

International Paper (IP)

\$35.18 (As of 08/21/20)

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

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/16/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: C

Summary

International Paper's third-quarter 2020 results are likely to be impacted by lower price and mix in industrial packaging and printing paper segments, reduced volumes in the global cellulose fibers segment due to seasonality, and higher maintenance outage. Nevertheless, it will benefit from strong demand in e-commerce channel due to containment measures amid the pandemic. The Global cellulose fibers segment will gain on demand for absorbent hygiene products and tissue products as a result of the pandemic. Further, corrugated packaging demand remains resilient on account of its critical role in supply chain. However, weak demand for printing papers as schools and office remain closed, and decline in commercial printing segments owing to the significant pullback in print advertising remains a concern for the Printing Paper segment.

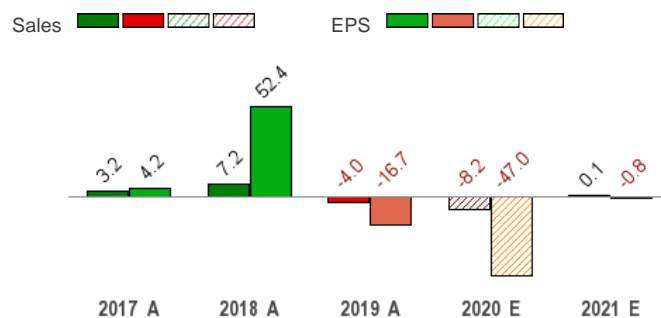
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$47.64 - \$26.38
20 Day Average Volume (sh)	2,775,113
Market Cap	\$13.8 B
YTD Price Change	-23.6%
Beta	1.30
Dividend / Div Yld	\$2.05 / 5.8%
Industry	Paper and Related Products
Zacks Industry Rank	Bottom 24% (192 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	102.6%
Last Sales Surprise	-5.0%
EPS F1 Est- 4 week change	15.3%
Expected Report Date	NA
Earnings ESP	2.3%
P/E TTM	10.0
P/E F1	15.0
PEG F1	NA
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					20,555 E
2020	5,352 A	4,866 A	5,125 E	5,192 E	20,542 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					\$2.33 E
2020	\$0.57 A	\$0.77 A	\$0.47 E	\$0.64 E	\$2.35 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.

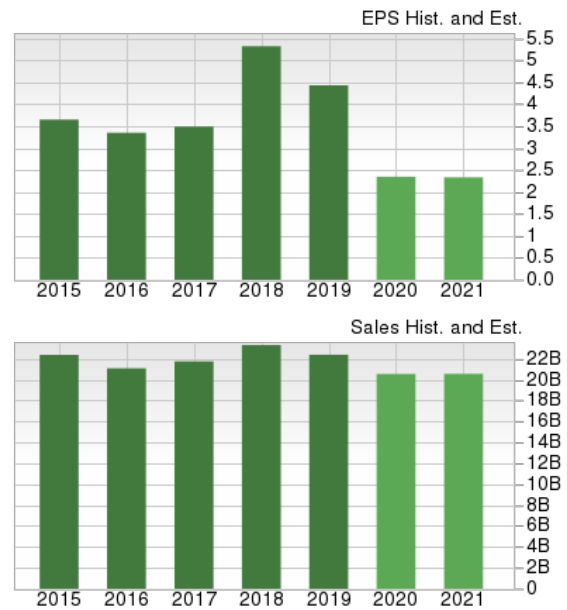
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/21/2020. The reports text is as of 08/24/2020.

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 50,000 people and is strategically located in more than 150 countries serving customers worldwide.

