

Silgan Holdings Inc. (SLGN)

\$31.13 (As of 01/15/20)

Price Target (6-12 Months): **\$33.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/02/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: B

Summary

For 2019, Silgan trimmed its adjusted earnings per share to the range of \$2.12 to \$2.17, from the prior \$2.10 to \$2.20, on account of the impact of the earlier-than-anticipated end to the fruit and vegetable pack. Soft food pack performance is likely to limit metal container volume and dismal demand trends in Europe are expected to hinder closure volumes in the current year. Inflated material and freight costs will dent margins in 2019. Nevertheless, favorable beverage demand in the United States will lead to volume growth for plastic containers. New products and rising demand for dispensing systems will likely offset soft closure sales in Europe. Also, acquisitions and investment in capacity will drive growth. Focus on cost control will sustain margins. Silgan's earnings estimates for the current year have undergone downward revisions lately.

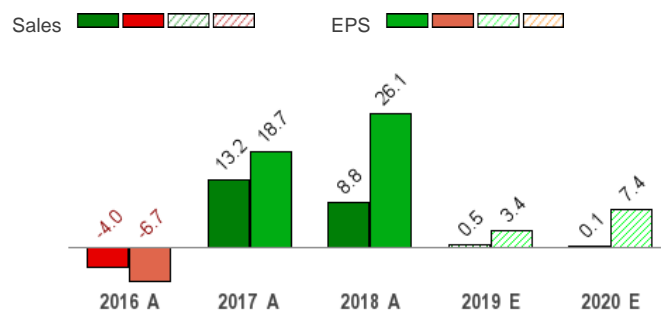
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|--|
| 52 Week High-Low | \$31.69 - \$25.47 |
| 20 Day Average Volume (sh) | 369,640 |
| Market Cap | \$3.4 B |
| YTD Price Change | 0.2% |
| Beta | 0.76 |
| Dividend / Div Yld | \$0.44 / 1.4% |
| Industry | <u>Containers - Metal and Glass</u> |
| Zacks Industry Rank | Bottom 2% (248 out of 254) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|-------------------|
| Last EPS Surprise | 0.0% |
| Last Sales Surprise | -0.0% |
| EPS F1 Est- 4 week change | -0.4% |
| Expected Report Date | 01/28/2020 |
| Earnings ESP | -3.1% |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|---------|---------|---------|---------|---------|
| 2020 | 1,031 E | 1,096 E | 1,330 E | 1,047 E | 4,478 E |
| 2019 | 1,027 A | 1,093 A | 1,321 A | 1,019 E | 4,472 E |
| 2018 | 1,012 A | 1,059 A | 1,307 A | 1,071 A | 4,449 A |

EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|----------|----------|----------|----------|----------|
| 2020 | \$0.48 E | \$0.60 E | \$0.81 E | \$0.46 E | \$2.31 E |
| 2019 | \$0.46 A | \$0.55 A | \$0.76 A | \$0.38 E | \$2.15 E |
| 2018 | \$0.42 A | \$0.52 A | \$0.76 A | \$0.38 A | \$2.08 A |

*Quarterly figures may not add up to annual.

| | |
|---------|-------------|
| P/E TTM | 14.5 |
| P/E F1 | 13.5 |
| PEG F1 | 1.8 |
| P/S TTM | 0.8 |

The data in the charts and tables, except sales and EPS estimates, is as of 01/15/2020. The reports text and the analyst-provided sales and EPS estimates are as of 01/16/2020.

Overview

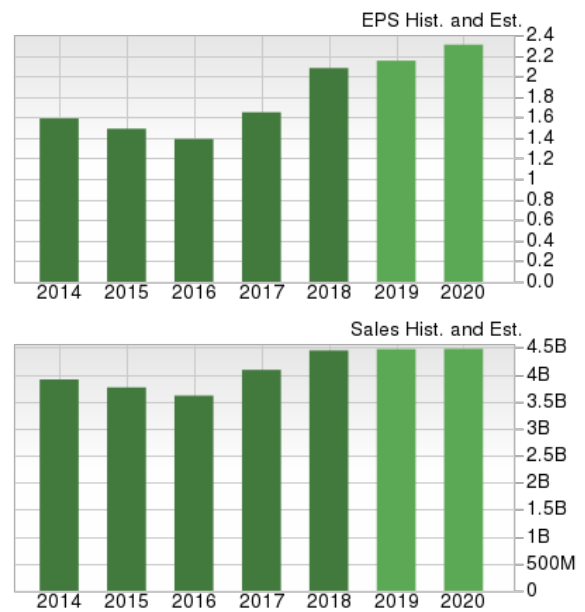
Silgan Holdings is a leading supplier of rigid packaging for consumer goods products. Its products are used in diverse end markets. It is the largest metal-container supplier for food products in North America. Silgan operates 100 manufacturing facilities in North and South America, Europe and Asia.

