WestRock Co. (WRK)

Updated November 24th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	$38	**5 Year CAGR Estimate:**	7.4%	**Market Cap:**	$9.4 B
Fair Value Price:	$43	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	2/9/2023[1]
% Fair Value:	89%	**5 Year Valuation Multiple Estimate:**	2.5%	**Dividend Payment Date:**	2/22/2023
Dividend Yield:	2.9%	**5 Year Price Target**	$47	**Years Of Dividend Growth:**	2
Dividend Risk Score:	D	**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 $9.4 billion. In its fiscal 2022, which ended on 9/30/2022, the corrugated packaging segment, the consumer packaging segment, global paper and distribution generated 39%, 23%, 35% and 3% of its pre-tax income, respectively.

On July 27th, 2022, WestRock announced that it agreed to acquire the remaining 67.7% stake in Gondi, a leading producer of corrugated and consumer packaging in Mexico. The deal, which will cost $970 million, is expected to close until the end of this calendar year. The acquisitions of KapStone in 2018 and Gondi have greatly enhanced the product offerings and the geographical presence of WestRock, which can now grow in the attractive Latin American market.

In early November, WestRock reported (11/10/22) financial results for the fourth quarter of fiscal 2022. The company enjoyed strong demand in all its markets and its drastic price hikes more than offset inflation and the effect of supply chain disruptions due to the pandemic. As a result, revenue grew 6% over last year's quarter, to a new all-time high, and adjusted earnings-per-share grew 16%, from $1.23 to $1.43, thus exceeding the analysts' consensus by $0.01. WestRock has missed the analysts' consensus in only 3 of the last 30 quarters. However, we expect earnings to moderate from record levels in 2023 due to cost inflation and the fading tailwind of the recovery from the pandemic.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	---	---	$3.89	$2.53	$2.62	$4.08	$3.98	$2.74	$3.39	$4.76	***$3.90***	***$4.31***
DPS	---	---	$0.38	$1.50	$1.60	$1.72	$1.82	$1.07	$0.93	$1.03	***$1.10***	***$1.62***
Shares[2]	---	---	257.0	251.0	254.5	259.2	259.0	260.0	268.9	256.4	***254.0***	***250.0***

WestRock has a short and volatile historical record. Since its foundation in its current form, it 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 subsided and the company currently enjoys strong momentum, partly thanks to its material price hikes. In addition, WestRock is likely to benefit from the growing North American corrugated market in the long run. Given the high comparison base formed by the nearly all-time high earnings-per-share expected in the new fiscal year, we expect WestRock to grow its earnings-per-share by 2% per year on average over the next five years.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	---	---	15.2	16.8	20.3	14.9	9.8	12.3	14.3	9.4	***9.7***	***11.0***
Avg. Yld.	---	---	0.6%	3.5%	3.0%	2.8%	4.7%	3.2%	1.9%	2.3%	***2.9%***	***3.4%***

[1] Estimated date.
[2] In millions.

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WestRock is trading at a price-to-earnings ratio of 9.7, which is lower than its 8-year average of 14.1. 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 2.5% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	9.8%	59.3%	61.1%	42.2%	45.7%	39.1%	27.4%	21.6%	***28.2%***	***37.5%***

