

Paper/Forest Products

Rating changes from Year Ahead '24: Upgrade BRC, PTVE, Downgrade AVY, BALL

Rating Change

Upgrade BRC, PTVE; Downgrade AVY, BALL going into '24

We make several rating changes in our Year Ahead (YA) report ([see here](#)) and note them in this separate report, per BofA Global Research policy. We upgrade Brady Corp (BRC) and Pactiv Evergreen (PTVE) to Buy (from Underperform and Neutral, respectively), mainly on opportunities for growth and still-attractive valuations looking ahead to 2024. Meantime, while Ball Corp (BALL) and Avery (AVY) remain among the favorite companies we have covered in our 30 years researching the sector, we move both companies' stocks to Underperform (U/P, from Neutral and Buy, respectively), as we expect them to lag after their recent rallies.

POs: PTVE to \$16, BRC to \$65; AVY at \$208, BALL at \$59

As we discuss below, inside and in our separate YA report, we raise our PO to \$65 for BRC (from \$51) and to \$16 for PTVE (from \$14). Meantime, we refine our PO to \$59 for BALL (from \$61), while leaving AVY's PO unchanged at \$208.

Brady: Growth story and good value

We now rate Brady Buy. BRC is currently trading at 13x P/E and 9x EV/EBITDA based on our calendarized 2024 estimates. A producer of identification materials and devices, we see 14% earnings growth from 2023 through 2025, partly as the company should be leveraged to reshoring, increased manufacturing capex, and moves to rationalize lower-margin and lower-growth products.

Pactiv Evergreen: Attractive valuation, margin expansion

We now rate Pactiv Buy and believe its 13x P/E and 8.6x EV/EBITDA on 2024 estimates is attractive when compared to the current packaging group average of 15x and 10x, respectively. With the company's foodservice-related businesses showing some improved volume and margin upside from the Pactiv Evergreen Production System (PEPS), we think PTVE should be bought. Deleveraging efforts should add catalysts.

Avery: Great company, valuation seems full right now...

Avery is now rated U/P, largely on valuation – using 2024 estimates, AVY currently trades at 23x earnings and 15x EV/EBITDA. Avery has been one of the best long-term secular growers and capital allocators (along with BALL, AVY was one of the first EVA (Economic Value Added) companies), but we think a lot of this, and near-term recovery potential, is reflected in the share price. Moreover, there could be some lingering destocking in some of its apparel markets. As AVY may need more volume strength to reach its targeted \$2.50/share quarterly earnings power, our estimates are somewhat below consensus.

Ball: ...umm, ditto. Recent rally d/t positives limits upside

BALL is now rated U/P given its 18x P/E and 13x EV/EBITDA on 2024 estimates, with a PO at \$59. BALL's 20%+ relative rally versus the S&P 500 from October 23 directionally considers a likely improvement in beverage can volumes for 2024 after a tough 2023, the coming divestiture of Aerospace (and the redeployment of proceeds into debt paydown and buybacks) and other factors. That said, a couple factors including tough 1Q volume comparisons in beer could make for a more second-half weighted 2024.

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Exhibit 1: Rating changes

A summary of rating changes from YA

	New	Old
Packaging		
AVY	Underperform	Buy
BALL	Underperform	Neutral
BRC	Buy	Underperform
PTVE	Buy	Neutral

Source: BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 2: Price objective change

A summary of PO changes from YA

	New	Old
Packaging		
AVY	\$208	\$208
BALL	\$59	\$61
BRC	\$65	\$51
PTVE	\$16	\$14

Source: BofA Global Research

BofA GLOBAL RESEARCH

Upgrading BRC and PTVE

Brady Corp. to Buy with PO at \$65

We upgrade Brady Corp (BRC) to Buy from Underperform and raise our PO to \$65 from \$51. Ultimately, we see solid growth trends, potentially structural tailwinds for the business, as well as an attractive valuation. BRC currently trades at 13x P/E and 9x EV/EBITDA based on our calendarized 2024 estimates, which is comparable or inexpensive versus past cycles, peers, and the market. True, BRC has some lower margin and growth businesses in its portfolio, but its multiple is at/below past recessionary levels and current growth prospects should allow BRC to garner a higher multiple over-time. In particular, the company's move to optimize its product offerings, its comprehensive track and trace solution, and potentially structural tailwinds (i.e., nearshoring and increased manufacturing capex) should all be supportive of growth.

