

## Crown Holdings Inc.

# Post 4Q: Results will bring out portfolio q's; High qual outperforming in 4Q

Reiterate Rating: BUY | PO: 93.00 USD | Price: 76.35 USD

## Disappointing, though portfolio q's will support stock

We continue to have Crown (CCK) rated Buy on its relative valuation. As we discussed in our [prior flash](#) (see report), results for 4Q were disappointing. Our takeaway? (a) Crown's non-beverage packaging operations generally performed below our expectations – Transit, European tinplate (in equity), machinery and North American tinplate (in Other) missed our forecasts. Clearly, not every business has a great result every quarter (and a miss by a segment shouldn't mean it's a divestiture candidate), but this will no doubt raise interest from investors as to whether Crown can further optimize its portfolio over time. Given our sum-of-the-parts (SOTP) work, that probably puts a support underneath the shares; (b) Fixed cost absorption should be improving as the year progresses and we are modeling for largely flat earnings growth in the Americas and for Europe EBIT to return to near 2019 levels; (c) Both within Crown's portfolio and during reporting thus far in paper/forest & packaging, we have generally seen better 4Q earnings results from the higher quality (better positioned) businesses – for example, Packaging Corp (PKG; Neutral) in containerboard, Weyerhaeuser (WY; Buy) in wood/timber. Keep that in mind over the course of reporting.

## Update forecasts and PO; Now target \$93/share

Given CCK's results, guidance, and the points discussed above, we move our EPS estimates to \$5.90 (was \$6.35) in 2024 and \$6.50 (was \$7.10) in 2025. Meantime, our new 2026 estimate is \$7.05. Additionally, we adjust our valuation multiples and now assume a 15-16x multiple on P/E (was 16-17x) given the outlook from here. For our sum-of-the-parts (SOTP), we assume a 12x (was 12-13x) multiple on Americas, 9-10x (was 10x) on Europe, 10x (was 12x) on Asia, 9x (was 10x) on Transit, and 7x (unchanged) on Other. Lastly, we lower our normalized FCF estimate to \$800mn from \$900mn. Given the combination of these changes, our PO moves to \$93 from \$105. We will continue to refine our forecasts across the sector as we get through reporting and hear company comments at our Global Ag & Materials Conference, February 28-29 in Ft. Lauderdale. Please contact your BofA rep. for details.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	6.75	5.86	5.90	6.50	7.05
GAAP EPS	5.99	3.76	4.89	5.46	5.98
EPS Change (YoY)	-11.9%	-13.2%	0.7%	10.2%	8.5%
Consensus EPS (Bloomberg)			6.74	7.50	8.24
DPS	0.88	0.88	0.88	0.88	0.88
Valuation (Dec)					
P/E	11.3x	13.0x	12.9x	11.7x	10.8x
GAAP P/E	12.7x	20.3x	15.6x	14.0x	12.8x
Dividend Yield	1.2%	1.2%	1.2%	1.2%	1.2%
EV / EBITDA*	9.7x	9.0x	9.1x	8.6x	8.5x
Free Cash Flow Yield*	-0.4%	7.2%	8.1%	9.4%	8.4%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 6.

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06 February 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
Price Obj.	105.00	93.00
2024E Rev (m)	12,265.9	12,155.9
2025E Rev (m)	12,595.7	12,482.9
2026E Rev (m)	NA	12,819.3
2024E EPS	6.35	5.90
2025E EPS	7.10	6.50
2026E EPS	NA	7.05
2024E EBITDA (m)	1,870.4	1,850.2
2025E EBITDA (m)	1,942.1	1,952.1
2026E EBITDA (m)	NA	1,993.1

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### Stock Data

Price	76.35 USD
Price Objective	93.00 USD
Date Established	6-Feb-2024
Investment Opinion	B-1-7
52-Week Range	75.61 USD - 96.35 USD
Mkt Val (mn) / Shares Out (mn)	9,124 USD / 119.5
Free Float	99.1%
Average Daily Value (mn)	66.98 USD
BofA Ticker / Exchange	CCK / NYS
Bloomberg / Reuters	CCK US / CCK.N
ROE (2024E)	24.4%
Net Dbt to Eqty (Dec-2023A)	227.5%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

# iQprofile<sup>SM</sup> Crown Holdings Inc.

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	9.8%	9.2%	9.1%	9.5%	9.7%
Return on Equity	43.6%	30.8%	24.4%	23.7%	23.0%
Operating Margin	9.9%	11.5%	11.2%	11.8%	11.8%
Free Cash Flow	(36)	660	740	854	769

