

Silgan Holdings Inc. (SLGN)

\$35.29 (As of 07/20/20)

Price Target (6-12 Months): **\$37.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/22/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: D

Momentum: B

Summary

Silgan Holdings continues to benefit from demand for vital products like food, beverage and consumer health and personal care products amid the coronavirus pandemic. However, this will be negated by lower demand for certain products that are not necessary for stay-at-home use, such as gallon, food cans for restaurants and sports drinks. Weakness in certain beauty products owing to shift in consumers' buying patterns will also weigh on results. Nevertheless, focus on cost control will help sustain margins. Silgan's earnings per share guidance for 2020 is \$2.30-\$2.50, indicating an improvement of 11% at the mid-point over 2019. The proposed acquisition of Albea's dispensing business will enhance the company's product line and be accretive to earnings and cash flow in 2020. However, high debt level remain a concern.

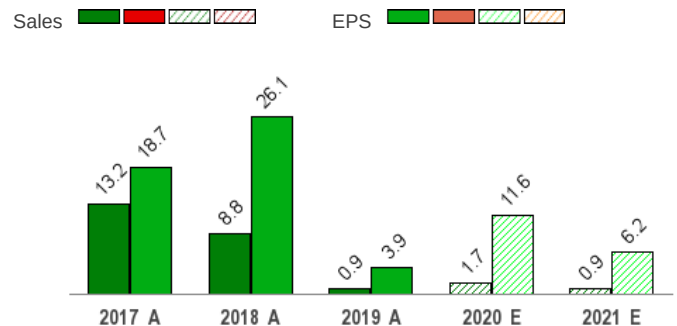
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$35.94 - \$24.65
20 Day Average Volume (sh)	548,631
Market Cap	\$3.9 B
YTD Price Change	13.6%
Beta	0.67
Dividend / Div Yld	\$0.48 / 1.4%
Industry	Containers - Metal and Glass
Zacks Industry Rank	Bottom 6% (236 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	16.3%
Last Sales Surprise	0.2%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	07/22/2020
Earnings ESP	0.0%
P/E TTM	15.6
P/E F1	14.7
PEG F1	1.9
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					4,605 E
2020	1,030 A	1,116 E	1,326 E	1,039 E	4,566 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					\$2.56 E
2020	\$0.57 A	\$0.63 E	\$0.80 E	\$0.41 E	\$2.41 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 07/20/2020. The reports text is as of 07/21/2020.

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.

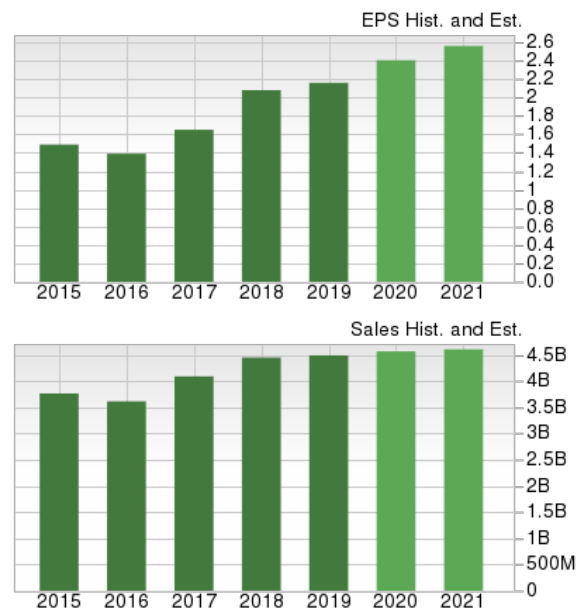
Its product lines include steel and aluminum containers for human and pet food; custom-designed plastic containers for personal care, healthcare, pharmaceutical, household, industrial chemical, food, pet care, agricultural chemical, automotive and marine chemical products; and metal, composite and plastic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

