

Sonoco Products Co. (SON)

\$52.03 (As of 02/25/20)

Price Target (6-12 Months): **\$55.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/19/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: F

Summary

Sonoco's fourth-quarter 2019 sales and adjusted earnings per share (EPS) both declined from the prior-year quarter. While earnings came in line with the Zacks Consensus Estimate, sales missed the same. The company lowered 2020 EPS guidance to \$3.60 to \$3.70, reflecting impact of the coronavirus outbreak in China on its operations and recent reductions in corrugated medium prices in the United States. Nevertheless, the mid-point of the range suggests year-over-year rise of 3% as earnings are likely to be aided by acquisitions and focus on optimizing businesses through process improvement, standardization as well as cost control. The recent slowdown in customer orders owing to weak global economic conditions remains a concern. Further, impact of tariffs on steel, aluminum and other products will continue to weigh on margins.

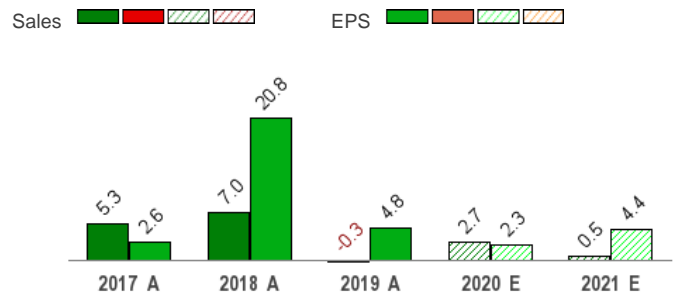
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$66.57 - \$51.99
20 Day Average Volume (sh)	453,309
Market Cap	\$5.2 B
YTD Price Change	-15.7%
Beta	0.93
Dividend / Div Yld	\$1.72 / 3.3%
Industry	Containers - Paper and Packaging
Zacks Industry Rank	Bottom 31% (175 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	0.4%
EPS F1 Est- 4 week change	-2.2%
Expected Report Date	04/16/2020
Earnings ESP	0.0%
P/E TTM	14.8
P/E F1	14.4
PEG F1	3.1
P/S TTM	1.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					5,548 E
2020	1,368 E	1,389 E	1,383 E	1,335 E	5,519 E
2019	1,352 A	1,360 A	1,354 A	1,309 A	5,374 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$3.77 E
2020	\$0.84 E	\$0.99 E	\$0.96 E	\$0.80 E	\$3.61 E
2019	\$0.85 A	\$0.95 A	\$0.97 A	\$0.75 A	\$3.53 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 02/25/2020. The reports text is as of 02/26/2020.

Overview

Incorporated in 1899, Hartsville, SC-based Sonoco Products is a leading provider of consumer packaging, industrial products, protective packaging and packaging supply chain services.

The company has around 300 operations in 34 countries throughout North and South America, Europe, Australia and Asia. The majority of the Sonoco's revenues are from products and services sold to consumer and industrial products companies for use in the packaging of their products for sale or shipment.

The company manufactures paperboard, primarily from recycled materials, for both internal use and open market sale. The company reports financial results in four segments.

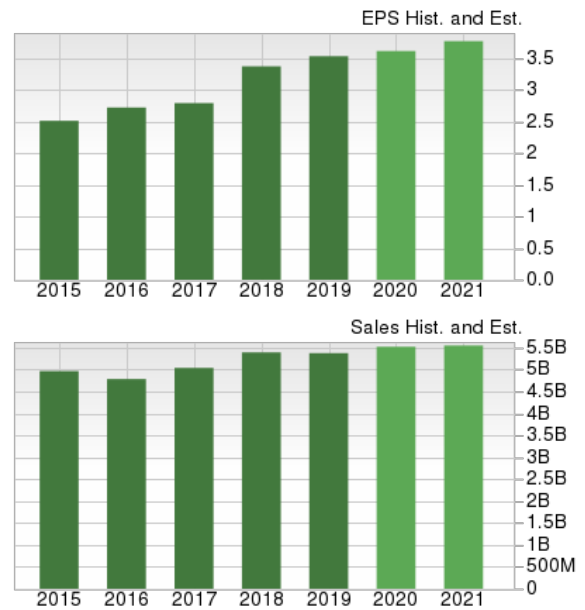
Consumer Packaging (43% of sales in fiscal 2019) makes round and shaped rigid containers and trays (both composite and thermoformed plastic), extruded and injection-molded plastic products; printed flexible packaging; global brand artwork management; and metal and peelable membrane ends and closures.

