Silgan Holdings (SLGN)

Updated July 27th, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	$42	**5 Year CAGR Estimate:**	14.7%	**Market Cap:**	$4.68 B
Fair Value Price:	$52	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date[1]:**	08/31/2022
% Fair Value:	82%	**5 Year Valuation Multiple Estimate:**	4.1%	**Dividend Payment Date:**	09/15/2022
Dividend Yield:	1.5%	**5 Year Price Target**	$80	**Years Of Dividend Growth:**	18
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Rating:**	Buy

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 $5.7 billion in revenues and is based in Stamford, Connecticut.

On July 27th, 2022, Silgan reported its Q2-2022 results for the period ending June 30th, 2022. Quarterly revenues rose 14.1% year-over-year, reaching $1.54 billion, while adjusted EPS came in at $1.08, which was a 27% increase versus Q2-2021. Higher net sales across all segments again drove the company's revenue growth.

Specifically, while the metal containers segment experienced a decline of 10% in unit volumes year-over-year, its sales grew 20.8% to $754.4 million as a result of higher prices. The decrease in unit volumes was principally the result of lower volumes of vegetable cans as compared to the restocking activity in the prior year period and the impact of the ongoing supply chain bottlenecks. The dispensing & specialty closures division also performed well, with sales reaching $602.4 million, 10.4% higher year-over-year. This increase was primarily the result of higher unit volumes of approximately 2% and the pass-through of higher raw material and other manufacturing costs via increased pricing. Finally, custom containers recorded a 4.8% revenue growth to $187.0 million as price increases, and a favorable mix of products sold exceeded lower unit volumes which came in 7% lower.

For FY2022, management expects continued strong performance from recent acquisitions and the ability to pass through raw material and other inflationary costs to its customers successfully. Consequently, management reiterated its guidance. Silgan expects adjusted EPS to land between $3.90 and $4.05 for the year. We have utilized 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
EPS	$1.09	$1.44	$1.44	$1.41	$1.28	$2.44	$2.03	$1.75	$2.79	$3.25	***$3.98***	***$6.12***
DPS	$0.24	$0.28	$0.30	$0.32	$0.34	$0.36	$0.40	$0.44	$0.48	$0.56	***$0.64***	***$1.03***
Shares[2]	139.1	128.5	126.9	122.0	119.7	110.4	110.6	110.9	110.7	110.3	***110.6***	***100.0***

Over the past decade, Silgan has averaged an EPS and DPS CAGR of 12.9% and 9.9%, respectively. Despite the work-from-home economy gradually fading, demand for packaged and canned foods, as well as sanitization products, has remained at strong levels. Following exceptional pricing power 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, nonetheless. That said, Silgan's unit volumes and pricing mix seems to be yield robust results, challenging the scenario that its performance bump was only temporary.

[1] Estimated dates based on SLGN's past dividend dates

[2] Share count is in millions.

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Further, we retain our DPS CAGR forecast at 10% to reflect management's latest bold payout hike in line with a low payout ratio and a favorable business environment. Silgan has grown its DPS annually for 18 consecutive years.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	16	16.8	17.1	19.9	20.1	22.6	11.1	17.6	12.5	13.5	***10.6***	***13.0***
Avg. Yld.	1.1%	1.2%	1.2%	1.3%	1.3%	1.1%	1.6%	1.5%	1.5%	1.3%	***1.5%***	***1.3%***

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 10.6 times their FY2022 expected adjusted EPS. We forecast a fair P/E ratio of 13 moving forward. The stock's yield has always remained relatively low, at around 1%-2%. Despite the rapid dividend 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
Payout	22%	19%	21%	23%	27%	15%	20%	25%	17%	17%	16%	***17%***

