

Silgan Holdings Inc. (SLGN)

\$32.29 (As of 02/14/20)

Price Target (6-12 Months): **\$35.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/02/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: D

Summary

Silgan Holdings' fourth-quarter 2019 adjusted earnings per share (EPS) came in line with the prior-year quarter while revenues declined. While the top line surpassed the Zacks Consensus Estimate, the bottom line came in line. For 2020, Silgan expects adjusted EPS at \$2.28-\$2.38. The mid-point of the range indicates year-over-year improvement of 8% from 2019. In 2020, sales will be lower across all of its segments. However, continued manufacturing efficiencies across all businesses will lead to higher segment income. The company's proposed acquisition of Albea's dispensing business will enhance product line and will be accretive to earnings and cash flow in 2020. The acquisition of Cobra Plastics will expand the closures segment into new markets and applications. Additionally, focus on cost control will help sustain margins.

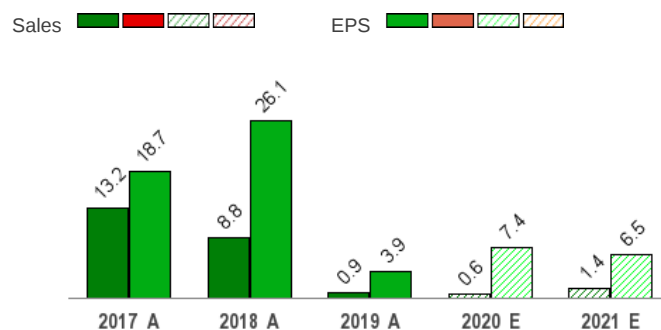
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$32.35 - \$27.31
20 Day Average Volume (sh)	515,327
Market Cap	\$3.6 B
YTD Price Change	3.9%
Beta	0.75
Dividend / Div Yld	\$0.44 / 1.4%
Industry	Containers - Metal and Glass
Zacks Industry Rank	Top 45% (114 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	2.9%
EPS F1 Est- 4 week change	0.5%
Expected Report Date	NA
Earnings ESP	0.1%
P/E TTM	15.0
P/E F1	13.9
PEG F1	1.8
P/S TTM	0.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					4,580 E
2020	1,022 E	1,066 E	1,327 E	1,053 E	4,518 E
2019	1,027 A	1,093 A	1,321 A	1,048 A	4,490 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$2.47 E
2020	\$0.48 E	\$0.58 E	\$0.81 E	\$0.45 E	\$2.32 E
2019	\$0.46 A	\$0.55 A	\$0.76 A	\$0.38 A	\$2.16 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 02/14/2020. The reports text is as of 02/17/2020.

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.

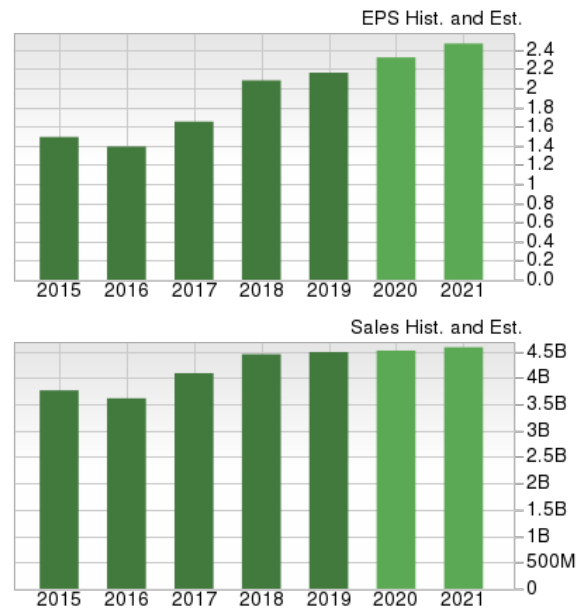
Its product lines include steel and aluminum containers for human and pet food; custom-designed plastic containers for personal care, healthcare, pharmaceutical, household, industrial chemical, food, pet care, agricultural chemical, automotive and marine chemical products; and metal, composite and plastic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

The **Metal Food Container (MFC)** (55% of revenues in fiscal 2019) 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 (31%) 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.

Silgan has agreed to acquire Albea's dispensing business for \$900 million. Albea's dispensing business is a leading global supplier of highly engineered pumps, sprayers and foam dispensing solutions.



