

Packaging Corp. (PKG)

\$85.04 (As of 03/09/20)

Price Target (6-12 Months): **\$76.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 02/03/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: C

Summary

Packaging Corporation projects earnings per share of \$1.20 for first-quarter 2020. The guidance suggests a plunge of 39% from the year-ago reported figure. Lower volumes, higher freight and labor costs, and rise in outage costs are likely to impact results of the Paper segment in the first quarter. For the Packaging segment, lower prices and containerboard sales volumes due to scheduled outages at three largest mills during the current quarter will likely impact results. The company's earnings estimates for the ongoing quarter have thus witnessed downward revisions lately. Further, Packaging Corporation is planning nine outages this year compared with six undergone in the prior year. The impacts of these outages, which included lost volume, direct costs and amortized repair costs, are expected to weigh on the company's earnings this year.

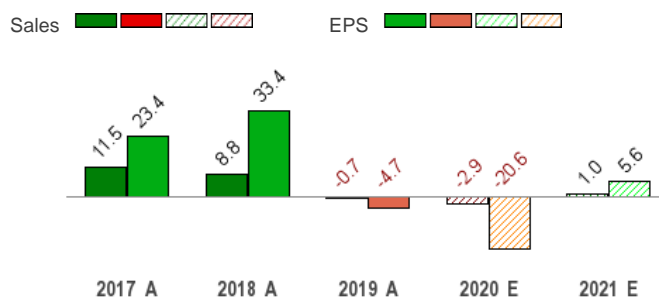
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$114.78 - \$83.16
20 Day Average Volume (sh)	911,178
Market Cap	\$8.0 B
YTD Price Change	-24.1%
Beta	1.60
Dividend / Div Yld	\$3.16 / 3.7%
Industry	Containers - Paper and Packaging
Zacks Industry Rank	Bottom 19% (204 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	1.4%
EPS F1 Est- 4 week change	-2.5%
Expected Report Date	04/22/2020
Earnings ESP	0.0%
P/E TTM	11.1
P/E F1	14.0
PEG F1	2.8
P/S TTM	1.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					6,830 E
2020	1,651 E	1,707 E	1,690 E	1,668 E	6,762 E
2019	1,734 A	1,760 A	1,751 A	1,720 A	6,964 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$6.41 E
2020	\$1.21 E	\$1.43 E	\$1.63 E	\$1.40 E	\$6.07 E
2019	\$1.98 A	\$2.04 A	\$1.92 A	\$1.71 A	\$7.65 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 03/09/2020. The reports text is as of 03/10/2020.

Overview

Headquartered at Lake Forest, IL, Packaging Corporation of America is the third largest producer of containerboard products and the third largest producer of uncoated freesheet paper in North America. The company operates six containerboard mills, two paper mills, and 95 corrugated products manufacturing plants.

Packaging Corporation operates in three segments:

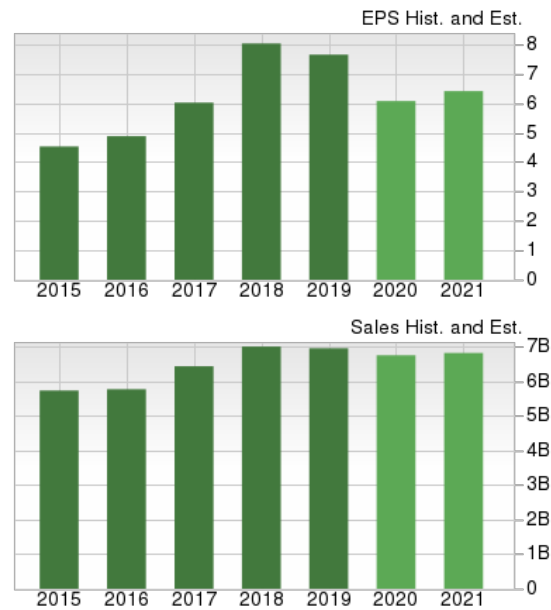
Packaging segment (85% of 2019 revenues) - From its containerboard mills, the segment produces linerboard and semi-chemical corrugating medium, which are mainly utilized in the production of corrugated products. The corrugated products manufacturing plants produce a wide variety of corrugated packaging products, including conventional shipping containers used to protect and transport manufactured goods, multi-color boxes and displays with visual appeal that aid in merchandising the packaged product in retail locations, and honeycomb protective packaging. The segment also produces packaging for meat, fresh fruit and vegetables, processed food, beverages, and other industrial and consumer products.

