

Paper/Forest Products

Pkgg/Paper Wrap-up, Daily – 1/9/24: Latest pricing news, pulp, and beer

Industry Overview

Commodity Tracker

Exhibit 2: Paper/Forest Packaging Material Summary: mixed trends this week

Summary of raw material prices

	Date	Price	w/w (%)	y/y (%)
Fiber - US\$/MT				
Pulp				
Hardwood China - Net	09-Jan-24	\$653.06	-0.1%	-19.4%
Hardwood Europe	09-Jan-24	\$1,018.64	1.8%	-26.2%
Softwood China - Net	09-Jan-24	\$739.46	-1.3%	-16.7%
Softwood Europe	09-Jan-24	\$1,248.25	0.4%	-12.7%
Softwood US	09-Jan-24	\$1,288.89	0.0%	-23.4%
Old Corrugated Containers (OCC) (*)	Jan-24	\$87.00	-	200%
Metals				
Aluminum (LME Cash \$/mt) - Price	09-Jan-24	\$2,218.75	-5.0%	-2.3%
Hot-Rolled Coil Steel (CRU) Index (NYM \$/st)	09-Jan-24	\$1,083.00	0.0%	48.0%
Oil & Petrochemicals/Resin				
Oil - Generic 1st Crude Oil, WTI (\$)	09-Jan-24	\$72.18	0.8%	0.0%
Oil - Generic 1st Crude Oil, Brent (\$)	09-Jan-24	\$77.50	0.6%	-1.5%
Polypropylene (PP)	Dec-23		0.0%	22.2%
HDPE (Blow Mldg.)	Dec-23		-4.7%	-18.7%
LDPE	Dec-23		-4.5%	-23.2%
Polystyrene (PS)	Dec-23		-2.5%	0.4%
Polyethylene terephthalate (PET)	Dec-23		-0.5%	-4.2%

Source: ICS, Fastmarkets RISI/FOEX, FactSet, BofA Global Research; (*) OCC price in \$/st for month of January

Ox Industries announces \$50/ton price hike on URB

On January 8, Ox Industries announced plans to increase prices of uncoated recycled paperboard by \$50/ton due to inflation in raw materials and other operating costs. This announcement follows Sonoco's (SON; Buy) announcement on 12/13 for \$50/ton and Greif's (GEF; Neutral) announcement on 1/5 for \$40-70/ton on URB.

Price hikes cause some SKU retail resets

Several press sources reported last week that Carrefour (CA; covered by BofA Global Research analyst Ashley Wallace), a French multinational retailer and wholesaler, pulled a large beverage and snacks company's products from over 9,000 stores in four countries. *The Wall Street Journal* reported this week that contractual negotiations were a factor. We have been expecting retailers to begin pushing back on consumer company pricing efforts to stimulate demand – we'll see how this evolves over time. Names in our coverage with exposure to beverages include Ardagh Metal Packaging (AMBP; Neutral), Ball Corp. (BALL; U/P), Crown (CCK; Buy), and O-I Glass (OI; Buy). Meantime, names most leveraged to snacks and confectionary trends include Amcor (AMCR; U/P) and Sonoco (SON; Buy).

We discuss additional points below...

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Refer to important disclosures on page 6 to 10. Analyst Certification on page 5. Price Objective Basis/Risk on page 2.

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Equity
United States
Paper/Forest Products

George L. Staphos

Research Analyst
BofAS
+1 646 855 4495
george.l.staphos@bofa.com

Cashen Keeler

Research Analyst
BofAS
+1 646 855 4256
cashen.keeler@bofa.com

Lucas Hudson

Research Analyst
BofAS
lucas.hudson@bofa.com

Exhibit 1: Paper/Packaging Research

Summary of recent BofA notes

	Date	Link
Reports		
Weekly	7-Jan	Red Sea shipping impact
Year-Ahead	2-Jan	Year-Ahead Report
Daily Wrap-Up		
Daily	3-Jan	Commodity Tracker
Daily	4-Jan	Investor Comments

Source: BofA Global Research

BofA GLOBAL RESEARCH

AV Terrace Bay idles 320k tonnes/yr NBSK mill

AV Terrace Bay announced last week that it will temporarily halt pulp operations due to “prevailing market conditions”. The move will result in a reduction 320k tonnes/yr of northern bleached softwood kraft (NBSK). According to RISI, contacts said that the mill had paused taking orders for woodchip supplies and negotiating new supply contracts. An AV Terrace Bay spokesperson said that the mill will look for a possible future restart, but at the moment there is no specified date. For now, we believe the stoppage will have a minor impact on the overall supply/demand backdrop for North America. While various grades and regions have different dynamics, we currently project global operating rates in the mid 80%, partly as new capacity ramps up over the next several years.