Its product lines include steel and aluminum containers for human and pet food; custom-designed plastic containers for personal care, healthcare, pharmaceutical, household, industrial chemical, food, pet care, agricultural chemical, automotive and marine chemical products; and metal, composite and plastic closures for food and beverage products.

The **Metal Food Container (MFC)** (53% of total revenues in fiscal 2018) business is engaged in the manufacture and sale of steel and aluminum containers used primarily by processors and packagers of food products such as metal containers for soup, vegetables, fruit, meat, coffee, pet food and other miscellaneous goods. Silgan holds around 50% of market share in the U.S. metal food container market. The segment has 44 metal container manufacturing facilities located in the United States, Europe and Asia, serving over 50 countries globally.

The **Closures** business (33%) manufactures and sells metal, composite and plastic vacuum closures for food and beverage products. This segment also provides sealing/capping equipment to complement its closure product offering. It has 33 manufacturing facilities located in North America, Europe, Asia and South America, which helps it serve across 70 countries.

The **Plastic Container** business (14%) is one of the leading North American manufacturers of custom-designed high-density polyethylene (HDPE) for personal care, healthcare and household and industrial chemical products. The segment also makes polyethylene terephthalate (PET) containers for the personal care market. It produces plastic containers from a full range of resin materials, and offers a wide array of molding and decorating capabilities.



Reasons To Buy:

- ▲ Since its inception, Silgan Holdings acquired 35 businesses. Backed by acquisitions and organic growth, the company has increased its share of the metal food container market in the United States from 10% in 1987 to slightly more than half of the market in 2018. Through acquisitions, it has become a leading global manufacturer of closures for food, beverage, health care, garden, personal care, home and beauty products, with net sales of \$1.46 billion in 2018, a sevenfold increase since 2003. The company has also improved its market position in the plastic container business since 1987, with net sales increasing seven-fold to \$614.1 million in 2018.
- ▲ On Jun 4, 2019, Silgan announced a footprint optimization plan for its metal container business, which includes the closing of two metal container manufacturing facilities during the third quarter of 2019. These closures, in conjunction with the prior ratification of a new labor agreement at another metal container manufacturing facility, will result in the complete withdrawal from the Central States Pension Fund.
- ▲ Year to date, capital spending was around \$166.8 million compared with \$134.6 million in the comparable period last year. The company continues to estimate free cash flow guidance at \$275 million for the current year. It remains focused on returning value to shareholders.
- ▲ Beverage demand in the United States remains favorable, which will lead to volume growth for plastic containers. In 2020, new products and increased demand for dispensing systems will likely offset soft closure sales in Europe.

Silgan Holdings will benefit from higher volumes, manufacturing improvements in the closures and plastic container businesses.

Reasons To Sell:

- ▼ Silgan lowered its adjusted earnings per share guidance to the range of \$2.12 to \$2.17 from the prior \$2.10-\$2.20 for the ongoing year. The company's year-to-date performance and impact of the earlier-than-anticipated end to the fruit and vegetable pack in the fourth quarter led to the outlook. While soft food pack will likely limit metal-container volumes through year-end 2019, dismal demand trends in Europe are expected to affect closure volumes. Silgan also provided adjusted earnings per share guidance of 34-39 cents for the fourth quarter. In the fourth quarter of 2018, the company had reported earnings per share of 38 cents.
- ▼ The ongoing inventory and portfolio management program at a certain customer will also impact Silgan's volumes in 2019. The company is also bearing the risks of currency fluctuations and commodity pricing.
- ▼ Inflated material and freight costs will impact results in 2019. Tariff on steel and aluminum prices imposed by the U.S. government has led to the rise in material costs.

Silgan Holdings' results will be impacted by lower volumes in Metal Containers and Closure segment. Also inflated material and freight costs are concerns.

Last Earnings Report

Silgan Q3 Earnings & Sales In Line with Estimates

Silgan reported third-quarter 2019 adjusted earnings of 76 cents per share, coming in line with the Zacks Consensus Estimate. Further, the figure also matched the year-ago quarter's earnings.

Including one-time items, the company's earnings per share came in at 73 cents compared with the prior-year quarter's 76 cents.

Total revenues improved 1.1% year over year to \$1.32 billion, matching the Zacks Consensus Estimate. The top line improved on higher net sales in the metal container businesses, partially offset by a decline in net sales in the closures and plastic container business.