Reasons To Buy:

- ▲ For first-quarter 2020, Silgan expects adjusted earnings per share in the range of 45 cents to 50 cents compared with the 46 cents recorded in first-quarter 2019. Rising pension income and continued manufacturing efficiencies across all businesses, higher unit volumes in the metal container and closures businesses, and lower interest costs will lead to earnings growth in the quarter. Unit volumes in the metal container and closures businesses are expected to be higher from prior-year levels on account of unfavorable impact in the first quarter of 2019 from pre-buy activities by customers in the fourth quarter of 2018. Further, unit volumes in the metal container business are expected to continue to benefit from higher pet food volumes, partially offset by some shift in volumes from the first half of the year to the third quarter to reflect a contract modification related to the timing of supply.
- ▲ For 2020, Silgan now expects adjusted earnings per share between \$2.28 and \$2.38. The mid-point of the guidance indicates year-over-year increase of 8% from \$2.16 in 2019. Segment income across all businesses is anticipated to benefit from higher pension income, solid unit volumes and continued manufacturing efficiencies.
- ▲ Silgan's proposed acquisition of Albea's dispensing business; if it is finalized will be a strategic fit for the closures business. This buyout is likely to strengthen its position in the dispensing markets. The company expects to realize operational cost synergies of \$20 million, on an annual run rate basis, within 18 months following the proposed acquisition. These synergies would be achieved primarily through reductions in general and administrative expenses, procurement savings and manufacturing efficiencies. Silgan expects this proposed acquisition to be accretive to earnings and free cash flow per share in 2020. Silgan Holdings also announced the acquisition of Cobra Plastics, Inc., in a bid to expand closures franchise into new markets.
- ▲ Silgan has announced an expanded footprint optimization plan in the metal container business. It is expected to reduce capacity by more than 0.5 billion units and continue to drive further cost reductions. Per the plan, the company intends to close six plants, two of which were closed in 2019.

Silgan Holdings will benefit from continued manufacturing efficiencies across all businesses. The proposed acquisition of Albea's dispensing business will be a growth driver.

Reasons To Sell:

- ▼ Net sales in the metal container business are expected to be impacted in 2020 from the prior-year levels primarily due to the pass through of anticipated lower raw material costs and expected impact related to the renewal of certain significant customer contracts, partially offset by an anticipated increase in unit volumes. Net sales in the closures business are expected to be lower in 2020 compared with 2019 primarily due to the pass through of anticipated lower raw material costs. Net sales in the plastic container business are expected to decrease in 2020 compared with the prior year as a result of the pass through of anticipated lower raw material costs, partially offset by expected volume growth.
- ▼ Following the completion of the acquisition of Albea's dispensing business, Silgan's net leverage ratio under its senior secured credit facility would be approximately 4.0 times. It is currently at 3.0x.
- ▼ Inflated material and freight costs will continue to impact results. Tariff on steel and aluminum prices imposed by the U.S. government has led to rise in material costs.

Silgan Holdings' results will be impacted by lower sales in its segments in 2020. Moreover, inflated material and freight costs remain concerns.

Last Earnings Report

Silgan's Earnings In Line, Sales Top Estimates in Q4

Silgan Holdings reported fourth-quarter 2019 adjusted earnings of 38 cents per share, in line with the Zacks Consensus Estimate. Further, the figure remained flat, year on year.

Including one-time items, the company's earnings per share came in at 31 cents compared with the prior-year quarter's 34 cents.

Total revenues declined 2.1% year over year to \$1,048.3 million. However, the top-line figure surpassed the Zacks Consensus Estimate of \$1,019 million. This downside resulted from lower volumes in the metal container and closures businesses due to customers pre-buy out activity in the prior-year quarter in the wake of metal inflation in 2019, the pass through of lower raw material costs in the plastic container and closures businesses, and unfavorable foreign-currency translation impact. These negatives were partly offset by the pass through of higher raw material and other manufacturing costs in the metal container business, favorable product mix sold in the closures business and higher volumes in the plastic container business.

Cost and Margins

In fourth-quarter 2019, cost of goods sold went down 2.8% to \$891.7 million from the prior year's \$918.1 million. Gross profit improved 2.7% year over year to \$156.6 million. Gross margin came in at 14.9% compared with the year-ago quarter's 14.2%.

Selling, general and administrative expenses flared up 2.7% year over year to \$82 million during the fourth quarter. Adjusted operating income was up 3% to \$74.7 million from \$72.7 million reported in the year-ago quarter. Operating margin was 7.1% in the reported quarter compared with 6.8% witnessed in the prior-year quarter.

Segment Performance

Revenues in the Metal Containers segment edged down 0.2%, year over year, to \$568.3 million. The segment's adjusted operating income increased 6.4% year over year to \$33 million.

