



Silgan Holdings (SLGN)

Updated October 25th, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	\$40	5 Year CAGR Estimate:	8.1%	Market Cap:	\$4.33 B
Fair Value Price:	\$40	5 Year Growth Estimate:	6.0%	Ex-Dividend Date¹:	11/30/2022
% Fair Value:	100%	5 Year Valuation Multiple Estimate:	0.2%	Dividend Payment Date:	12/15/2022
Dividend Yield:	1.8%	5 Year Price Target	\$54	Years Of Dividend Growth:	19
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Hold

Overview & Current Events

Silgan Holdings manufactures and sells metal and plastic containers, as well as packaging closures. Its containers are found in everyday food consumables such as pet food, fruits and vegetables, and drinks, while its closures are applied to the beverage, garden, and personal care products. The company generates nearly \$5.5 billion in revenues and is based in Stamford, Connecticut.

On October 25th, 2023, Silgan reported its Q3 results for the period ending September 30th, 2023. Quarterly revenues fell 9% year-over-year to \$1.80 billion. Specifically, the metal containers segment's sales fell 10% to \$1.1 billion due to 10% lower sales volumes and the impact of Russia. The dispensing & specialty closures segment also posted soft results, with its sales falling by 3% year-over-year to \$559.1 million. This decline was primarily the result of a lower unit volume/mix of approximately 3%. Finally, custom containers posted an 18% revenue decline to \$149.4 million, driven by a 10% decline in sales volumes and a lower price/mix of 8%. The reason was due to customer destocking programs.

Adjusted EPS came in at \$1.16, which was below Q3-2023's \$1.28. For FY2023, Silgan revised its outlook lower, expecting adjusted EPS to land between \$3.30 and \$3.40 (down from \$3.40 and \$3.60 previously). We have utilized the midpoint of the updated range in our estimates.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$1.44	\$1.44	\$1.41	\$1.28	\$2.44	\$2.03	\$1.75	\$2.79	\$3.25	\$3.09	\$3.35	\$4.48
DPS	\$0.28	\$0.30	\$0.32	\$0.34	\$0.36	\$0.40	\$0.44	\$0.48	\$0.56	\$0.64	\$0.72	\$1.16
Shares²	128.5	126.9	122.0	119.7	110.4	110.6	110.9	110.7	110.4	110.5	108.4	100.0

Over the past decade, Silgan has averaged an EPS and DPS CAGR of 8.9% and 9.6%, respectively. Despite the work-from-home economy gradually fading, demand for packaged and canned foods, as well as sanitization products, should remain relatively stable over the long term. Nevertheless, we retain our EPS CAGR estimate at 6% to price in the scenario of softer demand for containers during a potential economic slowdown. A possible decline in volumes caused by an oversupply of Silgan's products could also slow down growth, as already somewhat evident in the company's Q2 results. Nevertheless, we retain our DPS CAGR forecast at 10% to reflect management's latest bold payout hike and low payout ratio that should afford meaningful payout increases. Silgan has grown its DPS annually for 19 consecutive years.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	16.8	17.1	19.9	20.1	22.6	11.1	17.6	12.5	13.5	13.6	11.9	12.0
Avg. Yld.	1.2%	1.2%	1.3%	1.3%	1.1%	1.6%	1.5%	1.5%	1.3%	1.5%	1.8%	2.2%

¹ Estimated dates based on SLGN's past dividend dates

² Share count is in millions.

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Silgan's valuation has remained relatively reasonable over the years, rarely outrunning its underlying financial growth. With shares declining notably following management's revised guidance, shares appear reasonably priced close to 12 times their FY2023 expected adjusted EPS. The stock's yield has always remained relatively low, at around 1% to 2%. Despite the rapid dividend increases, aggregate dividends paid out (as well as buybacks) have remained quite humble as the company reinvests most of its proceeds back into the business.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	19%	21%	23%	27%	15%	20%	25%	17%	17%	21%	21%	26%