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.0x	2.1x	1.8x	1.8x	1.6x
Asset Replacement Ratio	1.8x	1.6x	1.0x	1.0x	1.0x
Tax Rate	23.0%	27.9%	25.0%	24.9%	24.9%
Net Debt-to-Equity Ratio	347.6%	227.5%	195.6%	171.0%	150.4%
Interest Cover	4.5x	3.2x	3.0x	3.2x	3.4x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	12,943	12,010	12,156	12,483	12,819
% Change	8.7%	-7.2%	1.2%	2.7%	2.7%
Gross Profit	2,300	2,464	2,431	2,497	2,564
% Change	-6.5%	7.1%	-1.3%	2.7%	2.7%
EBITDA	1,744	1,882	1,850	1,952	1,993
% Change	-2.5%	7.9%	-1.7%	5.5%	2.1%
Net Interest & Other Income	(280)	(474)	(437)	(457)	(444)
<b>Net Income (Adjusted)</b>	<b>820</b>	<b>701</b>	<b>700</b>	<b>751</b>	<b>794</b>
<b>% Change</b>	<b>-18.4%</b>	<b>-14.5%</b>	<b>-0.2%</b>	<b>7.3%</b>	<b>5.7%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	685	436	564	607	647
Depreciation & Amortization	460	499	484	484	484
Change in Working Capital	(562)	171	(44)	0	(50)
Deferred Taxation Charge	28	0	0	0	0
Other Adjustments, Net	192	347	236	263	188
Capital Expenditure	(839)	(793)	(500)	(500)	(500)
<b>Free Cash Flow</b>	<b>-36</b>	<b>660</b>	<b>740</b>	<b>854</b>	<b>769</b>
<b>% Change</b>	<b>NM</b>	<b>NM</b>	<b>12.1%</b>	<b>15.4%</b>	<b>-10.0%</b>
Share / Issue Repurchase	(722)	(12)	(500)	(500)	(500)
Cost of Dividends Paid	(100)	(126)	(110)	(150)	(150)
Change in Debt	(2,010)	(188)	(400)	(200)	(200)

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	550	1,310	1,135	1,238	1,257
Trade Receivables	1,843	1,719	1,940	1,950	2,000
Other Current Assets	2,266	1,804	1,951	1,991	1,991
Property, Plant & Equipment	4,540	5,062	5,078	5,094	5,110
Other Non-Current Assets	5,102	5,442	5,442	5,442	5,442
<b>Total Assets</b>	<b>14,301</b>	<b>15,337</b>	<b>15,546</b>	<b>15,715</b>	<b>15,800</b>
Short-Term Debt	185	775	775	775	775
Other Current Liabilities	3,747	3,426	3,750	3,800	3,800
Long-Term Debt	6,792	6,699	6,299	6,099	5,899
Other Non-Current Liabilities	1,728	1,727	1,786	1,845	1,825
<b>Total Liabilities</b>	<b>12,452</b>	<b>12,627</b>	<b>12,610</b>	<b>12,519</b>	<b>12,299</b>
<b>Total Equity</b>	<b>1,849</b>	<b>2,710</b>	<b>3,036</b>	<b>3,296</b>	<b>3,601</b>
<b>Total Equity &amp; Liabilities</b>	<b>14,301</b>	<b>15,337</b>	<b>15,646</b>	<b>15,815</b>	<b>15,900</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 6.

## Company Sector

Packaging

## Company Description

With revenues of \$12bn in 2023, Crown Holdings is a leading global supplier of metal packaging products (primarily beverage and food cans) to consumer products companies. CCK is organized as follows: Americas Beverage (40% of total sales), European Beverage (16%), Asia Pacific (12%), Transit Packaging (20%), and Non-Reportable segment (12%). CCK operates in 47 countries with over 26,000 employees.

## Investment Rationale

We rate CCK Buy given our view of its relative valuation, which we still view as attractive. While CCK's initial 2024 guidance was below BofA/Street estimates, the company should see modest growth in the Americas and Europe in 2024 while its North American aerosol and beverage can equipment businesses will be soft.

