

Paper/Forest Products

Pkgg/Paper Wrap-up, Daily – 1/4/24: FX, yields, investor comments, WY mill fire

Industry Overview

Early market commentary quite varied

As part of our daily Wrap-up, we'll try to regularly reflect on investor dialogues. Overall, inbound from clients has been varied. A few clients (long-only) questioned our downgrades of Ball and Avery to Underperform – our moves were largely value and sector-strategy driven ([see our Year-Ahead report](#)), along with being mindful of our ratings distribution. There is some investor nervousness on the \$70/ton containerboard price hike for January (at this stage, this is normal), which will get its first review on January 19 from Fastmarkets RISI – we expect \$60/ton to get passed through over the course of 1Q. That said, sentiment seems more positive on containerboard than boxboard (and skeptical of our Buys on Graphic Packaging and Sonoco). We have gotten inbounds on the strategic direction of both Berry and SEE (both rated Buy), given recent management changes. We expect overall positioning into earnings to be driven (more than normal?) by 2024 guidance for all our companies. In that regard, we noticed that our forecasts are below Street on Crown – we are at \$6.35 for 2024 v. \$6.87 for the street (source: Bloomberg) as we build cushion for potential net, negative price/cost (impact of PPI lags), cyclical factors for Signode and potential inventory charges on steel. Nonetheless, we still expect a good year driven by volume and operating leverage.

Exhibit 2: USD to decline to \$1.15 v. Euro in 2024E; Other currencies

Summary of currency forecasts

	US \$	Yr. Ago	% (*)	Last Week	% (*)	2024E	2025E
EUR-USD	1.10	1.06	3.3%	1.11	-1.0%	1.15	1.20
GBP-USD	1.27	1.21	5.2%	1.27	-0.4%	1.31	1.40

	US\$	Yr. Ago	% (**)	Last Week	% (**)	2024E	2025E
USD-CNY	7.15	6.89	3.9%	7.11	0.6%	6.90	6.70
USD-CAD	1.34	1.35	-1.0%	1.32	0.9%	1.30	1.30
USD-BRL	4.91	5.43	-9.6%	4.85	1.2%	4.75	5.00

Source: FactSet as of 1/4/24 intraday, BofA Global Research; (*) positive pcts reflect appreciation of currency v. USD; (**) Positive pcts reflect appreciation of USD v. currency.

Fire Reported at WY's Plymouth, NC Mill (1/3)

Forest Economic Advisors reported that WY's Plymouth, NC lumber mill was impacted by a fire on Tuesday morning (1/3) – it was a small fire and the mill is back up and running. This is the second small fire this mill has experienced in the last few years, with the last fire occurring on 12/18/22, according to Woodworking Industry News. No injuries were reported. Based on our sources the mill is 250mbf in capacity. We'll discuss with company during reporting.

Chinese board mills plan for more downtime in '24

Fastmarkets RISI reported that several Chinese board mills plan to take additional downtime during the Lunar New Year. Overall, the announced downtime will exceed roughly ~1.5mn+ tonnes – an amount that could impact global shipments. In 1Q24, scheduled downtime is ~1.3mn+ tonnes for Shanying International, ~74k tonnes for Dongguan Jinzhou Paper, and 168k tonnes for Liangsheng Paper.

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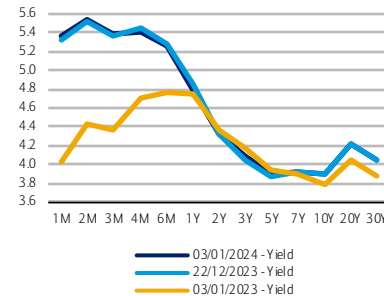
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Exhibit 1: US Treasury Yield Curve

Summary of curves: prior close, week ago, yr. ago



Source: FactSet as of 1/4/24 10yr minus 2yr, BofA Global Research

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Exhibit 3: Companies mentioned

Companies mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
AVY	AVY US	Avery Dennison	US\$ 195.68	B-3-7
BALL	BALL US	Ball Corp	US\$ 56.65	B-3-7
CCK	CCK US	Crown Holdings	US\$ 90.34	B-1-7
GPK	GPK US	Graphic Packaging	US\$ 25.07	B-1-7
SON	SON US	Sonoco Products	US\$ 56.95	B-1-7
WY	WY US	Weyerhaeuser Co	US\$ 33.59	B-1-7

Source: BofA Global Research

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Price objective basis & risk**Avery Dennison Corp. (AVY)**

Our \$208 price objective is derived from a three-part valuation approach, which includes the use of (1) a 20x 2024E P/E multiple, (2) a 16-17x 2024E EV/EBITDA multiple, and (3) our intrinsic free cash flow (FCF) valuation, which estimates \$800mn of normalized FCF (please see our free cash flow model for additional information), 9% cost of equity and a 5% growth rate. Based on history, we think our valuation multiples are appropriate for a late-cycle period with limited inflation.