Quarter Ending **09/2019**

| Report Date | Oct 23, 2019 |
|------------------|--------------|
| Sales Surprise | -0.03% |
| EPS Surprise | 0.00% |
| Quarterly EPS | 0.76 |
| Annual EPS (TTM) | 2.15 |

Cost and Margins

In third-quarter 2019, cost of goods sold went up 1% to \$1,114 million from \$1,103 million a year ago. Gross profit improved 1.7% year over year to \$207.6 million. Gross margin came in at 15.7% compared with year-ago quarter's 15.6%.

Selling, general and administrative expenses increased 3.3% year over year to \$76 million during the third quarter. Adjusted operating income inched up 0.8% to \$131.6 million from \$130.5 million reported in the year-ago quarter. Operating margin was 10.0% in the reported quarter, flat compared with the prior-year quarter.

Segment Performance

Revenues in the Metal Containers segment rose 3% year over year to \$822 million. The segment's adjusted operating income declined 3.3% year over year to \$84 million.

The Closures segment's revenues declined 2% year over year to \$353 million. Adjusted operating income for the segment was \$45 million in the reported quarter, down 5% from the prior-year quarter.

In the Plastic Containers segment, revenues edged down to \$146 million from \$148 million reported in the prior-year quarter. The segment reported an adjusted profit of \$12 million, up from \$9 million in the year-ago quarter.

Financial Updates

The company had cash and cash equivalents of \$117.4 million at the end of the third quarter, down from the year-earlier quarter end's balance of \$171.4 million. The company utilized \$2.5 million of cash in operations during the nine-month period ended Sep 30, 2019 compared with \$13.2 million in the prior-year comparable period.

Outlook

Silgan provided adjusted earnings per share guidance of 34-39 cents for fourth-quarter 2019. The guidance includes an unfavorable non-cash pension impact of approximately 3 cents per share. It also reflects an earlier-than-anticipated end to the fruit and vegetable pack in the beginning of October.

Based on year-to-date performance and the impact of the earlier-than-anticipated end to the fruit and vegetable pack, on fourth quarter, Silgan trimmed adjusted earnings per share to the range of \$2.12 to \$2.17 from the prior \$2.10 to \$2.20 for the ongoing year. The guidance for 2019 includes an unfavorable non-cash pension impact of approximately 13 cents per share resulting from significant market declines in investment values at the end of 2018 that negatively impacted the assets held in the company's pension plans.

Valuation

Silgan Holdings' shares are up 20.2% over the trailing 12-month period. Stocks in the Zacks Containers - Metal and Glass industry and the Zacks Industrial Products sector are up 37.2% and 16.3% over the past year respectively.

The S&P 500 index has gained 23.9% in the past year.

The stock is currently trading at 13.45X forward 12-month earnings, which compares with 17.95X for the Zacks sub-industry, 18.18X for the Zacks sector and 18.97X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.00X and as low as 10.05X, with a 5-year median of 15.66X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$33 price target reflects 14.25X Forward 12-month earnings.

The table below shows summary valuation data for SLGN:

| Valuation Multiples - SLGN | | | | | |
|----------------------------|---------------|-------|--------------|--------|---------|
| | | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M | Current | 13.45 | 17.95 | 18.18 | 18.97 |
| | 5-Year High | 19 | 19.8 | 19.9 | 19.34 |
| | 5-Year Low | 10.05 | 12.02 | 12.59 | 15.17 |
| | 5-Year Median | 15.66 | 16.23 | 16.54 | 17.44 |
| P/S F12M | Current | 0.77 | 1.38 | 2.76 | 3.53 |
| | 5-Year High | 0.95 | 1.5 | 2.76 | 3.53 |
| | 5-Year Low | 0.56 | 0.91 | 1.51 | 2.54 |
| | 5-Year Median | 0.79 | 1.1 | 1.96 | 3 |
| EV/EBITDA TTM | Current | 9.27 | 12.6 | 16.94 | 12.12 |
| | 5-Year High | 12.04 | 16.46 | 17.43 | 12.86 |
| | 5-Year Low | 7.43 | 9.02 | 10.89 | 8.48 |
| | 5-Year Median | 10.07 | 11.86 | 14.71 | 10.67 |

As of 01/15/2020

Industry Analysis Zacks Industry Rank: Bottom 2% (248 out of 254)



