

Silgan Holdings Inc. (SLGN)

\$38.11 (As of 07/27/20)

Price Target (6-12 Months): **\$44.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 07/24/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: C

Summary

Silgan's second-quarter 2020 revenues and adjusted earnings per share (EPS) improved year over year and beat the respective Zacks Consensus Estimate. During the quarter, it completed the acquisition of the dispensing business of the Albéa Group, further strengthening its closures franchise. The company anticipates realizing operational cost synergies of \$20 million, on an annual run rate basis, within 18 months following the buyout. Silgan continues to benefit from demand for vital products like food, beverage and consumer health and personal care products amid the coronavirus pandemic. The company raised adjusted EPS guidance for 2020 to \$2.70 and \$2.85. The mid-point of the range indicates a year-over-year increase of 28%. The company's ongoing focus on reducing costs across each of its businesses will boost margins.

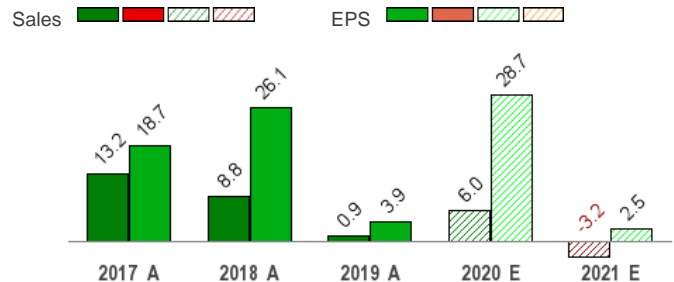
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$38.76 - \$24.65
20 Day Average Volume (sh)	593,673
Market Cap	\$4.2 B
YTD Price Change	21.3%
Beta	0.67
Dividend / Div Yld	\$0.48 / 1.3%
Industry	Containers - Metal and Glass
Zacks Industry Rank	Top 3% (8 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	34.9%
Last Sales Surprise	5.5%
EPS F1 Est- 4 week change	15.4%
Expected Report Date	NA
Earnings ESP	2.3%
P/E TTM	14.7
P/E F1	13.7
PEG F1	1.8
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					4,605 E
2020	1,030 A	1,177 A	1,326 E	1,039 E	4,758 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					\$2.85 E
2020	\$0.57 A	\$0.85 A	\$0.91 E	\$0.48 E	\$2.78 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 07/27/2020. The reports text is as of 07/28/2020.

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 110 manufacturing facilities in North and South America, Europe and Asia.

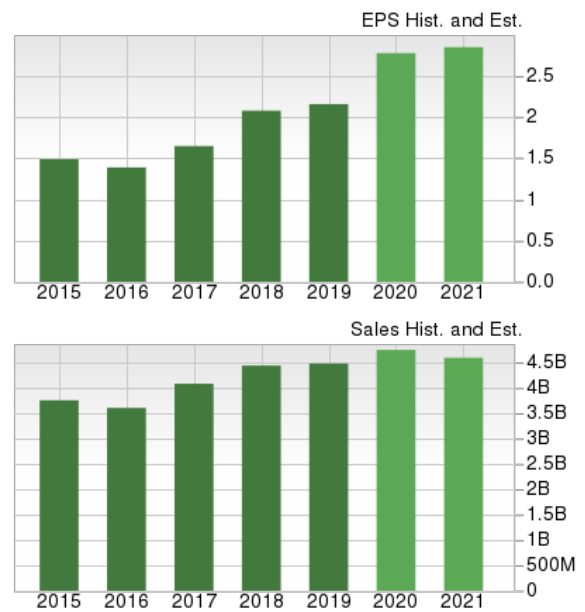
Its product lines include steel and aluminum containers for human and pet food; custom-designed plastic containers for personal care, healthcare, pharmaceutical, household, industrial chemical, food, pet care, agricultural chemical, automotive and marine chemical products; and metal, composite and plastic 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 acquired 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 of its global production facilities have remained open and each of the businesses are operating at peak productivity levels. Demand levels remain high in July and the company is witnessing strong volume gains even in regions where stay-at-home requirements have been eased. This bodes well for third-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 strong performance in the first half of 2020, expectations of robust demand for food, consumer health products and hygiene products used mainly at home, and the inclusion of the dispensing operations acquired from Albéa, the company has raised earnings guidance for 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 \$2.70 to \$2.85. The mid-point of the range indicates an increase of 28% over earnings of \$2.16 in 2019. Silgan has also increased free cash flow guidance for 2020 from approximately \$275 million to approximately \$330 million. At the current share price, this represents a free cash flow yield of nearly 8.5%.
- ▲ In June, Silgan closed the previously announced acquisition of Albea's dispensing business. It is 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 acquisition. These synergies would be achieved primarily through reductions in general and administrative expenses, procurement savings and manufacturing efficiencies. This buyout is expected to be modestly boost Silgan's earnings in 2020 and anticipated to become more accretive as synergies are phased in over the next 18 months and customer buying patterns for the beauty and personal care markets return to more normal levels. 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.

