



Sonoco Products Company (SON)

Updated August 1st, 2023 by Nathan Parsh

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|----------------------------------|---------------|
| Current Price: | \$60 | 5 Year CAGR Estimate: | 14.7% | Market Cap: | \$5.8 billion |
| Fair Value Price: | \$84 | 5 Year Growth Estimate: | 5.0% | Ex-Dividend Date: | 08/09/23 |
| % Fair Value: | 71% | 5 Year Valuation Multiple Estimate: | 7.0% | Dividend Payment Date: | 09/08/23 |
| Dividend Yield: | 3.4% | 5 Year Price Target | \$107 | Years Of Dividend Growth: | 41 |
| 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 more than \$7 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 April 19th, 2023, Sonoco Products raised its quarterly dividend 4.1% to \$0.51, extending the company's dividend growth streak to 41 consecutive years.

On July 31st, 2023, Sonoco Products announced second quarter results for the period ending July 2nd, 2023. For the quarter, revenue declined 11% to \$1.7 billion, but this was \$240 million above estimates. Adjusted earnings-per-share of \$1.38 compared unfavorably to \$1.76 in the prior year and was \$0.08 below estimates.

For the quarter, Consumer Packaging revenues were down 7% to \$924 million as destocking amongst customers weighed on volumes. Strength in flexible packaging and rigid paper container businesses were offset by weaker results in the metal packaging and rigid plastic product lines. Industrial Paper Packing sales decreased 20% to \$585 million as volumes in industrial end-markets remained low. The company noted that a near-term improvement is unlikely.

Sonoco Products provided an updated outlook for 2023 as well, with the company now expecting adjusted earnings-per-share of \$5.10 to \$5.40 for the year, down from \$5.70 to \$6.00 and \$5.70 to \$5.90 previously. At the midpoint, this would be 9.7% decline from 2022. We have updated our forecast accordingly.

Growth on a Per-Share Basis

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| EPS | \$2.30 | \$2.54 | \$2.51 | \$2.72 | \$2.78 | \$3.37 | \$3.53 | \$3.41 | \$3.93 | \$6.48 | \$5.25 | \$6.70 |
| DPS | \$1.23 | \$1.27 | \$1.37 | \$1.46 | \$1.54 | \$1.62 | \$1.70 | \$1.72 | \$1.80 | \$1.92 | \$2.04 | \$2.60 |
| Shares¹ | 102 | 101 | 101 | 99 | 99 | 101 | 101 | 101 | 99 | 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 12.2% since 2013. We maintain our expected growth rate of 5% due to the high base from which earnings are starting.

Sonoco Products has a long history of dividend growth. Given the very reasonable payout ratio, we project that dividend growth can continue for years to come. We see the payout reaching \$2.60 by 2028.

Valuation Analysis

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Now | 2028 |
|------------------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| Avg. P/E | 15.9 | 16.4 | 17.2 | 17.8 | 18.5 | 15.8 | 17.0 | 15.6 | 16.3 | 9.4 | 11.4 | 16.0 |
| Avg. Yld. | 3.4% | 3.1% | 3.2% | 3.0% | 3.0% | 3.0% | 2.8% | 3.2% | 3.1% | 3.2% | 3.4% | 2.4% |

¹ In millions of shares

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Shares of Sonoco Products are unchanged since our May 2nd, 2023 update. Based off company's revised guidance for the year, shares trade with a price-to-earnings multiple of 11.4. We reaffirm our 2028 target P/E of 16 to reflect the quality of business results over the past few years. This target P/E also reflects the average P/E since 2013. Reaching this target would add 7.0% annual returns over the next five years. Shares of Sonoco Products currently yield 3.4%, which is above the stock's 10-year average yield of 3.1% and well-above the average yield of the S&P 500.

Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 54% | 50% | 55% | 54% | 55% | 48% | 49% | 50% | 46% | 30% | 39% | 39% |