Downside risks to our price objective are (1) risk relative to AVY's ability to execute on its cost reduction plans, (2) volume and pricing trends in core Materials Group and Solutions Group segments, (3) growing dependence on emerging economies, (4) dilution from radio frequency identification (RFID) and (RBIS) investments, (5) unfavorable volume and pricing trends, (6) unfavorable macroeconomic environment, (7) variability in governmental policy, (8) potential volatility from coronavirus.

Ball Corp. (BALL)

Our \$59 price objective is based on a three-part valuation approach, which takes: (1) a 18-19x 2024E P/E multiple, (2) a 14x 2024E EV/EBITDA multiple and (3) our intrinsic free cash flow (FCF) valuation, which assumes \$1.2bn of normalized FCF, 11% cost of equity and a 3% growth rate. Multiple ranges are higher vs. past valuation levels given packaging group valuations and the growth trajectory offered by the beverage can market.

Downside risks to our PO are (1) increasing operational challenges from new capacity onboarding, (2) potentially increased competition arising from new entrants, (3) BALL's ability to realize benefits from prior capital spending (e.g., new capacity, custom cans, productivity, etc.), (4) input cost volatility including energy cost volatility in Europe, (5) overseas/emerging market risks (for example, currency), (6) demand trends in beverages, including the risks to overall valuation, demand and pricing should growth slow, (7) seasonal-weighting of full-year earnings to the key 2Q/3Q period, (8) potential governmental policy and regulatory changes in the US and elsewhere, (9) increasing risk from Russia and South America.

And, as with most packaging companies, there are numerous macro risks and other risks around volumes, pricing, input costs and other factors that could negatively affect fundamental and stock price performance. Similarly should these factors prove more constructive than expected, BALL's performance/PO could exceed our forecasts.

Crown Holdings Inc. (CCK)

We calculate our PO of \$105 by using our 2024 estimates and averaging the fair values derived from (1) a 16-17x 2024E P/E multiple (adj. for asbestos), (2) a 10-13x 2024E EV/EBITDA multiple, and (3) our intrinsic FCF valuation, which assumes \$900mn normalized FCF, a 11% cost of equity and a 2% growth rate. Multiple ranges are in line

with past valuation levels reached when fundamentals are positive, and are targeted with past normalized ranges in mind for rigid packaging (10-17x).

Downside risks to our PO are (1) weather uncertainties during key seasonal periods in 2Q-3Q, (2) asbestos liabilities that could present a greater drain on cash flow than we currently expect, (3) FX translation, as the majority of sales are outside the US, (4) increasing investment, particularly in EM, (5) share loss to aseptic or plastic/flexible pkgg or other materials, particularly as regards its food can ops, (6) unfavorable demand trends in key food & beverage end markets, and the overall risks to valuation, demand and pricing should growth slow, (7) unfavorable volume and pricing trends, (8) potential governmental policy and regulatory changes in the US and elsewhere.

And, as with most packaging companies, there are numerous macro risks and other risks around volumes, pricing, input costs and other factors that could negatively affect fundamental & stock price performance. Similarly should these factors prove more constructive than expected, CCK's performance/PO could exceed our forecasts.

Graphic Packaging (GPK)

Our \$30 PO is based on the average of (a) an EV/EBITDA valuation calculated by applying a 7.5x EV/EBITDA multiple to our 2024 EBITDA estimate of \$1.8bn (our multiple is consistent with where comparable companies have traded), (b) a P/E valuation calculated by applying a 14x P/E multiple to our 2024 EPS estimate of \$2.75 (our multiple is consistent with where comparable companies have traded), (c) a free cash flow (FCF) valuation based on our estimate of \$676mn in FCF, a calculated cost of equity of 10% and forecast rate of growth of 2%.

Risks to our PO: (1) closing and integration risks associated with the acquisitions, (2) demand trends in food & bev and other GPK end markets, (3) potential volatility in fiber, energy, other input costs, (4) paper/board sector volatility & demand trends, including trade flow volatility created by exchange rates, (5) fundamental trends that could wind up being worse than expected, (6) should trends reverse in the policy outlook for the current Administration, that would present a source of volatility and risk for the shares, (7) various factors associated with its new CRB machine

Also, industry & economic trends could prove weaker or stronger than modeled. Greater-than-expected weakness could lead to valuation multiples and earnings below our forecasts, even as better-than expected trends could lead to a higher relative multiple premium & stock price.

