

International Paper (IP)

\$39.03 (As of 06/05/20)

Price Target (6-12 Months): **\$41.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 04/29/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: A

Growth: C

Momentum: D

Summary

International Paper has withdrawn 2020 guidance amid the coronavirus-induced uncertainty. The company will benefit from strong demand in e-commerce channel owing to containment measures amid the pandemic. Further, corrugated packaging demand remains resilient due to its critical role in supply chain. The Global cellulose fibers segment is riding on strong consumer demand for absorbent hygiene products and tissue products as a result of the COVID-19 outbreak. However, weak demand for printing papers as schools and office remain closed is a headwind. The estimates for the current quarter and fiscal year have undergone negative revision lately. The company however has a positive record of earnings surprises over the last few quarters. The company will nevertheless benefit from its solid balance sheet and acquisitions.

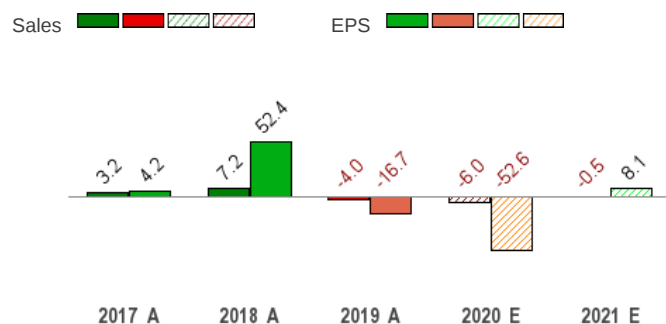
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$47.64 - \$26.38
20 Day Average Volume (sh)	2,631,200
Market Cap	\$15.3 B
YTD Price Change	-15.2%
Beta	1.34
Dividend / Div Yld	\$2.05 / 5.3%
Industry	Paper and Related Products
Zacks Industry Rank	Bottom 31% (175 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	32.6%
Last Sales Surprise	2.4%
EPS F1 Est- 4 week change	-1.4%
Expected Report Date	07/23/2020
Earnings ESP	-3.2%
P/E TTM	10.0
P/E F1	18.6
PEG F1	NA
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					20,927 E
2020	5,352 A	5,114 E	5,238 E	5,325 E	21,029 E
2019	5,643 A	5,667 A	5,568 A	5,498 A	22,376 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$2.27 E
2020	\$0.57 A	\$0.37 E	\$0.42 E	\$0.62 E	\$2.10 E
2019	\$1.11 A	\$1.15 A	\$1.09 A	\$1.09 A	\$4.43 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/05/2020. The reports text is as of 06/08/2020.

Overview

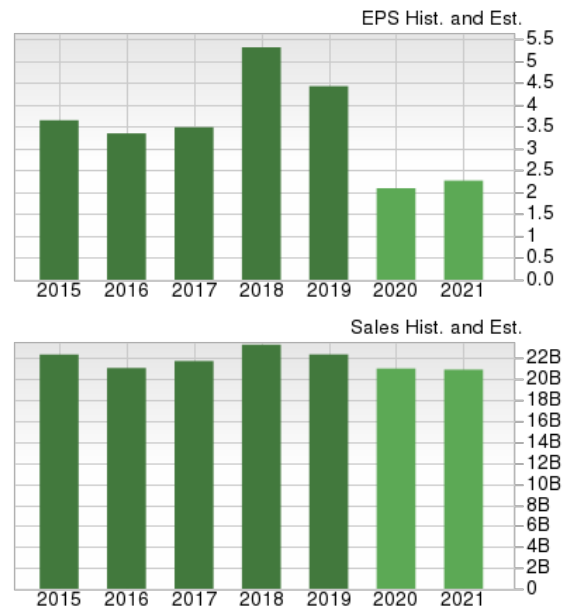
Incorporated in 1941, Headquartered in Memphis, TN, International Paper Company is a global producer of renewable fiber-based packaging, pulp and paper products with manufacturing operations in North America, Europe, Latin America, Russia, Asia, and North Africa. The company employs approximately 53,000 people and is strategically located in more than 150 countries serving customers worldwide.

The company currently has three operating segments as discussed hereunder.

- The **Industrial Packaging** segment (accounting for 68% of 2019 revenues) manufactures containerboard in the United States. Products include linerboard, medium, whitetop, recycled linerboard, recycled medium and saturating kraft. Additionally, the company recycle around \$1 million tons of OCC and mixed and white paper through 18 recycling plants. Container plants are supported by regional design centers, which offer total packaging solutions and supply chain initiatives. In EMEA, the company's operations include one recycled fiber containerboard mill in Morocco, a recycled containerboard mill in Spain and 26 container plants in France, Italy, Spain, Morocco and Turkey. Brazil operations include three containerboard mills and four box plants.

