Packaging Corporation of America (PKG)

Updated November 22nd, 2022 by Quinn Mohammed

Key Metrics

Current Price:	$132	**5 Year CAGR Estimate:**	12.9%	**Market Cap:**	$12 B
Fair Value Price:	$176	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date[1]:**	12/17/22
% Fair Value:	75%	**5 Year Valuation Multiple Estimate:**	5.9%	**Dividend Payment Date[2]:**	01/14/23
Dividend Yield:	3.8%	**5 Year Price Target**	$214	**Years Of Dividend Growth:**	12
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Rating:**	Buy

Overview & Current Events

Packaging Corporation of America (PKG) is a manufacturer of packaging products, including containerboard and corrugated packaging products used to protect goods during the shipping process. The company also makes products for the agricultural products industry and multi-color boxes and displays. PKG manufactures more than 4.5 million tons of containerboard annually. Most of the containerboard is converted into corrugated boxes, and it ships about 65.7 billion square feet of corrugated products annually.

The company operates three segments: packaging, paper, and corporate / other. The packaging segment accounts for the vast majority (90%) of sales. The paper segment accounts for the remaining 10% of sales and includes office paper, printing paper, and converting paper, with paper mills in Jackson, AL and International Falls, MN.

Packaging Corporation of America operates nearly 100 manufacturing plants throughout the U.S. The company was founded in 1867 in Quincy, Illinois and has a current market capitalization of $12 billion.

On October 24th, 2022, Packaging Corporation of America reported third quarter results for the period ending September 30th, 2022. For the quarter, adjusted diluted earnings-per-share equaled $2.83, up from $2.69 in the prior year quarter. The increase was primarily due to price increases.

Sales for the quarter were $2.1 billion, up from $2.0 billion in the prior year. PKG generated $477.1 million in EBITDA, with the Packaging segment contributing $467.1 million, the Paper segment contributing $32.6 million and the Corporate segment with -$22.6 million.

The company has been active in increasing prices and foresees further price increases in the fourth quarter in the Paper segment. Leadership estimates fourth quarter earnings to come in at $2.22 per share. As a result, we have reduced our 2022 EPS estimate from $11.40 to $11.00.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$1.68	$3.28	$3.99	$4.47	$4.75	$5.78	$7.79	$7.34	$5.78	$9.39	***$11.00***	***$13.38***
DPS	$1.00	$1.51	$1.60	$2.20	$2.36	$2.52	$3.00	$3.16	$3.37	$4.00	***$5.00***	***$6.38***
Shares[3]	98.1	98.2	98.4	96.1	94.2	94.4	94.5	94.7	94.8	93.5	***93.20***	***92.50***

Earnings-per-share has grown rapidly, though the growth has been volatile between 2012 and 2021. After growing at an average rate of 9% over the prior 5 years, including some pull-forward demand from the pandemic, we project the company to revert to a more sustainable 4.0% intermediate-term growth rate, as it should grow alongside GDP more broadly. This still does leave upside potential if we continue to see robust demand and the ability to increase prices in the future, as was seen in the first nine months of 2022.

[1] Estimate based on last year's date
[2] Estimate based on last year's date
[3] In millions.

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Avg. P/E	18.5	15.6	17.3	15.7	14.7	18.1	14.2	13.8	18.2	16.5	***12.0***	***16.0***
Avg. Yld.	3.2%	3.0%	2.3%	3.1%	3.4%	2.4%	2.7%	3.1%	3.2%	3.2%	***3.8%***	***3.0%***

PKG has traded at an average P/E ratio near 16 over the past 5 years, which captures performance through periods of stagnation and growth. We are using 16.0 times earnings as a fair value baseline. With shares presently trading at 12 times expected earnings, this implies the potential for a valuation tailwind.

PKG has a long history of paying a quarterly dividend dating back to 2003, and the dividend has grown gradually since 2009, albeit with some periods where the payment has been flat for more than 4 quarters. PKG most recently increased its quarterly dividend from $1.00 to $1.25 as of May 18th, 2022, an impressive 25% increase.

