

WestRock Company (WRK)

\$43.68 (As of 01/20/20)

Price Target (6-12 Months): **\$47.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 09/02/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: A

Growth: B

Momentum: F

Summary

For fiscal 2020, WestRock expects adjusted EBITDA in the range of \$3-\$3.2 billion. The mid-point of the range reflects a year-over-year decline of 4% thanks to the impact of pricing declines and ongoing inflation in wages and other cost categories. Benefits from higher volumes will be offset by lower prices and scheduled maintenance downtime. Nevertheless, the acquisition of KapStone is likely to generate significant cost synergies and expand paper packaging product offering in the days ahead. Productivity and performance improvement programs and cost-saving actions remain tailwinds. Focus on lowering debt levels and investment in growth will also aid results. It plans to invest approximately \$1 billion of capital in business in the fiscal 2018-2021 timeframe. This is anticipated to generate \$240 million in annualized EBITDA.

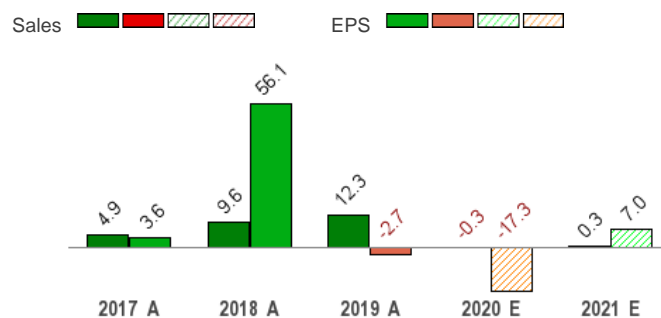
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$44.39 - \$31.94
20 Day Average Volume (sh)	2,277,121
Market Cap	\$11.3 B
YTD Price Change	1.8%
Beta	1.64
Dividend / Div Yld	\$1.86 / 4.3%
Industry	Paper and Related Products
Zacks Industry Rank	Bottom 4% (243 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.5%
Last Sales Surprise	-6.3%
EPS F1 Est- 4 week change	-2.0%
Expected Report Date	01/30/2020
Earnings ESP	-0.4%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					18,299 E
2020	4,329 E	4,490 E	4,679 E	4,728 E	18,237 E
2019	4,327 A	4,620 A	4,690 A	4,652 A	18,289 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$3.52 E
2020	\$0.57 E	\$0.66 E	\$0.93 E	\$1.07 E	\$3.29 E
2019	\$0.83 A	\$0.80 A	\$1.11 A	\$1.24 A	\$3.98 A

*Quarterly figures may not add up to annual.

P/E TTM	11.0
P/E F1	13.3
PEG F1	2.9
P/S TTM	0.6

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/20/2020. The reports text is as of 01/21/2020.

Overview

WestRock was formed as a result of the merger between MeadWestvaco Company and Rock-Tenn Company on Jul 1, 2015. Headquartered in Norcross, GA, WestRock is a multinational provider of paper and packaging solutions for consumer and corrugated packaging markets. The company is one of the largest integrated producers of containerboard by tons produced, and one of the largest producers of high-graphics preprinted linerboard on the basis of net sales in North America. It is also one of the largest paper recyclers in North America.

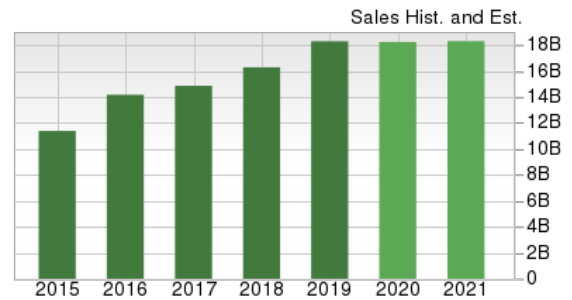
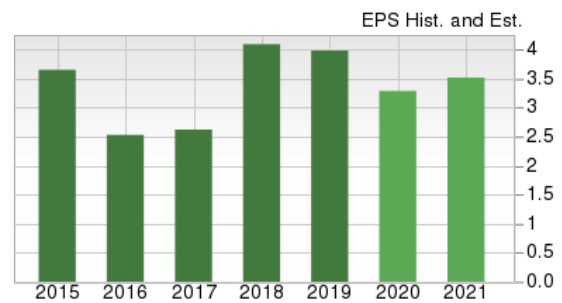
The company's operations outside the United States are conducted through subsidiaries located in Canada, Mexico, South America, Europe, Asia and Australia. Sales from non-U.S. operations accounted for 18.2% of net sales in fiscal 2019.

