Smurfit Westrock (SW)

Updated November 14th, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	$51	**5 Year CAGR Estimate:**	1.0%	**Market Cap:**	$26.3 B
Fair Value Price:	$29	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	11/15/2024
% Fair Value:	178%	**5 Year Valuation Multiple Estimate:**	-10.9%	**Dividend Payment Date:**	12/18/2024
Dividend Yield:	2.4%	**5 Year Price Target**	$46	**Years Of Dividend Growth:**	3
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Sell

Overview & Current Events

Smurfit Westrock was formed with the merger of Smurfit Kappa and WestRock in July 2024 and is headquartered in Ireland. The combined company is the largest packaging company in the world, with annual sales of $34 billion. It is a leading provider of differentiated paper and packaging solutions, with a market capitalization of $26.3 billion. Smurfit Westrock has more than 500 converting operations and 62 mills across 40 countries.

While Smurfit Westrock is a major player in its industry, it is sensitive to the dramatic cycles of the paper industry, which are caused by shifts in the equilibrium between global supply and demand. This equilibrium is beyond the control of Smurfit Westrock and hence the company cannot escape from the cyclicality of its business.

In late October, Smurfit Westrock reported (10/30/24) financial results for the third quarter of fiscal 2024. Revenue grew 163% over the prior year's quarter thanks to the merger of the two companies. Organic sales remained essentially flat. The company switched from earnings of $229 million to a loss of -$150 million, primarily due to the high costs related to the merger of the two companies. Smurfit Westrock also experienced lackluster demand for its products and thus it could not raise its prices. On the bright side, it maintained a healthy leverage ratio (Net Debt to EBITDA) of 1.6.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	---	$3.89	$2.53	$2.62	$4.08	$3.98	$2.74	$3.39	$4.76	$3.02	***$2.60***	***$4.19***
DPS	---	$0.38	$1.50	$1.60	$1.72	$1.82	$1.07	$0.93	$1.03	$1.13	***$1.21***	***$1.78***
Shares[1]	---	257.0	251.0	254.5	259.2	259.0	260.0	268.9	256.4	257.9	***500.0***	***500.0***

As the shareholders of WestRock received one share of the combined company for each share they owned (plus only $5 in cash), we will maintain the historical record of WestRock in this report. Smurfit Westrock has a volatile historical record. It grew its earnings-per-share at a 0.6% average annual rate until 2019 and incurred a decline in its earnings in fiscal 2020 due to the pandemic. Moreover, even before the pandemic, there were concerns over a surge in the global supply of containerboard products in upcoming years. This factor, which is out of the company's control, may adversely affect its margins. Moreover, the company is currently hurt by high cost inflation. However, we view this headwind as temporary and expect Smurfit Westrock to benefit from the growing North American corrugated market in the long run. Given the low comparison base formed by the nearly 10-year low earnings-per-share expected this year and the recently completed merger, which is likely to result in material synergies, we expect Smurfit Westrock to grow its earnings-per-share by 10% per year on average beyond this year.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	---	15.2	16.8	20.3	14.9	9.8	12.3	14.3	9.4	10.7	***19.6***	***11.0***
Avg. Yld.	---	0.6%	3.5%	3.0%	2.8%	4.7%	3.2%	1.9%	2.3%	3.5%	***2.4%***	***3.9%***

[1] In millions.

