

International Paper Co.

4Q Flash: EPS beat on industrial packaging; 1Q to be impacted by winter freeze

Maintain Rating: UNDERPERFORM | PO: 37.00 USD | Price: 35.83 USD

4Q op EPS of \$0.41 vs. BofA at \$0.35 and Street at \$0.34

International Paper (IP) reported 4Q operating EPS of \$0.41 compared to BofA at \$0.35 and the Street at \$0.34 (Visible Alpha). We maintain our Underperform rating for IP based on relative valuation and catalysts we see across our sector. Overall, IP looks to have benefited from Building a Better IP (BBIP) initiative gains along with effective cost management. Segments were ahead of our forecasts in aggregate, though a swing in corporate also added few cents to the comparison. The Industrial Packaging (containerboard) segment generated EBIT of \$315mn, which was above our \$287.5mn estimate driven by IP U.S. box shipments up +2.9% sequentially, though down -5.8% y/y. This compares to the industry's +0.4% y/y increase, according to the Fibre Box Association (FBA). IP points to improving trends in corrugated over the course of 2024. In the meantime, Global Cellulose Fibers (GCF) was below our estimates, as we discuss below. While more details will be shared on the call, our sense is that 1Q could be below 4Q given a \$40mn impact from the January winter freeze and other qualitative discussion in IP's deck. We plan to review this on the call and in our follow-up analysis. **IP will participate in a dinner and fireside chat at BofA's Global Ag & Materials Conference, February 28-29, along with expert panelists on corrugated, boxboard, recycled fiber, and sustainable plastics. Please call your BofA representative for details.**

Point for the call will include box demand guide

We plan to review our estimates following today's conference call at 10:00am EST. Discussion points could include (a) additional commentary on guidance for 1Q24; (b) commentary on the box market – we expect questions on demand and IP's inventory position as well as its early 1Q24 box stats; (c) commentary on its 2024 outlook – on first blush, we did not see a full-year outlook; (d) a review of fundamental trends and capital allocation; (e) the impact of pulp markets on IP's results.

Segment details

At the segment level, Industrial Packaging (containerboard) segment generated EBIT of \$315mn, which was above our \$287.5mn estimate. Performance was impressive, considering 243k tons of economic downtime vs. 622k k tons in 3Q23. IP's Global Cellulose Fibers (GCF) business had an EBIT of \$-58mn, which was below our \$42.1mn estimate. Price/mix, operating costs, and maintenance outages were a sizable drag on Industrial Packaging EBIT y/y (-\$26mn, -\$32mn, and -\$35mn, respectively), though volume (+\$1mn) and input costs (+\$7mn) were benefits. Last, corporate expense was \$9 benefit against our -\$15mn estimate. As for 1Q24, we estimate \$0.25 vs. the Street generally at ~\$0.32.

01 February 2024

Equity

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Stock Data

Price	35.83 USD
Price Objective	37.00 USD
Date Established	2-Jan-2024
Investment Opinion	B-3-7
52-Week Range	29.01 USD - 41.87 USD
Mkt Val (mn) / Shares Out (mn)	12,472 USD / 348.1
Free Float	99.5%
Average Daily Value (mn)	103.14 USD
BofA Ticker / Exchange	IP / NYS
Bloomberg / Reuters	IP US / IP.N
ROE (2023E)	8.4%
Net Dbt to Eqty (Dec-2022A)	56.2%
ESGMeter™	High

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k: thousand

op: operating

vs.: versus

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Timestamp: 01 February 2024 10:00AM EST

Price objective basis & risk

International Paper Co. (IP)

Our \$37 price objective is based on an average of (a) an EPS forecast of \$2.25 in 2024E 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.

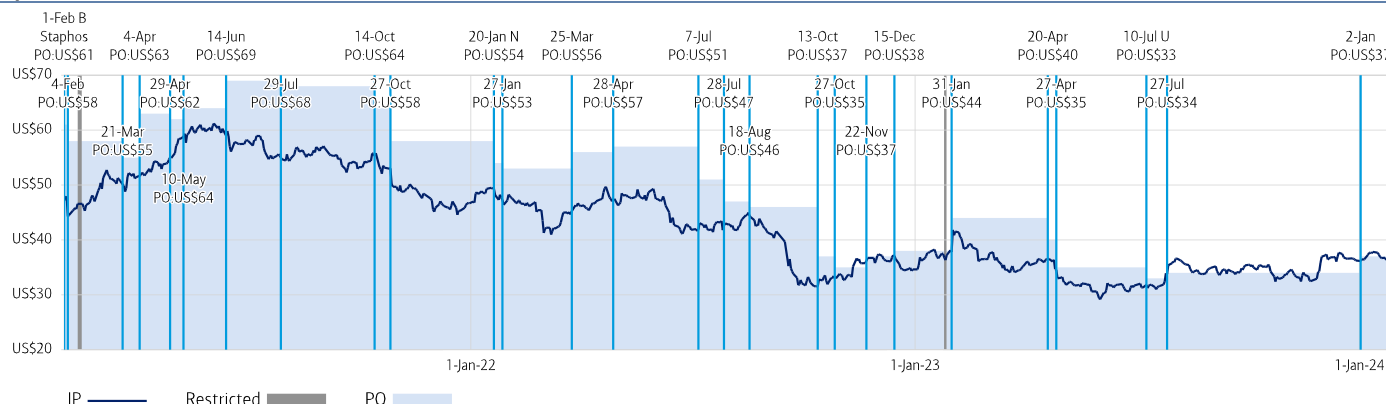
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Intl Paper Co (IP) Price Chart



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

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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%
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Sell	807	22.84%	Sell	383	47.46%

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