WestRock reports financial results in the following reportable segments:

Corrugated Packaging Segment (64.2% of total sales in fiscal 2019) operates an integrated corrugated packaging system that manufactures primarily containerboard, corrugated sheets, corrugated packaging and preprinted linerboard for sale to consumer, and industrial products manufacturers and corrugated box manufacturers. The full range of high-quality corrugated containers is designed to protect, ship, store and display products in accordance to customers' merchandising and distribution specifications. It converts corrugated sheets into corrugated products ranging from one-color protective cartons to graphically brilliant point-of-purchase packaging.

Consumer Packaging Segment (35.7% of total sales in fiscal 2019) operates integrated virgin and recycled fiber paperboard mills along with operations which convert items such as folding and beverage cartons, displays and interior partitions. The folding and beverage cartons are used to package items such as food, paper, beverages, dairy products, tobacco, confectionery, health and beauty and other household consumer, commercial and industrial products primarily for retail sale.

Land and Development Segment (0.1% of total sales in fiscal 2019) is responsible for maximizing the value of the various real estate holdings concentrated in the Charleston, SC region. The company expects the monetization of these holdings to be completed by fiscal 2020.



Reasons To Buy:

- ▲ WestRock was formed by the merger of MeadWestvaco and Rock-Tenn in Jul 2015. WestRock is realizing the strategic benefits of the merger. The company has achieved its \$1 billion target for synergy and performance improvements which it had set at the inception of WestRock. This was achieved by the productivity and performance improvement programs across its manufacturing footprint, as well as cost savings from capital investments. Further, manufacturing optimization and reductions from the elimination of duplicate corporate costs and support functions will aid results.
- ▲ During fiscal 2018 and 2019, the company completed acquisitions of Schlüter, Plymouth Packaging and rival KapStone Paper and Packaging Corp that expanded its product offerings and geographic presence. The integration of KapStone Paper, the most notable acquisition among these, is on track. The company anticipates cost synergies and performance improvements of more than \$200 million by the end of fiscal 2021. WestRock has already achieved its targeted \$90 million in fiscal 2019. KapStone's corrugated packaging operations will enhance WestRock's North American corrugated packaging business and provide complementary products. The acquisition will help the company strengthen presence in Western United States and to compete better in the growing agricultural markets in the region. It also fast-tracks its target to improve margins of its North American corrugated packaging business. The company continues to evaluate potential acquisitions in the future.
- ▲ WestRock reported per-day organic box shipment growth of 2.5% in fiscal 2019, ahead of the industry's 0.5%. For fiscal 2020, box volumes are expected to be up 1-2% on a per day basis. Consumer Packaging volumes are expected to be up 1% for the fiscal 2020.
- ▲ WestRock generated \$1.044 billion of adjusted free cash flow in fiscal 2019 — the fourth consecutive year of more than \$1 billion. The company projects adjusted free cash flow to be more than \$1 billion for the fifth consecutive year. The company paid out \$468 million in dividends and repurchased approximately 2.1 million shares for \$89 million in fiscal 2019. As of Sep 30, 2019, the company had approximately 19.1 million shares available for repurchase under the program. Recently, WestRock announced an annual dividend hike of 2.2% to \$1.86 per share. The company also reduced total debt by \$757 million through fiscal 2019 and ended the year with net leverage ratio of 2.92. WestRock retains target to lower its net leverage ratio to 2.25-2.50.
- ▲ The company plans to invest approximately \$1.0 billion of capital in its business in the fiscal 2018-2021 timeframe. This is anticipated to generate \$240 million in annualized EBITDA. WestRock has so far invested \$700 million and has a capital expenditure target of \$275 million in fiscal 2020 and \$75 million in fiscal 2021. In fiscal 2019, the company completed strategic capital projects at its Porto Feliz corrugated box plant in Sao Paulo, Brazil, Cottonton, AL and Covington, VA mills. It also continues to invest in strategic projects at its Florence, SC and Tres Barras, Brazil.
- ▲ WestRock announced that it is reconfiguring its North Charleston, SC, paper mill to improve the long-term competitiveness of the mill. The move is expected to increase the company's annual EBITDA by approximately \$40 million, primarily owing to the reduction in operating costs from the shutdown of the paper machine and its associated infrastructure. It will also reduce linerboard capacity by approximately 288,000 tons and help balance supply with customer demand.