The segment sells containerboard and corrugated products to approximately 18,000 customers in over 36,000 locations.

Paper segment (15%) is the third largest manufacturer of uncoated freesheet in North America. The company manufactures and sells white paper, including commodity and specialty paper, which may have custom or specialized features such as colors, coatings, high brightness, and recycled content. White papers consist of communication papers, including cut-size office papers and printing and converting papers.

The segment serves over 150 customers in approximately 450 locations. These customers include office products distributors and retailers, paper merchants, and envelope and other converters.

Corporate and Other segment includes corporate support staff services, and related assets and liabilities. This segment also includes transportation assets, which are utilized to transport products to and from manufacturing sites and assets related to a 50%-owned variable interest entity — Louisiana Timber Procurement Company, L.L.C.



Reasons To Sell:

- ▼ Packaging Corporation has a heavy volume of scheduled mill outages in 2020. It is planning nine outages this year compared to six in 2019. Four outages are planned for the first quarter, with three at its containerboard mills and one at its paper mill. There had been only two outages in the first quarter of 2019. The impacts of the outages, including lost volume, direct costs and amortized repair costs, are expected to weigh on the company's earnings this year.
- ▼ For the Paper segment, volumes are anticipated to be lower in the first quarter of 2020 due to scheduled outage at Jackson, Alabama mill in the ongoing quarter. Due to cold weather, energy and wood costs might flare up during this period. Freight costs will be higher due to rail-rate increases in certain areas and scheduled outage-related increases. Also, labor and benefit costs will be higher with annual wage increases and other timing-related expenses. Scheduled maintenance outage costs might be higher sequentially in the first-quarter 2020. Considering these, Packaging Corporation projects earnings per share of around \$1.20 for the current quarter, down from prior guidance of \$1.97 per share.
- ▼ For the ongoing quarter, the company expects softer prices in the Packaging segment owing to reduction in published domestic containerboard and linerboard prices. It also expects lower export pricing for the segment. Containerboard sales volumes are also anticipated to be lower due to scheduled outages at three largest mills during the current quarter.
- ▼ Packaging Corporation functions in a highly competitive industry. Containerboard and commodity white paper products tend to intensify price competition. The corrugated packaging industry is also sensitive to changes in economic conditions, as well as other factors, including innovation, design, quality, and service. Intense competition could lead to a decline in its market share, as well as lower sales prices, both of which are likely to affect the bottom line and operating cash flows.

Packaging Corporation's results will likely be marred by lower prices, annual maintenance outages and higher converting costs. Containerboard sales volume is also anticipated to be lower.

Risks

- Packaging Corporation discontinued the production of uncoated free sheet and coated one-side grades at the Wallula, WA mill and converted the No. 3 machine to a virgin kraft linerboard machine with an annual capacity of 400,000 tons. The conversion resulted in production of lighter weight high performance linerboard grades. This will assist the company in optimizing the entire containerboard system platform and reduce its logistics and freight costs. According to the company, there are opportunities to increase capacity of the mill. This move will help the company continues improve profitability and margins in the paper segment. The company has also installed new box plant in Richland, WA.
 - The company maintains a balanced approach toward capital allocation in order to profitably grow the company as well as maximize returns for the shareholders. Cash flow from operations came in at \$329 million in the fourth quarter of 2019 and a record \$1.2 billion for 2019. Free cash flow was \$194 million in the fourth quarter and \$808 million in 2019. In 2019, the company spent \$399 million on capital expenditures. Packaging Corporation anticipates capital spending for current year to be \$400-\$425 million. Further, share repurchases will bolster earnings.
 - Packaging Corporation will benefit from the e-commerce boom that will lead to increase in demand in boxes. These days, customers find a lot of different channels to sell-through, including e-commerce. The company has a wide base of customers and expects the business to grow in the current year.
 - The company's corrugated product manufacturing plants produce a wide variety of packaging products, which include conventional shipping containers used to protect and transport manufactured goods, multi-colored boxes, and displays with strong visual appeal. In corrugated products, the company had a record box shipment in 2019. It expects higher corrugated product shipments in the first-quarter 2020. In addition, Packaging Corporation is a large producer of packaging for meat, fresh fruit and vegetables, processed food, beverages, and other industrial and consumer products. The diverse product portfolio mitigates operating risks associated with any downturn in a particular product category.
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Last Earnings Report

Packaging Corp Q4 Earnings In Line, Sales Top Estimates

Packaging Corporation reported adjusted earnings per share of \$1.71 in fourth-quarter 2019, in line with the Zacks Consensus Estimate. Earnings came in ahead of management's guidance of \$1.70 per share. However, the reported figure fell 21.2% year over year.