## Stock Data

Average Daily Volume 877,280

## Quarterly Earnings Estimates

	2023	2024
Q1	1.20A	0.92E
Q2	1.68A	1.51E
Q3	1.73A	1.84E
Q4	1.24A	1.63E

## Model changes and key operating statistics

### Exhibit 1: CCK Model Changes

Review of latest estimates and forecast changes

	Actual	BofA	Consensus
<b>Quarterly Result</b>	\$1.24	\$1.40	\$1.44
<b>Model Changes</b>	<b>New</b>	<b>Old</b>	<b>Consensus</b>
2023A	\$5.86	\$6.01	\$6.05
2024E	\$5.90	\$6.35	\$6.66
2025E	\$6.50	\$7.10	\$7.53
2026E	\$7.05		
Price Objective	\$93	\$105	

Source: Company reports, Bloomberg, BofA Global Research estimates

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### Exhibit 2: CCK Relevant Operating Statistics

Review of results vs. BofA estimates

	4Q22A	4Q23A	BofA	Key Highlights
Americas Beverage				
Revenue (\$mn)	\$1,210.0	\$1,299.0	\$1,234.2	Vols were up 4% y/y overall during the quarter with 5% growth in North America and 2% growth in Brazil
Operating Profit (\$mn)	\$177.0	\$255.0	\$222.2	
Operating Margin	14.6%	19.6%	18.0%	
European Beverage				
Revenue (\$mn)	\$453.0	\$392.0	\$412.2	European Beverage vols were said to be down mid-teens in the quarter.
Operating Profit (\$mn)	\$7.0	\$18.0	\$46.6	
Operating Margin	1.5%	4.6%	11.3%	
Asia Pacific				
Revenue (\$mn)	\$395.0	\$320.0	\$351.6	Volumes were said to be soft across each Asian country that the company operates in as a result of continued inflation pressure on the consumer.
Operating Profit (\$mn)	\$29.0	\$47.0	\$29.9	
Operating Margin	7.3%	14.7%	8.5%	
Transit Packaging				
Revenue (\$mn)	\$588.0	\$541.0	\$546.8	
Operating Profit (\$mn)	\$71.0	\$75.0	\$82.0	
Operating Margin	12.1%	13.9%	15.0%	
Other				
Revenue (\$mn)	\$366.0	\$306.0	\$347.7	Results were below our forecast in Other and CCK mentioned that it will face earnings headwinds y/y in its aerosol and can making equipment businesses.
Operating Profit (\$mn)	\$34.0	\$17.0	\$36.5	
Operating Margin	9.3%	5.6%	10.5%	
Corporate & other	(\$26.0)	(\$30.0)	(\$36.0)	

Source: Company reports, BofA Global Research estimates

BofA GLOBAL RESEARCH

### Exhibit 3: Stock Mentioned

Stock prices and ratings mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
CCK	CCK US	Crown Holdings	US\$ 76.89	B-1-7
PKG	PKG US	Packaging Corp	US\$ 163.03	B-2-7
WY	WY US	Weyerhaeuser Co	US\$ 32.78	B-1-7

Source: BofA Global Research

BofA GLOBAL RESEARCH

## Price objective basis & risk

### Crown Holdings Inc. (CCK)

We calculate our PO of \$93 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 12x EBITDA, European Beverage at 9-10x, Asia Pacific at 10x, Transit Packaging at 9x 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.

### **Packaging Corp. of America (PKG)**

Our \$178 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 \$750mn, a calculated cost of equity of 9% 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.

### **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

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
<b>BUY</b>				
	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
<b>NEUTRAL</b>				
	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
<b>UNDERPERFORM</b>				
	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



## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

### Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

### Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

iQmethod<sup>SM</sup> is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

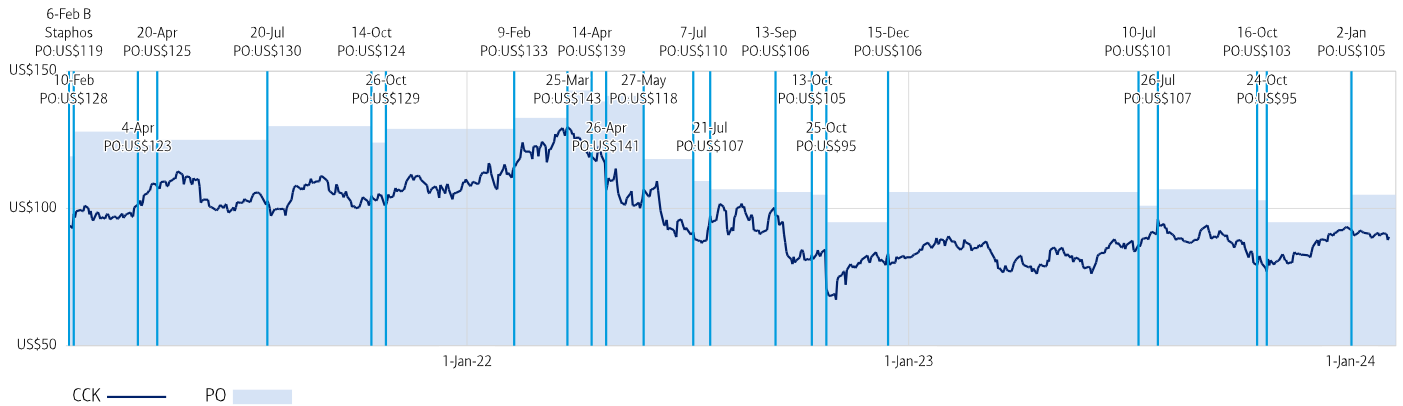
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# Disclosures

