

Paper/Forest Products

Pkgg/Paper Wrap-up, Daily – 3/7/24: FX, yields, market comments

Industry Overview

Market Commentary: Lots of interest post conference

We've been on the road this week following our the Annual Global Ag & Materials Conference — [see our note here for our summaries](#). Investors were generally constructive on containerboard with some increased interest level in International Paper (IP; Buy) given the valuation. Investors remain curious about how much upside is left in Packaging Corp (PKG; Buy) given the valuation and were broadly trying to determine how much (if) the outlook has improved for the sector. There were several questions about the degree to which containerboard contracts may change over time, and how/whether indices will be utilized. We do think Graphic Packaging (GPK; Buy) has a greater likelihood of moving toward a pass-through model over time given several considerations — investors were generally amenable to this, although there were some concerns voiced as to the reduced amount of data that GPK is now sharing with investors on a going-forward basis, as it discussed at its analyst day. Investors are a bit downbeat and unsure of the next catalysts for Buy-rated Sealed Air (SEE), Berry (BERY) and Crown (CCK), with portfolio questions continuing for BERY and CCK. One investor we spoke with recently was quite positive on BERY's transaction structure with Glatfelter (GLT; unrated) but most investors seem to have wanted a 100% cash sale of the nonwovens business. For Buy-rated Ball (BALL), while investors "got" that incremental volume trends may be better than when guidance was last provided, the question of long-term volume trends in beer (and its implications for BALL) came up several times in meetings.

Exhibit 2: Currency Matrix:

Summary of Currency forecasts

	US \$	Yr. Ago	% (*)	Last Week	% (*)	2024E	2025E
EUR-USD	1.09	1.07	2.2%	1.08	0.8%	1.15	1.20
GBP-USD	1.27	1.20	6.0%	1.27	0.5%	1.31	1.40

	US \$	Yr. Ago	% (**)	Last Week	% (**)	2024E	2025E
USD-CNY	7.20	6.95	3.6%	7.20	0.0%	6.90	6.70
USD-CAD	1.35	1.35	-0.3%	1.35	0.1%	1.30	1.30
USD-BRL	4.94	5.28	-6.5%	4.99	-1.0%	4.75	5.00

Source: FactSet as of 3/6/24 intraday, BofA Global Research; (*) positive pcts reflect appreciation of currency v. USD; (**) Positive pcts reflect appreciation of USD v. currency

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More UCFS price hikes in the works...

Fastmarkets RISI reported on March 5th that Sylvamo (SLVM; Buy) is out with price increases for uncoated freesheet (UCFS) effective on April 5th. According to RISI, prices will increase by 5-7% for UCFS. Similarly, this follows the \$100/ton price hike announced by Packaging Corp. (PKG; Buy) last week. We recently increased our UCFS pricing forecast and assume a \$50/ton increase that starts 2Q.

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Timestamp: 07 March 2024 06:31PM EST

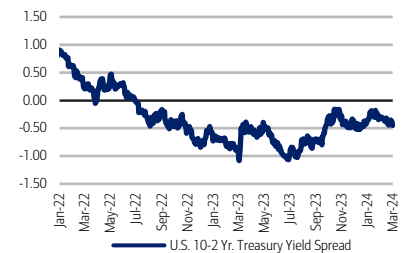
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Equity
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Exhibit 1: US Treasury Yield Curve
Summary of U.S. 10-2 Yr. Yield Spread

Source: FactSet as of 3/6/24 10yr minus 2yr, BofA Global Research

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Exhibit 2: US Treasury Rates
Summary of w/w change

	Date	%	Last Week	%
US Treasury Rates				
US - 10 Year	06-Mar-24	4.104	28-Feb-24	4.265
US - 2 Year	06-Mar-24	4.555	28-Feb-24	4.679