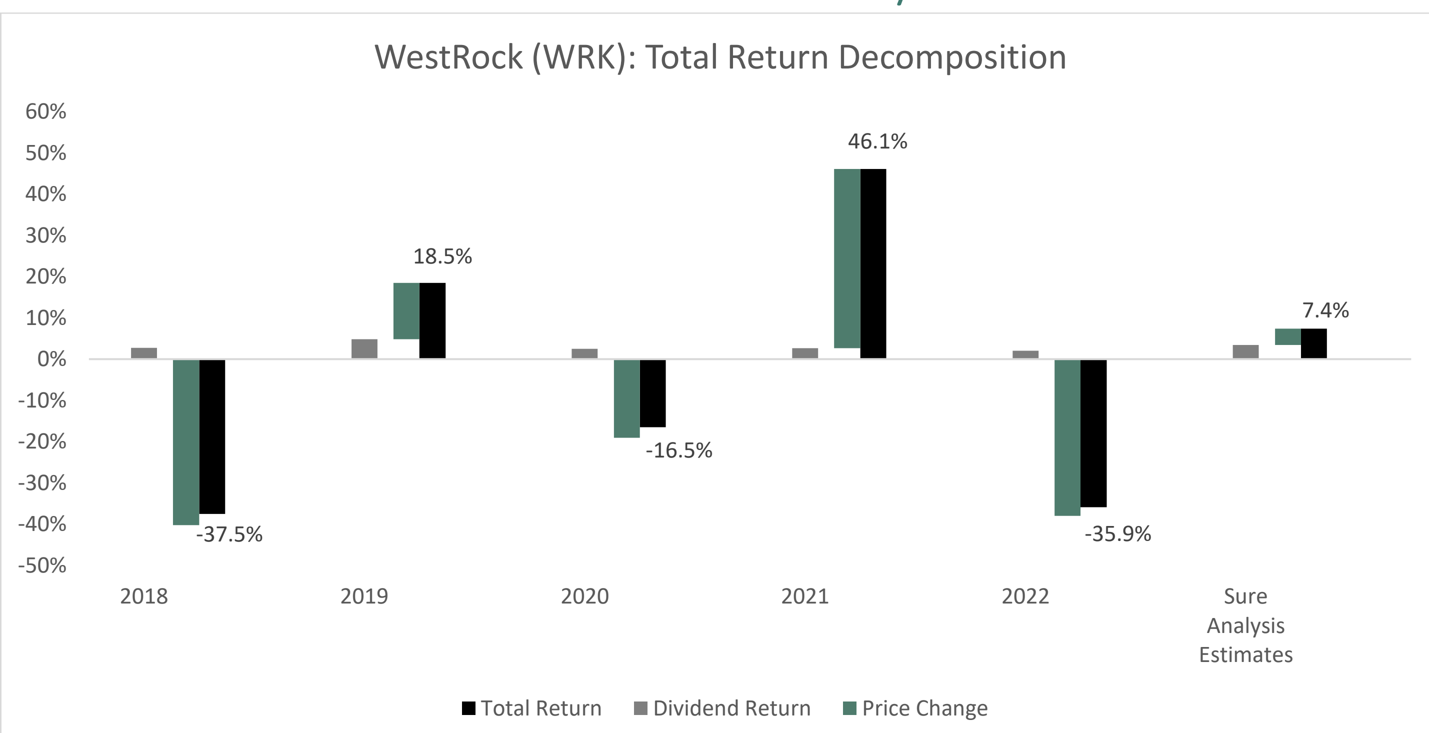
WestRock cannot control the total supply of paper products. As a result, it is vulnerable to the total production volume of its competitors. The business of WestRock is highly cyclical and hence investors should be especially careful before initiating a position in the stock. If they invest near the 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 20% of operating income while its net debt of $13.8 billion is about 13 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 has recovered strongly from the pandemic. It could offer a 7.4% average annual return over the next five years thanks to 2.0% growth of earnings-per-share, a 2.9% dividend and a 2.5% annualized expansion of the valuation level. The stock earns a hold rating. It is fairly attractive from a long-term perspective, though investors should always keep its high cyclicality in mind.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	9545.4	9895.1	11125	14172	14860	16285	18,289	17,579	18,746	21,257
Gross Profit	1846.5	1933.6	2138.3	2758.6	2740.2	3393.9	3,749	3,197	3,430	4,021
Gross Margin	19.3%	19.5%	19.2%	19.5%	18.4%	20.8%	20.5%	18.2%	18.3%	18.9%
SG&A Exp.	869	938	1,026	1,750	1,457	1,731	1,709	1,623	1,759	1,933
Operating Profit	892	910	993	797	1,031	1,335	1,640	1,173	1,314	1,738
Op. Margin	9.3%	9.2%	8.9%	5.6%	6.9%	8.2%	9.0%	6.7%	7.0%	8.2%
Net Profit	727	480	507	(396)	708	1,906	863	(691)	838	945
Net Margin	7.6%	4.8%	4.6%	-2.8%	4.8%	11.7%	4.7%	-3.9%	4.5%	4.5%
Free Cash Flow	592	618	618	892	685	931	941	1,093	1,464	1,158
Income Tax	(22)	287	233	90	159	(875)	277	164	243	270

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	10,733	11,040	25,372	23,038	25,089	25,361	30,157	28,780	29,254	28,406
Cash & Equivalents	36	33	208	341	298	637	152	251	291	260
Accounts Receivable	1,135	1,119	1,575	1,592	1,887	2,011	2,193	2,143	2,587	2,684
Inventories	938	1,029	1,761	1,638	1,797	1,830	2,108	2,023	2,173	2,317
Goodwill & Int. Ass.	2,562	2,618	7,442	7,377	8,858	8,700	11,345	9,629	9,278	8,816
Total Liabilities	6,421	6,732	13,589	13,208	14,703	13,878	18,473	18,132	17,564	16,980
Accounts Payable	802	813	1,231	1,054	1,492	1,717	1,832	1,674	2,124	2,252
Long-Term Debt	2,845	2,985	5,622	5,789	6,555	6,415	10,063	9,431	8,194	7,787
Shareholder’s Equity	4,312	4,307	11,652	9,729	10,343	11,469	11,670	10,631	11,670	11,402
D/E Ratio	0.66	0.69	0.48	0.60	0.63	0.56	0.86	0.89	0.70	0.68

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	6.8%	4.4%	2.8%	-1.6%	2.9%	7.6%	3.1%	-2.3%	2.9%	3.3%
Return on Equity	18.8%	11.1%	6.4%	-3.7%	7.1%	17.5%	7.5%	-6.2%	7.5%	8.2%
ROIC	10.4%	6.6%	4.1%	-2.4%	4.4%	10.9%	4.4%	-3.3%	4.2%	4.8%
Shares Out.	---	---	257.0	251.0	254.5	259.2	259.0	260.0	268.9	261.5
Revenue/Share	65.33	67.77	64.19	54.95	58.11	62.68	70.59	67.82	70.08	81.29
FCF/Share	4.05	4.23	3.57	3.46	2.68	3.58	3.63	4.22	5.47	4.43

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