Risks

- 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. Further, the exposure to the fragrance market of the dispensing business Albéa Group remains a concern. The fragrance market is heavily retail-based and travel-based. Thus, volumes of this business will remain impacted in the near term.
 - Silgan Holdings' metal food can and closures businesses has been witnessing decline in volumes over the past three years. The recent surge in volumes has been triggered by the coronavirus induced crisis. Once the crisis is over, it might impact the company's volumes again.
 - Following the completion of the acquisition of Albea's dispensing business, Silgan Holdings' total debt to total capital ratio has gone up to 0.76 as of the second quarter compared with 0.75 as of the first quarter end. High debt levels remain a concern. The company is however taking proactive measures to strengthen its balance sheet amid the ongoing uncertainty.
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Last Earnings Report

Silgan Q2 Earnings & Revenues Top Estimates, View Up

Silgan Holdings reported second-quarter 2020 adjusted earnings of 85 cents per share, handily beating the Zacks Consensus Estimate of 63 cents. Further, the figure jumped 54.5% year over year. Solid demand growth across its food, health and hygiene products contributed to the quarterly results.

Including one-time items, the company's earnings per share came in at 70 cents compared with the prior-year quarter's 28 cents.

Total revenues increased 7.6% year over year to \$1,176.5 million on higher sales across its business segments. The top-line figure also surpassed the Zacks Consensus Estimate of \$1,116 million.

Cost and Margins

During the June-end quarter, cost of goods sold climbed 4.6% to \$952.4 million from the prior year's \$909.7 million. Gross profit improved 21.7% year over year to \$224.1 million. Gross margin came in at 19% compared with the year-ago quarter's 17%.

Selling, general and administrative expenses went up 25.6% year over year to \$100.6 million during the second quarter. Adjusted operating income was up 12% year over year to \$120.6 million. Operating margin was 10.3% in the reported quarter compared with the 9.8% witnessed in the prior-year period.

Segment Performance

Revenues in the Metal Containers segment was up 3.8% year over year to \$597.2 million. The segment's adjusted operating income increased 37.8% year over year to \$73 million.

The Closures segment's revenues jumped 13% year over year to \$410.5 million. Adjusted operating income for the segment came in at \$62.8 million compared with the year-earlier quarter's \$47.1 million.

In the Plastic Containers segment, revenues improved to \$168.8 million from the \$154.2 million reported in the prior-year quarter. The segment recorded an adjusted operating profit of \$23.1 million, up from the year-ago quarter's \$13.5 million.

Financial Updates

The company had cash and cash equivalents of \$191.1 million in the June-end quarter, up from the year-ago quarter's \$111.3 million. Cash utilized in operating activities were \$63.7 million in the first half of 2020 compared with the \$129.1 million recorded in the first half of 2019.

Outlook

Silgan has raised its adjusted earnings per share (EPS) guidance for the ongoing year on the current demand for its products and strong year-to-date performance. The company now expects adjusted EPS between \$2.70 and \$2.85 compared with the prior range of \$2.30 to \$2.50. The mid-point of the guidance indicates 28% year-over-year increase from \$2.16 in 2019. The guidance factors in strong demand for food and consumer health and hygiene products as well as acquisition of Albea's dispensing business. However, this will be somewhat negated by prevalent bleak demand for beauty products and others that are used in public venues.

Silgan has also raised the current-year free cash flow estimate to roughly \$330 million from \$275 million.

For the third quarter, Silgan now expects adjusted earnings per share in the range of 85 cents to \$1.00 compared with the 76 cents recorded in third-quarter 2019.

Quarter Ending 06/2020

Report Date	Jul 22, 2020
Sales Surprise	5.45%
EPS Surprise	34.92%
Quarterly EPS	0.85
Annual EPS (TTM)	2.56

Valuation

Silgan Holdings' shares are up 21.3% over the trailing 12-month period and 22.6% over the trailing 12-month period. Stocks in the Zacks Containers - Metals and Glass industry and the Industrial Products sector are up 9.4% and down 6.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 5.1% and 1.2%, respectively.

The S&P 500 index is up 0.1% in the year-to-date period and 6.9% in the past year.

