Smurfit Westrock (SW)

Updated March 4th, 2025 by Aristofanis Papadatos

Key Metrics

Current Price:	$50	**5 Year CAGR Estimate:**	2.5%	**Market Cap:**	$26.0 B
Fair Value Price:	$35	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	2/14/2025
% Fair Value:	142%	**5 Year Valuation Multiple Estimate:**	-6.8%	**Dividend Payment Date:**	3/18/2025
Dividend Yield:	3.4%	**5 Year Price Target**	$47	**Years Of Dividend Growth:**	4
Dividend Risk Score:	F	**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 expected annual sales of $32 billion. It is a leading provider of differentiated paper and packaging solutions, with a market capitalization of $26 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 mid-February, Smurfit Westrock reported (2/12/25) financial results for the fourth quarter of fiscal 2024. Revenue grew 160% and net income almost tripled over the prior year's quarter thanks to the merger of the two companies. On the other hand, the earnings-per-share of $0.42 missed the analysts' consensus by $0.17. Smurfit Westrock provided guidance for 7% sequential growth of EBITDA in the first quarter. Management expects to reach its goal of $400 million of synergies from the aforementioned merger by the end of this year.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$3.89	$2.53	$2.62	$4.08	$3.98	$2.74	$3.39	$4.76	$3.02	$1.89	***$3.20***	***$4.28***
DPS	$0.38	$1.50	$1.60	$1.72	$1.82	$1.07	$0.93	$1.03	$1.13	$1.21	***$1.72***	***$2.00***
Shares[1]	257.0	251.0	254.5	259.2	259.0	260.0	268.9	256.4	257.9	521.0	***520.0***	***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 have maintained 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, there are concerns over a surge in the global supply of containerboard products in the 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 somewhat low comparison base formed by the expected earnings 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 6% per year on average beyond this year.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	15.2	16.8	20.3	14.9	9.8	12.3	14.3	9.4	10.7	25.4	***15.6***	***11.0***
Avg. Yld.	0.6%	3.5%	3.0%	2.8%	4.7%	3.2%	1.9%	2.3%	3.5%	2.5%	***3.4%***	***4.3%***

[1] In millions.

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Smurfit Westrock is trading at a price-to-earnings ratio of 15.6, which is slightly higher than its 10-year average of 14.9. 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 -6.8% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	9.8%	59.3%	61.1%	42.2%	45.7%	39.1%	27.4%	21.6%	37.4%	64.0%	***53.8%***	***46.8%***