The company currently has three operating segments-

- 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 recycles around \$1 million tons of OCC and mixed and white paper through 18 recycling plants. 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. On Mar 29, 2020, the company announced that it has entered into an agreement to sell its Brazilian Industrial Packaging business for R\$330 million (\$60.3 million).
- 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, beverage, proteins, chemicals, paper tissue and towel. 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 continually evaluates its operations for improvement opportunities by focusing on its core businesses, realigning capacity to operate fewer facilities with the same revenue capability, closing high cost facilities, and trimming costs. 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. It has entered into an agreement to sell its Brazilian Industrial Packaging, which is expected to close in the second half of 2020.
- ▲ 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. In May 2020, the company increased its ownership interest in a sheet feeder with a strong box plant network in North America. This investment enables the company to expand sales through the channel by 140,000 tons annually by providing a broad range of containerboard solutions. The company has also decided to increase capital investments in its North American box system by about \$60 million this year to enhance capabilities and converting capacity to support growing customer segments and geographies. Last year, the company acquired two packaging businesses located in Portugal (Ovar) and France (Torigni and Cabourg) from DS Smith Packaging. The company has raised its full-year capital expenditure target to \$800 million. This increase is primarily due to the company's plan of funding strategic projects with returns of more than 20% in the North American Industrial packaging business.
- ▲ The company's efforts to reduce its debt levels appear encouraging. International Paper's total debt has gone down from \$11 billion at the end of 2016 to \$9.47 billion as of Jun 30, 2020. Its total debt to total capital ratio is at 0.58, lower than the industry's 0.81. The company's times interest earned ratio of 3.3 compares favorably with the industry's negative 3.8. Through the first half of 2020, International Paper generated \$1.5 billion of cash from operations and \$1 billion of free cash flow aided by strong commercial and operational performance, and cost management actions. As of Jun 30, 2020, the company had \$3.6 billion of liquidity. Management has taken various actions to strengthen the company's liquidity position that include entering into a \$750 million revolving credit agreement and amending the receivable securitization program from uncommitted to committed financing. The company has indefinitely suspended its share repurchase program and has been deferring the payment of payroll taxes as allowed under CARES Act. Its pension plan is currently sufficiently funded, and no contributions are required in 2020.

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. Further, the transition to digital media has led to declines in demand for paper and remains a persistent woe. Paperless communication, increased use of email, less print advertising, more electronic billing and fewer catalogs have dented paper demand. This remains a concern.
- ▼ 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 third-quarter 2020, the company expects price and mix to be down \$25 million in the industrial packaging segment on the flow through of prior index movements in North America. Operations and costs are anticipated to be negatively impacted by higher costs associated with the Riverdale mill start-up and higher seasonal costs in the North American box business. Maintenance outages are also expected to be \$44 million higher than the second quarter. Volume is expected to be stable compared with the second quarter while input costs are anticipated to be lower driven by lesser recovered fiber costs.
- ▼ In global cellulose fibers segment, volume is expected to be sequentially lower in third-quarter 2020 due to lower seasonal demand and inventory destock. Operations and costs are anticipated to affect earnings by \$15 million, partly due to higher expected unabsorbed fixed costs. Higher maintenance outage expenses and increased input costs, driven by higher energy and chemical costs will also dent the segment's earnings in the third quarter. In the Printing Papers business, price and mix is likely to be down in the third quarter, primarily due to export channels. While volume is expected to improve, resurgence in coronavirus cases might cut the recovery short. While operations and costs are expected to improve on better fixed cost absorption, maintenance outage expenses are expected to increase. Notably, input costs are expected to remain stable. Overall, in the third quarter, maintenance outages are expected to be around \$174 million, sequentially higher by \$100 million. Notably, maintenance outage is expected to be at the highest in the third quarter.
- ▼ Demand for processed foods is normalizing as shopping activity is picking up. There has been a modest improvement in fresh produce and beverage as restaurants and food service activity are slowly reopening. However, this recovery may not sustain considering the resurgence in coronavirus cases in many areas as this might lead to the governments imposing further shutdowns.

International Paper's results will bear the impact of the coronavirus pandemic. Weak demand for printing paper and decline in commercial printing will weigh on its top-line performance.

