



Sonoco Products Company (SON)

Updated July 21st, 2022 by Nathan Parsh

Key Metrics

Current Price:	\$61	5 Year CAGR Estimate:	17.9%	Market Cap:	\$5.8 billion
Fair Value Price:	\$100	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	8/9/2022
% Fair Value:	61%	5 Year Valuation Multiple Estimate:	10.4%	Dividend Payment Date:	9/9/2022
Dividend Yield:	3.2%	5 Year Price Target	\$128	Years Of Dividend Growth:	40
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	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 July 21st, 2022, Sonoco Products reported second quarter earnings results for the period ending July 3rd, 2022. Revenue surged 38.4% to a company record \$1.91 billion, which was in-line with analysts' expectations. Adjusted earnings-per-share of \$1.76 compared very favorably to \$0.84 in the prior year and was \$0.11 above estimates.

Consumer Packaging revenues grew 65.6% to a segment record \$990.1 million, due once again in large part to the purchase of Ball Metalpack that closed in the fourth quarter of 2021. Higher selling prices also factored into results. Global rigid paper containers had slight volume growth outside of North America, where supply constraints limited business. Flexible packaging volume grew 4%, but was offset by mix. Industrial Paper Packing sales grew 20% to a segment record \$727.4 million as higher selling prices more than offset a small volume decline and currency exchange headwinds.

Sonoco Products raised its outlook for 2022 as well, with the company expecting adjusted earnings-per-share of \$6.20 to \$6.30 for the year, up from \$5.25 to \$5.45 and \$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
EPS	\$2.21	\$2.30	\$2.54	\$2.51	\$2.72	\$2.78	\$3.37	\$3.53	\$3.41	\$3.55	\$6.25	\$7.98
DPS	\$1.19	\$1.23	\$1.27	\$1.37	\$1.46	\$1.54	\$1.62	\$1.70	\$1.72	\$1.80	\$1.96	\$2.50
Shares¹	101	102	101	101	99	99	101	101	101	99	99	99

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 20th, 2022, Sonoco Products raised its dividend 8.9% to a quarterly rate of \$0.49. This extends the company's dividend growth streak to 40 years. The dividend remained unchanged for the five prior consecutive quarters. We see the payout rising to \$2.50 by 2027.

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	9.8	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%	2.0%

¹ In millions of shares

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Shares of Sonoco Products have decreased \$5, or 7.6%, since our April 21st, 2022 update. Based off of company's revised guidance for 2022, shares trade with a price-to-earnings multiple of 9.8. We reaffirm our 2027 target P/E of 16 as this reflects the average P/E since 2012. Reaching this target would add 10.4% annual returns over the next five years. Shares of Sonoco Products currently yield 3.2%, which is 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%	31%	31%

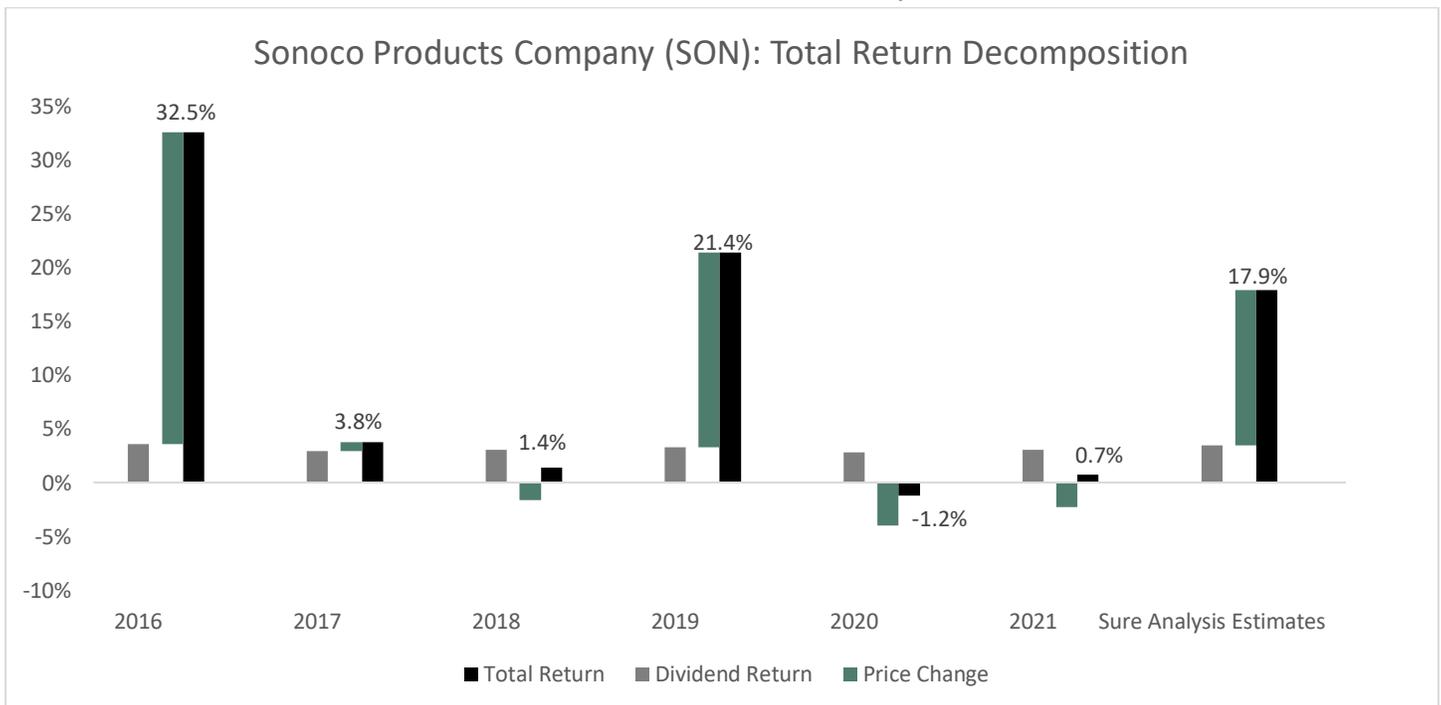
Sonoco Products showed in the last recession that it is somewhat susceptible to deteriorating market conditions. Sonoco Products has a very reasonable dividend payout ratio of just over 31% based off of our expectations for 2022. Over the past decade the company has averaged a 52% dividend payout ratio. 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 Ball Metalpack, Conitex, and Can Packaging acquisitions are prime examples of growing through acquisitions.