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Smurfit Westrock is trading at a price-to-earnings ratio of 19.6, which is much higher than its 9-year average of 13.7. Due to its short historical record and its cyclical business, the stock warrants a reduced valuation. We assume a fair price-to-earnings ratio of 11.0 for the stock. If the stock trades at our fair valuation level in five years, it will incur a -10.9% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	9.8%	59.3%	61.1%	42.2%	45.7%	39.1%	27.4%	21.6%	37.4%	***46.5%***	***42.5%***

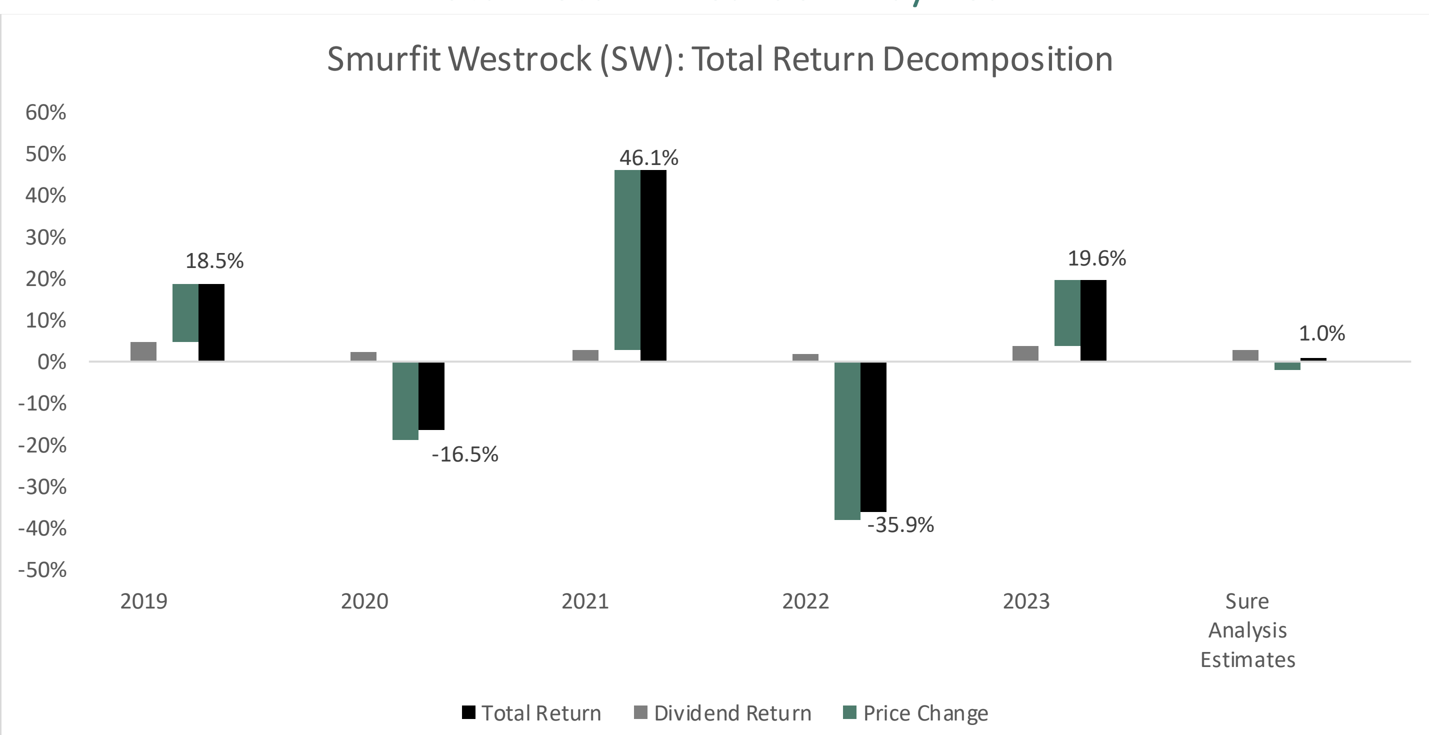
Smurfit Westrock cannot control the total supply of paper products. As a result, it is vulnerable to the total production volume of its competitors. The business of Smurfit Westrock is highly cyclical and hence investors should be especially careful before initiating a position in the stock. If they invest near the peak of the cycle, when business prospects usually look bright and the earnings multiple of the stock usually seems too low, they run the risk of incurring excessive losses.