Paper and Industrial Converted Products (37%) makes paperboard tubes, cones, and cores; fiber-based construction tubes; wooden, metal and composite wire and cable reels and spools; and recycled paperboard, linerboard, corrugating medium, recovered paper and material recycling services.

Display and Packaging (10%) is engaged in designing, manufacturing, assembling, packing and distributing temporary, semi-permanent and permanent point-of-purchase displays; supply chain management services, including contract packing, fulfillment and scalable service centers; retail packaging, including printed backer cards, thermoformed blisters and heat sealing equipment; and paper amenities, such as coasters and glass covers.

Protective Solutions (10%) offers custom-designed paperboard-based and expanded foam protective packaging and temperature-assurance packaging.

Due to its geographic footprint and the cost-competitive nature of its businesses, the company is constantly seeking the most cost-effective means and structure to serve its customers and to respond to fundamental changes in its markets. As such, restructuring costs have been and are expected to be a recurring component of the Company's operating costs.



Reasons To Buy:

- ▲ For 2020, Sonoco anticipates earnings per share to lie within \$3.60 and \$3.70. The mid-point of the guidance range reflects a year-over-year growth of 3%. Despite the impact of the coronavirus outbreak, earnings growth is likely to be aided by benefits from the Conitex, Corenso and TEQ acquisitions. The company's focus on optimizing businesses through process improvement, standardization and cost control will also aid results. Growth in healthcare, convenience and demand for more sustainable packaging will continue to drive the company.
- ▲ Last October, the company acquired the remaining 70% interest in the Conitex-Sonoco joint venture and Texpack's composite can operation in Spain. The acquisition of Conitex Sonoco will assist the company in expanding manufacturing presence in the Americas, Europe, and rapidly growing emerging markets in Asia.
- ▲ The buyout of Corenso Holdings North America in August 2019, strengthened Sonoco's domestic paperboard operations. The company also penetrated the growing healthcare market with the addition of Thermoformed Engineered Quality LLC, and Plastique Holdings, LTD, (together TEQ) in January 2020. The fast-growing healthcare packaging space is a key area of growth.
- ▲ The company is focused on driving profitable growth, margin expansion and generating solid free cash flow. Its strong balance sheet enables the company to invest in capacity and pursue acquisitions. For 2020, operating cash flow is projected at \$625-\$635 million. The company expects to generate free cash flow between \$250 and \$270 million. The mid-point of the free cash flow guidance range indicates 9% growth over the adjusted 2019 cash flow of \$239 million. Meanwhile, Sonoco remains focused on acquisitions in targeted consumer and industrial markets. The company plans to turn the consumer packaging segment around in fiscal 2020 and grow and optimize industrial packaging.

Sonoco is poised to gain from margin expansion and focus on new product development. Further its strong balance sheet enables the company to invest in growth as well as acquisitions.

Reasons To Sell:

- ▼ Sonoco has 10 operations in China. Its operations in China represent about 2.5% of its annual turnover. The company lowered earnings per share guidance for 2020 to \$3.60-\$3.70 from its previous guidance of \$3.65-\$3.75. This adjustment reflects the current impact from the coronavirus outbreak in China to the company's operations and recent reductions in corrugated medium prices in the United States.
- ▼ The U.S.-China trade tensions and waning global demand seems to have taken its toll on the U.S manufacturing sector, which is likely to impact demand for Sonoco's industrial segment. Overall, for the fourth quarter, total industrial production declined at an annual rate of 0.5%. Further, the U.S Purchasing Managers' Index (PMI) released by the Institute for Supply Management had been below 50 (indicating contraction) for five consecutive months till December 2019. Even though the index has climbed to 50.9 in January, it remains to be seen whether this recovery will stay. Weakening global economic conditions and the uncertainty over trade disputes are weighing on consumer confidence. Customers have thus taken a conservative stance to manage their businesses by aggressively destocking inventory and holding back on new product launches. This slowdown in customer orders remains a major headwind.
- ▼ Over the past few years, Consumer Packaging volumes have been affected as consumers' preference for packaged food is clearly being impacted by changing taste for more fresh and natural products. Sonoco's plastic business continues to struggle, particularly in the Perimeter of the Store and industrial operations. Further, impact of tariffs on steel, aluminum and other products will continue to hurt Sonoco's margins. The company is also facing inflationary cost pressure from higher freight, wages, energy and elevated cost for materials, particularly resins.