Execution of its capital allocation strategy and investment in growth projects will aid growth. The KapStone acquisition will enhance corrugated packaging business and add complementary products.

Reasons To Sell:

- ▼ WestRock expects net sales at \$18.0-\$18.5 billion for fiscal 2020. The mid-point of the range reflects a year-over-year decline of 0.2%. The guidance reflects declines in North American container board and craft paper index pricing, and the full year impact of market pricing declines that have been witnessed in export container board, craft paper and market pulp. Adjusted EBITDA for the fiscal is anticipated in the range of \$3 billion to \$3.2 billion. Compared with the adjusted EBITDA of \$3.23 billion in fiscal 2018, the mid-point of the range reflects a year-over-year decline of 4%. This can be attributable to impact of pricing declines and ongoing inflation in wages, benefits and other non-commodity cost categories.
- ▼ Earnings in the first half of fiscal 2020 will be lower than the second half, owing to seasonal factors, the timing of scheduled mill maintenance outages and impact of strategic capital projects.
- ▼ For first-quarter fiscal 2020, the company has scheduled 131,000 tons of maintenance downtime. This includes 65,000 tons of downtime for outage underway at the Florence mill as the company replaces its three older paper machine with a new modern paper machine. For the quarter, WestRock expects adjusted segment EBITDA in the first quarter between \$670 million and \$690 million. The company had reported adjusted EBITDA of \$733 million in the first quarter of fiscal 2019. Benefits from higher volumes will be offset by negative price and mix impact of \$110 million. Pulp prices are down globally and are likely to result in a negative year-over-year impact of approximately \$30 to \$35 million in the quarter.
- ▼ The folding carton markets remain challenged by weak primary demand for processed, frozen, and dry foods. This is in line with the ongoing consumer preference for fresh foods and the shrinking center of the supermarket. Moreover, demand for carbonated drinks continues to remain weak, particularly in North America.
- ▼ Energy is one of the primary costs of WestRock's mill operations. The cost of natural gas, coal, oil, electricity, diesel and wood by-products (biomass) at times have fluctuated significantly. WestRock spent around \$879 million on all energy sources in fiscal 2019 to operate facilities. Natural gas and electricity each accounted for approximately a third of its total energy purchases in fiscal 2019. In fiscal 2020, WestRock expects to consume approximately 84 million MMBtu of natural gas. Inbound and outbound freight is also a significant expenditure. The company experienced significantly higher freight costs in fiscal 2019, as transportation companies hiked prices to address shortage of drivers and strong demand. Higher energy and freight costs are likely to limit the company's margins.

Lower prices are likely to impact WestRock's results in fiscal 2020. Weak folding cartons market owing to lower consumer preference for processed & frozen food remains a headwind.

Last Earnings Report

WestRock Earnings Beat, Sales Miss Estimates in Q4

WestRock Company delivered fourth-quarter fiscal 2019 (ended Sep 30, 2019) adjusted earnings of \$1.24 per share, surpassing the Zacks Consensus Estimate of \$1.21. Earnings, however, declined 3.8% from the prior-year quarter figure of \$1.29.

Including one-time items, the company reported earnings per share of \$1.20 in the reported quarter, up 11.1% from the prior-year quarter's \$1.08.

Quarter Ending **09/2019**

Report Date	Nov 07, 2019
Sales Surprise	-6.33%
EPS Surprise	2.48%
Quarterly EPS	1.24
Annual EPS (TTM)	3.98

Operational Update

WestRock's total revenues jumped 9.8% year over year to \$4,652 million. However, the revenue figure missed the Zacks Consensus Estimate of \$5,004 million.

The year-over-year improvement in total sales can primarily be attributed to the KapStone acquisition, partially offset by lower corrugated volumes and prices. Nonetheless, the absence of recycling sales in the reported quarter had a deterring effect.