Pactiv Evergreen to Buy with PO at \$16

PTVE is a manufacturer of fresh food and beverage packaging like clamshells for foodservice and perimeter-of-store applications, display packaging for supermarkets (think bakery items) and gable-top paperboard packages for liquids. As discussed, we raise our PO to \$16 from \$14. PTVE trades at only a 13x P/E on 2024 EPS estimates. We see 15-20% upside potential from the current share price given our PO. We think PTVE offers an attractive vehicle on improving margins and foodservice volumes. Among other points, Pactiv should benefit from its Pactiv Evergreen Production System (PEPS), a continuous improvement program that looks to be adding to margin for PTVE in recent quarters.

Downgrading AVY and BALL

Avery Dennison Corp. to U/P with PO at \$208

AVY manufactures and produces labeling and packaging materials, such as pressure-sensitive labels, performance tapes for industrial and medical applications. Its solution segment also provides branding services, supplies, and equipment. As noted, our PO remains at \$208. That said, for earnings to really increase, AVY will ultimately need volumes to rebound. Additionally, our estimates are below consensus for AVY – our forecasts are \$8.95 in 2024 versus the Street at \$9.42. As we have been hearing about continued sluggish consumer demand trends at retail, we surmise that this will mean pressure-sensitive and apparel label trends remain muted, which prevents AVY from normal operating leverage (and its targeted \$2.50 per share in quarterly earnings power) from kicking in until 2H24 at the earliest. Our trade discussions also suggest that, while intelligent label (IL) trends should be strong in non-apparel, there might have been some continued destocking in apparel (and therefore, IL for this category).

Ball Corp. to U/P with PO at \$59

BALL provides metal packaging for beverages, foods, and household products globally. Although we maintain a positive view of the company and its fundamentals, we now move our price objective to \$59 from \$61 in consideration of several factors. In our view the backdrop for beverage cans is getting better, with older capacity being closed and previously proposed new capacity being cancelled or delayed. We have yet to see material improvement, but promotional activity should rebound in 2024 and, with it, volumes and operating rates. That's all good, so what's the problem? Again, we have no issue with Ball's long-term fundamentals, but we continue to expect a weakish (and somewhat below-Street) start to 2024 for Ball. We expect \$0.66 in EPS for 1Q and consensus is at \$0.69 (\$0.60 – \$0.76). Comparisons offered by last year's disruptions with a major beer customer don't lap until we're into 2Q and the virtual power purchase agreement benefit of \$28mn in 1Q23 is another consideration. While it's hit the headlines, we don't really have a way of quantifying a potential Anheuser-Busch (AB) rated Buy by our colleague, Andrea Pistacchi) Teamsters' strike impact – it all depends on how long a theoretical strike would last and the amount of inventory that may be in the system.

Exhibit 3: Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
AVY	AVY US	Avery Dennison	US\$ 202.16	B-3-7
BALL	BALL US	Ball Corp	US\$ 57.52	B-3-7
BRC	BRC US	Brady Corp - A	US\$ 58.69	B-1-7
PTVE	PTVE US	Pactiv Evergreen	US\$ 13.71	B-1-7

Source: BofA Global Research

BofA GLOBAL RESEARCH

Investment Rationale**Avery Dennison Corp.**

Avery is rated Underperform, largely on valuation. Avery has been one of the best long-term secular growers and capital allocators, but we think a lot of this, as well as the near-term recovery potential, is already reflected in the share price. Moreover, there could be some lingering destocking headwinds.

Ball Corp.

BALL is rated Underperform, largely on valuation. The company has been the of the better long-term capital allocators but BALL's recent, relative rally versus the S&P 500 considers a likely improvement in beverage can volumes for 2024 after a tough 2023, the coming divestiture of Aerospace (and the redeployment of proceeds into debt paydown and buybacks) and other factors. Meantime, a couple factors including tough volume comparisons in beer could make for more of a second-half weighted 2024.

Brady Corp. - CI A

We rate Brady Buy as its growth trajectory and valuation look more encouraging. Growth from here should be supported by several factors including its comprehensive industrial tack and trace solution and some potentially structural tailwinds including reshoring and increased domestic manufacturing activity. Further, new products and recent internal efforts to rationalize SKUs and position the portfolio should help as well.

Pactiv Evergreen

We rate Pactiv Buy and believe its valuation on 2024 estimates is attractive when compared to the current packaging group averages. With the company's foodservice-related businesses showing some improved volume and margin upside from the Pactiv Evergreen Production System (PEPS), we think PTVE should be bought. Deleveraging efforts should add catalysts.

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.

Brady Corp. - CI A (BRC)

Our \$65 PO is based on a three-part valuation approach, which includes: (1) a 17-18x calendarized 2024E P/E multiple, (2) a 10-11x calendarized 2024E EV/EBITDA multiple, and (3) our intrinsic free cash flow (FCF) valuation, which assumes \$185mn normalized FCF, 10% cost of equity, and a 3% growth rate. We apply multiple ranges to reflect a more normalized environment.