Source: FactSet, BofA Global Research

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Exhibit 3: Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
BALL	BALL US	Ball Corp	US\$ 65.18	B-1-7
BERY	BERY US	Berry Global	US\$ 59.03	B-1-7
CCK	CCK US	Crown Holdings	US\$ 77.8	B-1-7
GPK	GPK US	GraphicPackaging	US\$ 26.78	B-1-7
IP	IP US	Intl Paper Co	US\$ 35.88	B-1-7
PKG	PKG US	Packaging Corp	US\$ 184.83	B-1-7
SEE	SEE US	Sealed Air Corp	US\$ 35.84	B-1-7
SLVM	SLVM US	Sylvamo	US\$ 61.8	C-1-7

Source: BofA Global Research

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Price objective basis & risk**Ball Corp. (BALL)**

Our \$72 price objective is based on a three-part valuation approach, which takes: (1) a 19x 2025E P/E multiple, (2) a sum-of-the-parts (SOTP) valuation which values North and Central America at 14x EBITDA, EMEA at 13x, South America at 13x, and Other at 12x, (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.

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, there are numerous macro risks and other risks around volumes, pricing, and input costs.

Berry Global (BERY)

Our \$83 price objective is derived from a three-part valuation approach, which includes: (1) a 13x calendarized 2024E P/E multiple, (2) a 9x calendarized 2024E EV/EBITDA multiple, (3) a normalized FCF estimate of \$900mn, an estimated cost of equity of 11% and forecast rate of growth of 0%. We believe the multiples (in-line to a slight discount) we use are appropriate relative to peers given the increased leverage.

Downside risks to our PO are: (1) plastic packaging markets' potential sustainability challenges, including in Europe, (2) food, beverage and other packaging fundamentals could disappoint relative to expectations, (3) unfavorable resin price volatility could impact results despite contractual pass-through, (4) competitive factors, (5) financial leverage, (6) unfavorable volume and pricing trends, (7) unfavorable macroeconomic trends.

Overall, energy, commodity and macro volatility represent ongoing risks for packaging companies. We have tried to forecast and model accurately. However, industry and economic trends could prove weaker or stronger than we modeled.

Crown Holdings Inc. (CCK)

We calculate our PO of \$89 by using our 2024 estimates and averaging the fair values derived from (1) a 15-16x '24E P/E multiple (adj. for asbestos), (2) a sum-of-the-parts (SOTP) valuation which values the Americas Beverage segment at 11x EBITDA, European Beverage at 7x, Asia Pacific at 9x, Transit Packaging at 10x and Other at 7x, (3) our intrinsic FCF valuation, which assumes \$800mn normalized FCF, a 11% cost of equity and a 2% growth rate.

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 \$31 PO is based on the average of (a) an EV/EBITDA valuation calculated by applying a 8x 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 15x 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.

International Paper Co. (IP)

Our \$42 price objective is based on an average of (a) an EPS forecast of \$2.70 in 2025E and a P/E of 14x, which is consistent with historical ranges, (b) a normalized free cash flow (FCF) estimate of \$1bn, a calculated cost of equity of 10% and forecast rate of growth of 2%, (c) our IP sum-of-the-parts (SOTP) value, based on normal EBITDA, which is an average of historical periods 2016-22 and our forecasts through '25E.

Risks to our price objective are (1) the broader employment & macro picture, (2) paper/board sector volatility & demand trends, (3) wastepaper/input cost volatility, (4) trends in the US\$ and its effect on trade flows, (5) emerging market risk, (6) operational risks related to investment projects, (7) IP's pension, (8) the potential for new capacity to come into the market, (9) potential volatility coming from any future Administration policy changes. Fundamental trends could wind up worse than expected, causing further

downside to the shares relative to our PO. Better performance or macro news could cause the shares to perform better than our price objective.

Packaging Corp. of America (PKG)

Our \$202 price objective is based on an average of (a) an EPS forecast of \$8.50 in 2024E and a P/E of 20x, in line with peer multiples, (b) a normalized free cash flow (FCF) estimate of \$800mn, a calculated cost of equity of 8% and forecast rate of growth of 4%, (c) a sum-of-the-parts (SOTP) value, based on forecast midcycle EBITDA or per ton(ne) replacement values.