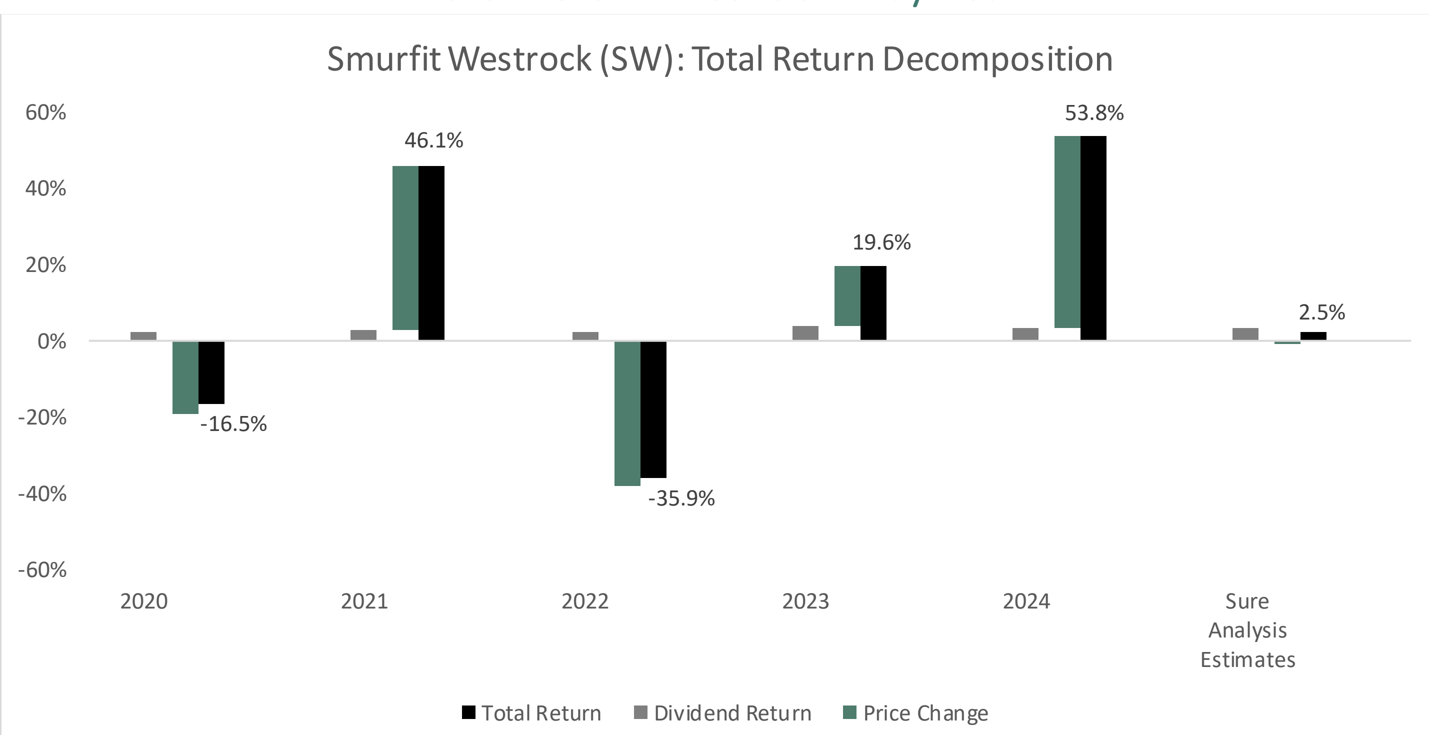
Smurfit Westrock cannot control the total supply of paper products. As a result, it is vulnerable to the total production volume of its competitors. The business of Smurfit Westrock is highly cyclical and hence investors should be especially careful before initiating a position in the stock. If they 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 29% of operating income while its net debt is standing at $21.4 billion, which is 82% 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 2.5% average annual return over the next five years thanks to 6.0% growth of earnings-per-share and a 3.4% dividend, partly offset by a -6.8% annualized valuation headwind. The stock maintains its sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	11125	14172	14860	16285	18,289	17,579	18,746	21,257	20,310	21,109
Gross Profit	2138.3	2758.6	2740.2	3393.9	3,749	3,197	3,430	4,021	3,584	4,195
Gross Margin	19.2%	19.5%	18.4%	20.8%	20.5%	18.2%	18.3%	18.9%	17.6%	19.9%
SG&A Exp.	1,026	1,750	1,457	1,731	1,709	1,623	1,759	1,933	2,024	2,793
Operating Profit	993	797	1,031	1,335	1,640	1,173	1,314	1,738	1,219	1,402
Op. Margin	8.9%	5.6%	6.9%	8.2%	9.0%	6.7%	7.0%	8.2%	6.0%	6.6%
Net Profit	507	(396)	708	1,906	863	(691)	838	945	(1649)	319
Net Margin	4.6%	-2.8%	4.8%	11.7%	4.7%	-3.9%	4.5%	4.5%	-8.0%	1.5%
Free Cash Flow	618	892	685	931	941	1,093	1,464	1,158	685	17
Income Tax	233	90	159	(875)	277	164	243	270	(60)	241

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	25,372	23,038	25,089	25,361	30,157	28,780	29,254	28,406	27,444	43,759
Cash & Equivalents	208	341	298	637	152	251	291	260	393	855
Accounts Receivable	1,575	1,592	1,887	2,011	2,193	2,143	2,587	2,684	2,592	4,117
Inventories	1,761	1,638	1,797	1,830	2,108	2,023	2,173	2,317	2,332	3,550
Goodwill & Int. Ass.	7,442	7,377	8,858	8,700	11,345	9,629	9,278	8,816	6,825	7,939
Total Liabilities	13,589	13,208	14,703	13,878	18,473	18,132	17,564	16,980	17,346	26,372
Accounts Payable	1,231	1,054	1,492	1,717	1,832	1,674	2,124	2,252	2,124	3,290
Long-Term Debt	5,622	5,789	6,555	6,415	10,063	9,431	8,194	7,787	8,584	13,595
Shareholder's Equity	11,652	9,729	10,343	11,469	11,670	10,631	11,670	11,402	10,081	17,360
D/E Ratio	0.48	0.60	0.63	0.56	0.86	0.89	0.70	0.68	0.85	0.78

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	2.8%	-1.6%	2.9%	7.6%	3.1%	-2.3%	2.9%	3.3%	-5.9%	1.1%
Return on Equity	6.4%	-3.7%	7.1%	17.5%	7.5%	-6.2%	7.5%	8.2%	-15.4%	2.7%
ROIC	4.1%	-2.4%	4.4%	10.9%	4.4%	-3.3%	4.2%	4.8%	-8.7%	1.5%
Shares Out.	257.0	251.0	254.5	259.2	259.0	260.0	268.9	261.5	255.9	389.0
Revenue/Share	64.19	54.95	58.11	62.68	70.59	67.82	70.08	81.29	79.37	54.26
FCF/Share	3.57	3.46	2.68	3.58	3.63	4.22	5.47	4.43	2.68	0.04

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