Downside risks to our PO: (1) risk relative to BRC's ability to generate performance from its comprehensive industrial track and trace investments & other efforts, (2) unfavorable organic growth (volume/pricing) trends in key economies, (3) acquisition/integration risk, (4) senior management succession and bench development risk, (5) unfavorable macroeconomic environments, (6) potential for BRC's future valuation to be impaired relative to our expectations given secular headwinds, or other factors, (8) risks associated with trade & other administration policies.

Pactiv Evergreen (PTVE)

Our \$16 price objective is derived from a three-part valuation approach using our estimates, which includes (1) a 13x 2024E P/E multiple, (2) an 9x 2024E EV/EBITDA multiple, (3) a normalized FCF estimate of \$250mn, an estimated cost of equity of 11% and forecast rate of growth of 0%. Our multiples represent discounts to foodservice/food packaging peers given the company's leverage and its weak earnings performance from 2018 to 2020.

Risks to our PO are (1) financial leverage, (2) rising labor and other costs, (3) Rank Group majority ownership, (4) unfavorable resin price volatility and/or price/cost, (5) the competitive landscape, (6) potential missteps with its Strategic Investments, (7) potential volatility in food, beverage and other packaging fundamentals, (8) COVID-related volatility, (9) macro and geopolitical risks, (10) sustainability trends. We have tried to forecast accurately, but risk factors could significantly affect results relative to forecasts.

Analyst Certification

We, George L. Staphos and Cashen Keeler, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views

about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Special Disclosures

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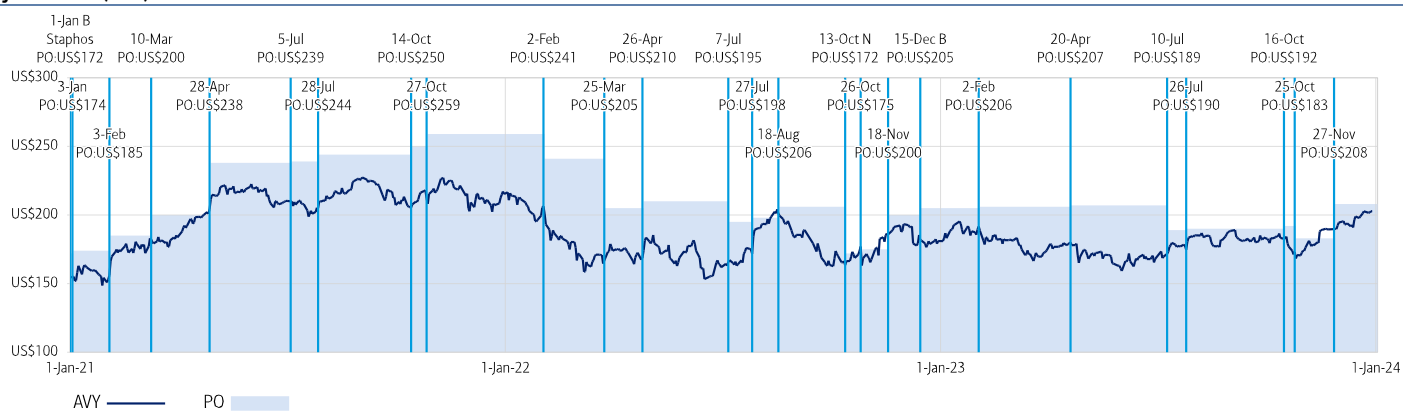
US - Paper and Packaging Coverage Cluster

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. - 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