Impact of the coronavirus outbreak in China on operations and the recent slowdown in customer orders will weigh on Sonoco's top line. Higher material and other costs will dent margins.

Last Earnings Report

Sonoco's Earnings In Line, Sales Miss Estimates in Q4

Sonoco's fourth-quarter 2019 adjusted earnings declined 10.7% year on year to 75 cents per share. The reported figure came in line with the Zacks Consensus Estimate. The year-over-year drop in earnings resulted from lower effective tax rate and hurricane-related business interruption insurance proceeds last quarter. Further, gains from productivity improvements and acquisitions were offset by lower volume/mix, negative price/cost relationship and unfavorable foreign-currency translation impact.

On a reported basis, including one-time items, earnings per share came in at 44 cents compared with the year-ago quarter's 77 cents.

Sonoco's net sales came in at \$1.31 billion, marginally down from the prior-year quarter's \$1.36 billion. The sales figure also missed the Zacks Consensus Estimate of \$1.33 billion. The top-line figure declined year-over-year due to softer volumes across all segments, along with lower selling prices in the Paper and Industrial Converted Products segment, foreign-currency translation impact. These negatives were partly offset by higher sales from the Corenso acquisition.

Operational Update

Cost of sales came in at \$1.06 billion compared with the \$1.10 billion recorded in the year-earlier quarter. Gross profit during the fourth quarter totaled \$246.8 million, down from the year-ago quarter's \$254.3 million. Gross margin came in at 18.8% compared with the 18.7% reported in the year-earlier period.

Selling, general and administrative expenses totaled \$135.8 million, down 8.7% year over year. This decline primarily resulted from lower acquisition-related costs in 2019 as well as the company's prudent cost-control measures. Adjusted operating income edged down 1.9% year over year to \$114 million during the October-December period. Operating margin came in at 8.7% compared with the 8.5% recorded in the year-ago quarter.

Segment Performance

The Consumer Packaging segment reported net sales of \$559.6 million, down 2.5% from \$573.9 million recorded in the prior-year quarter. Operating profit climbed to \$46.6 million from the \$43.7 million witnessed in the comparable period last year.

Net sales in the Paper and Industrial Converted Products segment came in at \$491.5 million, indicating a 4% decline, year over year, on lower selling prices primarily in global paperboard, corrugating and recycling operations, lower volume/mix, and negative foreign-currency translation impact. These positives were partially offset by the Corenso acquisition. Operating profit totaled \$50 million compared with the \$56 million recorded in the year-ago period.

The Display and Packaging segment's net sales slipped 3.2% year over year to \$136.7 million. The segment reported an operating profit of \$6.5 million compared with the \$8.4 million reported in the year-earlier quarter.

The Protective Solution segment's net sales came in at \$121 million, down 5.5% year over year on lower volume and mix. Operating profit of the segment jumped 37.5% year over year to \$11 million.

Financial Performance

Sonoco reported cash and cash equivalents of \$145.2 million at the end of the fourth quarter compared with \$120.3 million at the end of 2018. The company recorded cash flow from operating activities of around \$426 million in 2019 compared with the prior year's \$590 million. As the end of 2019, the company's total debt-to-capital ratio was 48.1% compared with the 43.9% reported at the end of 2018.

