

International Paper (IP)

\$44.37 (As of 02/11/20)

Price Target (6-12 Months): **\$38.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 02/10/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:C

Value: C

Growth: B

Momentum: F

Summary

International Paper's first-quarter 2020 results will reflect the impact of lower price and unfavorable mix and higher maintenance outages in its segments. The company is facing structural challenges in its Industrial Packaging segment owing to the impact of tariffs, strong U.S. dollar and weak demand. In the first quarter, price and mix is likely to be lower owing to the impact of prior index movement in North America. For Industrial Packaging and Printing Paper segment, volume is anticipated to be muted on lower seasonal demand in North America and Brazil. In the Global Cellulose Fibers segment, reduced price and mix is expected to hurt bottom-line due to the impact of prior index movement in the current quarter. Consequently, the company's earnings estimates for the current year have undergone downward revisions lately.

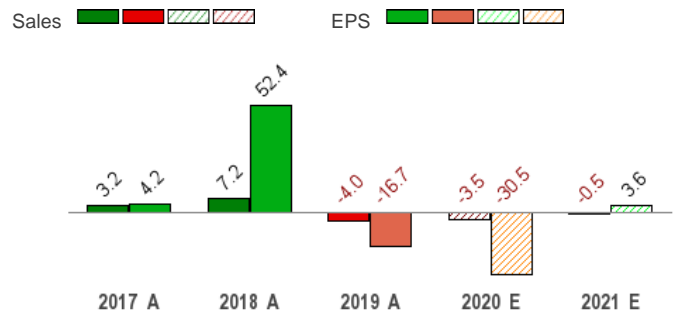
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$48.24 - \$36.45
20 Day Average Volume (sh)	2,772,102
Market Cap	\$17.4 B
YTD Price Change	-3.7%
Beta	1.56
Dividend / Div Yld	\$2.05 / 4.6%
Industry	Paper and Related Products
Zacks Industry Rank	Bottom 5% (241 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.9%
Last Sales Surprise	-1.4%
EPS F1 Est- 4 week change	-16.0%
Expected Report Date	04/23/2020
Earnings ESP	0.0%
P/E TTM	10.0
P/E F1	14.4
PEG F1	2.9
P/S TTM	0.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					21,485 E
2020	5,227 E	5,255 E	5,361 E	5,303 E	21,585 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					\$3.19 E
2020	\$0.47 E	\$0.47 E	\$0.91 E	\$0.90 E	\$3.08 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 02/11/2020. The reports text is as of 02/12/2020.

Overview

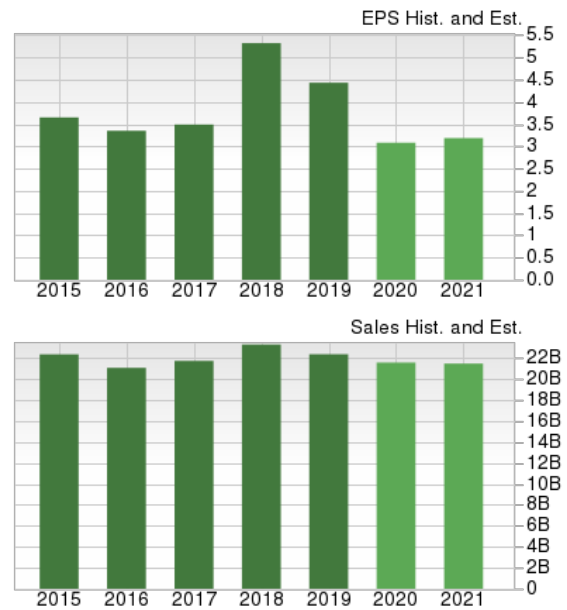
Incorporated in 1941, Headquartered in Memphis, TN, International Paper Company is a global producer of renewable fiber-based packaging, pulp and paper products with manufacturing operations in North America, Europe, Latin America, Russia, Asia, and North Africa. The company employs approximately 53,000 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 Sell:

- ▼ International Paper executes a high cold outage cycle. It has completed two cold outages in 2019, while eight cold outages are planned for this year. Consequently, the company expects higher maintenance outages across all of its business segments in the current quarter. It also anticipates around \$80 million of cost related to the Riverdale conversion in 2020, including the impact of unabsorbed fixed cost.
- ▼ In the Industrial Packaging segment, the company is facing structural challenges due to the impact of tariffs and a strong U.S. dollar in addition to weaker demand due to the recession in Turkey, which is a major importer of U.S. containerboard. In the first quarter, price and mix is likely to be lower owing to the impact of prior index movement in North America. Volume is expected to be down on lower seasonal demand in North America. Maintenance outage expense and input costs are also expected to be higher.
- ▼ In the Global Cellulose Fibers segment, reduced price and mix is expected to hurt bottom-line due to the impact of prior index movement in first-quarter 2020. Maintenance outage as well as operations and costs are also expected to impact the segment's results. In the Printing Papers business, volume is expected to be reduced, primarily on lower seasonal demand in Brazil, while maintenance outages is expected to increase.
- ▼ 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. Further, distribution costs are trending upwards lately due to a very tight truck and rail availability as well as higher diesel fuel cost. This will affect the company's margins in the near term.