Last Earnings Report

International Paper's Earnings Trump Estimates in Q2

International Paper reported second-quarter 2020 adjusted earnings of 77 cents per share, significantly down 33% year over year. However, the bottom-line figure outpaced the Zacks Consensus Estimate of 38 cents.

Including one-time items, the company recorded earnings per share of 67 cents during the June-end quarter compared with the year-ago quarter's 73 cents.

Net sales declined to \$4,866 million in the second quarter from the year-ago quarter's \$5,667 million. The reported figure also missed the Zacks Consensus Estimate of \$5,124 million.

Adjusted cost of sales was \$3,385 million, down from the prior-year quarter's \$3,890 million. Adjusted gross profit slid 17% year over year to \$1,481 million. Selling and administrative expenses dropped 17.4% year over year to \$332 million during the June-end quarter. Segment operating profit came in at \$428 million, reflecting a year-over-year plunge of 32%.

Segment Performance

Industrial Packaging: Sales in this segment fell to \$3,633 million in the second quarter from the year-earlier quarter's \$3,864 million. Operating profit decreased 12.8% year over year to \$449 million.

Printing Papers: This segment's sales came in at \$583 million in the April-June quarter, down 46.4% from the prior-year quarter. The segment incurred an operating loss of \$11 million, as against the year-ago quarter's operating profit of \$114 million.

Global Cellulose Fibers: Sales of this segment came in at \$605 million compared with the \$661 million witnessed in the year-earlier quarter. The segment posted an operating loss of \$10 million in second-quarter 2020.

Balance Sheet

Cash and temporary investments aggregated \$847 million as of Jun 30, 2020 compared with \$511 million as of Dec 31, 2019. As of Jun 30, 2020, long-term debt was \$9.4 billion compared with \$9.6 billion as of Dec 31, 2019.

Cash flow from operating activities was \$1,539 million in the first half of the current year compared with the \$1,800 million generated in the first half of 2019. Free cash flow was \$638 million in the reported quarter compared with the prior-year quarter's \$732 million. The company will continue to focus on cash generation to strengthen its liquidity position in a bid to battle the coronavirus crisis.

Quarter Ending 06/2020

Report Date	Jul 30, 2020
Sales Surprise	-5.03%
EPS Surprise	102.63%
Quarterly EPS	0.77
Annual EPS (TTM)	3.52

Valuation

International Paper's shares are down 23.7% over the trailing 12-month period and 6.8% over the trailing 12-month period. Stocks in the Zacks Paper and Related Products industry and the Zacks Basics Materials sector are down 20.7% and 0.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 2.2% and 13.3%, respectively.

The S&P 500 index is up 5.4% in the year-to-date period and up 18.3% in the past year.

The stock is currently trading at 15.13X forward 12-month earnings, which compares to 8.64X for the Zacks sub-industry, 14.25X for the Zacks sector and 22.85X for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.32X and as low as 6.59X, with a 5-year median of 11.80X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$38 price target reflects 16.11X 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	15.13	8.64	14.25	22.85
	5-Year High	18.32	13.89	21.05	22.85
	5-Year Low	6.59	4.15	9.84	15.25
	5-Year Median	11.8	10.54	13.50	17.58
EV/EBITDA TTM	Current	5.17	4.36	10.9	12.89
	5-Year High	11.55	15.56	18.4	12.89
	5-Year Low	4.21	4	6.5	8.25
	5-Year Median	6.07	7.78	10.43	10.91
P/B TTM	Current	1.96	4.99	2.14	4.59
	5-Year High	5.47	6.73	3.07	4.59
	5-Year Low	1.35	1.5	1.23	2.83
	5-Year Median	3.47	2.31	2.19	3.75

