

Packaging Corp. (PKG)

\$101.70 (As of 05/28/20)

Price Target (6-12 Months): **\$108.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 03/31/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: D

Summary

Packaging Corporation has not provided second-quarter guidance due to uncertainty associated with the impact of the coronavirus pandemic. Demand in the packaging segment will likely remain strong backed by e-commerce demand and rising requirement for meat, fruit and vegetables, processed food, beverages, medicine, and other consumer products owing to the coronavirus crisis. Solid e-commerce demand will fuel growth. Further, a solid balance sheet positions the company well to navigate through the troubled times. However, lower paper consumption in office, schools will weigh on the Paper segment. The company has thus idled paper machines and the sheet-converting operation at its Jackson Mill, which is likely to impact second-quarter earnings by 24 cents per share. Moreover, the paper segment continues to bear the brunt of increased digitization.

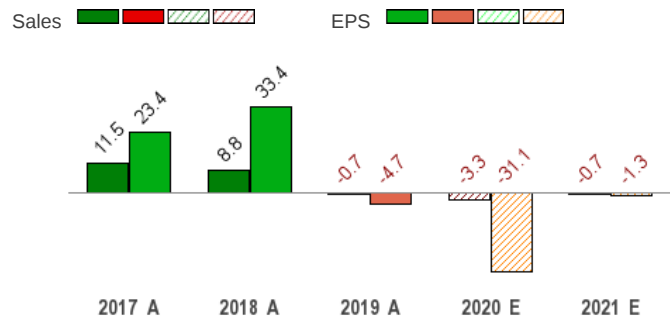
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$114.78 - \$71.05
20 Day Average Volume (sh)	615,543
Market Cap	\$9.6 B
YTD Price Change	-9.2%
Beta	1.29
Dividend / Div Yld	\$3.16 / 3.1%
Industry	Containers - Paper and Packaging
Zacks Industry Rank	Bottom 49% (130 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	25.0%
Last Sales Surprise	3.5%
EPS F1 Est- 4 week change	-4.6%
Expected Report Date	07/22/2020
Earnings ESP	-3.1%
P/E TTM	14.2
P/E F1	19.3
PEG F1	3.9
P/S TTM	1.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					6,687 E
2020	1,709 A	1,672 E	1,693 E	1,663 E	6,737 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					\$5.20 E
2020	\$1.50 A	\$1.29 E	\$1.37 E	\$1.14 E	\$5.27 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 05/28/2020. The reports text is as of 05/29/2020.

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 94 corrugated products manufacturing plants.

Packaging Corporation operates in three segments:

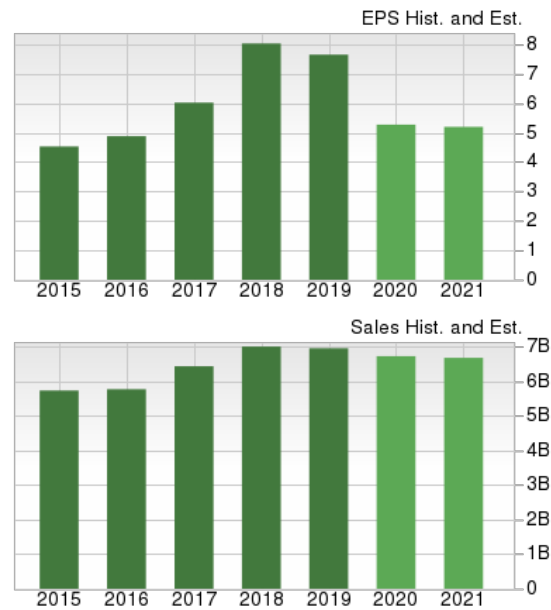
Packaging segment (85% of 2019 revenues) - From its containerboard mills, the segment produces linerboard and semi-chemical corrugating medium, which are mainly utilized in the production of corrugated products. The corrugated products manufacturing plants produce a wide variety of corrugated packaging 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 Buy:

▲ Demand in the Packaging segment, which contributes around 85% of the company's revenues, was robust in first-quarter 2020. The company reported record first-quarter volume in the container board mills even while performing scheduled annual maintenance outage work at four of its mills. It also achieved a new all-time quarterly volume record in corrugated products plants. While integration rate of mill's volume into plants was at 95%, container board inventory was at the lowest level since the company's acquisition of the Boise packaging business in 2013. Packaging products are essential for the distribution of food, beverage and pharmaceutical products. Hence, the segment will continue to benefit from the elevated demand for meat, fruit and vegetables, processed food, beverages, medicine, and other consumer products owing to the coronavirus crisis.