2019 Results

Sonoco reported adjusted earnings per share of \$3.53 in 2019, up 4.7% from the prior year's \$3.37. Earnings missed the Zacks Consensus Estimate of \$3.54. On a reported basis, including one-time items, earnings per share came in at \$2.88 compared with \$3.10 recorded in 2018. Sales came in at \$5.37 billion in 2019 compared with the previous year's \$5.39 billion. The top-line figure also missed the Zacks Consensus Estimate of \$5.40 billion.

Guidance

For 2020, Sonoco expects adjusted earnings per share guidance of \$3.60-\$3.70 compared with the prior estimate of \$3.65-\$3.75. Operating cash flow is expected between \$625 million and \$645 million, and free cash flow is projected at \$250-\$270 million. For the ongoing quarter, the company projects adjusted earnings per share of 83-89 cents compared with the year-ago quarter's 85 cents.

Quarter Ending **12/2019**

Report Date	Feb 13, 2020
Sales Surprise	0.35%
EPS Surprise	0.00%
Quarterly EPS	0.75
Annual EPS (TTM)	3.52

Recent News

Sonoco Closes TEQ Buyout, Eyes Growth in Healthcare Packaging - Jan 2, 2020

Sonoco has completed the acquisition of Thermoform Engineered Quality, LLC, and Plastique Holdings, LTD, (together TEQ) from ESCO Technologies, Inc. for a cash payment of \$187 million. Sonoco had entered into an agreement to acquire TEQ last November.

Headquartered in Huntley, IL, TEQ is a global manufacturer of thermoformed packaging, offering services for the healthcare, medical device and consumer markets. The company generated sales worth \$87 million in the fiscal year ended Sep 30, 2019.

TEQ operates three thermoforming and extrusion facilities in the United States, has one thermoforming operation unit in the U.K., and a thermoforming and molded-fiber manufacturing facility in Poland. Each facility enables production of sterile and barrier packaging systems for pharmaceuticals and medical devices with state-of-the-art cleanroom capabilities. Additionally, the company produces recyclable, molded-pulp-fiber packaging and thermoformed plastic packaging for various consumer products, mainly based out of Europe.

Sonoco's healthcare packaging business is a fast-growing key growth area. The latest acquisition will enable the company to become a larger supplier to healthcare and medical device manufacturers. Along with the TEQ's broad capabilities, Sonoco's healthcare packaging space now include its best-in-class ThermoSafe temperature-assured pharmaceutical packaging, multi-cell cuvettes and appliances, injection-molded vials, thermoformed trays for OTC medical products and medical devices, plus Alloyd heat-sealing equipment for commercial medical applications.

The company funded the deal using short-term credit facilities. This transaction is expected to be conducive to Sonoco's 2020 earnings.

Valuation

Sonoco's shares are down 9.9% over the trailing 12-month period. Stocks in Containers - Paper and Packaging industry and the Zacks Industrial Products sector are down 36.5% and 0.6% over the past year, respectively.

The S&P 500 index is up 11.3% in the past year.

The stock is currently trading at 14.22X forward 12-month earnings, which compares to 14.24X for the Zacks sub-industry, 17.17X for the Zacks sector and 17.88X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.80X and as low as 13.67X, with a 5-year median of 16.58X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$55 price target reflects 15.03X forward 12-month earnings.

The table below shows summary valuation data for SON:

Valuation Multiples - SON					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	14.22	14.24	17.17	17.88
	5-Year High	19.8	18.95	19.8	19.34
	5-Year Low	13.67	7.13	13.67	13.67
	5-Year Median	16.58	16.81	16.58	16.58
EV/EBITDA TTM	Current	8.87	21.52	16.9	12
	5-Year High	10.55	28.21	17.42	12.87
	5-Year Low	7.42	12.26	10.89	8.48
	5-Year Median	8.77	15.08	14.73	10.77
P/S F12M	Current	0.94	2.2	2.6	3.29
	5-Year High	1.19	5.06	2.74	3.43
	5-Year Low	0.73	1.46	1.51	2.54
	5-Year Median	1.01	1.79	1.98	3

As of 02/25/2020

Industry Analysis Zacks Industry Rank: Bottom 31% (175 out of 255)