Final Thoughts & Recommendation

After second quarter earnings results, Sonoco Products Company is now expected to offer a total annual return of 17.9% through 2027, up from our previous estimate of 12.8%. Our projected return stems from a 5% earnings growth rate, a 3.2% starting yield, and a low double-digit tailwind from valuation expansion. Sonoco Products had another strong quarter of growth in both of its key businesses, driven in large part due to the Ball Metalpack acquisition. Price increases have led to only a softening in the base business. We have raised our five-year price target \$19 to \$128 due to revised earnings estimates. 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
Revenue	4,814	4,862	5,017	4,964	4,783	5,037	5,391	5,374	5,237	5,590
Gross Profit	840	862	908	929	946	959	1,041	1,058	1,046	1,062
Gross Margin	17.4%	17.7%	18.1%	18.7%	19.8%	19.0%	19.3%	19.7%	20.0%	19.0%
SG&A Exp.	464	487	507	496	515	553	564	556	559	558
Operating Profit	376	374	401	433	431	406	477	502	488	504
Operating Margin	7.8%	7.7%	8.0%	8.7%	9.0%	8.1%	8.8%	9.3%	9.3%	9.0%
Net Profit	195	210	226	250	286	175	314	292	207	(85)
Net Margin	4.1%	4.3%	4.5%	5.0%	6.0%	3.5%	5.8%	5.4%	4.0%	-1.5%
Free Cash Flow	189	366	241	261	212	159	397	230	522	43
Income Tax	100	94	109	88	165	147	75	93	53	(67)

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	4,176	3,975	4,194	4,014	3,923	4,558	4,583	5,126	5,277	5,073
Cash & Equivalents	373	218	161	182	257	255	120	145	565	171
Accounts Receivable	620	614	654	628	625	725	737	698	659	756
Inventories	383	410	420	385	373	474	494	504	451	562
Goodwill & Int. Ass.	1,387	1,343	1,459	1,386	1,317	1,573	1,661	1,818	1,711	1,603
Total Liabilities	2,673	2,268	2,690	2,481	2,368	2,828	2,811	3,311	3,367	3,224
Accounts Payable	427	497	517	508	478	548	556	538	1,048	721
Long-Term Debt	1,373	981	1,253	1,128	1,053	1,447	1,385	1,681	1,700	1,611
Shareholder's Equity	1,489	1,691	1,488	1,513	1,532	1,707	1,759	1,803	1,911	1,837
LTD/E Ratio	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
Return on Assets	4.8%	5.1%	5.5%	6.1%	7.2%	4.1%	6.9%	6.0%	4.0%	-1.7%
Return on Equity	13.5%	13.2%	14.2%	16.7%	18.8%	10.8%	18.1%	16.4%	11.2%	-4.6%
ROIC	7.0%	7.5%	8.3%	9.2%	10.9%	6.1%	9.9%	8.8%	5.8%	-2.4%
Shares Out.	101	102	101	101	99	99	101	101	99	99
Revenue/Share	46.93	47.09	48.63	48.48	46.99	49.94	53.37	53.12	51.75	56.12
FCF/Share	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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