Greif, Inc. (GEF)

Updated December 8th, 2022, by Aristofanis Papadatos

Key Metrics

Current Price:	$67	**5 Year CAGR Estimate:**	9.0%	**Market Cap:**	$3.2 B
Fair Value Price:	$97	**5 Year Growth Estimate:**	-1.0%	**Ex-Dividend Date:**	12/15/22
% Fair Value:	69%	**5 Year Valuation Multiple Estimate:**	7.7%	**Dividend Payment Date:**	1/1/23
Dividend Yield:	3.0%	**5 Year Price Target**	$92	**Years Of Dividend Growth:**	2
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Rating:**	Hold

Overview & Current Events

Greif began in 1877 as "Vanderwyst and Greif," a cooperage shop founded by one of four Greif brothers. One year later, the other three brothers joined the business, renaming it "Greif Bros. Company," making wooden barrels, casks and kegs to transport post-Civil Wars goods. The company later purchased nearly 300,000 acres of timberland to provide raw materials for its cooperage plants and still owns significant timber properties. Today the Delaware, Ohio-based company, simply known as Greif, is a global leader in industrial packaging products and services. Shares of Greif trade under two classes – non-voting A shares and B shares trading under the GEF.B symbol. This report focuses on the A shares and diluted A share equivalent. The $3.2 billion market cap company serves customers in 40 countries.

In early December, Greif reported (12/7/22) financial results for the fourth quarter of fiscal 2022. Sales decreased -5% over the prior year's quarter and earnings-per-share dipped -5%, from $1.93 to $1.83, as the strong price hikes were not sufficient to offset a material decline in volumes and the impact of a strong dollar. Greif missed the analysts' consensus by $0.11. It was the first earnings miss of the company after 15 consecutive quarters.

Greif reduced its leverage ratio (Net Debt to EBITDA) sequentially from 2.0 to 1.7 and provided guidance for adjusted EBITDA of $820-$906 million in 2023. At the mid-point, this guidance implies 3.5% growth of EBITDA. Nevertheless, due to the impact of inflation on the sales volumes and the margins of Greif, we expect an approximate 8.5% decrease in earnings-per-share in the new fiscal year.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$2.76	$2.36	$2.18	$2.44	$2.95	$3.53	$3.96	$3.22	$5.60	$7.87	***$7.20***	***$6.85***
DPS	$1.68	$1.68	$1.68	$1.68	$1.68	$1.70	$1.76	$1.76	$1.78	$1.88	***$2.00***	***$2.20***
Shares[1]	48	48	48	48	48	48	48	48	49	48	***48***	***50***

Greif put together an average growth record in the past. In the 2005 through 2019 period, the company was able to grow earnings-per-share by 5.5% annually. 2020 proved to be a down year due to the pandemic but results for fiscal 2021 and 2022 bounced back dramatically. The company has a history of profitable, but cyclical results over the years.

In general, Greif has growth opportunities in the way of continued global expansion – especially as more items move about the global marketplace. We believe this is a long-term growth thesis that will continue aiding the company's core business. With that said, we are concerned over the somewhat volatile performance record of Greif and the cyclical nature of its business. Given also the high comparison base formed by the nearly all-time high earnings expected in 2023, we expect a -1.0% average annual decrease of earnings-per-share beyond this year.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	18.1	21.7	17.7	14.6	18.9	15.8	9.8	11.7	11.1	8.0	***9.3***	***13.5***
Avg. Yld.	3.4%	3.3%	4.3%	4.7%	3.0%	3.1%	4.6%	4.7%	3.1%	3.0%	***3.0%***	***2.4%***

[1] In millions.

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The stock of Greif has traded at an average price-to-earnings ratio of 14.7 over the last decade and 13.5 over the last eight years. We view the latter as a fair valuation level, given the cyclical nature of this business. The stock is currently trading at a price-to-earnings ratio of 9.3, which is a nearly 10-year low level. The cheap valuation has resulted mostly from the record earnings this year. If the stock trades at its fair valuation level in five years, it will enjoy a 7.7% annualized gain in its returns thanks to the expansion of its valuation level.

The dividend is also noteworthy. After being held at $0.42 per quarter for seven years, it was finally raised to $0.44 at the end of 2018. After being held at $0.44 for three years, the payout is now $0.50 and yields 3.0%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	61%	71%	77%	69%	57%	48%	44%	55%	32%	24%	***28%***	***32%***

Greif provides comprehensive packaging solutions, with an emphasis on the industrial economy. The company operates in 40 countries, making the business difficult to replicate and offering a competitive advantage. With that said, Greif is subject to the whims of the global market and the industrial market in particular, which tends to be cyclical. Moreover, while long-term demand will continue to grow, we do not believe the firm has material pricing power in the long run.