Top Peers

AptarGroup, Inc. (ATR)	Neutral
Berry Global Group, Inc. (BERY)	Neutral
Ball Corporation (BLL)	Neutral
Crown Holdings, Inc. (CCK)	Neutral
Greif, Inc. (GEF)	Neutral
Sealed Air Corporation (SEE)	Neutral
Silgan Holdings Inc. (SLGN)	Neutral
Packaging Corporation of America (PKG)	Underperform

Industry Comparison Industry: Containers - Paper And Packaging				Industry Peers		
	SON Neutral	X Industry	S&P 500	ATR Neutral	CCK Neutral	SEE Neutral
VGM Score	B	-	-	C	C	A
Market Cap	5.21 B	5.21 B	22.56 B	6.85 B	10.18 B	5.08 B
# of Analysts	5	5	13	6	6	7
Dividend Yield	3.31%	3.14%	1.88%	1.35%	0.00%	1.95%
Value Score	B	-	-	D	C	B
Cash/Price	0.03	0.04	0.04	0.03	0.03	0.05
EV/EBITDA	9.19	9.30	13.36	16.47	11.65	11.19
PEG Ratio	3.12	1.26	1.94	2.47	1.96	1.22
Price/Book (P/B)	2.87	2.68	3.09	4.35	5.04	NA
Price/Cash Flow (P/CF)	8.74	7.55	12.57	15.00	9.06	10.87
P/E (F1)	14.57	14.77	17.93	25.50	13.71	11.27
Price/Sales (P/S)	0.97	0.97	2.51	2.40	0.87	1.06
Earnings Yield	6.94%	6.77%	5.55%	3.92%	7.29%	8.88%
Debt/Equity	0.66	0.88	0.70	0.73	4.06	-19.19
Cash Flow (\$/share)	5.95	3.78	7.02	7.13	8.29	3.03
Growth Score	B	-	-	B	D	A
Hist. EPS Growth (3-5 yrs)	8.25%	11.64%	10.85%	8.28%	10.68%	1.83%
Proj. EPS Growth (F1/F0)	2.32%	6.43%	6.86%	6.16%	7.24%	3.50%
Curr. Cash Flow Growth	3.29%	9.13%	6.53%	5.66%	41.18%	-12.12%
Hist. Cash Flow Growth (3-5 yrs)	5.28%	6.65%	8.38%	5.76%	15.14%	-6.82%
Current Ratio	1.08	1.51	1.22	1.89	1.12	1.09
Debt/Capital	39.65%	50.45%	42.37%	42.05%	80.23%	NA
Net Margin	5.43%	4.01%	11.57%	8.47%	4.37%	5.49%
Return on Equity	19.51%	19.51%	16.80%	16.92%	39.58%	-155.41%
Sales/Assets	1.07	0.93	0.54	0.82	0.76	0.88
Proj. Sales Growth (F1/F0)	2.69%	3.01%	4.03%	4.54%	1.45%	2.53%
Momentum Score	F	-	-	C	B	D
Daily Price Chg	-4.50%	-3.38%	-3.36%	-2.08%	-3.36%	-3.04%
1 Week Price Chg	0.67%	0.43%	-0.94%	-4.02%	-1.01%	0.58%
4 Week Price Chg	-10.88%	-10.27%	-5.65%	-7.79%	-0.52%	-10.84%
12 Week Price Chg	-12.99%	-11.46%	-1.04%	-5.12%	-0.91%	-11.89%
52 Week Price Chg	-11.05%	-8.79%	8.00%	5.56%	37.90%	-24.81%
20 Day Average Volume	453,309	220,104	2,073,853	289,243	979,745	1,325,633
(F1) EPS Est 1 week change	-0.71%	0.00%	0.00%	-0.87%	0.00%	0.00%
(F1) EPS Est 4 week change	-2.20%	-0.87%	-0.06%	-0.87%	0.15%	-2.53%
(F1) EPS Est 12 week change	-1.37%	-1.37%	-0.19%	-1.60%	-0.24%	-2.58%
(Q1) EPS Est Mthly Chg	-3.22%	0.00%	-0.61%	-6.62%	-16.07%	-6.30%

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	F
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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