- ▲ Silgan Holdings' business has been declared 'essential' in all the geographies in which it operates. Given the surge in demand for vital products like food, beverage and consumer health and personal care products amid the coronavirus crisis, the company has been witnessing strong volumes in all of its segments. Notably, all 100 of its global production facilities have remained open, with many setting production records. Silgan Holdings' order books are full, which bodes well for second-quarter performance. The company is likely to gain from the ongoing momentum in demand for food and consumer health products, such as soap and sanitizer bottles and dispensing systems.
- ▲ Backed by the strong first-quarter 2020 performance and expectations of strong demand for food, beverage and consumer health products used mainly at home, the company has raised earnings guidance for the second quarter and the full year. For the second quarter, Silgan expects adjusted earnings per share of in the range of 55 to 70 cents. The mid-point of the range indicates year-over-year growth of 13.6%. For 2020, adjusted earnings per share guidance is at \$2.30 to \$2.50. The mid-point of the range indicates an increase of 11% over earnings of \$2.16 in 2019.
- ▲ Silgan's proposed acquisition of Albea's dispensing business; which is expected to close in second-quarter 2020, 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 acquired Cobra Plastics, Inc., in a bid to expand closures franchise into new markets.
- ▲ Silgan continually evaluates cost reduction opportunities across each of its businesses, including rationalizations of existing facilities through plant closures and downsizings. It has a disciplined approach to identify opportunities that generate attractive cash returns. In sync with this, Silgan had 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 the surge in demand for food, beverage and consumer health and personal care products amid the coronavirus pandemic. Acquisitions will also drive growth.

Reasons To Sell:

- ▼ Silgan's guidance for 2020 is based on the assumption that customers and suppliers will be able to keep their plants operational during the pandemic. If the situation worsens, facility closures as a result of government orders in response and reduced production capacity due to local social distancing requirements might impact its results in the forthcoming quarters. Given the uncertainty and duration of the pandemic, the company's guidance may not be achieved.
- ▼ Certain products generally not intended for stay-at-home use, such as gallon, food cans for restaurants, sports drinks and some beauty products are likely to witness volume declines this year. Further, weakness in certain beauty products due to shift in consumers' buying patterns as a result of the coronavirus crisis will weigh on results. Beauty and personal care products account for around 25-30% of the company's sales.
- ▼ Silgan Holdings' metal food can and closures businesses has been witnessing decline in volumes over the past three years. The surge in volumes has been triggered by the coronavirus induced crisis. Once the crisis is over and the panic buying subsides, it might impact the company's volumes again.
- ▼ Silgan Holdings' total debt to total capital is at 74.8%. 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 4.1 times. The company has however taken proactive measures to strengthen its balance sheet amid the ongoing uncertainty. It borrowed on its senior secured revolving credit facility in March and ended the first quarter of 2020 with \$614.8 million of cash and cash equivalents. The company has approximately \$350 million of additional borrowing capacity available on its senior secured revolving credit facility. It has also entered into an incremental term loan commitment under its existing senior secured credit facility for \$900 million term loan to fund the acquisition of the dispensing business of Albea Group in replacement of prior committed financing. Major part of the debt is due after 2025. The company's times interest earned ratio is 3.6, higher than the industry's 2.7.

Impact of the coronavirus pandemic on certain of products, ongoing weakness in metal food can and closures businesses and high debt level remain a concern.

Last Earnings Report

Silgan Q1 Earnings & Revenues Top Estimates, View Up

Silgan Holdings reported first-quarter 2020 adjusted earnings of 57 cents per share, beating the Zacks Consensus Estimate of 49 cents. Further, the figure increased 24% year over year. Record volumes across all business segments contributed to the quarterly results. Including one-time items, the company's earnings per share came in at 52 cents compared with the prior-year quarter's 42 cents.

Total revenues inched up 0.3% year over year to \$1,030 million on higher sales across its business segments. The top-line figure also surpassed the Zacks Consensus Estimate of \$1,028 million.