- The **Printing Papers** segment (19%) produces papers for use in copiers, desktop and laser printers and digital imaging. The primary product in this segment is uncoated papers. End-use applications include promotional materials like brochures and pamphlets.

- The **Global Cellulose Fibers** segment (13%) primarily makes pulp and represents the combined businesses of legacy pulp operations and acquired pulp business. Cellulose fibers product portfolio includes fluff, market and specialty pulps. The company's market pulp is used for tissue and paper products. Its products are made in the United States, Canada, France, Poland, and Russia and are sold around the world. International Paper facilities have annual dried pulp capacity of about 4 million metric tons.



Reasons To Buy:

- ▲ The company is witnessing strong demand driven by processed food, proteins, chemicals, tissue and towel in e-commerce. The company will continue to benefit from growing e-commerce demand as it has become a primary spending channel for customers owing to the containment measures amid the coronavirus pandemic. Further, corrugated packaging plays a critical role in supply chain to bring essential products to consumers. Moreover, the Global cellulose fibers segment is riding on strong consumer demand for absorbent hygiene products and tissue products as a result of the pandemic.
- ▲ International Paper has been undergoing restructuring initiatives to transform itself into a core packaging company. The company has strategically offloaded businesses in China to focus more on its U.S. operations. It believes that it could cater to the Chinese and Asian markets more effectively by supplying globally competitive products primarily through its Ilim joint venture in Russia and through exports from the United States and other parts of the world. International Paper also completed the divestiture of its consumer packaging business in North America to Graphic Packaging. The divestiture helped the company to maximize the value of North American Consumer Packaging business by combining it with Graphic Packaging while also focusing on its core businesses and strengthen its balance sheet. The company intends to invest significantly to improve its North American containerboard mill system, enhance product quality, and reduce manufacturing and delivery costs.
- ▲ Mergers and acquisitions are a key strategy for International Paper to strengthen its packaging business. In North America, the company envisions a large opportunity within its industrial packaging businesses, which continue to generate the best margins in the industry. The company is taking initiatives to drive further margin expansion over time across the business. International Paper has completed the acquisition of leading timberland owner Weyerhaeuser Co.'s pulp, which has strengthened International Paper's position in the global fluff pulp market and augmented its operating cash flow. The acquisition provides the company with a higher flexibility to manage a wide portfolio of products to meet customer needs through superior R&D capabilities and priceless patent portfolio.
- ▲ The company's efforts to reduce its debt levels appear encouraging. International Paper's total debt was around \$9.6 billion as of 2019 end. This has been lowered from \$11 billion at the end of 2016. The company has no commercial paper debt outstanding and no near-term bond maturities. The company's pension plan is sufficiently funded at around 90%. The company does not have any contributions in the next five-years. The company currently has \$3.8 billion of liquidity, which includes cash of about \$1 billion and committed credit facilities of \$2.8 billion. The company entered a new \$750 million bank revolving facility. It also extended its AR facility and changed it from uncommitted to committed to ensure access.

International Paper will gain from strong demand for corrugated packaging and e-commerce activities in the wake of the coronavirus pandemic. A strong balance sheet and acquisitions also bode well.

Reasons To Sell:

- ▼ The coronavirus outbreak has affected paper consumption in schools, offices and businesses due to stay-at-home measures implemented to stem the spread of the coronavirus. This has strained demand for paper. The company has also experienced unprecedented decline in commercial printing segments due to the significant pullback in print advertising. This will weigh on the Printing Paper segment's performance in the near term.
- ▼ In the wake of the uncertainty regarding the impact and duration of COVID-19, the company has withdrawn guidance for adjusted EBITDA and free cash flow. For second-quarter 2020, the company expects price and mix to be down \$5 million in the industrial packaging segment on the flow through of prior index movements in North America. Volume is expected to be down \$70 million and input costs are expected to be higher by about \$55 million owing to higher recovered fiber cost. In global cellulose fibers segment, volume is expected to be sequentially flat in second-quarter 2020. Operations and costs are expected to lower earnings by \$25 million. In printing papers segment, the impact of price and mix is likely to be flat in second-quarter 2020. Volume is expected to be down about \$50 million due to the impact of COVID-19 in all of the regions. Operations and costs are expected to lower earnings by \$85 million mostly due to the impact of unabsorbed fix cost.
- ▼ The company depends heavily on raw materials such as wood fiber, purchased in the form of pulpwood, wood chips and old corrugated containers ("OCC"), and certain chemicals, including caustic soda and starch, and energy sources, principally natural gas, coal and fuel oil. Elevated input costs (fiber, chemicals, energy, and freight) will suppress margins in the near term.

