



Sonoco Products Company (SON)

Updated November 2nd, 2023 by Nathan Parsh

Key Metrics

Current Price:	\$55	5 Year CAGR Estimate:	17.0%	Market Cap:	\$5.4 billion
Fair Value Price:	\$85	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	11/08/23
% Fair Value:	64%	5 Year Valuation Multiple Estimate:	9.2%	Dividend Payment Date:	12/08/23
Dividend Yield:	3.7%	5 Year Price Target	\$109	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 October 31st, 2023, Sonoco Products reported third quarter results for the period ending October 1st, 2023. For the quarter, revenue decreased 9.5% to \$1.7 billion, which was \$30 million below estimates. Adjusted earnings-per-share of \$1.46 compared unfavorably to \$1.60 in the prior year, but this was \$0.18 more than expected.

For the quarter, Consumer Packaging revenues were down by 9% to \$938 million due to lower volumes and prices. Flexible packaging, rigid paper, and metal packaging business performed well. Industrial Paper Packing sales fell 12% to \$580 million due to weaker global demand for paper and converted paper products. All Other decreased 3% to \$192 million as weaker volume and mix were only partially offset by pricing action.

Sonoco Products provided an updated outlook for 2023 as well, with the company now expecting adjusted earnings-per-share of \$5.25 to \$5.40 for the year, compared to \$5.10 to \$5.40, \$5.70 to \$6.00, and \$5.70 to \$5.90 previously. At the midpoint, this would be an 18% 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	\$5.33	\$6.80
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	10.3	16.0
Avg. Yld.	3.4%	3.1%	3.2%	3.0%	3.0%	3.0%	2.8%	3.2%	3.1%	3.2%	3.7%	2.4%

¹ In millions of shares

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Shares of Sonoco Products are down \$5, or 8.3%, since our August 1st, 2023 update. Based off company's revised guidance for the year, shares trade with a price-to-earnings multiple of 10.3. 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 9.2% annual returns over the next five years. Shares of Sonoco Products currently yield 3.7%, 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%	38%	38%

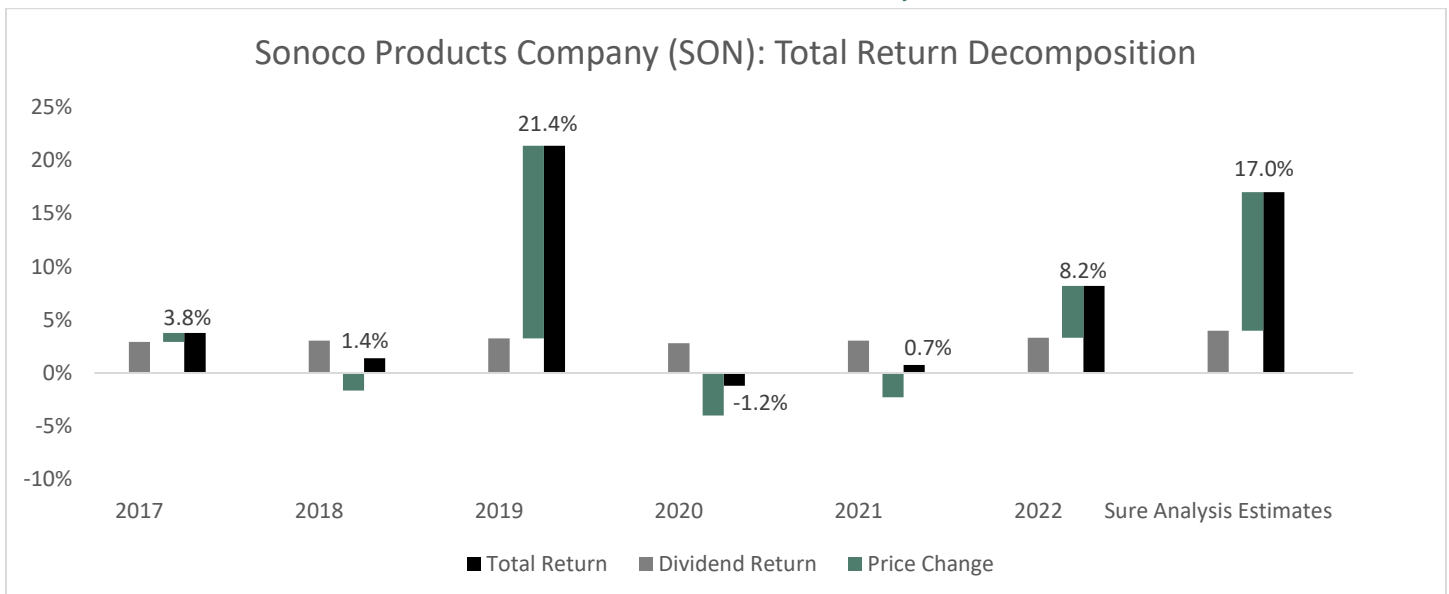
Sonoco Products showed in the last recession that it is somewhat susceptible to deteriorating market conditions. Over the past decade the company has averaged a 52% dividend payout ratio, but it is projected to be lower than that this year. Sonoco Products has a very reasonable dividend payout ratio of just over 38% based off our expectations for 2023. 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

Following third quarter earnings results, Sonoco Products Company is now expected to offer a total annual return of 17.0% through 2028, up from our previous estimate of 14.7%. Our projected return stems from a 5% earnings growth rate, a 3.7% 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 continues to experience weakness in several areas of its business. Still, there is much to like about the company and the stock, including the valuation and dividend growth history. We have raised our five-year price target \$2 to \$109 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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