Top Peers

| | |
|---|------------|
| Berry Global Group, Inc. (BERY) | Outperform |
| Ball Corporation (BLL) | Neutral |
| Crown Holdings, Inc. (CCK) | Neutral |
| Graphic Packaging Holding Company (GPK) | Neutral |
| Packaging Corporation of America (PKG) | Neutral |
| Sealed Air Corporation (SEE) | Neutral |
| Sonoco Products Company (SON) | Neutral |
| UFP Technologies, Inc. (UFPT) | Neutral |

| Industry Comparison Industry: Containers - Metal And Glass | | | | Industry Peers | | |
|--|--------------|------------|-----------|----------------|-------------|-------------|
| | SLGN Neutral | X Industry | S&P 500 | ATR Neutral | BLL Neutral | CCK Neutral |
| VGM Score | B | - | - | C | C | D |
| Market Cap | 3.45 B | 6.63 B | 24.22 B | 7.46 B | 22.31 B | 9.80 B |
| # of Analysts | 6 | 6 | 13 | 7 | 7 | 6 |
| Dividend Yield | 1.41% | 1.15% | 1.75% | 1.23% | 0.88% | 0.00% |
| Value Score | B | - | - | D | D | C |
| Cash/Price | 0.03 | 0.03 | 0.04 | 0.04 | 0.02 | 0.04 |
| EV/EBITDA | 8.50 | 14.39 | 14.11 | 17.69 | 17.38 | 11.40 |
| PEG Ratio | 1.76 | 1.83 | 2.06 | 2.67 | 4.17 | 1.89 |
| Price/Book (P/B) | 3.57 | 4.21 | 3.34 | 4.80 | 6.54 | 4.85 |
| Price/Cash Flow (P/CF) | 8.06 | 10.56 | 13.57 | 16.99 | 15.66 | 8.72 |
| P/E (F1) | 13.51 | 15.62 | 18.90 | 27.59 | 22.94 | 13.22 |
| Price/Sales (P/S) | 0.76 | 1.39 | 2.65 | 2.60 | 1.93 | 0.84 |
| Earnings Yield | 7.42% | 6.52% | 5.29% | 3.62% | 4.35% | 7.56% |
| Debt/Equity | 1.87 | 1.89 | 0.72 | 0.73 | 1.91 | 4.06 |
| Cash Flow (\$/share) | 3.86 | 4.11 | 6.94 | 6.87 | 4.35 | 8.29 |
| Growth Score | B | - | - | B | B | D |
| Hist. EPS Growth (3-5 yrs) | 8.75% | 8.36% | 10.56% | 8.42% | 6.37% | 10.60% |
| Proj. EPS Growth (F1/F0) | 7.28% | 12.08% | 7.59% | 7.44% | 18.71% | 9.03% |
| Curr. Cash Flow Growth | 17.96% | 20.17% | 14.73% | 14.87% | 1.37% | 41.18% |
| Hist. Cash Flow Growth (3-5 yrs) | 4.01% | 11.69% | 9.00% | 4.89% | 13.35% | 15.14% |
| Current Ratio | 1.01 | 1.01 | 1.24 | 2.04 | 1.01 | 1.12 |
| Debt/Capital | 65.14% | 65.40% | 42.99% | 42.11% | 65.65% | 80.23% |
| Net Margin | 4.37% | 4.60% | 11.14% | 8.16% | 4.82% | 4.10% |
| Return on Equity | 26.05% | 24.46% | 17.16% | 17.85% | 22.86% | 41.91% |
| Sales/Assets | 0.92 | 0.72 | 0.55 | 0.83 | 0.69 | 0.75 |
| Proj. Sales Growth (F1/F0) | 0.13% | 3.02% | 4.23% | 3.76% | 4.98% | 1.79% |
| Momentum Score | B | - | - | D | F | D |
| Daily Price Chg | 0.91% | 0.84% | 0.27% | 0.50% | 2.49% | 0.77% |
| 1 Week Price Chg | -1.11% | -0.20% | 0.39% | 1.53% | 2.32% | -1.61% |
| 4 Week Price Chg | 2.13% | 3.19% | 2.17% | 3.21% | 5.92% | 0.74% |
| 12 Week Price Chg | 0.26% | 2.27% | 6.65% | -0.56% | -4.04% | 4.37% |
| 52 Week Price Chg | 21.84% | 31.33% | 22.43% | 23.23% | 40.81% | 51.13% |
| 20 Day Average Volume | 369,640 | 625,733 | 1,545,017 | 208,249 | 1,876,378 | 881,825 |
| (F1) EPS Est 1 week change | 0.00% | -0.20% | 0.00% | -0.74% | -0.53% | -0.39% |
| (F1) EPS Est 4 week change | -0.36% | -0.46% | 0.00% | -0.74% | -0.53% | -0.39% |
| (F1) EPS Est 12 week change | -1.41% | -1.11% | -0.41% | -9.98% | -2.64% | -0.82% |
| (Q1) EPS Est Mthly Chg | 0.00% | -0.34% | 0.00% | 1.17% | -2.12% | 1.82% |

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 | B |
| 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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