This decline can be attributed to lower prices and mix in Packaging and Paper segment, higher operating costs, non-operating pension expense, depreciation expense and other costs. These negatives were, however, partly offset by higher volumes in Paper and Packaging segment, lower annual outage expenses, and reduced freight and logistics expenses.

Including one-time items, earnings in the reported quarter were \$1.43 compared with the prior-year quarter's \$2.16.

Operational Update

Sales for the December-end quarter edged down 1.5% to \$1,720 million from the prior-year quarter's \$1,746.6 million. The reported figure, however, surpassed the Zacks Consensus Estimate of \$1,697 million.

Cost of products sold was up 1.2% year over year to \$1,336.7 million in the reported quarter. Gross profit went down 9.8% to \$383.3 million from the \$425.4 million witnessed in the prior-year quarter. Selling, general and administrative expenses rose 5.6% to \$137 million from the \$129.7 million incurred in the year-ago quarter. Adjusted total segment operating income declined 18.8% year over year to \$235.8 million.

Segmental Performance

Packaging: Sales in this segment went down to \$1,460 million from the \$1,504 million recorded in the year-earlier period. Segmental income, excluding special items, came in at \$215.6 million in the quarter compared with the \$266.7 million witnessed in the prior-year period.

Printing Papers: This segment's revenues increased 7.3% year over year to \$244 million in the quarter. Segmental income, excluding special items, improved to \$43 million from the \$42 million reported in the year-earlier period.

Cash Position

At the end of the fourth quarter, the company had a cash balance of \$679.5 million compared with the \$361.5 million recorded at the end of the prior-year quarter.

2019 Results

Packaging Corporation reported adjusted earnings per share of \$7.65 in 2019, down 4.7% from the prior year's \$8.03. Earnings came in line with the Zacks Consensus Estimate. Including one-time items, the bottom line came in at \$7.34, down 5.9% from the \$7.80 recorded in 2018.

Sales declined 0.7% year over year to \$6.96 billion from the prior year's \$7.01 billion. However, the top-line figure outpaced the Zacks Consensus Estimate of \$6.94 billion.

Outlook

For the current quarter, the company expects softer prices and lower export pricing for the Packaging segment. Containerboard volumes are likely to be lower due to scheduled outages at three largest mills during the quarter. Nonetheless, the company expects higher corrugated products shipments.

For the Paper segment, volumes are anticipated to be lower during first-quarter 2020. Scheduled outage costs are expected to be significantly higher. Also, freight and labor costs are likely to be higher. Due to cold weather, energy and wood costs might flare up during this period. Considering these, the company envisions first-quarter earnings at \$1.20 per share.

Quarter Ending **12/2019**

Report Date	Jan 29, 2020
Sales Surprise	1.38%
EPS Surprise	0.00%
Quarterly EPS	1.71
Annual EPS (TTM)	7.65

Valuation

Packaging Corporation's shares are down 13% over the trailing 12-month period. Stocks in the Zacks Containers - Paper and Packaging industry and the Zacks Industrial Products sector are down 40% and 5.3%, respectively, over the past year.

The S&P 500 index is up 5.6% in the past year.

The stock is currently trading at 13.86X forward 12-month earnings, which compares to 12.86X for the Zacks sub-industry, 14.52X for the Zacks sector and 15.75X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.37X and as low as 8.94X, with a 5-year median of 14.33X.

Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$76 price target reflects 12.39X forward 12-month earnings per share.