Sonoco Products Co. (SON)

Our \$70 price objective is derived from a three-part valuation approach, which includes: (1) a 13-14x 2024E P/E multiple, (2) an 9-10x 2024E EV/EBITDA multiple, and (3) our intrinsic free cash flow (FCF) valuation, which assumes \$600mn of normalized FCF, 10% cost of equity, and -2% growth rate. The P/E and EV/EBITDA multiples are consistent with past valuation multiples within packaging.

Downside risks to our price objective are: (1) potential volatility in old corrugated container (OCC) prices, (2) execution on restructuring and integration initiatives, (3) integration of present acquisitions, (4) periodic volatility in its business, (5) execution of its consumer/growth strategies in packaging, (6) unexpected volume and pricing trends, (7) macroeconomic trends, (8) potential trend reversals related to Administration policies. In addition, energy and commodity cost volatility represent ongoing risk for all packaging companies.

Upside risks to our PO are: (1) Sonoco's ability to acquire businesses accretively, making our forecasts too pessimistic, driving SON above our PO, (2) Additionally, should volumes accelerate while input costs stay benign, this could lead to higher earnings than we are

projecting and result in the stock exceeding our PO, (3) The factors noted earlier could play out in a way that causes results to exceed our forecast and drive the shares above our PO.

Weyerhaeuser Co. (WY)

Our \$37 PO is based on the average of (a) an assumed mid-cycle dividend yield of 1.8% and dividend of \$0.80-0.90/share, (b) a 21-25x mid-cycle AFFO multiple, and (c) a sum-of-the-parts (SOTP) value. Our SOTP model values WY's Timberlands business based on our estimates of the per acre values for its timberlands, and values its Wood Products business based on our forecast for mid-cycle EBITDA and applying a 5.5x EV/EBITDA multiple. Meanwhile, we value its Real Estate operations based on the average premium generated over time, and assuming properties sold are ultimately replaced with other timberlands.

Risks to our PO being achieved are (1) weak employment, (2) weak housing fundamentals, (3) regulations on the tax status of REITs - given WY's REIT status, some elements of the company's future performance (i.e., tax rate, corporate expense) could prove difficult to forecast, (4) Emerging market and FX trends, which could impact demand and pricing for WY timber, (5) dividend trends, (6) trends in China. As with all of our stocks, WY will be sensitive to changes in the domestic and global macro outlook, input cost trends, and potential policy and regulatory changes.

Analyst Certification

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US - Paper and Packaging Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AptarGroup Inc.	ATR	ATR US	George L. Staphos
	Berry Global	BERY	BERY US	George L. Staphos
	Brady Corp. - Cl A	BRC	BRC US	Cashen Keeler
	Crown Holdings Inc.	CCK	CCK US	George L. Staphos
	Graphic Packaging	GPX	GPX US	George L. Staphos
	O-I Glass Inc	OI	OI US	George L. Staphos
	Pactiv Evergreen	PTVE	PTVE US	George L. Staphos
	Sealed Air Corp.	SEE	SEE US	George L. Staphos
	Silgan Holdings Inc.	SLGN	SLGN US	George L. Staphos
	Sonoco Products Co.	SON	SON US	George L. Staphos
	Sylvamo Corp.	SLVM	SLVM US	George L. Staphos
	WestRock	WRK	WRK US	George L. Staphos
	Weyerhaeuser Co.	WY	WY US	George L. Staphos
NEUTRAL				
	Ardagh Metal Packaging S.A.	AMBP	AMBP US	George L. Staphos
	Greif Inc.	GEF	GEF US	George L. Staphos
	Packaging Corp. of America	PKG	PKG US	George L. Staphos
	PotlatchDeltic Corp.	PCH	PCH US	George L. Staphos
UNDERPERFORM				
	Amcor Plc	AMCCF	AMC AU	George L. Staphos
	Amcor PLC	AMCR	AMCR US	George L. Staphos
	Avery Dennison Corp.	AVY	AVY US	George L. Staphos
	Ball Corp.	BALL	BALL US	George L. Staphos
	Boise Cascade Company	BCC	BCC US	George L. Staphos
	International Paper Co.	IP	IP US	George L. Staphos
	Louisiana-Pacific Corp.	LPX	LPX US	George L. Staphos

Disclosures

Important Disclosures

Equity Investment Rating Distribution: Packaging Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	14	60.87%	Buy	10	71.43%
Hold	6	26.09%	Hold	5	83.33%
Sell	3	13.04%	Sell	2	66.67%

Equity Investment Rating Distribution: Paper/Forest Products Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	9	45.00%	Buy	8	88.89%
Hold	2	10.00%	Hold	1	50.00%
Sell	9	45.00%	Sell	5	55.56%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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