Risks to our price objective being achieved are (1) PKG's leverage to economic cycles, (2) containerboard market volatility and demand trends, (3) input cost volatility, (4) demand, supply-chain and other risks created by the Covid-19 pandemic, (5) potential structural changes in the economy, (6) the potential for mill or converting operations to perform less well than anticipated, (7) the potential for new capacity to come into the market, (8) volatility coming from changes by the Administration. While we've tried to be conservative in our modeling, fundamental trends could wind up worse than expected, causing downside risk to the shares relative to our price objective. Similarly, PKG results could wind up stronger than our forecasts, causing the shares to move beyond our PO.

Sealed Air Corp. (SEE)

Our \$40 price objective is derived from a three-part valuation approach, which includes: (1) a 14-15x 2024E P/E multiple, (2) a 10x 2023E EV/EBITDA multiple, and (3) our intrinsic free cash flow (FCF) valuation, which assumes \$450mn of normalized FCF, 11% cost of equity, and a 3% growth rate. Our target multiples are based on SEE's past trading history and also peer multiples. SEE has been able to trade in the high teens to low twenties on a P/E basis, and a premium to the market when fundamentals improve.

Downside risks to our price objective are (1) risks relative to the company's ability to manage pricing and spreads, given (2) energy volatility, resin price volatility and agricultural market risks, (3) international business risks (approximately 65% of sales derived abroad), including FX and emerging market trends, (4) competitive and other factors negatively impacting volume to a greater degree than expected, (5) risks relative to execution of the company's transformation strategies over the last several years, (6) challenges associated with management transitions.

Overall, energy and commodity volatility represent ongoing risks for packaging companies. Industry and economic trends could prove weaker or stronger than we modeled. Greater-than-expected weakness could lead to valuation multiples and earnings that are below our forecasts.

Sylvamo Corp. (SLVM)

Our \$65 price objective is based on an average of: (a) an EPS forecast of \$5.75 in 2024E and a P/E of 12x, which is within the range in which paper companies have traded, (b) a normalized FCF estimate of around \$245mn, a calculated cost of equity of 8% and forecast rate of decline of 3%, (c) our SLVM sum-of-the-parts (SOTP) value, based on forecast midcycle EBITDA values and applying multiples of 4-7x across the regions.

Risks to our PO are: (1) Broader employment and macro picture, (2) Paper sector volatility and demand trends, (3) Changes in the cost or availability of key inputs, energy and transportation, (4) Demand, supply chain and other risks created by the pandemic, (5) Potential cash outflow related to the pending tax ruling on the deductibility of goodwill from IP's 2007 acquisition of the Luis Antonio mill, (6) Emerging market risk, including potential for volatility in Latin America, (7) Potential dis-synergies and operational risks related to the spin-off from IP, (8) Operational risks associated with the Svetogorsk recovery boiler project, (9) Potential for supply/demand imbalances in UCFS, (10) Potential loss of a key customer, (11) Risks of fragmentation in Europe. Volatility in

macro and micro factors and the earnings leverage that exists could mean fundamental trends wind up worse than expected, causing further downside to the shares relative to our PO. Alternatively, better performance could cause the shares to perform better than our PO.

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
	Ball Corp.	BALL	BALL US	George L. Staphos
	Berry Global	BERY	BERY US	George L. Staphos
	Brady Corp. - CI A	BRC	BRC US	Cashen Keeler
	Crown Holdings Inc.	CCK	CCK US	George L. Staphos
	Graphic Packaging	GPX	GPX US	George L. Staphos
	International Paper Co.	IP	IP US	George L. Staphos
	O-I Glass Inc	OI	OI US	George L. Staphos
	Packaging Corp. of America	PKG	PKG 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
	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
	Boise Cascade Company	BCC	BCC 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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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