The table below shows summary valuation data for PKG:

Valuation Multiples - PKG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.86	12.86	14.52	15.75
	5-Year High	21.37	18.95	19.89	19.34
	5-Year Low	8.94	7.13	12.6	15.18
	5-Year Median	14.33	16.61	16.43	17.42
P/S F12M	Current	1.19	1.97	2.19	2.91
	5-Year High	1.9	5.06	2.73	3.44
	5-Year Low	0.78	1.46	1.51	2.54
	5-Year Median	1.34	1.8	1.99	3
EV/EBITDA TTM	Current	7.06	18.43	15.31	11.04
	5-Year High	11.78	28.21	17.44	12.87
	5-Year Low	5.8	12.72	10.92	8.49
	5-Year Median	8.25	15.34	14.79	10.79

As of 03/10/2020

Industry Analysis Zacks Industry Rank: Bottom 19% (204 out of 253)



Top Peers

Berry Global Group, Inc. (BERY)	Neutral
Ball Corporation (BLL)	Neutral
Crown Holdings, Inc. (CCK)	Neutral
Graphic Packaging Holding Company (GPK)	Neutral
Sealed Air Corporation (SEE)	Neutral
Sonoco Products Company (SON)	Neutral
WestRock Company (WRK)	Neutral
Domtar Corporation (UFS)	Underperform

Industry Comparison Industry: Containers - Paper And Packaging				Industry Peers		
	PKG Underperform	X Industry	S&P 500	IP Underperform	UFS Underperform	WRK Neutral
VGM Score	C	-	-	A	B	B
Market Cap	8.05 B	4.40 B	19.13 B	12.66 B	1.50 B	6.88 B
# of Analysts	5	5	13	6	5	6
Dividend Yield	3.72%	2.26%	2.26%	6.35%	6.82%	6.99%
Value Score	D	-	-	B	B	A
Cash/Price	0.09	0.05	0.05	0.04	0.04	0.02
EV/EBITDA	6.83	8.51	11.99	6.48	5.65	5.30
PEG Ratio	2.80	1.17	1.68	NA	NA	NA
Price/Book (P/B)	2.62	2.31	2.64	1.64	0.64	0.58
Price/Cash Flow (P/CF)	7.08	7.08	10.70	4.12	3.20	2.69
P/E (F1)	14.01	13.85	15.44	10.48	20.98	8.25
Price/Sales (P/S)	1.16	0.89	2.05	0.57	0.29	0.37
Earnings Yield	7.14%	7.22%	6.47%	9.54%	4.76%	12.10%
Debt/Equity	0.87	0.87	0.70	1.28	0.42	0.81
Cash Flow (\$/share)	12.01	3.81	7.01	7.84	8.33	9.89
Growth Score	B	-	-	B	C	C
Hist. EPS Growth (3-5 yrs)	16.61%	12.00%	10.85%	11.46%	5.23%	12.85%
Proj. EPS Growth (F1/F0)	-20.63%	5.10%	6.25%	-30.44%	-57.60%	-18.97%
Curr. Cash Flow Growth	-3.69%	9.13%	6.09%	-13.00%	-20.37%	9.85%
Hist. Cash Flow Growth (3-5 yrs)	5.99%	5.99%	8.52%	2.55%	-5.05%	23.04%
Current Ratio	3.42	1.59	1.24	0.77	1.98	1.44
Debt/Capital	46.51%	50.26%	42.57%	56.19%	29.77%	44.91%
Net Margin	10.00%	4.01%	11.69%	5.47%	1.61%	4.69%
Return on Equity	24.57%	19.51%	16.74%	23.49%	7.33%	8.23%
Sales/Assets	0.98	0.87	0.54	0.66	1.05	0.60
Proj. Sales Growth (F1/F0)	-2.90%	2.39%	3.76%	-3.54%	-3.70%	-0.70%
Momentum Score	C	-	-	B	D	B
Daily Price Chg	-6.32%	-6.59%	-7.65%	-9.61%	-7.10%	-11.54%
1 Week Price Chg	0.18%	0.09%	-0.67%	-3.38%	-0.14%	-9.53%
4 Week Price Chg	-15.44%	-17.04%	-19.26%	-26.20%	-22.91%	-35.02%
12 Week Price Chg	-22.70%	-21.25%	-17.26%	-30.13%	-30.78%	-34.94%
52 Week Price Chg	-13.04%	-16.70%	-6.83%	-30.55%	-47.16%	-31.40%
20 Day Average Volume	911,178	328,384	2,684,709	2,947,377	1,047,514	2,935,506
(F1) EPS Est 1 week change	-2.48%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-2.48%	-2.20%	-0.06%	0.00%	-24.91%	-0.77%
(F1) EPS Est 12 week change	-11.44%	-2.58%	-0.46%	-16.41%	-48.00%	-3.87%
(Q1) EPS Est Mthly Chg	0.00%	-1.69%	-0.40%	0.00%	16.67%	-1.92%

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	D
Growth Score	B
Momentum Score	C
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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