On the bright side, Smurfit Westrock has a decent balance sheet. Its interest expense consumes 22% of operating income while its net debt is standing at $21.2 billion, which is 81% of the market capitalization of the stock. On the other hand, investors should be aware that Smurfit Westrock cut its dividend by -57% in 2020 due to the pandemic, despite a solid payout ratio of 66% before the dividend cut. This is a proof of the sensitivity of the company to recessions.

Final Thoughts & Recommendation

Smurfit Westrock has recovered from the pandemic but it is now facing strong headwinds due to high cost inflation and weakening global demand. We view these headwinds as temporary, but the stock is somewhat richly valued due to the positive sentiment of the market about the recent merger. The stock could offer a 1.0% average annual return over the next five years thanks to 10.0% growth of earnings-per-share and a 2.4% dividend, partly offset by a -10.9% annualized valuation headwind. The stock receives a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	9895.1	11125	14172	14860	16285	18,289	17,579	18,746	21,257	20,310
Gross Profit	1933.6	2138.3	2758.6	2740.2	3393.9	3,749	3,197	3,430	4,021	3,584
Gross Margin	19.5%	19.2%	19.5%	18.4%	20.8%	20.5%	18.2%	18.3%	18.9%	17.6%
SG&A Exp.	938	1,026	1,750	1,457	1,731	1,709	1,623	1,759	1,933	2,024
Operating Profit	910	993	797	1,031	1,335	1,640	1,173	1,314	1,738	1,219
Op. Margin	9.2%	8.9%	5.6%	6.9%	8.2%	9.0%	6.7%	7.0%	8.2%	6.0%
Net Profit	480	507	(396)	708	1,906	863	(691)	838	945	(1649)
Net Margin	4.8%	4.6%	-2.8%	4.8%	11.7%	4.7%	-3.9%	4.5%	4.5%	-8.0%
Free Cash Flow	618	618	892	685	931	941	1,093	1,464	1,158	685
Income Tax	287	233	90	159	(875)	277	164	243	270	(60)

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	11,040	25,372	23,038	25,089	25,361	30,157	28,780	29,254	28,406	27,444
Cash & Equivalents	33	208	341	298	637	152	251	291	260	393
Accounts Receivable	1,119	1,575	1,592	1,887	2,011	2,193	2,143	2,587	2,684	2,592
Inventories	1,029	1,761	1,638	1,797	1,830	2,108	2,023	2,173	2,317	2,332
Goodwill & Int. Ass.	2,618	7,442	7,377	8,858	8,700	11,345	9,629	9,278	8,816	6,825
Total Liabilities	6,732	13,589	13,208	14,703	13,878	18,473	18,132	17,564	16,980	17,346
Accounts Payable	813	1,231	1,054	1,492	1,717	1,832	1,674	2,124	2,252	2,124
Long-Term Debt	2,985	5,622	5,789	6,555	6,415	10,063	9,431	8,194	7,787	8,584
Shareholder's Equity	4,307	11,652	9,729	10,343	11,469	11,670	10,631	11,670	11,402	10,081
D/E Ratio	0.69	0.48	0.60	0.63	0.56	0.86	0.89	0.70	0.68	0.85

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	4.4%	2.8%	-1.6%	2.9%	7.6%	3.1%	-2.3%	2.9%	3.3%	-5.9%
Return on Equity	11.1%	6.4%	-3.7%	7.1%	17.5%	7.5%	-6.2%	7.5%	8.2%	-15.4%
ROIC	6.6%	4.1%	-2.4%	4.4%	10.9%	4.4%	-3.3%	4.2%	4.8%	-8.7%
Shares Out.	---	257.0	251.0	254.5	259.2	259.0	260.0	268.9	261.5	255.9
Revenue/Share	67.77	64.19	54.95	58.11	62.68	70.59	67.82	70.08	81.29	79.37
FCF/Share	4.23	3.57	3.46	2.68	3.58	3.63	4.22	5.47	4.43	2.68

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