Packaging Corporation is poised to gain from e-commerce and strong demand for packaging for food, beverage and pharmaceutical products in the wake of the coronavirus crisis.

▲ Over the past five years, Packaging Corporation's debt has witnessed a CAGR of 2% while its cash flow has seen a CAGR of 44% over the same time frame. As of Dec 31, 2019, the company had \$2.5 billion of debt outstanding and a \$329.2 million undrawn revolving credit facility, after deducting letters of credit. With the refinancing completed in fourth-quarter 2019, the company currently does not have any debt maturities for the next 3 years. The total debt to total capital ratio was at 0.47 as of Dec 31, 2019, lower than the industry's 0.58. Further, the company's times interest earned ratio of 7.9 is much higher than the industry's 3.8. Packaging Corporation ended first-quarter 2020 with \$764 million of cash on hand or \$913 million, including the cash recently moved to marketable securities. The company's liquidity as of Mar 31, 2020 of over \$1.2 billion is the highest ever for the company. This positions the company well to navigate through the turbulent times.

▲ 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 continue to 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. In 2019, the company spent \$399 million on capital expenditures. Packaging Corporation anticipates capital spending for current year to be \$400-\$425 million.

▲ 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. Also, growing demand for corrugated products due to increased demand for food, beverage and pharmaceutical products during the coronavirus induced crisis also bodes well for the company.

Reasons To Sell:

- ▼ The coronavirus outbreak has affected paper consumption in schools, offices and businesses, straining paper demand. To balance the supply of Boise Paper products with demand, Packaging Corporation thus recently announced plans to temporarily idle both paper machines and the sheet-converting operation at its Jackson Mill in Jackson, AL for the months of May and June 2020. This move will reduce paper production by approximately 70,000 tons, and the mill is expected to restart on Jul 6, 2020. The company's paper mill in International Falls, MN will continue to operate at capacity during this period. It anticipates inventory to be at appropriate levels after this downtime. The estimated financial impact of this decision on the second quarter is approximately \$30 million or 24 cents per share.
 - ▼ Packaging Corporation's results are likely to be impacted by lower paper consumption of paper due to the impact of the coronavirus. Further, the overall impact of the pandemic remains a concern.
 - ▼ Citing the uncertainty regarding the duration and impact of the pandemic, and the timing of the global recovery, the company has not provided a guidance for the second quarter. The company might have to shutdown or suspend operations as per government mandates, or if there are any cases reported in its facilities. Its supply chain might also be impacted. In these cases, it will impact Packaging Corporation's results.
 - ▼ The paper segment competes with electronic data transmission, e-readers, electronic document storage alternatives. Increasing preference for these alternatives will continue to have an adverse effect on traditional print media and paper usage and lower demand for communication papers. This will impact the Paper segment's performance going forward.
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Last Earnings Report

Packaging Corp's Earnings & Sales Trump Estimates in Q1

Packaging Corporation of America reported adjusted earnings per share of \$1.50 in first-quarter 2020, surpassing the Zacks Consensus Estimate of \$1.20. Earnings also came in ahead of management's guidance of \$1.20 per share. However, the reported figure fell 24.2% year over year.

This decline resulted from lower prices and mix in the Packaging and Paper segments, dismal volumes in the Paper segment, as well as elevated annual outage expenses, depreciation expenses and other costs. These negatives were, however, partly offset by higher volumes in the Packaging segment, lower operating and converting costs, lower freight and logistics expenses, soft interest expense as well as non-operating pension expense.