International Paper's results will bear the impact of the coronavirus outbreak. Weak demand for printing paper will weigh on the top-line performance.

Last Earnings Report

International Paper Q1 Earnings & Sales Top Estimates

International Paper reported first-quarter 2020 adjusted earnings of 57 cents per share, significantly down 49% year over year. However, the bottom line outpaced the Zacks Consensus Estimate of 43 cents.

Including one-time items, the company incurred net loss per share of 36 cents during the first quarter, as against the year-ago quarter's reported earnings per share of \$1.05.

Net sales declined to \$5,352 million in the first quarter from the year-ago quarter's \$5,643 million. However, the reported figure beat the Zacks Consensus Estimate of \$5,227 million.

Cost of sales was \$3,746 million, down from the prior-year quarter's \$3,929 million. Gross profit declined 6.3% year over year to \$1,606 million. Selling and administrative expenses flared up 1.2% year over year to \$418 million in the March-end quarter. Segment operating profit came in at \$512 million, reflecting a year-over-year decline of 15%.

Segment Performance

Industrial Packaging: Sales in this segment fell to \$3,819 million in the first quarter from the year-earlier quarter's \$3,832 million. Operating profit increased 12% year over year to \$470 million.

Printing Papers: This segment's sales were \$908 million in the January-March quarter, down 15% from the prior-year quarter's \$1,065 million. Operating profit for the segment was \$96 million compared with the year-ago period's \$144 million.

Global Cellulose Fibers: Sales of this segment came in at \$568 million compared with the \$689 million witnessed in the prior-year quarter. The segment reported an operating loss of \$54 million in first-quarter 2020 against an operating profit of \$35 million posted in the year-ago period.

Balance Sheet

Cash and temporary investments aggregated \$1,239 million as of Mar 31, 2020 compared with \$511 million as of Dec 31, 2019. As of Mar 30, 2020, long-term debt was \$9.5 billion compared with \$9.6 billion as of Dec 31, 2019.

Cash flow from operating activities was \$649 million in the March-end quarter compared with the \$733 million generated in the year-earlier period. Free cash flow was \$363 million in the reported quarter compared with the prior-year quarter's \$440 million. The company is implementing prudent measures to strengthen its liquidity position to battle the coronavirus crisis.

Quarter Ending 03/2020

Report Date	Apr 30, 2020
Sales Surprise	2.39%
EPS Surprise	32.56%
Quarterly EPS	0.57
Annual EPS (TTM)	3.90

Valuation

International Paper's shares are down 14.9% in the year-to-date period and 10.3% over the trailing 12-month period. Stocks in the Zacks Paper and Related Products industry and the Zacks Basics Materials sector are down 19.6% and 5.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 18.0% and 0.2%, respectively.

The S&P 500 index is down 1.0% in the year-to-date period and up 10.5% in the past year.

The stock is currently trading at 18.02X forward 12-month earnings, which compares to 9.74X for the Zacks sub-industry, 17.03X for the Zacks sector and 23.07X for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.02X and as low as 6.59X, with a 5-year median of 11.72X.

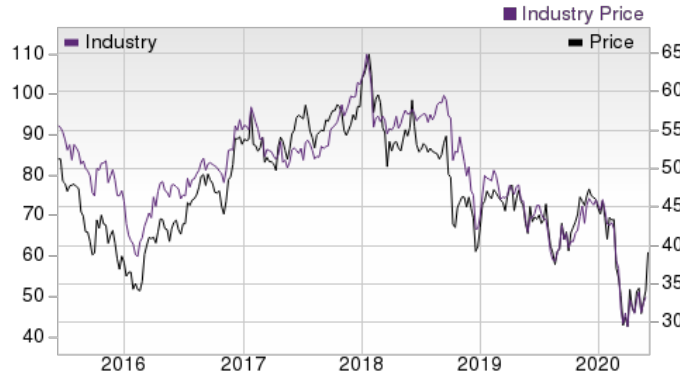
Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$41 price target reflects 18.93X forward 12-month earnings per share.