2023 Beer dollars up, while volume is down

This morning (1/9), *Beer Business Daily* released its NIQ scanner year end results. The scanners showed that off-premise beer dollars were up more than 1% and beer volume was down about -3% in 2023. Hard seltzer and premium light beer had the weakest showings in 2023.

Exhibit 3: Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
AMCR	AMCR US	Amcor PLC	US\$ 9.77	B-3-7
AMCCF	AMC AU	Amcor	A\$ 14.48	A-3-7
AMBP	AMBP US	Ardagh Metal Pkgg	US\$ 3.59	B-2-8
BALL	BALL US	Ball Corp	US\$ 57.07	C-3-9
CCK	CCK US	Crown Holdings	US\$ 91.78	B-1-7
GEF	GEF US	Greif Inc.	US\$ 63.59	B-2-7
OI	OI US	O-I Glass Inc	US\$ 15.53	C-1-9
SON	SON US	Sonoco Products	US\$ 57.8	C-3-8

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

Amcor PLC (AMCR / AMCCF)

Our \$9.90 price objective (AU\$14.75) is derived from a three-part valuation approach, which includes (1) a 16-17x calendarized 2024E P/E multiple, (2) a 10-12x calendarized 2024E EV/EBITDA multiple, (3) a normalized FCF estimate of \$1,100mn, an estimated cost of equity of 10% and forecast rate of growth of 0%. We believe the multiples (in-line to a slight premium) are appropriate relative to peers given the company's quality, size, and low leverage.

Risks to our PO are: (1) plastic packaging markets' potential sustainability challenges, particularly in rigid plastic bottles, (2) food, beverage and other packaging fundamentals' potential to disappoint relative to expectations, (3) unfavorable resin price volatility relative to our forecasts could impact results despite contractual pass throughs, (4) competitive factors, (5) unfavorable volume and pricing trends relative to our forecasts, (6) unfavorable macroeconomic trends. Should risk factors cited here and the company fundamentals prove more benign/favorable versus our forecasts, AMCR results and its PO could exceed our forecasts over time.

Ardagh Metal Packaging S.A. (AMBP)

Our \$4.40 price objective is based on a three-part valuation approach, which takes: (1) a 15x 2024E P/E multiple, (2) a 10-12x 2024E EV/EBITDA multiple and (3) our intrinsic free cash flow (FCF) valuation, which assumes \$200mn of normalized FCF, 10% cost of equity, and a 2% growth rate. These multiples are consistent with comparable company multiples and we'd expect the company to trade slightly below peers.

Downside risks to our price objective are (1) AMBP's ability to compete with well

established peers, (2) growth, pricing and valuation considerations should volumes slow, (3) a more concentrated customer base relative to peers, (4) end-market mix given its weighting to hard seltzer, (5) raw material availability in light of recent supply-chain disruptions and the need to pass through primary raw materials (i.e. aluminum can sheet), (6) leverage relative to other rigid packaging companies, (7) energy cost volatility in Europe, and (8) future equity dilution related to existing warrants and an earnout agreement with Ardagh Group.

As with all paper/forest and packaging companies a multitude of micro and macro factors are at work and, coupled with operational leverage, results could be better- or worse-than-expected with downside & upside risks to our PO should fundamentals wind up above or below expectations.

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.

Risks to our PO are (1) 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.

Greif Inc. (GEF)

Our \$77 PO for Class A shares is based on (1) a 14x calendarized 2024E P/E, (2) an 10x calendarized 2024E EV/EBITDA which derives a value for the combined equity market cap of Class A and B shares. We believe the multiples (a discount versus market and peers) are appropriate given weaker fundamentals against past normalized ranges (PE of 10-17x) and 5-10x EV/EBITDA for peers. We assume the elimination of a premium or discount to our combined equity value will occur equally for Class A and B, driving our target for Class A shares on this method, and (3) our intrinsic FCF valuation assumes \$400mn normalized FCF, 10% cost of equity and 2% growth rate.

Risks to our PO: (1) unfavorable demand in GEF's markets and geographies, (2) volatility in steel, resin, OCC, energy and other inputs, (3) acquisition/integration risks, (4) Class B share ownership, which retains voting power, is 70% held by insiders, (5) Regulatory review or litigation, (6) trade policy.

