

Amcor PLC

Post F2Q: Volume trends weaker, but cost management provides some support

Reiterate Rating: UNDERPERFORM | PO: 9.70 USD | Price: 9.18 USD

F2Q EPS a touch ahead of ests but segments + vols soft

We reiterate our Underperform on Amcor (AMCR) given the company's above-average valuation relative to group, especially given recent volume softness. Overall, AMCR reported adj. EPS of 15.7c which was ahead of our 14.6c estimate and the Street at 15c. Earnings in Flexible and Rigid were below our model by \$13mn and \$6mn, respectively, primarily on weaker volumes. That said, Other was \$17mn better than our forecast and other positive variances came from a slightly lower interest expense and tax rate.

Volume declines bottoming but still soft from here

Key takeaways from F2Q: (a) Volumes were ultimately weaker than anticipated in the quarter (down -10% overall y/y) primarily driven by accelerated destocking in December, and roughly half of this decline was related to declines in healthcare and the North American beverage business. While the company noted that January volumes have been improving, it is now pointing to mid-single digit volume declines in F3Q (with some additional destocking effects) and low-single digit declines in F4Q; (b) That said, the company continues to reduce operating costs to mitigate this impact, and noted that it achieved over \$100mn of cost reductions in F2Q. Ultimately, we expect some of these temporary cost saving to be more structural in nature-over time (potentially adding to the \$35mn of structural benefits in 2H and \$15mn in F24), especially if volumes remain somewhat soft from here; (c) The company appears confident in its ability to take share globally in protein markets through its total system solution (i.e. equipment, materials, and service). All else equal, AMCR's commentary on volumes could suggest some volume headwinds as well for Buy-rated Berry (BERY), SEE (SEE; formerly Sealed Air), and Sonoco (SON).

Adjust estimates and PO moves to \$9.70

Given AMCR's F2Q result, commentary, and the points discussed above, we slightly lower our F24 estimate to \$0.69 (was \$0.70) and our F25 and F26 estimates move to \$0.73 (was \$0.75) and \$0.77 (was \$0.79), respectively. Given these adjustments, our PO moves to \$9.70 (was \$9.90).

Estimates(Jun) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.81	0.74	0.69	0.73	0.77
GAAP EPS	0.53	0.71	0.51	0.62	0.65
EPS Change (YoY)	9.5%	-8.6%	-6.8%	5.8%	5.5%
Consensus EPS (Bloomberg)			0.69	0.74	0.77
DPS	0.48	0.49	0.50	0.49	0.49
Common - Dual Listed EPS (A\$)	1.12	1.10	1.06	1.12	1.18
Common - Dual Listed DPS (A\$)	0.67	0.73	0.76	0.75	0.75
Valuation (Jun)					
P/E	11.3x	12.4x	13.3x	12.6x	11.9x
GAAP P/E	17.3x	12.9x	18.0x	14.8x	14.1x
Dividend Yield	5.3%	5.3%	5.4%	5.3%	5.3%
EV / EBITDA*	10.0x	10.5x	10.9x	10.4x	10.2x
Free Cash Flow Yield*	7.7%	5.8%	6.6%	8.8%	7.5%

* For full definitions of *IQmethod*SM measures, see page 6.

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Timestamp: 06 February 2024 11:08PM EST

06 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	9.90	9.70
2024E Rev (m)	14,100.4	13,769.2
2025E Rev (m)	14,315.2	13,981.4
2026E Rev (m)	14,475.2	14,138.1
2024E EPS	0.70	0.69
2025E EPS	0.75	0.73
2026E EPS	0.79	0.77
2024E EBITDA (m)	1,986.2	1,950.0
2025E EBITDA (m)	2,093.5	2,049.9
2026E EBITDA (m)	2,134.7	2,090.3
2024E DPS	0.49	0.50

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Stock Data

Price (NYS / ASX)	9.18 USD / 14.65 AUD
Price Objective	9.70 USD / 14.85 AUD
Date Established	6-Feb-2024 / 6-Feb-2024
Investment Opinion	B-3-7 / A-3-7
52-Week Range	8.45 USD - 11.93 USD
Market Value (mn)	13,219 USD
Free Float	99.7%
Average Daily Value	78.47 USD
Shares Outstanding (mn)	1,440.0 / 1,440.0
BofA Ticker / Exchange	AMCR / NYS
BofA Ticker / Exchange	AMCCF / ASX
Bloomberg / Reuters	AMCR US / AMCR.N
ROE (2024E)	24.8%
Net Dbt to Eqty (Jun-2023A)	148.1%
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".

iQprofileSM Amcor PLC

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	7.1%	10.2%	7.9%	8.8%	9.1%
Return on Equity	27.7%	26.9%	24.8%	26.3%	26.7%
Operating Margin	8.5%	10.3%	9.0%	10.2%	10.5%
Free Cash Flow	1,017	765	874	1,161	997

