AptarGroup Inc. (ATR)

Updated February 17th, 2024 by Felix Martinez

Key Metrics

Current Price:	$138	**5 Year CAGR Estimate:**	2.6%	**Market Cap:**	$9.0 B
Fair Value Price:	$104	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	01/31/24
% Fair Value:	132%	**5 Year Valuation Multiple Estimate:**	-5.4%	**Dividend Payment Date:**	02/22/24
Dividend Yield:	1.2%	**5 Year Price Target**	$146	**Years Of Dividend Growth:**	30
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Rating:**	Sell

Overview & Current Events

AptarGroup Inc. (ATR) began trading as an independent company in 1993 and is now one of the leading businesses in the global dispensing systems industry. With a market capitalization of approximately $9.0 billion, The company has over 13,000 employees in 20 countries and produced $3.5 billion in revenue in 2023. The company is divided into three business segments: "Beauty + Home," "Food + Beverage," and "Pharma."

The company reported fourth-quarter results for Fiscal Year (FY)2023 on February 8th, 2024. The company reported strong fourth-quarter results, driven by a 5% increase in reported sales, propelled by the company's proprietary drug delivery systems and fragrance dispensing technologies. Core sales, excluding currency and acquisitions, saw a 2% uptick, contributing to a 6% rise in net income to $62 million. Earnings per share increased by approximately 4% to $0.93, while adjusted earnings per share surged by 27% to $1.21.

In the breakdown of the quarter, Aptar Pharma showcased double-digit core sales growth for drug delivery systems, while Aptar Beauty faced a decline in North American core sales but maintained strength in fragrance dispensing solutions in Europe and Latin America. Aptar Closures reported a core sales dip due to lower resin costs but improved margins through increased unit volumes in certain categories.

Looking ahead to 2024, Aptar anticipates growth in demand for drug delivery systems and elastomeric components, with the beauty and closures segments benefiting from a recovering North American market. Cost management remains a focus, aiming to reduce SG&A as a percentage of sales and lower fixed costs. The outlook for Q1 2024 forecasts earnings per share in the range of $1.10 to $1.18, excluding certain expenses, with an effective tax rate between 24.5% and 26.5%. Aptar remains committed to shareholder value, evident through its quarterly cash dividend of $0.41 per share and ongoing share repurchase activities.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$2.85	$3.00	$3.13	$3.40	$4.00	$3.95	$3.64	$3.88	$3.79	$4.78	***$5.21***	***$7.31***
DPS	$1.09	$1.14	$1.22	$1.28	$1.32	$1.42	$1.44	$1.50	$1.52	$1.58	***$1.80***	***$2.19***
Shares[1]	62.0	62.5	62.2	61.9	62.9	66.0	67.0	67.7	66.7	66.9	***66.9***	***66.9***

AptarGroup's growth strategy encompasses both organic expansion and strategic acquisitions, with a noteworthy $528 million investment in acquisitions during 2018, poised to fuel substantial future growth. While the company historically employed cash or debt for share buybacks resulting in a modest annual decrease in shares, recent years have shown an increase in total shares. The Pharma segment, constituting a third of sales but contributing two-thirds of EBITDA, stands out as the company's profit leader and primary growth driver, despite challenges posed by currency fluctuations and tax changes. Anticipated are 7.0% annual earnings and 4.0% dividend growth over the next five years, reflecting a moderate slowdown from historical dividend growth rates of 4.2% over a decade and a 4.9% five-year dividend CAGR.

[1] Share count is 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	22.7	21.6	23.9	24.1	32.1	29.3	37.6	31.6	29.0	25.9	***26.4***	***20.0***
Avg. Yld.	1.7%	1.7%	1.6%	1.6%	1.4%	1.2%	1.1%	1.2%	1.4%	1.3%	***1.2%***	***1.5%***

AptarGroup currently trades for a valuation of over 26.4x earnings, which we consider rich for a company with low growth. The security looks fairly valued compared to its 10-year average of 27.8 times earnings. Additionally, the dividend yield is lower with its ten-year average of 1.4%.

From this point, there is more potential for a valuation reduction rather than valuation expansion over the next five years, in our view. We believe that a valuation of 20x earnings, modestly below its 10-year average, is fair given the company's adequate expected growth potential.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	38%	38%	39%	38%	33%	36%	40%	39%	40%	33%	***35%***	***30%***

AptarGroup has over 5,000 customers, with no customer accounting for more than 6% of sales. Additionally, three-quarters of sales come from outside the United States, with more than half of Europe's sales. The company has various patents and trademarks to protect its designs. However, it faces stiff competition and has historically achieved returns on invested capital marginally higher than its weighted average capital cost. However, the Pharma segment enjoys high switching costs due to regulatory certification and has higher profit margins.

