Greif, Inc. (GEF)

Updated August 30th, 2024, by Aristofanis Papadatos

Key Metrics

Current Price:	$62	**5 Year CAGR Estimate:**	5.8%	**Market Cap:**	$3.1 B
Fair Value Price:	$53	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	9/16/24
% Fair Value:	117%	**5 Year Valuation Multiple Estimate:**	-3.1%	**Dividend Payment Date:**	10/1/24
Dividend Yield:	3.5%	**5 Year Price Target**	$71	**Years Of Dividend Growth:**	4
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Rating:**	Hold

Overview & Current Events

Greif began in 1877 as "Vanderwyst and Greif," a cooperage shop founded by one of four Greif brothers. One year later, the other three brothers joined the business, renaming it "Greif Bros. Company," making wooden barrels, casks and kegs to transport post-Civil Wars goods. The company later purchased nearly 300,000 acres of timberland to provide raw materials for its cooperage plants and still owns significant timber properties. Today the Delaware, Ohio-based company, simply known as Greif, is a global leader in industrial packaging products and services. Shares of Greif trade under two classes – non-voting A shares and B shares trading under the GEF.B symbol. This report focuses on the A shares and diluted A share equivalent. The $3.1 billion market cap company serves customers in 40 countries.

In late August, Greif reported (8/28/24) results for the third quarter of fiscal 2024. Sales grew 5% over last year's quarter but adjusted earnings-per-share declined -41%, from $1.75 to $1.03, due to higher input and production costs, selling & administrative expenses and interest expense. Greif is facing weak demand for its products, partly due to an ongoing global economic slowdown. Net Debt to EBITDA increased from 3.4x to 3.7x, mostly due to the acquisition of Ipackchem, a Paris-based company that will strengthen the offerings of high-performance small plastic containers of the company.

Greif reaffirmed its guidance for annual free cash flow of $175-$225 million. Given weaker-than-expected sales momentum and material costs related to the aforementioned acquisition, we have lowered our forecast for annual earnings-per-share from $4.40 to $4.20.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$2.36	$2.18	$2.44	$2.95	$3.53	$3.96	$3.22	$5.60	$7.87	$6.14	***$4.20***	***$5.62***
DPS	$1.68	$1.68	$1.68	$1.68	$1.70	$1.76	$1.76	$1.78	$1.88	$2.02	***$2.16***	***$2.40***
Shares[1]	48	48	48	48	48	48	48	49	48	47	***47***	***45***

Greif put together an average growth record in the past. In the 2005 through 2019 period, the company was able to grow earnings-per-share by 5.5% annually. 2020 proved to be a down year due to the pandemic but results for fiscal 2021 and 2022 bounced back dramatically. The company has a history of profitable, but cyclical results over the years.

In general, Greif has growth opportunities in the way of continued global expansion – especially as more items move about the global marketplace. We believe this is a long-term growth thesis that will continue aiding the company's core business. With that said, we are concerned over the somewhat volatile performance record of Greif and the cyclical nature of its business. Nevertheless, given the low comparison base formed this year, we expect 6.0% average annual growth of earnings-per-share beyond this year.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	21.7	17.7	14.6	18.9	15.8	9.8	11.7	11.1	8.0	11.0	***14.8***	***12.6***
Avg. Yld.	3.3%	4.3%	4.7%	3.0%	3.1%	4.6%	4.7%	3.1%	3.0%	3.0%	***3.5%***	***3.4%***

[1] 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.

Greif, Inc. (GEF)

Updated August 30th, 2024, by Aristofanis Papadatos

The stock of Greif has traded at an average price-to-earnings ratio of 14.0 over the last decade and 12.6 over the last eight years. We view the latter as a fair valuation level, given the cyclical nature of this business. The stock is currently trading at a price-to-earnings ratio of 14.8. If the stock trades at its fair valuation level in five years, it will incur a -3.1% annualized drag in its returns.