The Closures segment's revenues declined 4.1% year over year to \$332.6 million. Adjusted operating income for the segment was \$42.2 million in the final quarter of 2019, down 9.4% from the prior-year quarter.

In the Plastic Containers segment, revenues dropped to \$147.4 million from the \$154.2 million reported in the prior-year quarter. The segment reported an adjusted operating profit of \$12 million, up from the year-ago quarter's \$10.2 million.

Financial Updates

The company had cash and cash equivalents of \$203.8 million at the end of 2019, significantly up from \$72.8 million witnessed at the end of 2018. Cash flow from operating activities were \$507.3 million during the 12-month period ended Dec 31, 2019 compared with the \$506.5 million recorded in the prior-year comparable period.

2019 Results

Silgan Holdings' 2019 adjusted earnings were \$2.16, up 3.8% from the prior year. Earnings also beat the Zacks Consensus Estimate of \$2.15. Including rationalization charges, the company's earnings per share came in at \$1.74, down from the prior-year quarter's \$2.01.

Total revenues inched up 0.9% year over year to \$4.49 billion, surpassing the Zacks Consensus Estimate of \$4.47 billion. The improved performance stemmed from higher net sales in the metal container business, partly offset by a decrease in net sales in the closures and plastic container businesses.

Outlook

Silgan now expects adjusted earnings per share between \$2.28 and \$2.38 for the current year. The mid-point of the guidance indicates year-over-year increase of 8% from \$2.16 in 2019. Segment income across all businesses is anticipated to benefit from higher pension income, solid unit volumes and continued manufacturing efficiencies. Current-year free cash flow is estimated at \$275 million as compared with 2019's \$271.7 million. These estimates do not include any impact from the recently-announced binding offer for Albea's dispensing business.

In 2020, net sales in the metal container business are expected to decrease, year on year. Unit volumes in the business are anticipated to increase as compared with the 2019 levels, owing to customer pre-buy activity, continued growth in pet food volumes, and more normal fruit and vegetable pack in Europe.

Net sales in the closures business are projected to decrease in the ongoing year compared with 2019, mainly due to the pass through of lower raw material costs, partly negated by unit volume growth in anticipation of a more normal European fruit and vegetable pack and continued growth in dispensing systems units. Moreover, current-year net sales in the plastic container business are expected to decline from 2019 levels thanks to the pass through of lower raw material costs, partly muted by volume growth.

Silgan is expanding its footprint-optimization plan in the metal container business to reduce capacity and drive cost reductions. In sync with this, the company is likely to shut down six manufacturing facilities over a three-year period.

For the first quarter of 2020, Silgan now expects adjusted earnings per share in the range of 45 cents to 50 cents compared with the 46 cents recorded in first-quarter 2019. The quarterly results are expected to benefit from higher pension income and continued manufacturing efficiencies across all businesses, higher unit volumes in the metal container and closures businesses and lower interest costs.

Quarter Ending **12/2019**

Report Date	Jan 28, 2020
Sales Surprise	2.87%
EPS Surprise	0.00%
Quarterly EPS	0.38
Annual EPS (TTM)	2.15

Recent News

Silgan Acquires Cobra Plastics, Expands in Closures Market - Feb 5, 2020

Silgan Holdings has announced the acquisition of Cobra Plastics, Inc., in a bid to expand closures franchise into new markets. Cobra Plastics produces and sells injection molded plastic closures for a broad range of consumer products, primarily focused on the aerosol overcap market.

Cobra Plastics currently operates from two manufacturing facilities in Macedonia, OH, with sales volume of \$30 million.

Notably, the acquisition will expand Silgan's global closures franchise product offerings into various new markets and applications. Together Cobra Plastic's overcap product line, and Silgan's aerosol actuators and dispensing systems, will enable the company to offer a wider range of integrated solutions, including functional overcaps, in order to fulfill customers' requirement.

Valuation

Silgan Holdings' shares are up 13.3% over the trailing 12-month period. Stocks in the Zacks Containers - Metal and Glass industry and the Zacks Industrial Products sector are up 39.8% and 8.2% over the past year respectively.

The S&P 500 index has gained 21.0% in the past year.