The table below shows summary valuation data for IP:

Valuation Multiples - IP					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	18.02	9.74	17.03	23.07
	5-Year High	18.02	14.12	21.05	23.07
	5-Year Low	6.59	4.15	9.86	15.23
	5-Year Median	11.72	10.78	13.53	17.49
EV/EBITDA TTM	Current	4.87	5.01	9.44	11.82
	5-Year High	11.55	15.56	18.38	12.85
	5-Year Low	4.07	4.46	6.49	8.25
	5-Year Median	6.51	7.77	10.5	10.8
P/B TTM	Current	2.24	4.63	2.9	4.36
	5-Year High	5.47	6.73	3.41	4.56
	5-Year Low	1.35	1.5	1.23	2.83
	5-Year Median	3.66	2.31	2.19	3.65

As of 06/05/2020

Industry Analysis Zacks Industry Rank: Bottom 31% (175 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Veritiv Corporation (VRTV)	Outperform	1
D S SMITH PLC (DITHF)	Neutral	3
MONDI PLC UNS (MONDY)	Neutral	3
Stora Enso Oyj (SEOAY)	Neutral	3
SMURFIT KAPPA (SMFKY)	Neutral	3
Sappi Ltd. (SPPJY)	Neutral	3
Neenah Paper, Inc. (NP)	Underperform	5
WestRock Company (WRK)	Underperform	5

Industry Comparison Industry: Paper And Related Products				Industry Peers		
	IP	X Industry	S&P 500	SEOAY	SMFKY	WRK
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	4	-	-	3	3	5
VGM Score	B	-	-	A	A	B
Market Cap	15.34 B	1.03 B	23.09 B	10.32 B	7.91 B	8.31 B
# of Analysts	4	1	14	2	1	6
Dividend Yield	5.25%	0.00%	1.82%	3.30%	0.00%	2.50%
Value Score	A	-	-	B	A	A
Cash/Price	0.09	0.13	0.06	0.10	0.03	0.09
EV/EBITDA	7.04	6.92	13.17	9.06	NA	5.86
PEG Ratio	NA	1.08	3.13	NA	NA	NA
Price/Book (P/B)	2.24	1.24	3.15	1.24	2.35	0.72
Price/Cash Flow (P/CF)	4.98	5.68	12.43	5.68	5.91	3.24
P/E (F1)	18.68	18.63	22.80	28.14	17.63	14.33
Price/Sales (P/S)	0.69	0.60	2.52	0.92	NA	0.46
Earnings Yield	5.38%	4.35%	4.19%	3.59%	5.67%	6.99%
Debt/Equity	1.44	0.80	0.76	0.44	1.17	0.91
Cash Flow (\$/share)	7.84	1.65	7.01	2.30	5.60	9.89
Growth Score	C	-	-	A	A	C
Hist. EPS Growth (3-5 yrs)	10.27%	-0.66%	10.87%	15.15%	NA	10.46%
Proj. EPS Growth (F1/F0)	-52.71%	-38.94%	-10.79%	-69.00%	-38.36%	-43.80%
Curr. Cash Flow Growth	-13.00%	-12.25%	5.48%	50.09%	3.96%	9.85%
Hist. Cash Flow Growth (3-5 yrs)	2.55%	-3.82%	8.55%	6.37%	NA	23.04%
Current Ratio	0.77	1.75	1.29	1.23	1.21	1.75
Debt/Capital	58.95%	44.48%	44.75%	30.33%	53.91%	47.56%
Net Margin	2.99%	1.55%	10.59%	8.72%	NA	4.67%
Return on Equity	20.98%	4.87%	16.26%	15.07%	NA	7.98%
Sales/Assets	0.65	0.73	0.55	0.69	NA	0.59
Proj. Sales Growth (F1/F0)	-6.02%	0.00%	-2.61%	-16.76%	-17.28%	-3.41%
Momentum Score	D	-	-	C	C	C
Daily Price Chg	3.17%	1.20%	2.89%	1.14%	1.04%	4.43%
1 Week Price Chg	4.32%	2.44%	4.60%	6.28%	0.09%	10.69%
4 Week Price Chg	19.72%	16.26%	15.60%	16.26%	7.20%	27.74%
12 Week Price Chg	36.37%	27.60%	29.34%	32.86%	18.91%	45.15%
52 Week Price Chg	-12.57%	-3.11%	2.76%	26.32%	19.47%	-12.55%
20 Day Average Volume	2,631,200	130,970	2,537,324	21,961	26,994	3,054,405
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-1.38%	0.00%	-0.08%	0.00%	0.00%	-14.58%
(F1) EPS Est 12 week change	-25.84%	-30.03%	-16.19%	-33.57%	-33.80%	-30.03%
(Q1) EPS Est Mthly Chg	-0.80%	-2.62%	0.00%	0.00%	NA	-31.08%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	C
Momentum Score	D
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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