Safety, Quality, Competitive Advantage, & Recession Resiliency

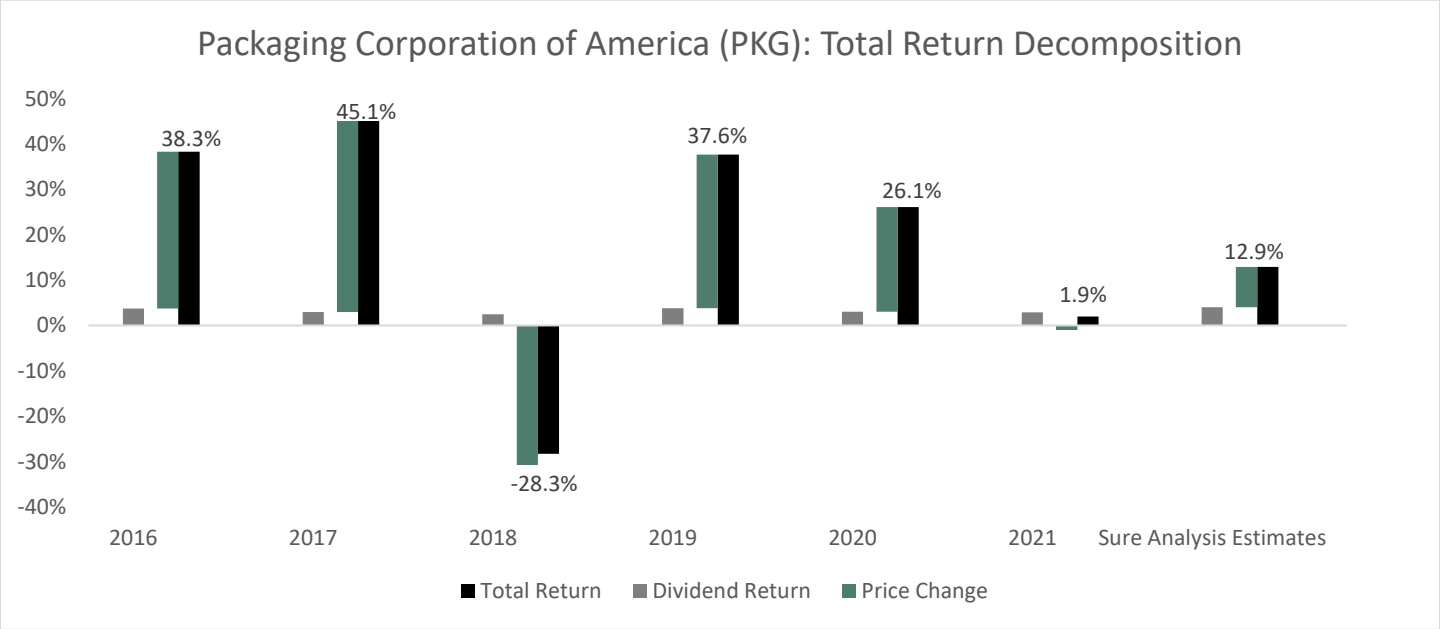
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	60%	46%	40%	49%	50%	44%	39%	43%	58%	43%	***45%***	***48%***

PKG has maintained a fairly safe dividend payout ratio between 40-60%. It operates in the packaging industry which has secular tailwinds supporting it along with significant scale. Risks to the business include operating in a competitive industry with several similarly sized competitors such as International Paper, Westrock, and Sonoco Products. There are modest barriers to entry in the cardboard industry due to the large capital requirements to build manufacturing plants and scale across the country. We expect the dividend to continue to be protected at current levels given the strong growth the company has shown over the past decade and optimistic commentary from the CEO.

Final Thoughts & Recommendation

Packaging Corporation of America has put together a solid earnings and dividend record in the last decade. Total projected returns come in 12.9% annually, driven by a 3.8% dividend yield, 4.0% earnings-per-share growth rate and the potential for a valuation tailwind. Shares earn a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	2,844	3,665	5,853	5,742	5,779	6,445	7,015	6,964	6,658	7,730
Gross Profit	635	868	1,230	1,208	1,276	1,471	1,645	1,644	1,369	1,873
Gross Margin	22.3%	23.7%	21.0%	21.0%	22.1%	22.8%	23.5%	23.6%	20.6%	24.2%
SG&A Exp.	281	327	470	451	469	520	536	558	540	577
Operating Profit	449	541	760	760	808	951	1,109	1,086	830	1,296
Op. Margin	15.8%	14.8%	13.0%	13.2%	14.0%	14.8%	15.8%	15.6%	12.5%	16.8%
Net Profit	160	441	393	437	450	669	738	696	461	841
Net Margin	5.6%	12.0%	6.7%	7.6%	7.8%	10.4%	10.5%	10.0%	6.9%	10.9%
Free Cash Flow	276	374	316	454	533	513	629	808	612	489
Income Tax	215	(18)	222	228	239	160	233	221	172	268

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	2,454	5,244	5,273	5,272	5,777	6,198	6,570	7,236	7,433	7,837
Cash & Equivalents	207	191	125	184	239	217	362	680	975	619
Acc. Receivable	352	643	646	637	689	831	902	846	832	1,071
Inventories	269	594	665	677	724	763	796	794	788	903
Goodwill & Int.	105	837	840	815	1,105	1,293	1,296	1,258	1,159	1,232
Total Liabilities	1,484	3,887	3,751	3,639	4,017	4,015	3,897	4,165	4,187	4,230
Accounts Payable	118	358	331	294	324	403	382	352	387	452
Long-Term Debt	794	2,548	2,355	2,297	2,646	2,630	2,484	2,477	2,479	2,472
Total Equity	969	1,357	1,521	1,633	1,760	2,183	2,672	3,071	3,246	3,607
LTD/E Ratio	0.82	1.88	1.55	1.41	1.50	1.21	0.93	0.81	0.76	0.69

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	6.6%	11.5%	7.5%	8.3%	8.1%	11.2%	11.6%	10.1%	6.3%	11.0%
Return on Equity	16.9%	37.9%	27.3%	27.7%	26.5%	33.9%	30.4%	24.3%	14.6%	24.5%
ROIC	9.2%	15.6%	10.1%	11.2%	10.8%	14.5%	14.8%	13.0%	8.2%	14.3%
Shares Out.	98.1	98.2	98.4	96.1	94.2	94.4	94.5	94.7	94.8	93.5
Revenue/Share	29.17	37.59	60.27	59.38	61.68	68.78	74.70	74.01	70.53	81.80
FCF/Share	2.83	3.83	3.25	4.70	5.68	5.48	6.70	8.59	6.48	5.17

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

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