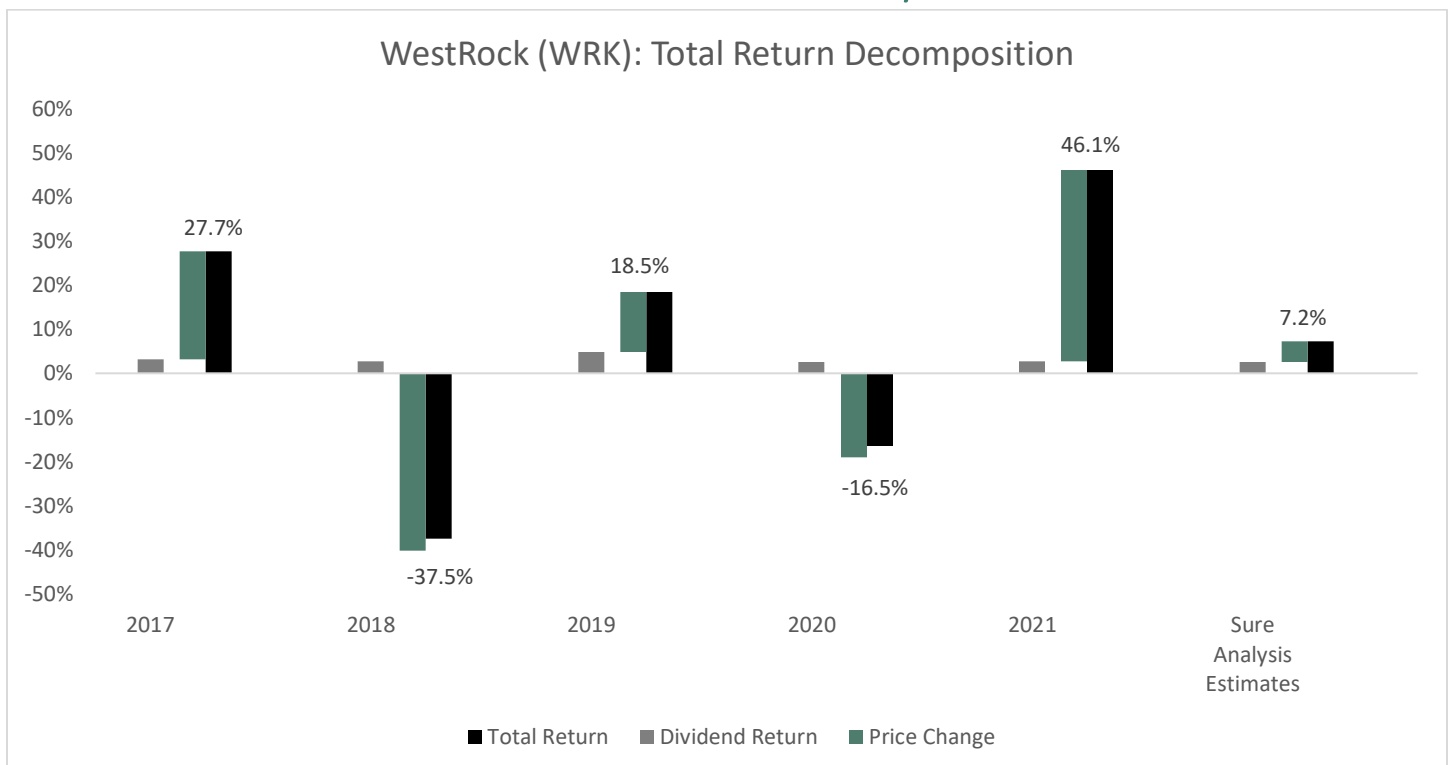
WestRock cannot control the total supply of paper products. As a result, it is vulnerable to the total production volume of its competitors. The business of WestRock is highly cyclical and hence investors should be especially careful before initiating a position in the stock. If they invest near the peak of the cycle, when business prospects usually look bright and the earnings multiple of the stock usually seems too low, they run the risk of incurring excessive losses.

