



# Sonoco Products Company (SON)

Updated November 3<sup>rd</sup>, 2024 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$51	<b>5 Year CAGR Estimate:</b>	15.3%	<b>Market Cap:</b>	\$5 billion
<b>Fair Value Price:</b>	\$72	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	11/08/24
<b>% Fair Value:</b>	71%	<b>5 Year Valuation Multiple Estimate:</b>	7.2%	<b>Dividend Payment Date:</b>	12/10/24
<b>Dividend Yield:</b>	4.1%	<b>5 Year Price Target</b>	\$92	<b>Years Of Dividend Growth:</b>	48
<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 17<sup>th</sup>, 2024, Sonoco Products raised its quarterly dividend 2.0% to \$0.52, extending the company's dividend growth streak to 48 consecutive years.

On June 24<sup>th</sup>, Sonoco Products announced that it had entered into an agreement to purchase European food can manufacturer Eviosys. The deal is expected to close by the end of the fourth quarter of 2024.

On October 31<sup>st</sup>, 2024, Sonoco Products reported third quarter results for the period ending September 30<sup>th</sup>, 2024. For the quarter, revenue decreased 1.8% to \$1.68 billion, which was \$40 million below estimates. Adjusted earnings-per-share of \$1.49 compared favorably to \$1.46 in the prior year and was \$0.03 better than expected.

As with the prior quarter, results impacted by a divestiture and a closure of several plants. Prices were lower, but volume was up. For the quarter, Consumer Packaging revenues of \$984 million was largely unchanged from the prior year. Volume for metal aerosol cans and flexible packaging were offset by the closure of a thermoformed food packaging plant and lower prices. Industrial Paper Packing sales grew 1% to \$585 million as this segment benefited from higher prices. All Other was down 26% to \$107 million, mostly due to the sale of a business unit.

Sonoco Products narrowed its prior outlook for 2024 as well, with the company expecting adjusted earnings-per-share in a range of \$5.05 to \$5.25, compared to \$5.00 to \$5.30 and \$5.10 to \$5.40 previously. At the midpoint, this would be a 2.1% decline from 2023.

## 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>\$5.15</b>	<b>\$6.57</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>\$2.08</b>	<b>\$2.65</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-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.

<sup>1</sup> In millions of shares

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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	9.9	14.0
Avg. Yld.	3.1%	3.2%	3.0%	3.0%	3.0%	2.8%	3.2%	3.1%	3.2%	3.6%	4.1%	2.9%

Shares of Sonoco Products have gained \$2, or 4.1%, since our August 11<sup>th</sup>, 2024 update. Based off company's guidance for the year, shares trade with a price-to-earnings multiple of 9.9. We have lowered our 2029 target P/E to 14 from 16 as this is closer to the medium-term average multiple and reflects the somewhat weaker results over the past few quarters. Still, reaching this target would add 7.2% annual returns over the next five years. Shares of Sonoco Products currently yield 4.1%, 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%