O-I Glass Inc (OI)

Our \$22 PO is based on an average of P/E, EV/EBITDA and intrinsic free cash flow (FCF) valuations. We use a 8x 2024E P/E multiple, a 6-7x 2024E EV/EBITDA multiple, and our intrinsic FCF valuation, which assumes \$350mn normalized FCF, 13% cost of equity, and a -3% growth rate. Multiples are in line with those of metal/rigid packaging peers. Similar to CCK, OI has a larger international presence relative to its peers.

Risks to our PO are: (1) unfavorable demand and pricing, (2) the potential for pension or asbestos risks/claims to consume greater amounts of earnings or cash flow, (3) unfavorable international market volatility and FX risks, (4) integration risk with acquisitions, (5) risks in Mexican pricing and pack mix, (6) potential governmental policy changes in the US and other portions of the world. As is the case with all our coverage, packaging and paper/forest stocks are highly sensitive to macro, FX, commodity inflation and other factors which could create variances with our forecasts and POs. Similarly, should the factors discussed above prove less negative or more positive to forecasts, OI's price could exceed our PO.

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.

Analyst Certification

I, George L. Staphos, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

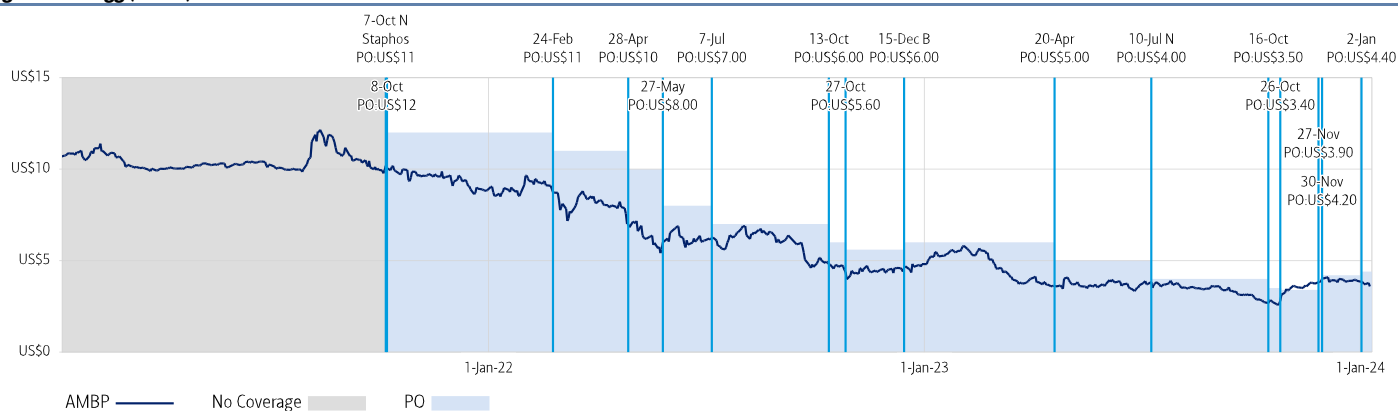
US - Paper and Packaging Coverage Cluster

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. - CIA	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

