Packaging Corporation of America (PKG)

Updated January 25th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	$174	**5 Year CAGR Estimate:**	3.4%	**Market Cap:**	$15 B
Fair Value Price:	$138	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date[1]:**	03/14/24
% Fair Value:	126%	**5 Year Valuation Multiple Estimate:**	-4.5%	**Dividend Payment Date[2]:**	04/15/24
Dividend Yield:	2.9%	**5 Year Price Target**	$176	**Years Of Dividend Growth:**	12
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Packaging Corporation of America (PKG) is a manufacturer of packaging products, including containerboard and corrugated packaging products used to protect goods during the shipping process. The company also makes products for the agricultural products industry and multi-color boxes and displays. PKG manufactures nearly 5.0 million tons of containerboard annually. Most of the containerboard is converted into corrugated boxes, and it ships more than 60 billion square feet of corrugated products annually.

The company operates in three segments: packaging, paper, and corporate / other. The packaging segment accounts for the vast majority (91%) of sales. The paper segment accounts for 8% of sales and includes office paper, printing paper, and converting paper, with paper mills in Jackson, AL and International Falls, MN. The remainder of sales is generated by Corporate and Other.

Packaging Corporation of America operates nearly 100 manufacturing plants throughout the U.S. The company was founded in 1867 in Quincy, Illinois and has a current market capitalization of $15 billion.

On January 24th, 2024, Packaging Corporation of America reported fourth quarter 2023 results for the period ending December 31st, 2023. For the quarter, adjusted diluted earnings-per-share equaled $2.13, down from $2.35 in the prior year quarter. The decrease was due to lower prices and mix in the Packaging and Paper segments, as well as lower volume in Paper. The company surpassed consensus estimates by thirty cents, which led to shares of PKG rallying 4% on the day following the report.

Sales for the quarter were $1.94 billion, down from $1.98 billion in the prior year. PKG generated $393.5 million in EBITDA, with the Packaging segment contributing $384.7 million, the Paper segment contributing $35.2 million and the Corporate and Other segment with ($26.4) million.

We begin the year with an earnings-per-share estimate of $8.64 for 2024.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$3.99	$4.47	$4.75	$5.78	$7.79	$7.34	$5.78	$9.39	$11.14	$8.70	***$8.64***	***$11.03***
DPS	$1.60	$2.20	$2.36	$2.52	$3.00	$3.16	$3.37	$4.00	$4.75	$5.00	***$5.00***	***$6.38***
Shares[3]	98.37	96.13	94.21	94.35	94.50	94.66	94.83	93.53	90.90	89.30	***89.00***	***86.00***

Earnings-per-share have grown consistently over the last ten years at an average annual rate of 9.0%. In the last five years, Packaging Corporation of America increased earnings-per-share by an average growth rate of just 2.5%. PKG can be reasonably expected to increase its earnings-per-share by 5.0% annually in the intermediate term. This still does leave upside potential if we continue to see robust demand and the ability to increase prices in the future, as was seen in 2022. The company has also been actively repurchasing shares, reducing the outstanding count by nearly 1% per year since 2013, which will help boost the bottom line on a per-share basis.

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[1] Estimate based on last year's date

[2] Estimate based on last year's date

[3] In millions.

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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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	17.3	15.7	14.7	18.1	14.2	13.8	18.2	16.5	13.6	14.1	***20.1***	***16.0***
Avg. Yld.	2.30%	3.10%	3.40%	2.40%	2.70%	3.10%	3.20%	3.20%	2.90%	3.50%	***2.9%***	***3.6%***

PKG has traded at an average P/E ratio near 16 over the past 10 years, which captures performance through periods of stagnation and growth. We are using 16.0 times earnings as a fair value baseline. With shares presently trading at 20.1 times expected earnings, this implies the potential for a valuation headwind.

PKG has a long history of paying a quarterly dividend dating back to 2003, and the dividend has grown gradually since 2009, albeit with some periods where the payment has been flat for more than 4 quarters. PKG most recently increased its quarterly dividend from $1.00 to $1.25 as of May 18th, 2022, an impressive 25% increase.