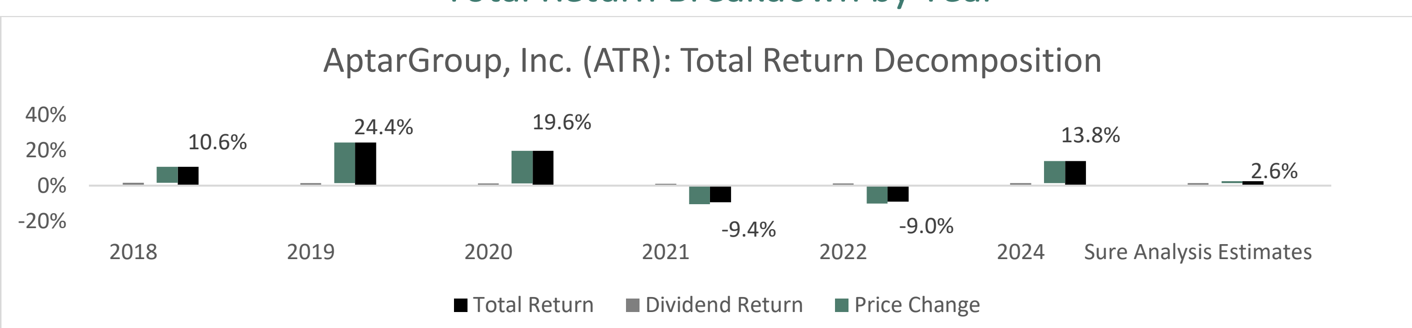
AptarGroup has paid growing dividends for 30 consecutive years and maintains a low payout ratio. The company was only mildly affected by the previous recession, as it remained profitable and quickly recovered to all-time high sales and earnings in 2010. Its products across all three business segments are not very cyclical.

The company has nearly doubled its long-term debt over the past four years, but its interest coverage ratio remains healthy at over 8.6x. Also, the company has a debt-to-equity ratio of 0.6x which is really good. AptarGroup makes substantial use of leverage, although its consistent earnings should allow it to support that leverage safely.

Final Thoughts & Recommendation

In our view, AptarGroup is a durable company with a long history of growing dividends. However, the valuation is higher than its historical average and what we consider fair for this growth level. The company's sizeable foreign exposure is both a source of opportunity and a risk. We rate AptarGroup as a sell now due to its low expected total returns of just 2.6% per year for the next five years.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	2598	2317	2331	2469	2765	2860	2929	3227	3322	3487
Gross Profit	843	814	835	866	952	1041	1087	1157	1164	1263
Gross Margin	32.4%	35.2%	35.8%	35.1%	34.4%	36.4%	37.1%	35.8%	35.0%	36.2%
SG&A Exp.	384	351	366	387	430	455	500	551	544	566
D&A Exp.	152	139	155	153	172	195	220	235	234	249
Operating Profit	306	324	314	326	350	392	366	371	386	449
Operating Margin	11.8%	14.0%	13.5%	13.2%	12.7%	13.7%	12.5%	11.5%	11.6%	12.9%
Net Profit	192	199	206	220	195	242	214	244	239	284
Net Margin	7.4%	8.6%	8.8%	8.9%	7.0%	8.5%	7.3%	7.6%	7.2%	8.1%
Free Cash Flow	154	174	194	168	102	267	318	56	163	257
Income Tax	95	95	75	75	71	100	87	78	95	91

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	2437	2437	2607	3138	3378	3562	3990	4141	4203	4452
Cash & Equivalents	400	490	466	713	262	242	300	123	142	224
Accounts Receivable	407	392	433	510	570	562	573	671	677	678
Inventories	311	295	297	337	381	376	379	441	487	513
Goodwill & Int. Ass.	370	342	502	539	967	1055	1243	1337	1261	1247
Total Liabilities	1333	1287	1433	1826	1955	1990	2139	2157	2135	2131
Accounts Payable	116	115	116	154	165	193	244	285	320	329
Long-Term Debt	841	818	947	1257	1290	1196	1173	1193	1175	1139
Shareholder's Equity	1103	1149	1174	1312	1423	1572	1850	1969	2054	2307
LTD/E Ratio	0.76	0.71	0.81	0.96	0.91	0.76	0.63	0.61	0.57	0.49

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	7.8%	8.2%	8.2%	7.7%	6.0%	7.0%	5.7%	6.0%	5.7%	6.6%
Return on Equity	14.8%	17.7%	17.7%	17.7%	14.2%	16.2%	12.5%	12.8%	11.9%	13.0%
ROIC	9.8%	10.2%	10.1%	9.4%	7.4%	8.8%	7.4%	7.9%	7.4%	8.5%
Shares Out.	62.0	62.5	62.2	61.9	62.9	66.0	67.0	67.7	66.7	66.9
Revenue/Share	38.61	35.93	35.94	38.23	42.56	43.23	43.95	47.68	49.79	52.13
FCF/Share	2.29	2.70	2.99	2.60	1.57	4.04	4.77	0.82	2.44	3.84

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