Including one-time items, earnings in the reported quarter came in at \$1.49 compared with the prior-year quarter's \$1.97.

Operational Update

Sales for the March-end quarter edged down 1.54% to \$1,709 million from the prior-year quarter's \$1,734 million. The reported figure, however, beat the Zacks Consensus Estimate of \$1,651 million.

Cost of products sold was up 2.4% year over year to \$1,344 million in the first quarter. Gross profit went down 13.3% to \$365 million from the \$421.4 million witnessed in the prior-year period. Selling, general and administrative expenses rose 4.3% to \$146 million from the \$140 million incurred in the year-ago quarter. Adjusted total segment operating income declined 24% year over year to \$210.3 million.

Segmental Performance

Packaging: Sales in this segment went down to \$1,468 million from the \$1,478 million recorded in the year-earlier period. Segmental income, excluding special items, came in at \$201 million in the quarter compared with the \$250 million witnessed in the prior-year period.

Printing Papers: This segment's revenues slid 9.3% year over year to \$217.4 million in the quarter. Adjusted segment income declined to around \$33 million from the \$46 million reported in the year-earlier period.

Cash Position

The company had a cash balance of \$764 million in the March-end quarter compared with the \$442 million recorded in the prior-year quarter.

Outlook

The company has not issued any guidance for the second quarter given the uncertainty related to the coronavirus pandemic and its impact on the global economy. Demand surge in the Packaging business places it well for the ongoing quarter. Moreover, the company will continue to provide cost-effective, sustainable, and renewable products amid the current turbulent situation.

Quarter Ending 03/2020

Report Date	Apr 27, 2020
Sales Surprise	3.53%
EPS Surprise	25.00%
Quarterly EPS	1.50
Annual EPS (TTM)	7.17

Recent News

Packaging Corporation to Idle Paper Plant Due to Weak Demand - Apr 2, 2020

Packaging Corporation recently announced that it plans to temporarily idle both paper machines and the sheet-converting operation at its Jackson, AL mill to match supply with demand. Notably, demand has been down for paper in schools, offices and businesses on account of the restrictions imposed to curb the spread of the coronavirus.

The operations will stay suspended in May and June 2020. The operations will be resumed on Jul 6, 2020. The idling of operations will result in the layoff of about 340 employees and lower paper production by approximately 70,000 tons. Packaging Corporation stated during this period, the paper mill in International Falls, MN will continue to operate fully. The company assured that it has sufficient inventory to meet customer demand in the meantime.

Valuation

Packaging Corporation's shares are down 9.6% in the year-to-date period and up 13.2% over the trailing 12-month period. Stocks in Containers - Paper and Packaging industry and the Zacks Industrial Products sector are down 9.9% and 14.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 33.2% and 4.2%, respectively.

The S&P 500 index is down 5.9% in the year-to-date period and up 8.4% in the past year.

The stock is currently trading at 18.38X forward 12-month earnings, which compares to 15.55X for the Zacks sub-industry, 20.98X for the Zacks sector and 22.02X 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 14.34X.

Our Neutral recommendation indicates that the stock will perform in-line the market. Our \$108 price target reflects 19.52X 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	18.38	15.55	20.98	22.02
	5-Year High	21.37	18.95	20.98	22.02
	5-Year Low	8.94	7.13	12.55	15.23
	5-Year Median	14.34	16.43	16.66	17.49
P/S F12M	Current	1.43	2.34	2.67	3.42
	5-Year High	1.9	5.06	2.73	3.44
	5-Year Low	0.78	1.46	1.52	2.53
	5-Year Median	1.34	1.82	2	3.01
EV/EBITDA TTM	Current	8.04	16.93	15.68	11.21
	5-Year High	11.86	28.56	17.42	12.86
	5-Year Low	5.8	12.28	10.72	8.26
	5-Year Median	8.13	15.38	14.79	10.8