Safety, Quality, Competitive Advantage, & Recession Resiliency

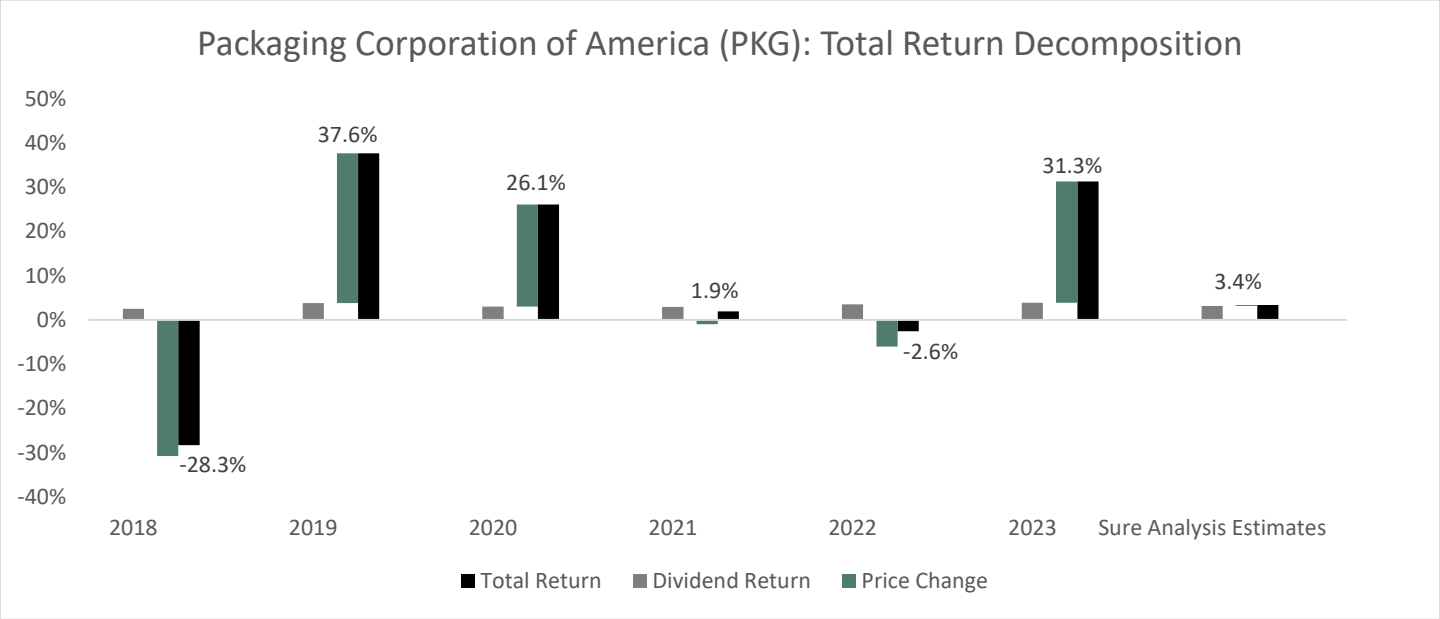
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	40%	49%	50%	44%	39%	43%	58%	43%	43%	57%	***58%***	***58%***

PKG has maintained a fairly safe dividend payout ratio between 40-60%. It operates in the packaging industry which has secular tailwinds supporting it along with significant scale. Risks to the business include operating in a competitive industry with several similarly sized competitors such as International Paper, Westrock, and Sonoco Products. There are modest barriers to entry in the cardboard industry due to the large capital requirements to build manufacturing plants and scale across the country. We expect the dividend to continue to be protected at current levels given the strong growth the company has shown over the past decade and optimistic commentary from the CEO.

Final Thoughts & Recommendation

Packaging Corporation of America has put together a solid earnings and dividend record in the last decade. Total projected returns come in at 3.4% annually, driven by a 2.9% dividend yield, and 5.0% earnings-per-share growth rate, offset by the potential for a valuation headwind. We are reiterating our hold rating on PKG.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	5,853	5,742	5,779	6,445	7,015	6,964	6,658	7,730	8,478	7,802
Gross Profit	1,230	1,208	1,276	1,471	1,645	1,644	1,369	1,873	2,090	1,699
Gross Margin	21.0%	21.0%	22.1%	22.8%	23.5%	23.6%	20.6%	24.2%	24.7%	
SG&A Exp.	470	451	469	520	536	558	540	577	608.6	588.6
Operating Profit	760	760	808	951	1,109	1,086	830	1,296	1,482	1,110
Op. Margin	13.0%	13.2%	14.0%	14.8%	15.8%	15.6%	12.5%	16.8%	17.5%	
Net Profit	393	437	450	669	738	696	461	841	1,029	765
Net Margin	6.7%	7.6%	7.8%	10.4%	10.5%	10.0%	6.9%	10.9%	12.1%	
Free Cash Flow	316	454	533	513	629	808	612	489		
Income Tax	222	228	239	160	233	221	172	268	335	249

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	5,273	5,272	5,777	6,198	6,570	7,236	7,433	7,837	8,004	
Cash & Equivalents	125	184	239	217	362	680	975	619	320	
Acc. Receivable	646	637	689	831	902	846	832	1,071	1,032	
Inventories	665	677	724	763	796	794	788	903	977	
Goodwill & Int.	840	815	1,105	1,293	1,296	1,258	1,159	1,232	1,190	
Total Liabilities	3,751	3,639	4,017	4,015	3,897	4,165	4,187	4,230	4,337	
Accounts Payable	331	294	324	403	382	352	387	452	410	
Long-Term Debt	2,355	2,297	2,646	2,630	2,484	2,477	2,479	2,472	2,474	
Total Equity	1,521	1,633	1,760	2,183	2,672	3,071	3,246	3,607	3,667	
LTD/E Ratio	1.55	1.41	1.50	1.21	0.93	0.81	0.76	0.69	0.67	

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	7.5%	8.3%	8.1%	11.2%	11.6%	10.1%	6.3%	11.0%	13.0%	
Return on Equity	27.3%	27.7%	26.5%	33.9%	30.4%	24.3%	14.6%	24.5%	28.3%	
ROIC	10.1%	11.2%	10.8%	14.5%	14.8%	13.0%	8.2%	14.3%	16.9%	
Shares Out.	98.4	96.1	94.2	94.4	94.5	94.7	94.8	93.5	92.70	89.81
Revenue/Share	60.27	59.38	61.68	68.78	74.70	74.01	70.53	81.80	91.46	86.87
FCF/Share	3.25	4.70	5.68	5.48	6.70	8.59	6.48	5.17	7.24	

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

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