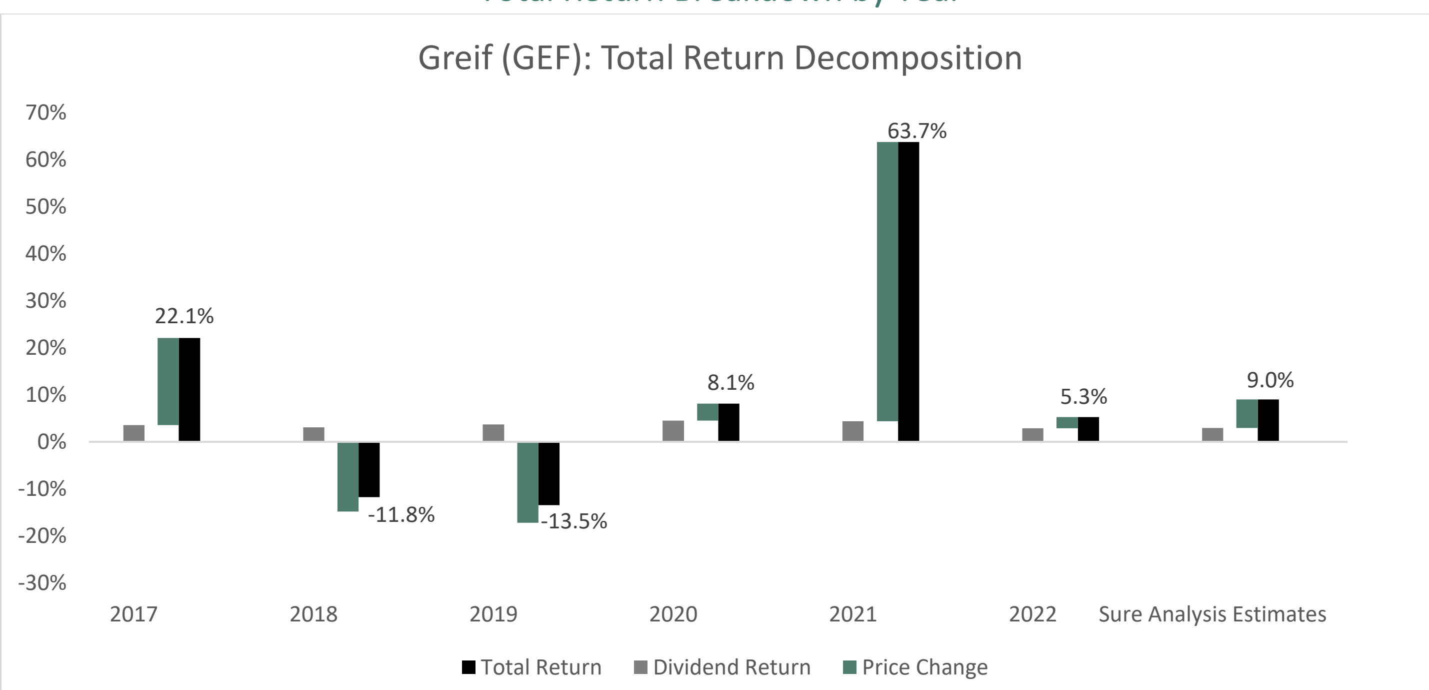
During the Great Recession, Greif posted earnings-per-share of $4.18, $3.32 and $4.35 during the 2008 through 2010 stretch. Furthermore, the dividend remained on the rise during this time as well.

Given the healthy payout ratio of 28% and the steep reduction of debt in the last seven quarters, which resulted from the excessive free cash flows of Greif, we view the 3.0% dividend of the stock as safe for the foreseeable future.

Final Thoughts & Recommendation

Greif has exhibited decent but cyclical business performance over the last decade. It enjoys strong business momentum right now but inflation has begun to take its toll on the sales and margins of the company. Greif could offer a 5-year average annual return of 9.0% thanks to a 3.0% dividend yield and a 7.7% valuation tailwind, partly offset by a -1.0% average annual decline of earnings-per-share. The stock receives a hold 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	4130	4220	4239	3617	3324	3638	3874	4595	4515	5,556
Gross Profit	780	832	811	670	685	715	789	960	915	1,093
Gross Margin	18.9%	19.7%	19.1%	18.5%	20.6%	19.6%	20.4%	20.9%	20.3%	19.7%
SG&A Exp.	470	477	497	413	377	408	399	507	516	566
Operating Profit	310	355	314	257	308	307	390	453	398	527
Operating Margin	7.5%	8.4%	7.4%	7.1%	9.3%	8.4%	10.1%	9.9%	8.8%	9.5%
Net Profit	118	145	92	72	75	119	209	171	109	391
Net Margin	2.9%	3.4%	2.2%	2.0%	2.3%	3.3%	5.4%	3.7%	2.4%	7.0%
Free Cash Flow	304	105	67	32	189	199	104	227	318	249
Income Tax	61	99	115	48	67	67	73	71	63	70

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	3853	3887	3667	3316	3153	3232	3195	5427	5511	5,816
Cash & Equivalents	92	78	85	106	104	142	94	77	106	125
Accounts Receivable	454	482	501	404	399	447	457	664	637	890
Inventories	374	374	381	297	277	280	290	358	294	499
Goodwill & Int. Ass.	1175	1184	1047	940	897	883	857	2294	2234	2,164
Total Liabilities	2543	2507	2444	2256	2195	2185	2041	4236	4310	4,216
Accounts Payable	466	431	471	355	372	399	404	435	451	705
Long-Term Debt	1276	1281	1153	1188	1026	967	910	2752	2487	2,226
Shareholder's Equity	1191	1265	1142	1016	947	1011	1108	1133	1155	1,514
D/E Ratio	1.07	1.01	1.01	1.17	1.08	0.96	0.82	2.43	2.16	1.47

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	2.9%	3.7%	2.4%	2.1%	2.3%	3.7%	6.5%	4.0%	2.0%	6.9%
Return on Equity	9.8%	11.8%	7.6%	6.7%	7.6%	12.1%	19.8%	15.3%	9.5%	29.3%
ROIC	4.3%	5.5%	3.6%	3.1%	3.5%	5.9%	10.3%	5.7%	2.9%	10.4%
Shares Out.	48	48	48	48	48	48	48	48	48	49
Revenue/Share	70.69	72.01	72.18	61.45	56.48	61.84	65.68	77.62	93.29	93.11
FCF/Share	5.20	1.79	1.14	0.55	3.22	3.38	1.76	3.84	6.57	4.17

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