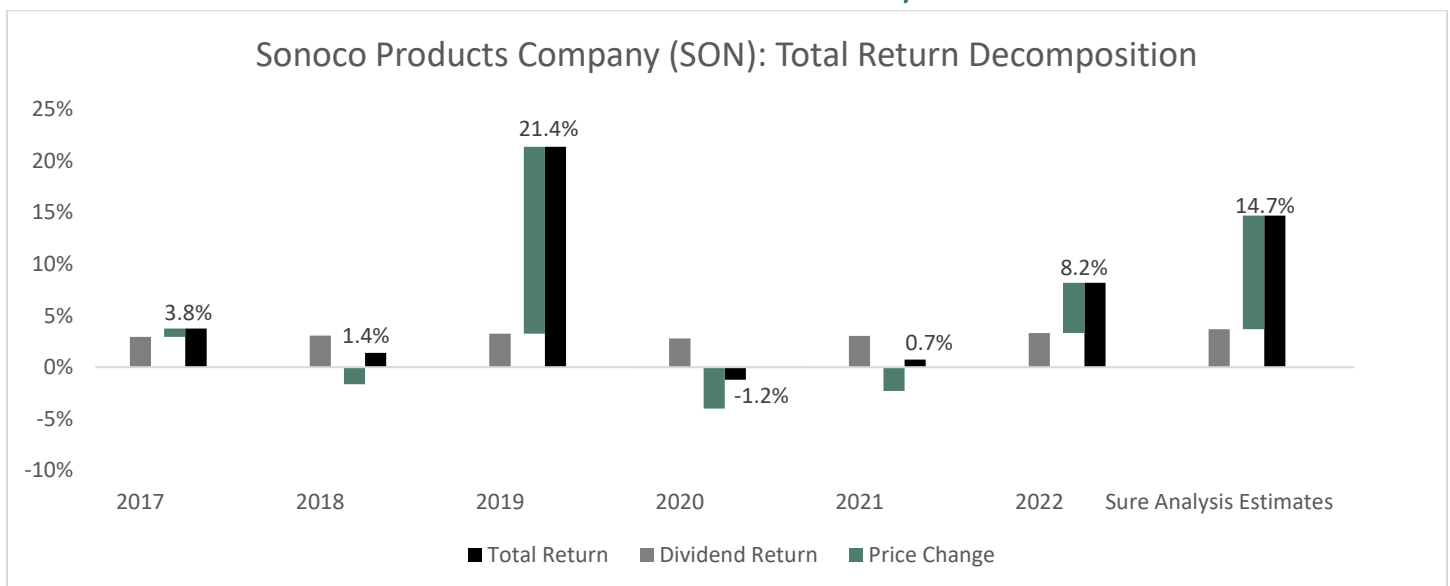
Sonoco Products showed in the last recession that it is somewhat susceptible to deteriorating market conditions. Sonoco Products has a very reasonable dividend payout ratio of just over 31% based off our expectations for 2022. Over the past decade the company has averaged a 52% dividend payout ratio, but it is projected to be much lower than that this year. 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 14.7% through 2028, down from our previous estimate of 17.0%. Our projected return stems from a 5% earnings growth rate, a 3.4% starting yield, and a high single-digit tailwind from valuation expansion. Sonoco Products had a very strong 2022, largely due to an acquisition. Comparable periods will be difficult this year as a result. The company also saw weakness in some areas of its business. Still, there is much to like about the company and the stock, including the valuation. We have lowered our five-year price target \$12 to \$107 due to revised earnings estimates. We continue to view shares of Sonoco Products as a buy due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue | 4,862 | 5,017 | 4,964 | 4,783 | 5,037 | 5,391 | 5,374 | 5,237 | 5,590 | 7,251 |
| Gross Profit | 862 | 908 | 929 | 946 | 959 | 1,041 | 1,058 | 1,046 | 1,062 | 1,440 |
| Gross Margin | 17.7% | 18.1% | 18.7% | 19.8% | 19.0% | 19.3% | 19.7% | 20.0% | 19.0% | 19.9% |
| SG&A Exp. | 487 | 507 | 496 | 515 | 553 | 564 | 556 | 559 | 558 | 707 |
| Operating Profit | 374 | 401 | 433 | 431 | 406 | 477 | 502 | 488 | 504 | 732 |
| Operating Margin | 7.7% | 8.0% | 8.7% | 9.0% | 8.1% | 8.8% | 9.3% | 9.3% | 9.0% | 10.1% |
| Net Profit | 210 | 226 | 250 | 286 | 175 | 314 | 292 | 207 | (85) | 466 |
| Net Margin | 4.3% | 4.5% | 5.0% | 6.0% | 3.5% | 5.8% | 5.4% | 4.0% | -1.5% | 6.4% |
| Free Cash Flow | 366 | 241 | 261 | 212 | 159 | 397 | 230 | 522 | 43 | 190 |
| Income Tax | 94 | 109 | 88 | 165 | 147 | 75 | 93 | 53 | (67) | 119 |

Balance Sheet Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Total Assets | 3,975 | 4,194 | 4,014 | 3,923 | 4,558 | 4,583 | 5,126 | 5,277 | 5,073 | 7,090 |
| Cash & Equivalents | 218 | 161 | 182 | 257 | 255 | 120 | 145 | 565 | 171 | 227 |
| Accounts Receivable | 614 | 654 | 628 | 625 | 725 | 737 | 698 | 659 | 756 | 863 |
| Inventories | 410 | 420 | 385 | 373 | 474 | 494 | 504 | 451 | 562 | 1,102 |
| Goodwill & Int. Ass. | 1,343 | 1,459 | 1,386 | 1,317 | 1,573 | 1,661 | 1,818 | 1,711 | 1,603 | 2,417 |
| Total Liabilities | 2,268 | 2,690 | 2,481 | 2,368 | 2,828 | 2,811 | 3,311 | 3,367 | 3,224 | 5,017 |
| Accounts Payable | 497 | 517 | 508 | 478 | 548 | 556 | 538 | 1,048 | 721 | 1,255 |
| Long-Term Debt | 981 | 1,253 | 1,128 | 1,053 | 1,447 | 1,385 | 1,681 | 1,700 | 1,611 | 3,222 |
| Shareholder's Equity | 1,691 | 1,488 | 1,513 | 1,532 | 1,707 | 1,759 | 1,803 | 1,911 | 1,837 | 2,073 |
| LTD/E Ratio | 0.58 | 0.84 | 0.75 | 0.69 | 0.85 | 0.79 | 0.93 | 0.89 | 0.88 | 1.55 |

Profitability & Per Share Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 5.1% | 5.5% | 6.1% | 7.2% | 4.1% | 6.9% | 6.0% | 4.0% | -1.7% | 7.7% |
| Return on Equity | 13.2% | 14.2% | 16.7% | 18.8% | 10.8% | 18.1% | 16.4% | 11.2% | -4.6% | 23.9% |
| ROIC | 7.5% | 8.3% | 9.2% | 10.9% | 6.1% | 9.9% | 8.8% | 5.8% | -2.4% | 10.7% |
| Shares Out. | 102 | 101 | 101 | 99 | 99 | 101 | 101 | 99 | 99 | 99 |
| Revenue/Share | 47.09 | 48.63 | 48.48 | 46.99 | 49.94 | 53.37 | 53.12 | 51.75 | 56.12 | 73.44 |
| FCF/Share | 3.54 | 2.33 | 2.55 | 2.08 | 1.58 | 3.93 | 2.27 | 5.16 | 0.43 | 1.92 |

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

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