Cost of sales improved 8.1%, year over year, to \$3,573 million in the fiscal fourth quarter. Gross profit advanced 15.8% year over year to \$1,078.6 million. Gross margin came in at 23.2% compared with the prior-year period's 21.9%. Adjusted segment EBITDA was \$890.5 million compared with the \$801.5 million reported in the prior-year quarter.

Total segment income came in at \$584.5 million, up from the \$512.8 million witnessed in the year-ago quarter. This upside was driven by insurance proceeds related to the receipt of Hurricane Michael, the contribution from the KapStone acquisition, productivity improvements and cost deflation. However, these were partially offset by lower volumes and selling prices.

Segment Performance

Corrugated Packaging: Sales in the segment improved 19% year over year to \$3,019.4 million in the reported quarter, backed by the KapStone acquisition, partly offset by lower volumes and prices. Adjusted segment EBITDA jumped 14% year over year to \$640 million. Segment income came in at \$449.8 million in the quarter, reflecting year-over-year growth of 16.7%.

Consumer Packaging: Sales in this segment declined 2.4% year over year to \$1,668.8 million. The downside resulted from lower volumes and unfavorable foreign-currency impact, partly mitigated by acquisitions. Adjusted segment EBITDA was down 4.5% year over year to \$269 million. Segment income was \$135 million in the September-end quarter compared with the prior-year quarter's \$130.2 million. Segment income increased due to productivity improvements, cost deflation and higher selling prices, partly muted by lower volumes.

Land and Development: The segment's sales came in at around \$0.1 million compared with the year-earlier quarter's figure of \$39.5 million.

Fiscal 2019 Performance

WestRock reported fiscal 2019 adjusted earnings of \$3.98 per share, which outpaced the Zacks Consensus Estimate of \$3.93. Earnings, however, declined 2.7% year over year. Including one-time items, the company reported earnings of \$3.33 per share in the fiscal compared with the \$7.34 per share recorded in the prior fiscal year.

WestRock's total revenues rose 12.3% year over year to \$18.3 billion, missing the Zacks Consensus Estimate of \$18.6 billion.

Financial Position

As of fiscal 2019 end, cash and cash equivalents were \$151.6 million, significantly down from \$636.8 million as of Sep 30, 2018. As of the fiscal 2019 end, total debt was \$10.06 billion, up from \$6.4 billion as of the fiscal 2018 end. Cash flow from operations came in at \$911 million in the fiscal fourth quarter compared with the prior-year quarter's \$796 million.

WestRock invested \$392 million in capital expenditures and paid out \$117 million in dividends in the reported quarter.

Recent Development

In September, the company announced its plan to reconfigure its North Charleston, SC paper mill, in a bid to enhance the mill's operating efficiency and boost long-term competitiveness. This is likely to increase the company's annual EBITDA by around \$40 million. The move will reduce linerboard capacity by approximately 288,000 tons.

Acquisition

WestRock has so far achieved \$90 million of its \$200-million targeted synergies from the acquisition of KapStone. WestRock remains focused on organic growth, productivity improvement and cash-flow generations.

Recent News

WestRock Hikes Dividend by 2.2% - Nov 7, 2019

WestRock's Board of Directors declared a 2.2% increase in its quarterly dividend to 46.50 cents per share.

Valuation

WestRock's shares are up 5.9% over the trailing 12-month period. Stocks in the Zacks Paper and Related Products industry are down 11.9% while the Zacks Basic Materials sector are up 2.8% over the past year.

The S&P 500 index has gained 25.6% in the past year.

The stock is currently trading at 13.01X forward 12-month earnings, which compares with 6.68X for the Zacks sub-industry, 13.77X for the Zacks sector and 19.19X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.70X and as low as 7.59X, with a five-year median of 13.77X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$47 price target reflects 14.00X Forward 12-month earnings.