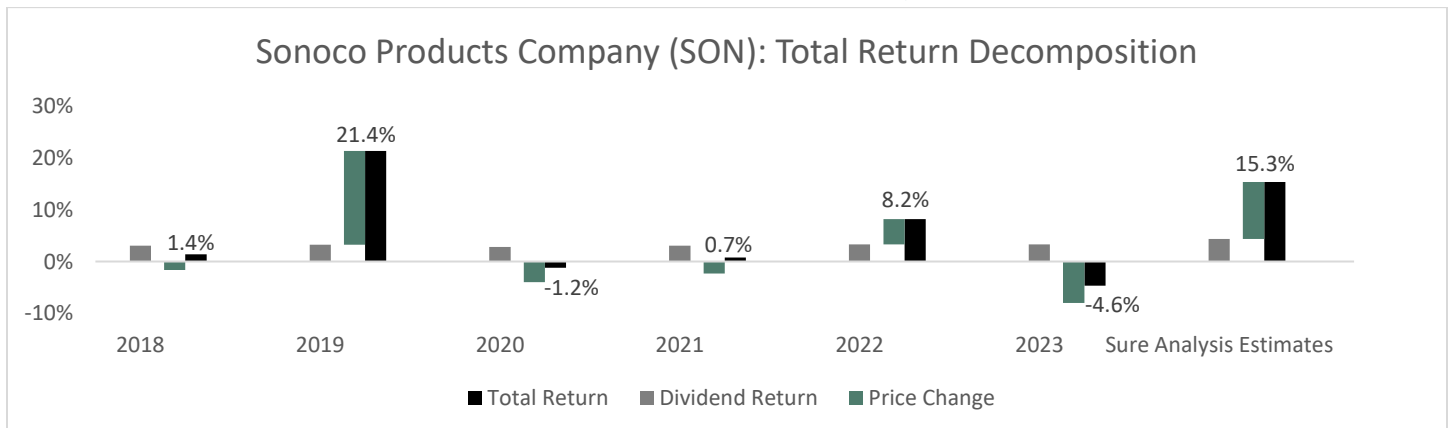
Sonoco Products showed in the last recession that it is somewhat susceptible to deteriorating market conditions. Over the past decade the company has averaged a 47% dividend payout ratio, but it is projected to be lower than that this year. Sonoco Products has a very reasonable dividend payout ratio of around 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 third quarter earnings results, Sonoco Products Company is now expected to offer a total annual return of 15.3% through 2029, down from our previous estimate of 16.3%. Our projected return stems from a 5% earnings growth rate, a 4.1% starting yield, and a high 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, but the company has reaffirmed its 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 reaffirm our five-year price target of \$92 and 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
<b>Revenue</b>	5,017	4,964	4,783	5,037	5,391	5,374	5,237	5,590	7,251	6,781
<b>Gross Profit</b>	908	929	946	959	1,041	1,058	1,046	1,062	1,440	1,436
<b>Gross Margin</b>	18.1%	18.7%	19.8%	19.0%	19.3%	19.7%	20.0%	19.0%	19.9%	21.2%
<b>SG&amp;A Exp.</b>	507	496	503	508	563	531	528	558	707	742
<b>Operating Profit</b>	401	433	443	451	478	527	518	504	732	694
<b>Operating Margin</b>	8.0%	8.7%	9.3%	9.0%	8.9%	9.8%	9.9%	9.0%	10.1%	10.2%
<b>Net Profit</b>	226	250	286	175	314	292	207	(85)	466	475
<b>Net Margin</b>	4.5%	5.0%	6.0%	3.5%	5.8%	5.4%	4.0%	-1.5%	6.4%	7.0%
<b>Free Cash Flow</b>	241	261	212	159	397	230	511	43	180	600
<b>Income Tax</b>	109	88	165	147	75	93	53	(67)	119	149

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	4,194	4,014	3,923	4,558	4,583	5,126	5,277	5,073	7,053	7,192
<b>Cash &amp; Equivalents</b>	161	182	257	255	120	145	565	171	227	152
<b>Accounts Receivable</b>	654	628	625	725	737	698	659	756	863	905
<b>Inventories</b>	420	385	373	474	494	504	451	562	1,096	774
<b>Goodwill &amp; Int. Ass.</b>	1,459	1,386	1,317	1,573	1,661	1,818	1,711	1,603	2,417	2,664
<b>Total Liabilities</b>	2,690	2,481	2,368	2,828	2,811	3,311	3,367	3,224	4,980	4,760
<b>Accounts Payable</b>	517	508	478	548	556	538	537	721	819	1,108
<b>Long-Term Debt</b>	1,253	1,128	1,053	1,447	1,385	1,681	1,700	1,611	3,222	3,083
<b>Shareholder's Equity</b>	1,488	1,513	1,532	1,707	1,759	1,803	1,900	1,837	2,066	2,432
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	5.5%	6.1%	7.2%	4.1%	6.9%	6.0%	4.0%	-1.7%	7.7%	6.7%
<b>Return on Equity</b>	14.1%	16.5%	18.6%	10.7%	17.9%	16.3%	11.1%	-4.5%	23.8%	21.1%
<b>ROIC</b>	8.3%	9.2%	10.9%	6.1%	9.9%	8.8%	5.8%	-2.4%	10.7%	8.8%
<b>Shares Out.</b>	101	101	99	99	101	101	101	99	99	99
<b>Revenue/Share</b>	48.63	48.48	46.99	49.94	53.37	53.12	51.75	56.12	73.44	68.57
<b>FCF/Share</b>	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.

### Disclaimer

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