## Important Disclosures

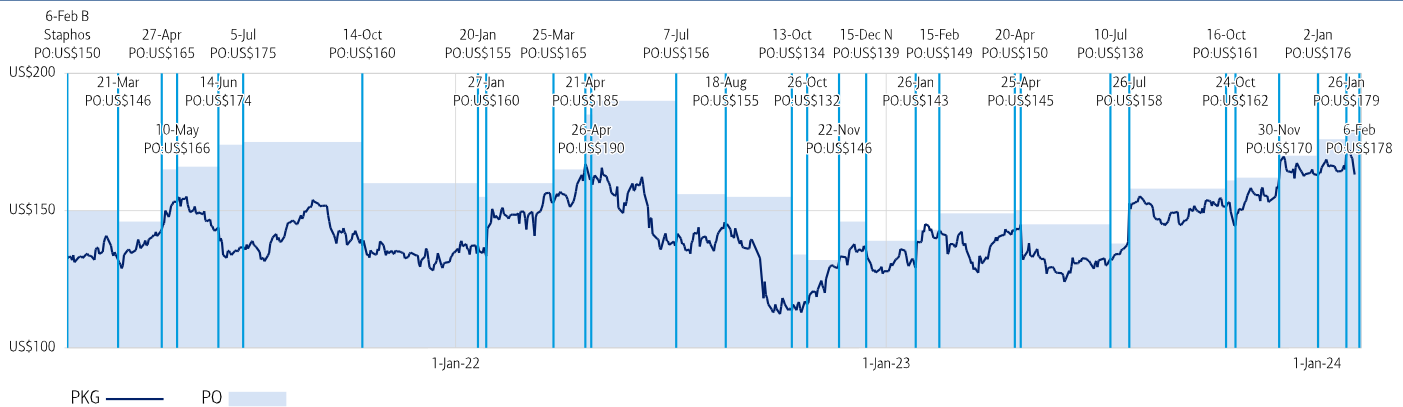
### Crown Holdings (CCK) Price Chart



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.

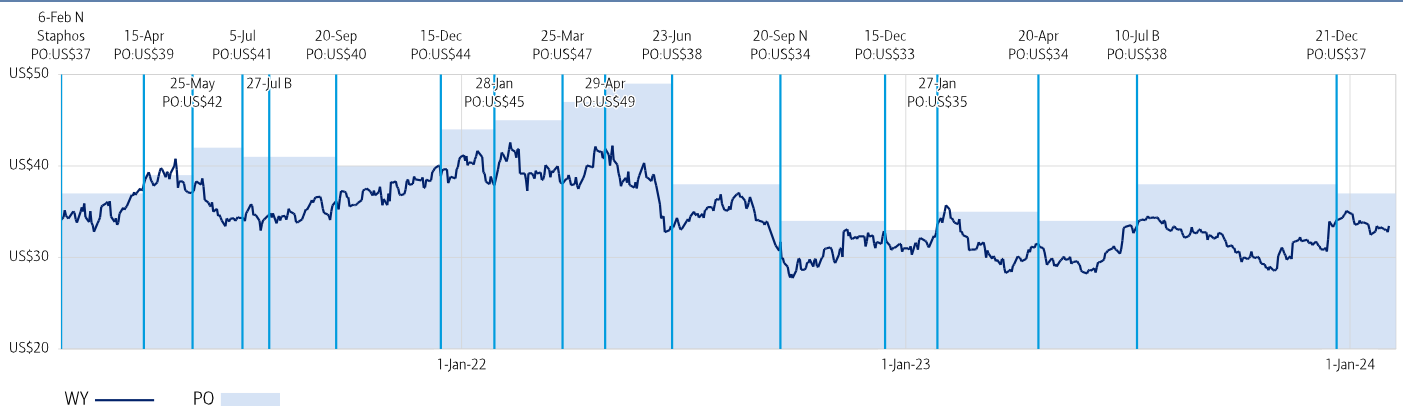
### Packaging Corp (PKG) Price Chart



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

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### Weyerhaeuser Co (WY) 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.





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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <sup>R1</sup>	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 <sup>R1</sup>	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%

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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