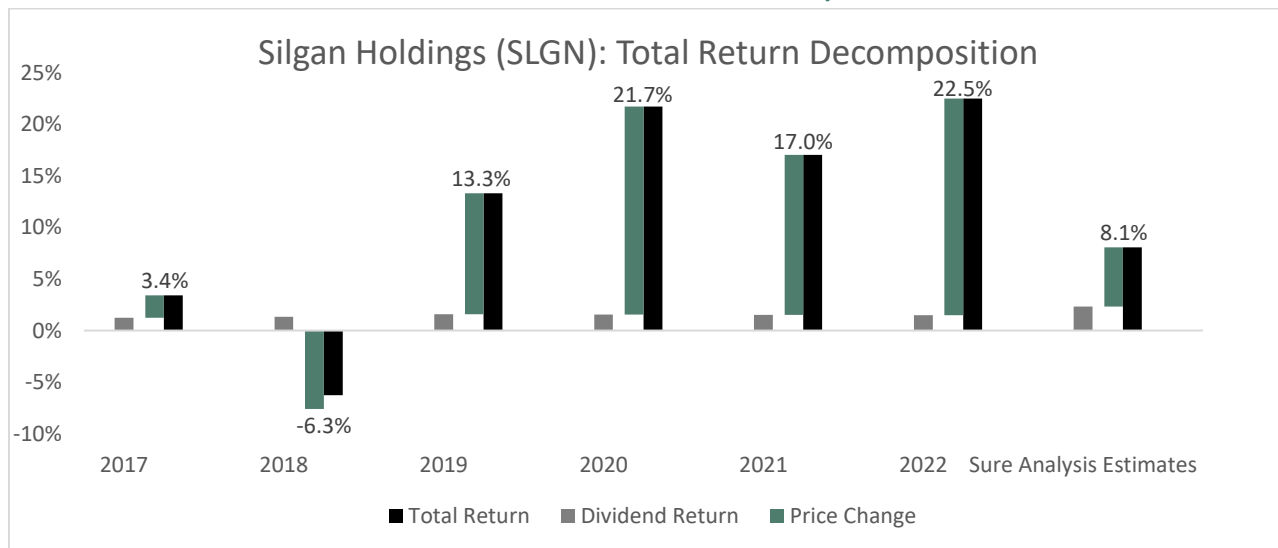
Investors can rely on Silgan's dividends since the company's payout ratio has historically remained quite low. It currently stands at 21%. Since the company's IPO in 1996, Silgan has never reported a money-losing quarter. Its products are vital for various consumer staples. Hence, its operations are quite stable, displayed in its 19-year dividend growth record. At the same time, however, Silgan operates in a massively competitive space, with quite thin margins. The company's competitors include firms that are multiple times larger than Silgan, such as the Ball Corp. (BLL), the Packaging Corporation of America (PKG), keeping Silgan's net profit margins in the mid-single-digits.

Overall, we believe that the company has showcased decades of robust cash flow generation, with little volatility to its financials. Its operations should remain relatively stable even under adverse economic conditions. Silgan's financial resiliency is evident by the 2026 senior secured notes issue in the midst of the pandemic, in which the company managed to secure \$500 million at an ultra-low rate of 1.4%.

Final Thoughts & Recommendation

Silgan has a long history of stable returns, with the stock lacking any wild fluctuations in its share price throughout the decades. Combining our relatively modest growth expectations, the dividend yield, and assumptions over a somewhat stable valuation ahead, we forecast annualized returns of around 8.1% in the medium-term. Hence, we rate shares a hold. Regardless, we remind investors that they must be aware of the company's razor-thin net income margins, which could easily be compressed following incompetence in passing inflationary costs through. Failure to do so could impact future returns. The pass-through of costs to Silgan's product pricing has been managed well thus far, nonetheless.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	3709	3912	3764	3613	4090	4449	4490	4922	5677	6411
Gross Profit	547	600	554	512	635	690	714	867	918	1048
Gross Margin	14.8%	15.3%	14.7%	14.2%	15.5%	15.5%	15.9%	17.6%	16.2%	16.3%
SG&A Exp.	211	224	220	220	305	308	316	378	378	417
D&A Exp.	168	148	142	143	174	192	206	224	250	263
Operating Profit	336	375	334	319	363	418	416	582	540	631
Op. Margin	9.1%	9.6%	8.9%	8.8%	8.9%	9.4%	9.3%	10.7%	9.5%	9.8%
Net Profit	185	182	172	153	270	224	194	309	359	341
Net Margin	5.0%	4.7%	4.6%	4.2%	6.6%	5.0%	4.3%	6.3%	6.3%	5.3%
Free Cash Flow	248	208	98	203	215	316	276	378	325	533
Income Tax	69	102	80	79	-30	69	58	98	107	133

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	3321	3274	3193	3149	4645	4579	4931	6520	7771	7346
Cash & Equivalents	160	223	100	25	54	73	204	410	631	585
Accounts Receivable	333	311	281	288	455	511	505	620	711	658
Inventories	516	549	628	603	721	635	633	678	799	769
Goodwill & Int. Ass.	880	842	808	785	1589	1532	1497	---	2869	2749
Total Liabilities	2607	2564	2553	2680	3879	3698	3908	5267	6208	5628
Accounts Payable	352	424	477	505	660	713	727	---	1133	974
Long-Term Debt	1704	1584	1514	1562	2547	2305	2244	3251	3793	3425
Total Equity	714	710	639	469	766	881	1023	1253	1563	1718
LTD/E Ratio	2.4	2.2	2.4	3.3	3.3	2.6	2.2	2.6	2.4	2.0

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	5.6%	5.5%	5.3%	4.8%	6.9%	4.9%	4.1%	5.4%	5.0%	4.5%
Return on Equity	25.3%	25.6%	25.6%	27.7%	43.7%	27.2%	20.4%	27.1%	25.5%	20.8%
ROIC	7.7%	7.7%	7.8%	7.3%	10.1%	6.9%	6.0%	7.9%	7.3%	6.5%
Shares Out.	129.3	127.5	122.6	120.5	111.4	111.6	111.5	111.4	111.2	111.0
Revenue/Share	28.68	30.68	30.70	29.98	36.73	39.85	40.27	44.18	51.07	57.75
FCF/Share	1.91	1.63	0.80	1.68	1.93	2.83	2.48	3.40	2.92	4.80

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

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