Cost and Margins

In the March-end quarter, cost of goods sold edged down 1.9% to \$845 million from the prior year's \$861 million. Gross profit improved 11.5% year over year to \$185 million. Gross margin came in at 18% compared with the year-ago quarter's 16%.

Selling, general and administrative expenses flared up 15.4% year over year to \$89.9 million during the first quarter. Adjusted operating income was up 10.6% year over year to \$102.6 million. Operating margin was 9.9% in the first quarter compared with the 9% witnessed in the prior-year period.

Segment Performance

Revenues in the Metal Containers segment inched up 0.3%, year over year, to \$508.5 million. The segment's adjusted operating income increased 6.4% year over year to \$49.5 million.

The Closures segment's revenues were up 0.3% year over year to \$357.2 million. Adjusted operating income for the segment was \$45.9 million, flat year over year.

In the Plastic Containers segment, revenues improved to \$164.7 million from the \$163.9 million reported in the prior-year quarter. The segment reported an adjusted operating profit of \$22.1 million, up from the year-ago quarter's \$12.3 million.

Financial Updates

The company had cash and cash equivalents of \$614.8 million as of Mar 31, 2020, significantly up from the \$141.4 million as of Mar 31, 2019. Cash utilized in operating activities were \$168.2 million in the March-end quarter compared with the \$155.8 million recorded in the prior-year period.

Outlook

Despite the economic uncertainties due to the coronavirus crisis, Silgan has increased its adjusted earnings per share guidance for 2020. It now expects adjusted earnings per share between \$2.30 and \$2.50 compared to prior range of \$2.28 to \$2.38. The mid-point of the guidance indicates an 11.1% year-over-year increase from \$2.16 in 2019.

The increased guidance factors in higher demand for food and consumer health products used mainly in homes in the first half of the year, as people are forced to stay at home due to the coronavirus pandemic. However, this will be somewhat negated by lower demand for products that are used in public venues. This also considers that the company, along with its customers and suppliers, will be able to keep operating plants during this crisis.

For the second quarter of 2020, Silgan now expects adjusted earnings per share in the range of 55 cents to 70 cents compared with the 55 cents recorded in second-quarter 2019.

During the first quarter, the company completed the Cobra Plastics acquisition. Silgan also announced that it expects to complete the pending acquisition of the dispensing business of Albea Group in second-quarter 2020.

Quarter Ending 03/2020

Report Date	Apr 22, 2020
Sales Surprise	0.21%
EPS Surprise	16.33%
Quarterly EPS	0.57
Annual EPS (TTM)	2.26

Valuation

Silgan Holdings' shares are up 13.6% over the trailing 12-month period and 17.3% over the trailing 12-month period. Stocks in the Zacks Containers - Metal and Glass industry are up 7.9% while the Zacks Industrial Products sector are down 8.1% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 6.0% and 1.0%, respectively.

The S&P 500 index is up 1.3% in the year-to-date period and up 9.8% in the past year.

The stock is currently trading at 14.17X forward 12-month earnings, which compares with 19.24X for the Zacks sub-industry, 21.73X for the Zacks sector and 22.83X 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 15.12X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$37 price target reflects 15.06X 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	14.17	19.24	21.73	22.83
	5-Year High	19	20.04	21.73	22.83
	5-Year Low	10.05	11.41	12.55	15.25
	5-Year Median	15.12	15.99	16.81	17.52
P/S F12M	Current	0.85	1.49	2.79	3.61
	5-Year High	0.91	1.55	2.79	3.61
	5-Year Low	0.56	0.89	1.52	2.53
	5-Year Median	0.77	1.13	2.01	3.02
EV/EBITDA TTM	Current	9.67	13.08	16.69	11.98
	5-Year High	12.06	16.66	17.45	12.86
	5-Year Low	7.33	8.9	10.73	8.25
	5-Year Median	10.07	12.17	14.9	10.88