As of 08/21/2020

Industry Analysis Zacks Industry Rank: Bottom 24% (192 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
MONDI PLC UNS (MONDY)	Outperform	2
SMURFIT KAPPA (SMFKY)	Outperform	2
WestRock Company (WRK)	Outperform	3
D S SMITH PLC (DITHF)	Neutral	4
Stora Enso Oyj (SEOAY)	Neutral	3
Sappi Ltd. (SPPJY)	Neutral	4
Veritiv Corporation (VRTV)	Neutral	4
Neenah Paper, Inc. (NP)	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	Outperform	Outperform
Zacks Rank (Short Term)	3	-	-	3	2	3
VGM Score	A	-	-	A	A	A
Market Cap	13.83 B	729.36 M	23.62 B	10.78 B	8.37 B	7.39 B
# of Analysts	6	1.5	14	2	1	7
Dividend Yield	5.83%	0.00%	1.65%	0.94%	3.82%	2.81%
Value Score	A	-	-	B	B	A
Cash/Price	0.06	0.10	0.07	0.10	0.03	0.04
EV/EBITDA	6.68	6.46	13.29	NA	NA	5.49
PEG Ratio	NA	9.48	3.03	NA	NA	NA
Price/Book (P/B)	1.96	1.20	3.11	1.30	2.49	0.63
Price/Cash Flow (P/CF)	4.49	5.32	12.69	5.94	6.26	2.88
P/E (F1)	15.81	15.22	21.51	26.29	14.61	11.16
Price/Sales (P/S)	0.65	0.54	2.43	0.96	NA	0.42
Earnings Yield	6.68%	5.90%	4.46%	3.80%	6.84%	8.96%
Debt/Equity	1.38	0.83	0.76	0.44	1.17	0.84
Cash Flow (\$/share)	7.84	1.75	6.93	2.30	5.60	9.89
Growth Score	B	-	-	A	A	C
Hist. EPS Growth (3-5 yrs)	8.39%	-2.83%	10.44%	NA	NA	9.01%
Proj. EPS Growth (F1/F0)	-46.99%	-39.91%	-5.53%	-65.33%	-21.31%	-35.93%
Curr. Cash Flow Growth	-13.00%	-11.50%	5.20%	50.09%	3.96%	9.85%
Hist. Cash Flow Growth (3-5 yrs)	2.55%	-1.02%	8.52%	6.37%	NA	23.04%
Current Ratio	0.79	1.74	1.33	1.23	1.21	1.80
Debt/Capital	57.94%	45.62%	44.50%	30.33%	53.91%	45.62%
Net Margin	2.98%	-0.05%	10.13%	8.72%	NA	4.37%
Return on Equity	19.18%	5.27%	14.67%	15.07%	NA	7.24%
Sales/Assets	0.64	0.72	0.51	0.69	NA	0.58
Proj. Sales Growth (F1/F0)	-8.20%	0.00%	-1.54%	-13.13%	-4.94%	-4.57%
Momentum Score	C	-	-	C	D	C
Daily Price Chg	-1.40%	-0.94%	-0.15%	-1.09%	-1.90%	-1.15%
1 Week Price Chg	5.02%	3.96%	1.09%	2.20%	3.21%	4.20%
4 Week Price Chg	-3.96%	0.32%	1.64%	5.64%	10.04%	-5.61%
12 Week Price Chg	0.26%	0.38%	6.72%	14.49%	7.91%	-1.42%
52 Week Price Chg	-9.47%	-4.60%	1.00%	23.00%	18.04%	-15.37%
20 Day Average Volume	2,775,113	135,536	1,873,576	99,827	23,536	2,456,315
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	15.31%	8.63%	1.79%	11.83%	19.40%	14.13%
(F1) EPS Est 12 week change	9.38%	5.00%	3.35%	11.83%	27.66%	6.10%
(Q1) EPS Est Mthly Chg	12.03%	12.03%	0.42%	16.67%	NA	26.67%

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	B
Momentum Score	C
VGM Score	A

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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