



Sonoco Products Company (SON)

Updated May 19th, 2024 by Nathan Parsh

Key Metrics

Current Price:	\$60	5 Year CAGR Estimate:	14.3%	Market Cap:	\$5.9 billion
Fair Value Price:	\$82	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	05/09/24
% Fair Value:	73%	5 Year Valuation Multiple Estimate:	6.6%	Dividend Payment Date:	06/10/24
Dividend Yield:	3.5%	5 Year Price Target	\$105	Years Of Dividend Growth:	48
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	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 17th, 2024, Sonoco Products raised its quarterly dividend 2.0% to \$0.52, extending the company's dividend growth streak to 48 consecutive years.

On April 30th, 2024, Sonoco Products reported first quarter results for the period ending March 31st, 2024. For the quarter, revenue declined 5.2% to \$1.64 billion and missed estimates by \$40 million. Adjusted earnings-per-share of \$1.12 compared unfavorably to \$1.40 in the prior year, but this was \$0.05 more than expected.

For the quarter, Consumer Packaging revenues declined 5% to \$911 million due to weakness in consumer purchases. Snacks and confectionary markets were impacted by inflationary pricing action. Industrial Paper Packing sales fell 4% to \$593 million as weakness remains in global converted products. This was partially offset by strength in paper and contributions from acquisitions. All Other was down 14% to \$134 million, mostly due once again to lower demand for temperature assured packaging.

Sonoco Products provided an updated outlook for 2024 as well, with the company now expecting adjusted earnings-per-share in a range of \$5.00 to \$5.30, down from \$5.10 to \$5.40 previously. At the midpoint, this would be a 2.1% decline from 2023. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$2.54	\$2.51	\$2.72	\$2.78	\$3.37	\$3.53	\$3.41	\$3.93	\$6.48	\$5.26	\$5.15	\$6.57
DPS	\$1.27	\$1.37	\$1.46	\$1.54	\$1.62	\$1.70	\$1.72	\$1.80	\$1.92	\$2.02	\$2.08	\$2.65
Shares¹	101	101	99	99	101	101	101	99	99	99	99	99

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-per-share 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 \$2.65 by 2029.

¹ 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	11.7	16.0
Avg. Yld.	3.1%	3.2%	3.0%	3.0%	3.0%	2.8%	3.2%	3.1%	3.2%	3.6%	3.5%	2.5%

Shares of Sonoco Products have increased \$4, or 7.1%, since our February 17th, 2024 update. Based off company's guidance for the year, shares trade with a price-to-earnings multiple of 11.7. 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 6.6% annual returns over the next five years. Shares of Sonoco Products currently yield 3.5%, 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%	40%	40%

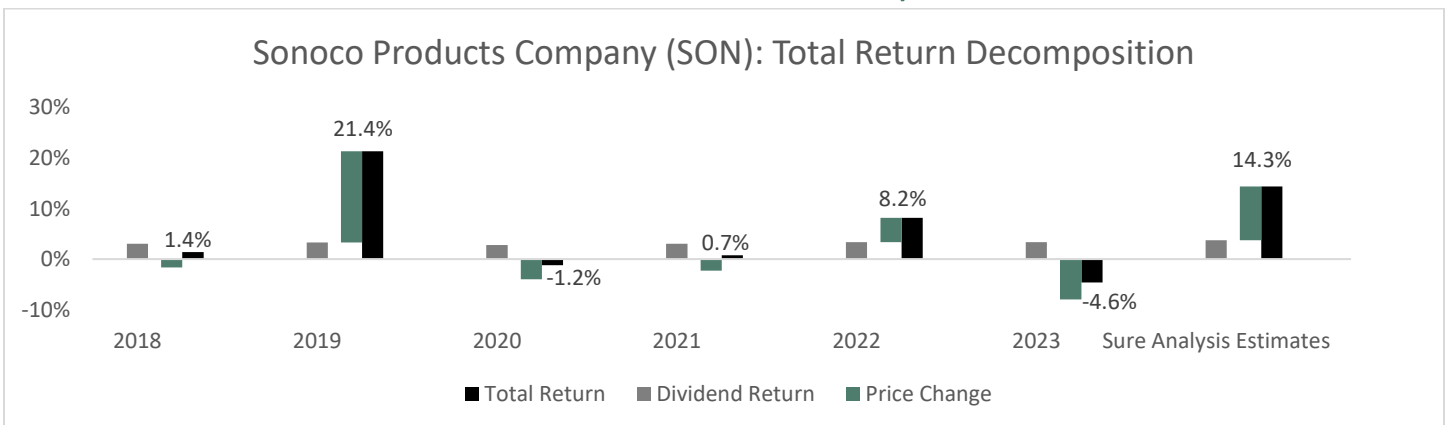
Sonoco Products showed in the last recession that it is somewhat susceptible to deteriorating market conditions. Over the past decade the company has averaged a 47% dividend payout ratio, but it is projected to be lower than that this year. Sonoco Products has a very reasonable dividend payout ratio of just over 40% 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

Following first quarter earnings results, Sonoco Products Company is now expected to offer a total annual return of 14.3% through 2029, down from our previous estimate of 16.3%. Our projected return stems from a 5% earnings growth rate, a 3.5% starting yield, and a mid-single-digit tailwind from multiple expansion. Sonoco Products had a very strong 2022, largely due to an acquisition. Comparable periods were difficult last year as a result and the company has already lowered guidance for the current year. 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 \$105 due to earnings estimates, but 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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