The stock is currently trading at 13.37X forward 12-month earnings, which compares with 18.81X for the Zacks sub-industry, 21.82X for the Zacks sector and 22.51X 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 15.11X.

Our Outperform recommendation indicates that the stock will perform better than the market. Our \$44 price target reflects 15.49X 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	13.37	18.81	21.82	22.51
	5-Year High	19	20.04	21.82	22.51
	5-Year Low	10.05	11.41	12.55	15.25
	5-Year Median	15.11	15.99	16.82	17.52
P/S F12M	Current	0.87	1.5	2.82	3.55
	5-Year High	0.92	1.55	2.82	3.55
	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	13.62	13.56	16.91	11.95
	5-Year High	13.68	16.66	17.46	12.85
	5-Year Low	7.33	8.9	10.77	8.25
	5-Year Median	10.13	12.17	14.92	10.88

As of 07/24/2020

Industry Analysis Zacks Industry Rank: Top 3% (8 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Crown Holdings, Inc. (CCK)	Outperform	1
Graphic Packaging Holding Company (GPK)	Outperform	1
Amcor PLC (AMCR)	Neutral	2
AptarGroup, Inc. (ATR)	Neutral	3
Berry Global Group, Inc. (BERY)	Neutral	2
Ball Corporation (BLL)	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)	Outperform	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	1	-	-	3	4	1
VGM Score	A	-	-	C	F	F
Market Cap	4.18 B	9.52 B	22.16 B	7.63 B	23.85 B	9.52 B
# of Analysts	6	7	14	7	8	7
Dividend Yield	1.27%	0.82%	1.81%	1.21%	0.82%	0.00%
Value Score	A	-	-	D	F	D
Cash/Price	0.16	0.08	0.06	0.05	0.03	0.08
EV/EBITDA	10.11	10.45	13.07	14.58	18.96	10.45
PEG Ratio	1.79	2.73	3.03	5.36	5.50	2.73
Price/Book (P/B)	3.84	4.67	3.11	4.81	8.83	4.67
Price/Cash Flow (P/CF)	9.27	9.27	12.27	16.67	15.55	7.96
P/E (F1)	13.71	13.63	21.88	37.54	27.52	13.63
Price/Sales (P/S)	0.91	0.91	2.38	2.69	2.08	0.84
Earnings Yield	7.37%	7.34%	4.34%	2.67%	3.64%	7.34%
Debt/Equity	2.00	2.77	0.76	0.71	2.77	4.28
Cash Flow (\$/share)	4.07	4.70	7.01	7.13	4.70	8.88
Growth Score	B	-	-	A	D	F
Hist. EPS Growth (3-5 yrs)	11.36%	10.51%	10.82%	7.69%	9.55%	10.51%
Proj. EPS Growth (F1/F0)	28.70%	6.17%	-9.01%	-19.86%	5.09%	1.54%
Curr. Cash Flow Growth	5.44%	5.44%	5.47%	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	0.41	1.06	1.31	1.70	1.06	1.31
Debt/Capital	68.06%	73.47%	44.41%	41.47%	73.47%	81.06%
Net Margin	5.50%	4.28%	10.46%	8.26%	4.11%	4.28%
Return on Equity	27.83%	28.11%	15.13%	16.05%	28.11%	33.18%
Sales/Assets	0.84	0.73	0.54	0.79	0.68	0.73
Proj. Sales Growth (F1/F0)	5.97%	0.42%	-2.06%	-4.29%	0.42%	-3.09%
Momentum Score	C	-	-	D	D	B
Daily Price Chg	-0.76%	-0.25%	-0.65%	0.35%	0.23%	-0.25%
1 Week Price Chg	5.93%	1.37%	3.82%	3.87%	-2.91%	1.37%
4 Week Price Chg	20.56%	12.35%	4.96%	10.46%	5.72%	12.35%
12 Week Price Chg	9.28%	9.77%	9.30%	10.99%	11.54%	9.77%
52 Week Price Chg	24.46%	11.51%	-2.82%	-3.31%	2.62%	11.51%
20 Day Average Volume	593,673	1,150,858	2,026,477	303,990	2,056,274	1,150,858
(F1) EPS Est 1 week change	15.39%	3.12%	0.00%	-0.08%	0.00%	3.12%
(F1) EPS Est 4 week change	15.39%	3.28%	0.15%	0.02%	-0.15%	3.28%
(F1) EPS Est 12 week change	15.39%	3.28%	-3.24%	-13.81%	-6.99%	3.28%
(Q1) EPS Est Mthly Chg	16.25%	1.56%	0.00%	-2.08%	-0.06%	1.56%

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	A
Growth Score	B
Momentum Score	C
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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