The stock is currently trading at 13.81X forward 12-month earnings, which compares with 19.91X for the Zacks sub-industry, 18.38X for the Zacks sector and 19.35X 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 15.6X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$35 price target reflects 14.97X 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	13.81	19.91	18.38	19.35
	5-Year High	19	19.91	19.89	19.35
	5-Year Low	10.05	12.02	12.6	15.18
	5-Year Median	15.6	16.23	16.62	17.47
P/S F12M	Current	0.79	1.53	2.79	3.58
	5-Year High	0.95	1.53	2.79	3.58
	5-Year Low	0.56	0.91	1.51	2.54
	5-Year Median	0.78	1.11	1.98	3
EV/EBITDA TTM	Current	11.74	13.69	17.09	12.31
	5-Year High	12.04	16.46	17.42	12.85
	5-Year Low	7.43	9.02	10.91	8.47
	5-Year Median	10.13	11.94	14.72	10.7

As of 02/14/2020

Industry Analysis Zacks Industry Rank: Top 45% (114 out of 255)



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
UFP Technologies, Inc. (UFPT)	Neutral
Packaging Corporation of America (PKG)	Underperform

Industry Comparison Industry: Containers - Metal And Glass				Industry Peers		
	SLGN Neutral	X Industry	S&P 500	ATR Neutral	BLL Neutral	CCK Neutral
VGM Score	A	-	-	B	C	D
Market Cap	3.58 B	7.21 B	24.61 B	7.46 B	25.26 B	10.84 B
# of Analysts	6	5.5	13	7	7	6
Dividend Yield	1.36%	1.07%	1.78%	1.23%	0.78%	0.00%
Value Score	A	-	-	D	D	C
Cash/Price	0.06	0.05	0.04	0.04	0.07	0.03
EV/EBITDA	9.13	10.92	14.06	17.68	18.51	12.07
PEG Ratio	1.81	1.96	2.09	2.67	4.78	2.09
Price/Book (P/B)	3.50	4.43	3.29	4.80	8.37	5.36
Price/Cash Flow (P/CF)	7.94	10.65	13.65	16.99	16.41	9.65
P/E (F1)	13.92	16.87	19.21	27.58	26.32	14.60
Price/Sales (P/S)	0.80	1.57	2.70	2.60	2.20	0.93
Earnings Yield	7.18%	6.03%	5.19%	3.63%	3.79%	6.85%
Debt/Equity	1.77	1.93	0.71	0.73	2.10	4.06
Cash Flow (\$/share)	4.07	4.39	6.92	6.87	4.70	8.29
Growth Score	A	-	-	A	A	D
Hist. EPS Growth (3-5 yrs)	9.98%	9.50%	10.85%	8.42%	8.00%	10.68%
Proj. EPS Growth (F1/F0)	7.41%	13.19%	7.17%	7.44%	15.98%	7.24%
Curr. Cash Flow Growth	5.43%	9.68%	8.56%	14.87%	4.20%	41.18%
Hist. Cash Flow Growth (3-5 yrs)	4.91%	12.40%	8.36%	4.89%	13.04%	15.14%
Current Ratio	0.44	0.66	1.23	2.04	0.88	1.12
Debt/Capital	65.14%	66.44%	42.91%	42.11%	67.73%	80.23%
Net Margin	4.32%	4.65%	11.81%	8.16%	4.93%	4.37%
Return on Equity	25.07%	25.11%	16.86%	17.85%	25.14%	39.58%
Sales/Assets	0.90	0.72	0.54	0.83	0.68	0.76
Proj. Sales Growth (F1/F0)	0.63%	2.41%	3.85%	3.76%	5.44%	1.45%
Momentum Score	D	-	-	A	F	D
Daily Price Chg	0.69%	0.38%	0.06%	0.40%	0.06%	0.04%
1 Week Price Chg	2.25%	4.21%	2.47%	1.03%	6.57%	6.16%
4 Week Price Chg	2.35%	7.94%	0.59%	-1.31%	11.62%	8.55%
12 Week Price Chg	4.67%	10.13%	6.98%	4.82%	16.72%	6.38%
52 Week Price Chg	13.98%	29.81%	16.62%	14.64%	40.53%	50.52%
20 Day Average Volume	515,327	793,174	2,020,569	213,636	2,367,026	1,071,021
(F1) EPS Est 1 week change	0.00%	-0.11%	0.00%	0.00%	-1.77%	-0.21%
(F1) EPS Est 4 week change	0.51%	0.30%	-0.05%	0.00%	-1.30%	0.15%
(F1) EPS Est 12 week change	0.14%	-0.20%	-0.17%	-0.74%	-1.75%	-0.24%
(Q1) EPS Est Mthly Chg	0.42%	-5.72%	-0.24%	0.00%	-1.78%	-16.07%

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	A
Momentum Score	D
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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