As of 05/28/2020

Industry Analysis Zacks Industry Rank: Bottom 49% (130 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Berry Global Group, Inc. (BERY)	Neutral	3
Ball Corporation (BLL)	Neutral	4
Crown Holdings, Inc. (CCK)	Neutral	4
Graphic Packaging Holding Company (GPK)	Neutral	2
Sealed Air Corporation (SEE)	Neutral	3
Sonoco Products Company (SON)	Neutral	4
Domtar Corporation (UFS)	Neutral	3
WestRock Company (WRK)	Underperform	5

Industry Comparison Industry: Containers - Paper And Packaging				Industry Peers		
	PKG	X Industry	S&P 500	IP	UFS	WRK
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	4	3	5
VGM Score	B	-	-	B	B	B
Market Cap	9.65 B	5.12 B	21.49 B	13.79 B	1.16 B	7.48 B
# of Analysts	6	5	14	4	5	6
Dividend Yield	3.11%	1.99%	1.98%	5.84%	8.69%	2.77%
Value Score	B	-	-	A	B	A
Cash/Price	0.10	0.05	0.06	0.10	0.14	0.10
EV/EBITDA	7.87	9.18	12.50	6.59	5.01	5.59
PEG Ratio	3.84	3.03	2.87	NA	NA	NA
Price/Book (P/B)	3.06	2.99	2.95	2.01	0.53	0.65
Price/Cash Flow (P/CF)	8.47	8.45	11.81	4.48	2.50	2.92
P/E (F1)	19.22	16.02	21.33	16.75	NA	12.91
Price/Sales (P/S)	1.39	0.98	2.28	0.62	0.23	0.41
Earnings Yield	5.18%	6.26%	4.50%	5.98%	-1.15%	7.76%
Debt/Equity	0.85	1.39	0.76	1.44	0.54	0.91
Cash Flow (\$/share)	12.01	3.81	6.96	7.84	8.39	9.89
Growth Score	B	-	-	C	B	C
Hist. EPS Growth (3-5 yrs)	16.14%	12.24%	10.87%	10.27%	1.27%	10.46%
Proj. EPS Growth (F1/F0)	-31.09%	-7.98%	-10.48%	-52.71%	-108.07%	-43.80%
Curr. Cash Flow Growth	-3.69%	9.13%	5.39%	-13.00%	-20.37%	9.85%
Hist. Cash Flow Growth (3-5 yrs)	5.99%	6.65%	8.55%	2.55%	-5.05%	23.04%
Current Ratio	3.51	1.70	1.29	0.77	2.06	1.75
Debt/Capital	45.88%	60.74%	44.54%	58.95%	34.86%	47.56%
Net Margin	9.39%	4.32%	10.59%	2.99%	0.18%	4.67%
Return on Equity	22.37%	19.77%	16.26%	20.98%	4.08%	7.98%
Sales/Assets	0.96	0.87	0.55	0.65	1.04	0.59
Proj. Sales Growth (F1/F0)	-3.26%	0.00%	-2.53%	-6.02%	-11.78%	-3.41%
Momentum Score	D	-	-	D	F	F
Daily Price Chg	-0.74%	-0.62%	-0.65%	-2.09%	-5.72%	-0.99%
1 Week Price Chg	2.28%	4.15%	4.99%	5.12%	1.86%	4.71%
4 Week Price Chg	5.22%	5.22%	4.28%	2.45%	-10.32%	-10.31%
12 Week Price Chg	11.75%	4.98%	-3.05%	-3.94%	-26.00%	-7.65%
52 Week Price Chg	13.78%	-8.96%	0.01%	-15.93%	-49.96%	-12.94%
20 Day Average Volume	615,543	243,595	2,425,602	2,545,909	850,615	3,518,272
(F1) EPS Est 1 week change	-5.53%	0.00%	0.00%	-1.38%	0.00%	-6.93%
(F1) EPS Est 4 week change	-4.61%	0.00%	-1.70%	-14.80%	-503.33%	-22.43%
(F1) EPS Est 12 week change	-15.34%	-6.74%	-16.00%	-30.49%	-119.03%	-30.65%
(Q1) EPS Est Mthly Chg	-7.42%	-7.02%	-3.25%	-11.43%	-27.47%	-48.90%

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	B
Growth Score	B
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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