As of 07/20/2020

Industry Analysis Zacks Industry Rank: Bottom 6% (236 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Graphic Packaging Holding Company (GPK)	Outperform	2
Amcor PLC (AMCR)	Neutral	3
AptarGroup, Inc. (ATR)	Neutral	3
Berry Global Group, Inc. (BERY)	Neutral	2
Ball Corporation (BLL)	Neutral	4
Crown Holdings, Inc. (CCK)	Neutral	4
Sealed Air Corporation (SEE)	Neutral	3
Sonoco Products Company (SON)	Neutral	3

Industry Comparison Industry: Containers - Metal And Glass				Industry Peers		
	SLGN	X Industry	S&P 500	ATR	BLL	CCK
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	4
VGM Score	D	-	-	B	F	C
Market Cap	3.91 B	9.38 B	22.29 B	7.66 B	23.72 B	9.38 B
# of Analysts	6	6	14	6	8	6
Dividend Yield	1.36%	0.82%	1.85%	1.21%	0.82%	0.00%
Value Score	C	-	-	D	F	C
Cash/Price	0.16	0.08	0.06	0.05	0.03	0.08
EV/EBITDA	9.64	10.36	13.06	14.63	18.88	10.36
PEG Ratio	1.93	2.93	2.98	5.38	5.47	2.77
Price/Book (P/B)	3.83	4.60	3.12	4.82	8.78	4.60
Price/Cash Flow (P/CF)	8.68	8.68	12.03	16.73	15.47	7.84
P/E (F1)	14.77	14.67	22.15	37.65	27.37	13.86
Price/Sales (P/S)	0.87	0.87	2.35	2.70	2.07	0.83
Earnings Yield	6.80%	6.80%	4.30%	2.66%	3.66%	7.21%
Debt/Equity	2.13	2.77	0.75	0.71	2.77	4.28
Cash Flow (\$/share)	4.07	4.70	6.94	7.13	4.70	8.88
Growth Score	D	-	-	A	D	D
Hist. EPS Growth (3-5 yrs)	11.36%	10.51%	10.82%	7.69%	9.55%	10.51%
Proj. EPS Growth (F1/F0)	11.34%	6.17%	-9.08%	-19.79%	5.09%	-1.73%
Curr. Cash Flow Growth	5.44%	5.44%	5.51%	5.66%	4.20%	7.40%
Hist. Cash Flow Growth (3-5 yrs)	4.92%	12.67%	8.55%	5.76%	13.04%	12.67%
Current Ratio	1.21	1.21	1.30	1.70	1.06	1.31
Debt/Capital	68.06%	73.47%	44.41%	41.47%	73.47%	81.06%
Net Margin	4.56%	4.28%	10.54%	8.26%	4.11%	4.28%
Return on Equity	25.52%	28.11%	15.74%	16.05%	28.11%	33.18%
Sales/Assets	0.87	0.73	0.54	0.79	0.68	0.73
Proj. Sales Growth (F1/F0)	1.71%	0.42%	-2.36%	-3.86%	0.42%	-3.20%
Momentum Score	B	-	-	C	B	A
Daily Price Chg	1.38%	1.99%	-0.77%	-0.09%	3.51%	1.99%
1 Week Price Chg	5.93%	1.37%	3.82%	3.87%	-2.91%	1.37%
4 Week Price Chg	12.32%	6.34%	2.71%	10.92%	2.36%	6.34%
12 Week Price Chg	1.20%	7.68%	9.79%	5.96%	7.68%	9.97%
52 Week Price Chg	17.32%	12.93%	-3.79%	-3.14%	2.32%	12.93%
20 Day Average Volume	548,631	1,069,279	2,095,914	295,503	1,961,474	1,069,279
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.09%	0.11%	-0.15%	0.15%
(F1) EPS Est 12 week change	3.81%	-1.61%	-4.60%	-14.57%	-6.99%	-1.61%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	-0.06%	0.16%

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	C
Growth Score	D
Momentum Score	B
VGM Score	D

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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