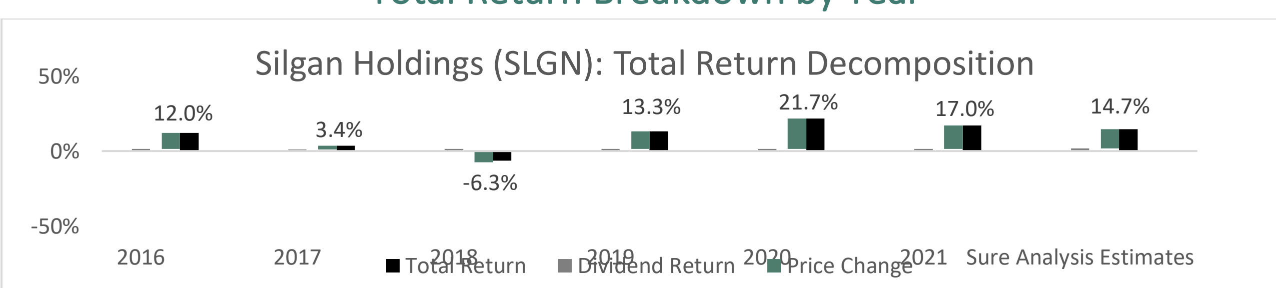
Investors can rely on Silgan's dividends since the company's payout ratio has mostly remained incredibly low. It currently stands at 16%. Since the company's IPO in 1996, Silgan has never reported a money-losing quarter. Its products are vital for various consumer staples. Hence its operations are quite stable, displayed in its 18-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 14.7% 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 incompetence in passing inflationary costs through, limiting the stock's potential returns over this period. The pass-through of such costs to Silgan's product pricing has been managed exceptionally thus far, nonetheless.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	3588	3709	3912	3764	3613	4090	4449	4490	4922	5677
Gross Profit	518	547	600	554	512	635	690	714	867	918
Gross Margin	14.4%	14.8%	15.3%	14.7%	14.2%	15.5%	15.5%	15.9%	17.6%	16.2%
SG&A Exp.	183	211	224	220	220	305	308	316	378	378
D&A Exp.	165	168	148	142	143	174	192	206	224	250
Operating Profit	334	336	375	334	319	363	418	416	582	540
Op. Margin	9.3%	9.1%	9.6%	8.9%	8.8%	8.9%	9.4%	9.3%	10.7%	9.5%
Net Profit	151	185	182	172	153	270	224	194	309	359
Net Margin	4.2%	5.0%	4.7%	4.6%	4.2%	6.6%	5.0%	4.3%	6.3%	6.3%
Free Cash Flow	232	248	208	98	203	215	316	276	378	325
Income Tax	72	69	102	80	79	-30	69	58	98	107

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	3294	3321	3274	3193	3149	4645	4579	4931	6520	7771
Cash & Equivalents	466	160	223	100	25	54	73	204	410	631
Accounts Receivable	327	333	311	281	288	455	511	505	620	711
Inventories	516	516	549	628	603	721	635	633	678	799
Goodwill & Int. Ass.	683	880	842	808	785	1589	1532	1497	---	2869
Total Liabilities	2540	2607	2564	2553	2680	3879	3698	3908	5267	6208
Accounts Payable	319	352	424	477	505	660	713	727	---	1133
Long-Term Debt	1671	1704	1584	1514	1562	2547	2305	2244	3251	3793
Total Equity	754	714	710	639	469	766	881	1023	1253	1563
LTD/E Ratio	2.2	2.4	2.2	2.4	3.3	3.3	2.6	2.2	2.6	2.4

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	4.8%	5.6%	5.5%	5.3%	4.8%	6.9%	4.9%	4.1%	5.4%	5.0%
Return on Equity	21.4%	25.3%	25.6%	25.6%	27.7%	43.7%	27.2%	20.4%	27.1%	25.5%
ROIC	6.8%	7.7%	7.7%	7.8%	7.3%	10.1%	6.9%	6.0%	7.9%	7.3%
Shares Out.	139.8	129.3	127.5	122.6	120.5	111.4	111.6	111.5	111.4	111.2
Revenue/Share	25.67	28.68	30.68	30.70	29.98	36.73	39.85	40.27	44.18	51.07
FCF/Share	1.66	1.91	1.63	0.80	1.68	1.93	2.83	2.48	3.40	2.92

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