The dividend is also noteworthy. After being held at $0.42 per quarter for seven years, it was finally raised to $0.44 at the end of 2018. After being held at $0.44 for three years, the payout is now $0.54 and yields 3.5%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	71%	77%	69%	57%	48%	44%	55%	32%	24%	33%	***51%***	***43%***

Greif provides comprehensive packaging solutions, with an emphasis on the industrial economy. The company operates in 40 countries, making the business difficult to replicate and offering a competitive advantage. With that said, Greif is subject to the whims of the global market and the industrial market in particular, which tends to be cyclical. Moreover, while long-term demand will continue to grow, we do not believe the firm has material pricing power in the long run.

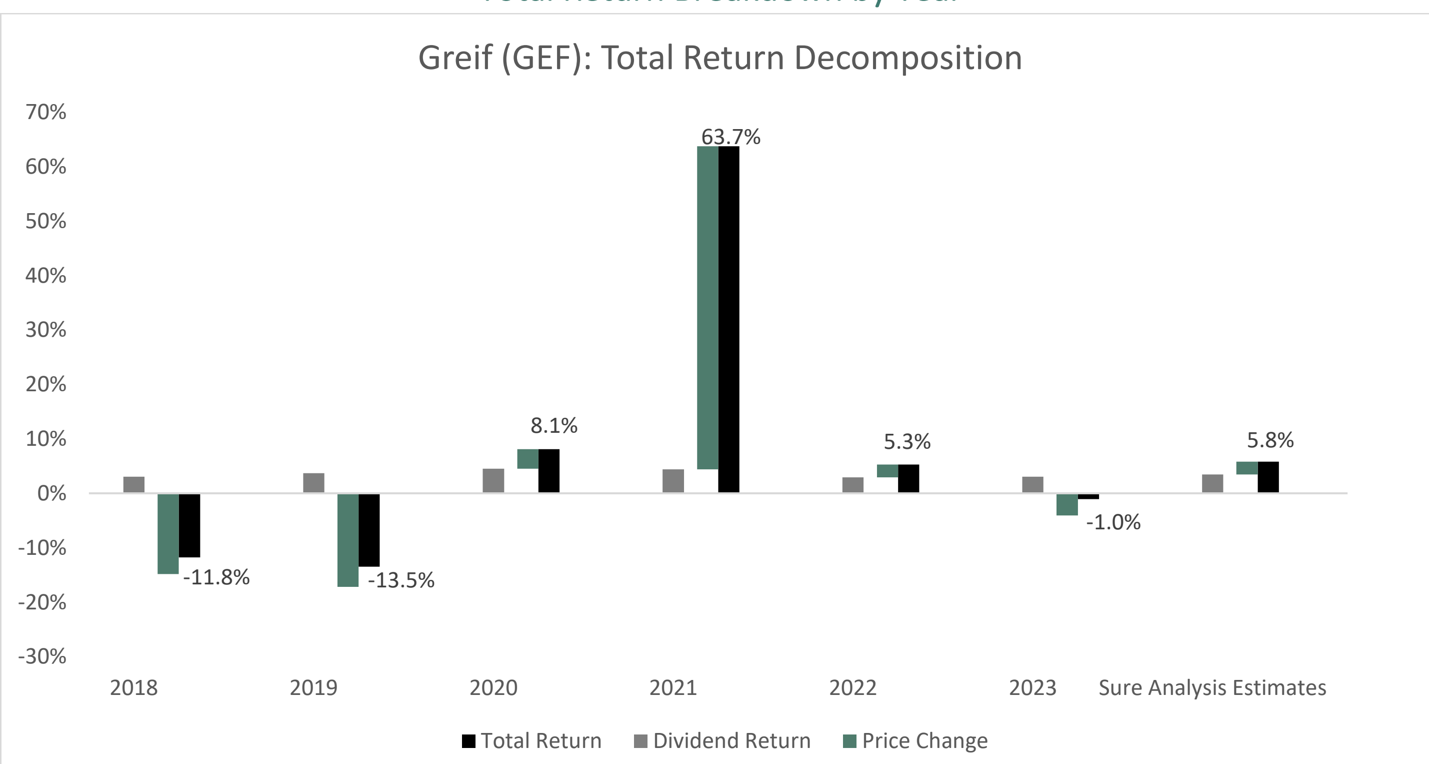
During the Great Recession, Greif posted earnings-per-share of $4.18, $3.32 and $4.35 during the 2008 through 2010 stretch. Furthermore, the dividend remained on the rise during this time as well.