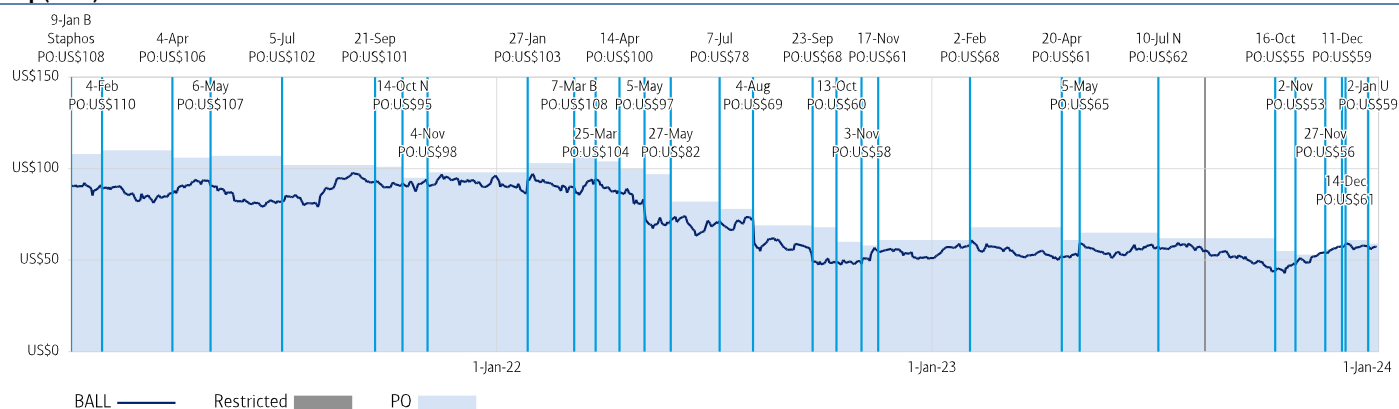
Important Disclosures

Ardagh Metal Pkgs (AMBP) Price Chart



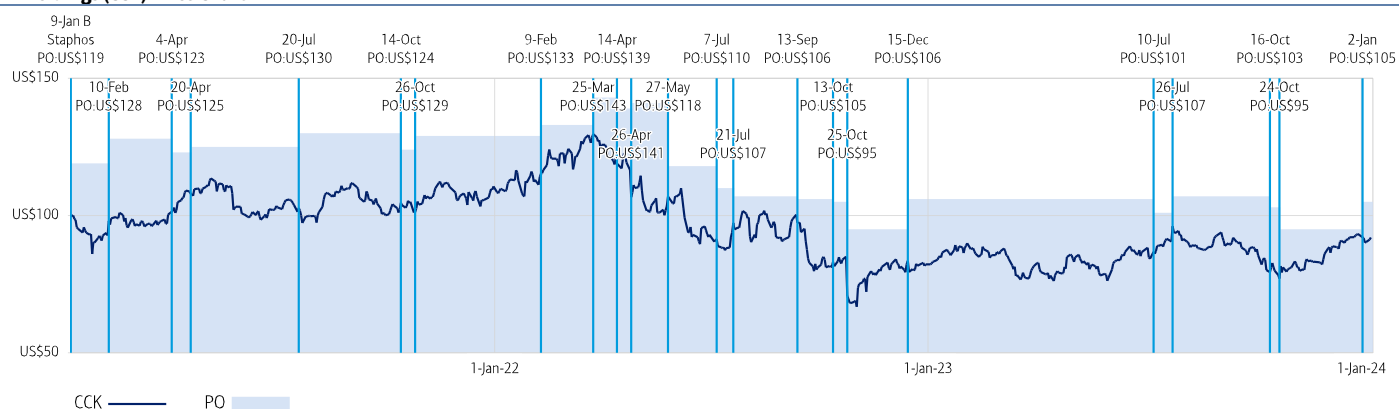
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Ball Corp (BALL) Price Chart

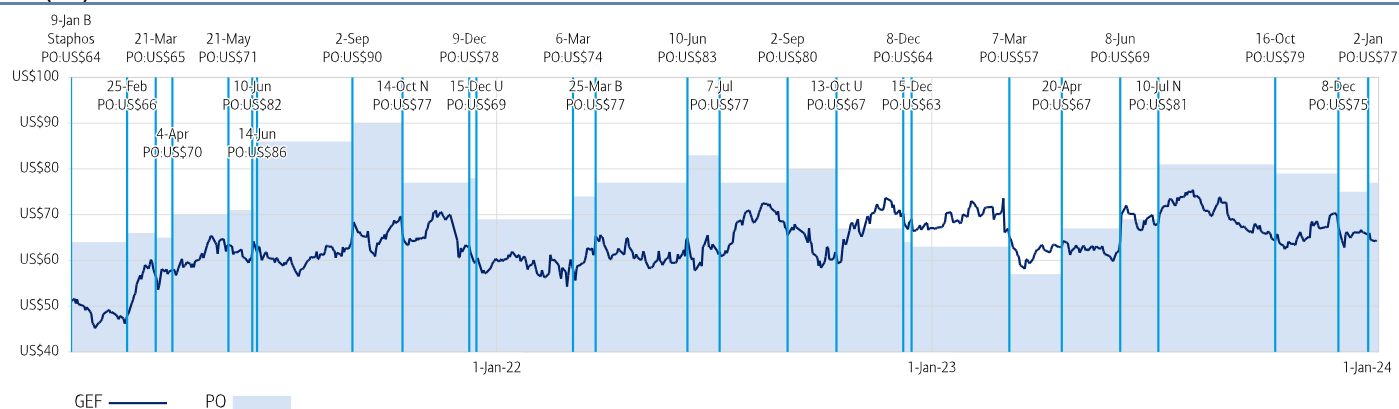
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Crown Holdings (CCK) Price Chart

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating


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Greif Inc. (GEF) Price Chart

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Sonoco Products (SON) Price Chart

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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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