



# Sonoco Products Company (SON)

Updated February 17<sup>th</sup>, 2024 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$56	<b>5 Year CAGR Estimate:</b>	16.3%	<b>Market Cap:</b>	\$5.5 billion
<b>Fair Value Price:</b>	\$84	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	02/27/24
<b>% Fair Value:</b>	67%	<b>5 Year Valuation Multiple Estimate:</b>	8.4%	<b>Dividend Payment Date:</b>	03/08/24
<b>Dividend Yield:</b>	3.6%	<b>5 Year Price Target</b>	\$107	<b>Years Of Dividend Growth:</b>	41
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Rating:</b>	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 nearly \$7 billion in annual sales. Sonoco Products is now composed of 2 major segments, Consumer Packaging, and Industrial Packaging, with all other businesses listed as "all other".

On April 19<sup>th</sup>, 2023, Sonoco Products raised its quarterly dividend 4.1% to \$0.51, extending the company's dividend growth streak to 41 consecutive years.

On February 14<sup>th</sup>, 2024, Sonoco Products announced fourth quarter and full year results for the period ending December 31<sup>st</sup>, 2024. For the quarter, revenue declined 1.8% to \$1.64 billion, but this was \$20 million above expectations. Adjusted earnings-per-share of \$1.02 compared unfavorably to \$1.27 in the prior year and was \$0.08 below estimates. For 2023, revenue decreased 6% to \$6.8 billion while adjusted of \$5.26 compared unfavorably to \$6.48 in the prior year. This was, however, the company's second-best adjusted EPS result in its history.

For the quarter, Consumer Packaging revenues were lower by 3% to \$856 million due to lower volumes for food and household products due to higher prices. Industrial Paper Packing sales declined 1% to \$593 million due volume and mix and weaker global demand for paper and converted paper products. All Other decreased 7% to \$187 million, mostly due to temperature assured packaging demand declined.

Sonoco Products provided an outlook for 2024 as well, with the company expecting adjusted earnings-per-share of \$5.10 to \$5.40 for the year. At the midpoint, this would be a slight decline from 2023. We have initiated our forecast accordingly.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$2.54	\$2.51	\$2.72	\$2.78	\$3.37	\$3.53	\$3.41	\$3.93	\$6.48	\$5.26	<b>\$5.25</b>	<b>\$6.70</b>
<b>DPS</b>	\$1.27	\$1.37	\$1.46	\$1.54	\$1.62	\$1.70	\$1.72	\$1.80	\$1.92	\$2.02	<b>\$2.04</b>	<b>\$2.60</b>
<b>Shares<sup>1</sup></b>	101	101	99	99	101	101	101	99	99	99	<b>99</b>	<b>99</b>

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 8.4% since 2014. 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 2029.

<sup>1</sup> 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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## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	16.4	17.2	17.8	18.5	15.8	17.0	15.6	16.3	9.4	10.6	10.7	16.0
Avg. Yld.	3.1%	3.2%	3.0%	3.0%	3.0%	2.8%	3.2%	3.1%	3.2%	3.6%	3.6%	2.4%

Shares of Sonoco Products have increased \$1, or 1.8%, since our November 2<sup>nd</sup>, 2023 update. Based off company's guidance for the year, shares trade with a price-to-earnings multiple of 10.7. We reaffirm our 2029 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 2014. Reaching this target would add 8.4% annual returns over the next five years. Shares of Sonoco Products currently yield 3.6%, 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	50%	55%	54%	55%	48%	49%	50%	46%	30%	38%	39%	39%