Lower price and unfavorable mix, weak volume, maintenance outages in its segments, rising raw material and distribution costs as well as unfavorable foreign currency translation remain concerns.

Risks

- International Paper delivered solid earnings and generated strong operating cash flow in 2019 by efficiently managing costs across all business segments. The company guides adjusted EBITDA between \$3 billion and \$3.2 billion and free cash flow is projected at \$1.7 billion for the current year. In the North American Industrial Packaging business, box demand remains strong aided by strong e-commerce growth and export volume of containerboard. Further, the company's focus to serve the rapidly-growing segments will be an important contributor to the strong performance. In the Global Cellulose Fibers business, the company continues to improve fluff pulp shipments. Also, fluff pulp demand and volume are expected to grow. New product introductions in the fluff pulp segment as well as the company's optimization initiatives are likely to drive results.
 - International Paper is 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.
 - International Paper aims to utilize its sound cash flow by investing in high-return capital projects, reducing total debt and returning greater proportion of cash to shareholders through increased dividend payouts and share repurchases. The company generated outstanding cash flow of \$2.3 billion in 2019. In 2019, the company returned \$1.3 billion to shareholders through dividends and share repurchases and reduced debt by \$1 billion. In 2019, the company increased dividend for the 10th consecutive year to an annual payout of \$2.05 per share. Further, the company is also taking decisive measures to de-risk the company and strengthen its balance sheet.
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Last Earnings Report

International Paper Q4 Earnings Top, Sales Lag Estimates

International Paper reported fourth-quarter 2019 adjusted earnings of \$1.09 per share, down 34% year over year. However, the bottom line outpaced the Zacks Consensus Estimate of \$1.02.

Including one-time items, earnings during the fourth quarter came in at 42 cents compared with the year-ago quarter figure of 78 cents.

Net sales declined to \$5,498 million in the reported quarter from \$5,951 million in the year-ago quarter. Further, the reported figure missed the Zacks Consensus Estimate of \$5,576 million.

Adjusted cost of sales was \$3,620 million, down from the \$3,795 million in the prior-year quarter. Gross profit declined 13% year over year to \$1,878 million. Selling and administrative expenses declined 0.9% year over year to \$442 million in the quarter. Adjusted operating earnings came in at \$669 million, reflecting a year-over-year decline of 29%.

Segment Performance

Industrial Packaging: Sales in this segment fell to \$3,810 million in the reported quarter from \$4,017 million in the year-earlier quarter. Adjusted operating profit declined 6% year over year to \$605 million.

Printing Papers: This segment's sales were \$1,067 million in the fourth quarter, down 8% from \$1,160 million in the prior-year quarter. Adjusted operating profit for the segment was \$109 million compared with \$197 million in the year-ago period.

Global Cellulose Fibers: Sales of this segment came in at \$577 million compared with \$736 million in the prior-year quarter. The segment reported adjusted operating loss of \$45 million in fourth-quarter 2019 against an operating profit of \$93 million in the year-ago period.

Balance Sheet

Cash and temporary investments aggregated \$511 million at the end of 2019 compared with \$589 million at the end of the 2018. As of the 2019 end, long-term debt was \$9.6 billion compared with \$10.0 billion as of Dec 31, 2018.

Cash flow from operating activities was \$3.6 billion in 2019 compared with \$3.2 billion generated in the prior year. Free cash flow was \$2.3 billion during 2019 compared with \$1.7 billion last year.

The company continues to strengthen packaging business through targeted investments. It is also prudently managing costs, capital spending and working capital to generate strong cash flows in 2020, despite earnings headwinds.

International Paper repurchased shares worth \$485 million during 2019 and paid dividends worth \$796 million.

2019 Results

International Paper reported adjusted earnings per share of \$4.43 in 2019, down 17% from the prior-year figure of \$5.32. The bottom line surpassed the Zacks Consensus Estimate of \$4.37. Including one-time items, earnings came in at \$3.07, declining 37% from \$4.85 reported in 2018.

Sales declined 4% year over year to \$22.4 billion from the prior-year figure of \$23.3 billion. However, the top line outpaced the Zacks Consensus Estimate of \$22.5 billion.

Quarter Ending 12/2019

Report Date	Jan 30, 2020
Sales Surprise	-1.41%
EPS Surprise	6.86%
Quarterly EPS	1.09
Annual EPS (TTM)	4.44

Valuation

International Paper's shares are down 19.9% over the trailing 12-month period. Stocks in the Zacks Paper and Related Products industry and the Zacks Basics Materials sector are down 19.9% and 5% respectively, over the past year.

The S&P 500 index has gained 21.1% in the past year.

The stock is currently trading at 14.34X forward 12-month earnings, which compares to 7.10X for the Zacks sub-industry, 13.02X for the Zacks sector and 19.30X for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.51X and as low as 6.59X, with a 5-year median of 11.82X.

Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$38 price target reflects 12.28X 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	14.34	7.1	13.02	19.3
	5-Year High	17.51	15.21	21.14	19.34
	5-Year Low	6.59	4.15	9.77	15.18
	5-Year Median	11.82	11.85	13.62	17.47
EV/EBITDA TTM	Current	5.63	10.91	9.23	11.36
	5-Year High	12.95	16.25	18.36	12.85
	5-Year Low	4.49	4.7	7.34	8.47
	5-Year Median	6.87	7.94	10.61	10.7
P/B TTM	Current	2.25	3.32	2.24	4.33
	5-Year High	5.47	6.73	3.54	4.42
	5-Year Low	1.93	1.5	1.34	2.85
	5-Year Median	3.89	2.32	2.19	3.62

As of 02/11/2020

Industry Analysis Zacks Industry Rank: Bottom 5% (241 out of 254)



Top Peers

Verso Corporation (VRS)	Outperform
Clearwater Paper Corporation (CLW)	Neutral
Glatfelter (GLT)	Neutral
Neenah Paper, Inc. (NP)	Neutral
Veritiv Corporation (VRTV)	Neutral
WestRock Company (WRK)	Neutral
Packaging Corporation of America (PKG)	Underperform
Domtar Corporation (UFS)	Underperform

Industry Comparison Industry: Paper And Related Products				Industry Peers		
	IP Underperform	X Industry	S&P 500	NP Neutral	PKG Underperform	WRK Neutral
VGM Score	C	-	-	A	C	C
Market Cap	17.40 B	1.19 B	24.17 B	1.18 B	9.71 B	10.85 B
# of Analysts	6	1.5	13	1	6	6
Dividend Yield	4.62%	1.28%	1.77%	2.57%	3.08%	4.43%
Value Score	C	-	-	C	C	B
Cash/Price	0.03	0.06	0.04	0.01	0.08	0.01
EV/EBITDA	7.88	7.50	13.89	15.38	7.84	6.59
PEG Ratio	2.88	1.75	2.05	NA	3.30	3.02
Price/Book (P/B)	2.25	1.22	3.27	2.92	3.20	0.92
Price/Cash Flow (P/CF)	5.66	5.08	13.60	12.32	8.22	4.24
P/E (F1)	14.41	14.40	19.00	18.66	16.48	12.92
Price/Sales (P/S)	0.78	0.59	2.66	1.22	1.39	0.59
Earnings Yield	6.94%	6.27%	5.26%	5.36%	6.07%	7.74%
Debt/Equity	1.28	0.81	0.71	0.53	0.88	0.81
Cash Flow (\$/share)	7.84	2.06	6.89	5.69	12.49	9.89
Growth Score	B	-	-	A	B	C
Hist. EPS Growth (3-5 yrs)	11.46%	5.23%	10.85%	-1.02%	16.61%	12.85%
Proj. EPS Growth (F1/F0)	-30.44%	-7.53%	7.22%	10.91%	-18.61%	-18.34%
Curr. Cash Flow Growth	-13.00%	9.85%	8.88%	-10.70%	21.58%	9.85%
Hist. Cash Flow Growth (3-5 yrs)	2.55%	4.04%	8.36%	4.19%	17.00%	23.04%
Current Ratio	0.77	1.68	1.22	2.42	3.28	1.44
Debt/Capital	56.19%	44.91%	42.90%	34.67%	46.90%	44.91%
Net Margin	5.47%	2.18%	11.81%	5.46%	10.00%	4.69%
Return on Equity	23.49%	7.33%	16.98%	13.35%	24.89%	8.23%
Sales/Assets	0.66	0.75	0.54	1.13	0.99	0.60
Proj. Sales Growth (F1/F0)	-3.54%	-0.75%	4.06%	NA	-2.90%	-0.67%
Momentum Score	F	-	-	B	F	F
Daily Price Chg	1.44%	1.57%	0.45%	0.27%	2.02%	2.52%
1 Week Price Chg	6.97%	0.00%	2.47%	5.24%	5.88%	5.69%
4 Week Price Chg	-0.11%	-1.04%	0.95%	4.50%	-3.80%	-1.36%
12 Week Price Chg	-3.48%	-1.45%	5.05%	-1.75%	-9.75%	5.11%
52 Week Price Chg	-5.66%	-11.17%	16.18%	2.59%	5.56%	8.45%
20 Day Average Volume	2,772,102	56,784	1,999,386	79,692	900,919	2,245,228
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-16.03%	-4.44%	0.00%	0.00%	-9.19%	-1.12%
(F1) EPS Est 12 week change	-16.90%	-11.11%	-0.18%	0.00%	-10.57%	-2.01%
(Q1) EPS Est Mthly Chg	-34.72%	-20.33%	0.00%	NA	-20.72%	-5.93%

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	C
Growth Score	B
Momentum Score	F
VGM Score	C

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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