Given the healthy payout ratio of 51% and the manageable amount of debt, which has resulted from the ample free cash flows of Greif, we view the 3.5% dividend of the stock as safe for the foreseeable future.

Final Thoughts & Recommendation

Greif has exhibited decent but cyclical business performance over the last decade. It is currently facing strong business headwinds due to the impact of inflation on its sales and its margins but it is likely to recover in the upcoming years. Greif could offer a 5-year average annual return of 5.8% thanks to 6.0% growth of earnings-per-share and a 3.5% dividend yield, partly offset by a -3.1% valuation headwind. The stock maintains its hold rating.

Total Return Breakdown by Year



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.

Greif, Inc. (GEF)

Updated August 30th, 2024, by Aristofanis Papadatos

Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	4239	3617	3324	3638	3874	4595	4515	5,556	6,350	5,219
Gross Profit	811	670	685	715	789	960	915	1,093	1,285	1,146
Gross Margin	19.1%	18.5%	20.6%	19.6%	20.4%	20.9%	20.3%	19.7%	20.2%	22.0%
SG&A Exp.	497	413	377	408	399	507	516	566	581	549
Operating Profit	314	257	308	307	390	453	398	527	704	597
Operating Margin	7.4%	7.1%	9.3%	8.4%	10.1%	9.9%	8.8%	9.5%	11.1%	11.4%
Net Profit	92	72	75	119	209	171	109	391	377	359
Net Margin	2.2%	2.0%	2.3%	3.3%	5.4%	3.7%	2.4%	7.0%	5.9%	6.9%
Free Cash Flow	67	32	189	199	104	227	318	249	475	430
Income Tax	115	48	67	67	73	71	63	70	137	118

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	3667	3316	3153	3232	3195	5427	5511	5,816	5,470	5,961
Cash & Equivalents	85	106	104	142	94	77	106	125	147	181
Accounts Receivable	501	404	399	447	457	664	637	890	749	659
Inventories	381	297	277	280	290	358	294	499	403	339
Goodwill & Int. Ass.	1047	940	897	883	857	2294	2234	2,164	2,041	2,485
Total Liabilities	2444	2256	2195	2185	2041	4236	4310	4,216	3,660	3,849
Accounts Payable	471	355	372	399	404	435	451	705	561	498
Long-Term Debt	1153	1188	1026	967	910	2752	2487	2,226	1,916	2,215
Shareholder's Equity	1142	1016	947	1011	1108	1133	1155	1,514	1,761	1,948
D/E Ratio	1.01	1.17	1.08	0.96	0.82	2.43	2.16	1.47	1.09	1.14

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	2.4%	2.1%	2.3%	3.7%	6.5%	4.0%	2.0%	6.9%	6.7%	6.3%
Return on Equity	7.6%	6.7%	7.6%	12.1%	19.8%	15.3%	9.5%	29.3%	23.0%	19.4%
ROIC	3.6%	3.1%	3.5%	5.9%	10.3%	5.7%	2.9%	10.4%	10.0%	8.9%
Shares Out.	48	48	48	48	48	48	48	49	60	58
Revenue/Share	72.18	61.45	56.48	61.84	65.68	77.62	93.29	93.11	106.54	89.65
FCF/Share	1.14	0.55	3.22	3.38	1.76	3.84	6.57	4.17	7.96	7.39

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