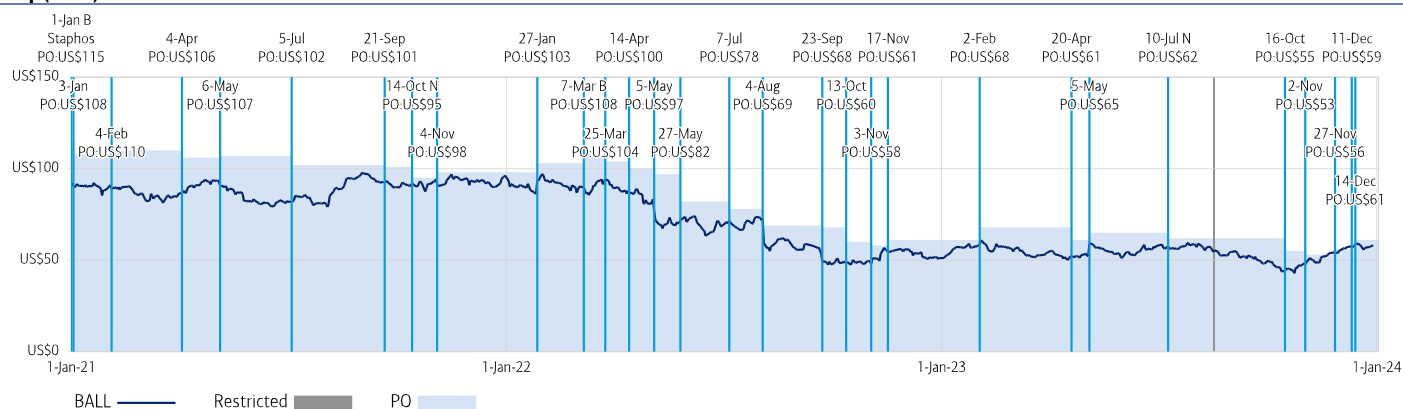
Important Disclosures

Avery Dennison (AVY) Price Chart

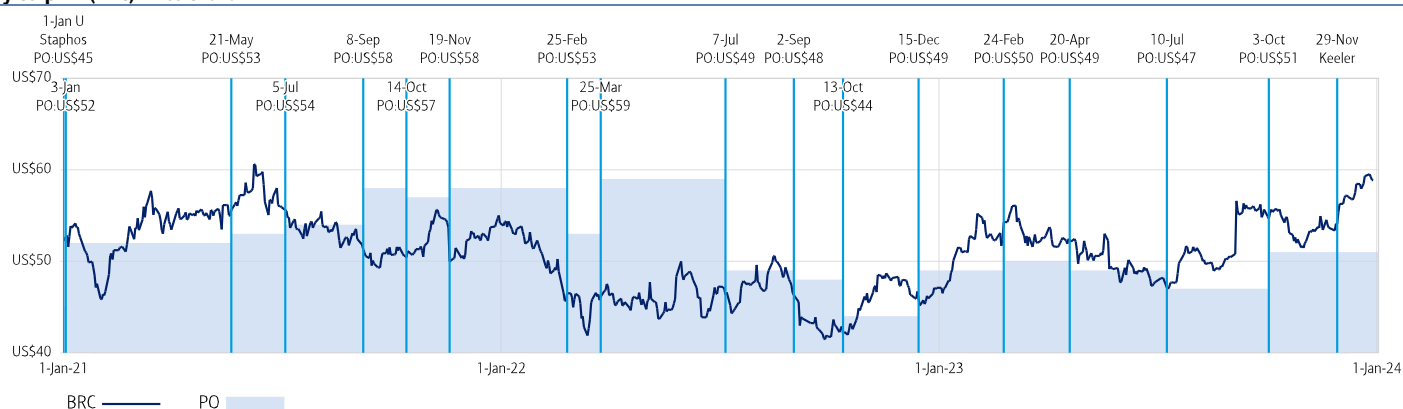


B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

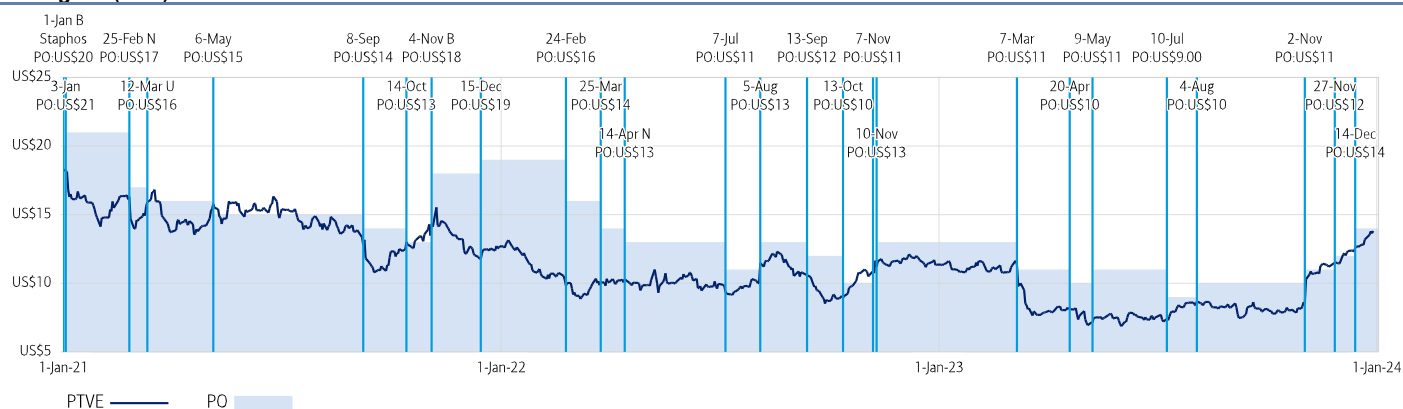
The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey 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

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Brady Corp - A (BRC) Price Chart

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Pactiv Evergreen (PTVE) 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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