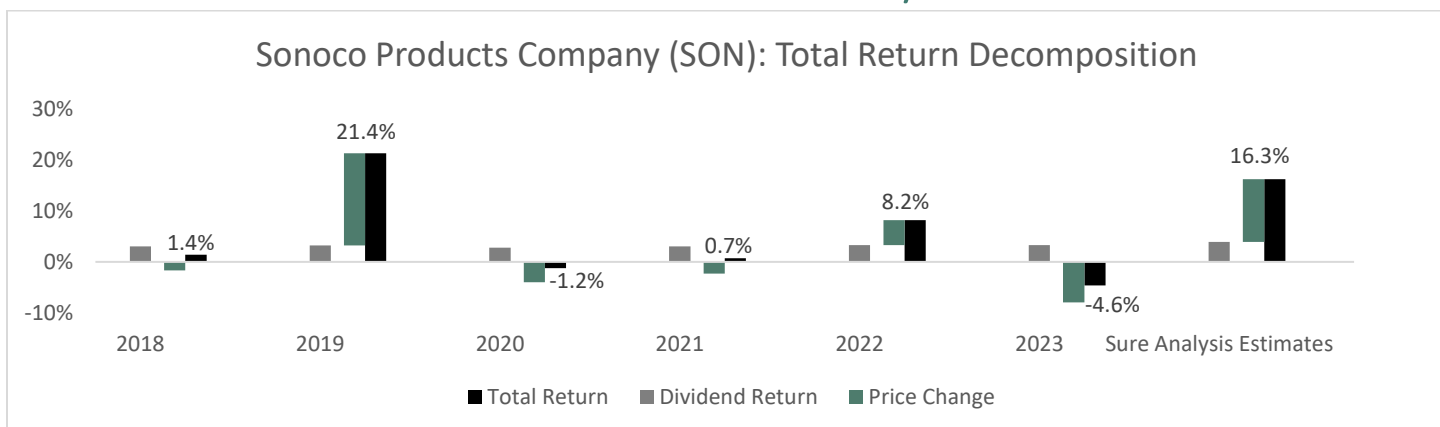
Sonoco Products showed in the last recession that it is somewhat susceptible to deteriorating market conditions. Over the past decade the company has averaged a 47% dividend payout ratio, but it is projected to be lower than that this year. Sonoco Products has a very reasonable dividend payout ratio of just over 39% based off our expectations for 2024. Sonoco Products' dividend appears 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 fourth quarter earnings results, Sonoco Products Company is now expected to offer a total annual return of 16.3% through 2029, down from our previous estimate of 17.0%. Our projected return stems from a 5% earnings growth rate, a 3.6% 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 were difficult last year as a result, but the company has guided toward stable EPS in 2024. Still, there is much to like about the company and the stock, including the valuation and dividend growth history. We have lowered our five-year price target \$2 to \$107 due to 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	5,017	4,964	4,783	5,037	5,391	5,374	5,237	5,590	7,251	6,781
Gross Profit	908	929	946	959	1,041	1,058	1,046	1,062	1,440	1,436
Gross Margin	18.1%	18.7%	19.8%	19.0%	19.3%	19.7%	20.0%	19.0%	19.9%	21.2%
SG&A Exp.	507	496	503	508	563	531	528	558	707	742
Operating Profit	401	433	443	451	478	527	518	504	732	694
Operating Margin	8.0%	8.7%	9.3%	9.0%	8.9%	9.8%	9.9%	9.0%	10.1%	10.2%
Net Profit	226	250	286	175	314	292	207	(85)	466	475
Net Margin	4.5%	5.0%	6.0%	3.5%	5.8%	5.4%	4.0%	-1.5%	6.4%	7.0%
Free Cash Flow	241	261	212	159	397	230	511	43	180	600
Income Tax	109	88	165	147	75	93	53	(67)	119	149

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	4,194	4,014	3,923	4,558	4,583	5,126	5,277	5,073	7,053	7,192
Cash & Equivalents	161	182	257	255	120	145	565	171	227	152
Accounts Receivable	654	628	625	725	737	698	659	756	863	905
Inventories	420	385	373	474	494	504	451	562	1,096	774
Goodwill & Int. Ass.	1,459	1,386	1,317	1,573	1,661	1,818	1,711	1,603	2,417	2,664
Total Liabilities	2,690	2,481	2,368	2,828	2,811	3,311	3,367	3,224	4,980	4,760
Accounts Payable	517	508	478	548	556	538	537	721	819	1,108
Long-Term Debt	1,253	1,128	1,053	1,447	1,385	1,681	1,700	1,611	3,222	3,083
Shareholder's Equity	1,488	1,513	1,532	1,707	1,759	1,803	1,900	1,837	2,066	2,432
LTD/E Ratio	0.84	0.75	0.69	0.85	0.79	0.93	0.90	0.88	1.56	1.27

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	5.5%	6.1%	7.2%	4.1%	6.9%	6.0%	4.0%	-1.7%	7.7%	6.7%
Return on Equity	14.1%	16.5%	18.6%	10.7%	17.9%	16.3%	11.1%	-4.5%	23.8%	21.1%
ROIC	8.3%	9.2%	10.9%	6.1%	9.9%	8.8%	5.8%	-2.4%	10.7%	8.8%
Shares Out.	101	101	99	99	101	101	101	99	99	99
Revenue/Share	48.63	48.48	46.99	49.94	53.37	53.12	51.75	56.12	73.44	68.57
FCF/Share	2.33	2.55	2.08	1.58	3.93	2.27	5.05	0.43	1.83	6.07

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

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