Moreover, due to the material debt load that has resulted from the acquisition of KapStone, WestRock will be somewhat vulnerable whenever the next downturn in its business shows up. Its interest expense consumes 21% of operating income while its net debt of \$14.2 billion is about 11 times its annual earnings and hence it is high. The weak balance sheet of the company helps explain the -57% dividend cut in 2020 amid the pandemic, despite a solid payout ratio of 66% before the dividend cut.

Final Thoughts & Recommendation

WestRock is recovering strongly from the pandemic. It could offer a 7.2% average annual return over the next five years thanks to 2.0% growth of earnings-per-share, a 2.1% dividend and a 3.0% annualized expansion of the valuation level. We rate it as a hold. Nevertheless, investors should always keep the high cyclicity of WestRock in mind.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	9207.6	9545.4	9895.1	11125	14172	14860	16285	18,289	17,579	18,746
Gross Profit	1532.7	1846.5	1933.6	2138.3	2758.6	2740.2	3393.9	3,749	3,197	3,430
Gross Margin	16.6%	19.3%	19.5%	19.2%	19.5%	18.4%	20.8%	20.5%	18.2%	18.3%
SG&A Exp.	928	869	938	1,026	1,750	1,457	1,731	1,709	1,623	1,759
Operating Profit	605	892	910	993	797	1,031	1,335	1,640	1,173	1,314
Op. Margin	6.6%	9.3%	9.2%	8.9%	5.6%	6.9%	8.2%	9.0%	6.7%	7.0%
Net Profit	249	727	480	507	(396)	708	1,906	863	(691)	838
Net Margin	2.7%	7.6%	4.8%	4.6%	-2.8%	4.8%	11.7%	4.7%	-3.9%	4.5%
Free Cash Flow	187	592	618	618	892	685	931	941	1,093	1,464
Income Tax	137	(22)	287	233	90	159	(875)	277	164	243

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	10,687	10,733	11,040	25,372	23,038	25,089	25,361	30,157	28,780	29,254
Cash & Equivalents	37	36	33	208	341	298	637	152	251	291
Accounts Receivable	1,076	1,135	1,119	1,575	1,592	1,887	2,011	2,193	2,143	2,587
Inventories	862	938	1,029	1,761	1,638	1,797	1,830	2,108	2,023	2,173
Goodwill & Int. Ass.	2,660	2,562	2,618	7,442	7,377	8,858	8,700	11,345	9,629	9,278
Total Liabilities	7,281	6,421	6,732	13,589	13,208	14,703	13,878	18,473	18,132	17,564
Accounts Payable	709	802	813	1,231	1,054	1,492	1,717	1,832	1,674	2,124
Long-Term Debt	3,413	2,845	2,985	5,622	5,789	6,555	6,415	10,063	9,431	8,194
Shareholder's Equity	3,406	4,312	4,307	11,652	9,729	10,343	11,469	11,670	10,631	11,670
D/E Ratio	1.00	0.66	0.69	0.48	0.60	0.63	0.56	0.86	0.89	0.70

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	2.3%	6.8%	4.4%	2.8%	-1.6%	2.9%	7.6%	3.1%	-2.3%	2.9%
Return on Equity	7.4%	18.8%	11.1%	6.4%	-3.7%	7.1%	17.5%	7.5%	-6.2%	7.5%
ROIC	3.7%	10.4%	6.6%	4.1%	-2.4%	4.4%	10.9%	4.4%	-3.3%	4.2%
Shares Out.	---	---	---	257.0	251.0	254.5	259.2	259.0	260.0	268.9
Revenue/Share	63.90	65.33	67.77	64.19	54.95	58.11	62.68	70.59	67.82	70.08
FCF/Share	1.30	4.05	4.23	3.57	3.46	2.68	3.58	3.63	4.22	5.47

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

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