The table below shows summary valuation data for WRK:

Valuation Multiples - WRK					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.01	6.68	13.77	19.19
	5-Year High	24.70	15.21	21.12	19.34
	5-Year Low	9.77	4.15	9.77	15.17
	5-Year Median	13.77	11.86	13.77	17.44
EV/EBITDA TTM	Current	6.67	11.56	9.67	12.38
	5-Year High	33.59	16.25	18.17	12.86
	5-Year Low	5.38	4.7	7.34	8.48
	5-Year Median	11.2	7.64	10.55	10.67
P/B TTM	Current	0.96	3.58	2.36	4.55
	5-Year High	3.74	6.73	3.54	4.55
	5-Year Low	0.69	1.5	1.33	2.85
	5-Year Median	1.24	2.32	2.18	3.61

As of 01/17/2020

Industry Analysis Zacks Industry Rank: Bottom 4% (243 out of 254)



Top Peers

Verso Corporation (VRS)	Outperform
Clearwater Paper Corporation (CLW)	Neutral
International Paper Company (IP)	Neutral
Neenah Paper, Inc. (NP)	Neutral
Packaging Corporation of America (PKG)	Neutral
Veritiv Corporation (VRTV)	Neutral
Mercer International Inc. (MERC)	Underperform
Domtar Corporation (UFS)	Underperform

Industry Comparison Industry: Paper And Related Products				Industry Peers		
	WRK Neutral	X Industry	S&P 500	IP Neutral	PKG Neutral	UFS Underperform
VGM Score	B	-	-	A	B	C
Market Cap	11.26 B	1.34 B	24.65 B	17.94 B	10.32 B	2.28 B
# of Analysts	6	1	13	6	5	4
Dividend Yield	4.26%	1.39%	1.73%	4.48%	2.90%	4.56%
Value Score	A	-	-	A	B	B
Cash/Price	0.01	0.06	0.04	0.04	0.07	0.05
EV/EBITDA	6.68	7.23	14.11	7.54	8.25	4.44
PEG Ratio	2.80	1.86	2.08	NA	3.18	NA
Price/Book (P/B)	0.96	1.02	3.39	2.41	3.40	0.96
Price/Cash Flow (P/CF)	4.42	5.17	13.81	5.24	8.73	4.14
P/E (F1)	12.68	13.29	19.19	12.47	15.90	16.57
Price/Sales (P/S)	0.62	0.62	2.69	0.79	1.48	0.43
Earnings Yield	7.53%	6.79%	5.21%	8.02%	6.29%	6.04%
Debt/Equity	0.81	0.69	0.72	1.37	0.88	0.41
Cash Flow (\$/share)	9.89	1.53	6.94	8.72	12.49	9.63
Growth Score	B	-	-	B	B	C
Hist. EPS Growth (3-5 yrs)	14.73%	6.58%	10.56%	12.09%	16.20%	5.88%
Proj. EPS Growth (F1/F0)	-17.42%	-5.56%	7.57%	-15.92%	-10.30%	-23.86%
Curr. Cash Flow Growth	9.85%	22.73%	14.73%	22.73%	21.58%	-42.94%
Hist. Cash Flow Growth (3-5 yrs)	23.04%	3.57%	9.00%	3.57%	17.00%	2.56%
Current Ratio	1.45	1.63	1.24	1.49	3.28	2.28
Debt/Capital	44.86%	40.71%	42.99%	57.89%	46.90%	29.20%
Net Margin	4.72%	2.78%	11.14%	6.03%	10.94%	3.82%
Return on Equity	8.81%	8.10%	17.16%	26.97%	26.92%	11.17%
Sales/Assets	0.60	0.79	0.55	0.67	1.01	1.08
Proj. Sales Growth (F1/F0)	-0.29%	-0.27%	4.16%	-3.23%	-1.93%	-6.12%
Momentum Score	F	-	-	D	C	F
Daily Price Chg	0.55%	0.00%	0.27%	0.88%	-0.04%	1.37%
1 Week Price Chg	-1.22%	-2.20%	0.39%	-1.63%	-3.24%	0.32%
4 Week Price Chg	3.41%	-0.48%	2.95%	-0.48%	-2.36%	1.84%
12 Week Price Chg	16.17%	10.23%	7.76%	8.44%	0.48%	11.03%
52 Week Price Chg	7.67%	-8.43%	22.29%	1.67%	20.85%	-10.65%
20 Day Average Volume	2,277,121	78,896	1,536,375	2,119,037	670,158	551,298
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-2.04%	0.00%	0.00%	-0.45%	0.00%	-1.64%
(F1) EPS Est 12 week change	-1.83%	-10.67%	-0.40%	-3.97%	-3.83%	-10.49%
(Q1) EPS Est Mthly Chg	-1.00%	-0.50%	0.00%	0.00%	0.00%	NA

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	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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