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.2x	1.2x	1.4x	1.7x	1.5x
Asset Replacement Ratio	0.8x	0.8x	0.8x	1.0x	1.0x
Tax Rate	26.9%	15.4%	19.5%	22.0%	22.0%
Net Debt-to-Equity Ratio	138.0%	148.1%	152.2%	145.1%	133.3%
Interest Cover	9.2x	5.8x	3.9x	4.6x	4.9x

Income Statement Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	14,544	14,694	13,769	13,981	14,138
% Change	13.1%	1.0%	-6.3%	1.5%	1.1%
Gross Profit	2,820	2,725	2,823	NA	NA
% Change	3.2%	-3.4%	3.6%	NA	NA
EBITDA	2,117	2,018	1,950	2,050	2,090
% Change	4.0%	-4.7%	-3.4%	5.1%	2.0%
Net Interest & Other Income	(135)	(259)	(318)	(312)	(304)
Net Income (Adjusted)	1,224	1,089	986	1,035	1,079
% Change	5.7%	-11.0%	-9.4%	5.0%	4.2%

Free Cash Flow Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	805	1,048	741	879	923
Depreciation & Amortization	625	586	595	600	592
Change in Working Capital	(207)	(265)	(52)	250	50
Deferred Taxation Charge	(33)	(57)	(6)	0	0
Other Adjustments, Net	336	(51)	100	32	32
Capital Expenditure	(509)	(496)	(504)	(600)	(600)
Free Cash Flow	1,017	765	874	1,161	997
% Change	-0.2%	-24.8%	14.3%	32.8%	-14.1%
Share / Issue Repurchase	(630)	(519)	(121)	(200)	(80)
Cost of Dividends Paid	(732)	(723)	(713)	(697)	(691)
Change in Debt	476	228	157	(100)	(100)

Balance Sheet Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	775	689	819	983	1,109
Trade Receivables	1,935	1,875	1,900	1,900	1,900
Other Current Assets	3,143	2,744	2,831	2,831	2,781
Property, Plant & Equipment	3,646	3,762	3,671	3,671	3,679
Other Non-Current Assets	7,927	7,933	8,007	8,007	8,007
Total Assets	17,426	17,003	17,228	17,392	17,476
Short-Term Debt	150	93	93	93	93
Other Current Liabilities	4,953	4,383	4,443	4,693	4,693
Long-Term Debt	6,340	6,653	6,810	6,710	6,610
Other Non-Current Liabilities	1,842	1,784	1,883	1,883	1,883
Total Liabilities	13,285	12,913	13,229	13,379	13,279
Total Equity	4,141	4,090	3,999	4,013	4,197
Total Equity & Liabilities	17,426	17,003	17,228	17,392	17,476

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Packaging

Company Description

AMCR generates approximately \$14.7bn in annual revenues. The Company's business is organized and presented in two reportable segments: Flexibles and Rigid Packaging. Flexibles makes up 76% of sales, while Rigid Packaging makes up the remaining 24%. Amcor nearly doubled the size of its Flexibles business with the acquisition of Bemis, completed in June 2019.

Investment Rationale

One of the world's largest consumer packaging companies with an emphasis on flexibles/plastics and sustainability, AMCR's weak volume and earnings should continue in our view, and we are at Underperform in light of its above-average valuation multiple versus the group.

Stock Data

Average Daily Volume	8,547,648
Shares / Common - Dual Listed	1.00

Quarterly Earnings Estimates

	2023	2024
Q1	0.18A	0.16A
Q2	0.19A	0.16A
Q3	0.18A	0.16E
Q4	0.19A	0.21E

Key Changes

(A\$)	Previous	Current
Price Obj.	14.75	14.85
2024E EPS	1.07	1.06
2025E EPS	1.15	1.12
2026E EPS	1.21	1.18
2024E DPS	0.75	0.76

Model changes and operating statistics

Exhibit 1: AMCR Model Changes

Review of latest estimates and forecast changes

	Actual	BofA	Consensus
Quarterly Result	\$0.16	\$0.15	\$0.15
Model Changes	New	Old	Consensus
2024E	\$0.69	\$0.70	\$0.69
2025E	\$0.73	\$0.75	\$0.74
2026E	\$0.77	\$0.79	\$0.77

Price Objective **\$9.70 (AU\$14.75)** **\$9.90 (AU\$14.85)**

Source: Company reports, Bloomberg, BofA Global Research estimates

BofA GLOBAL RESEARCH

Exhibit 2: AMCR Relevant Operating Statistics

Review of results vs. BofA estimates

	F2Q24	BofA	F2Q23	Key Highlights
Flexible Packaging				
Revenue (\$mn)	\$2,481	\$2,517	\$2,812	Volumes were down -10% y/y in the quarter given soft customer demand as well as destocking (especially in healthcare which was said to be down by double digits).
Adj. EBIT (\$mn)	\$312.00	\$324.66	\$353.00	
Adj. EBIT Margin	12.6%	12.9%	12.6%	
Rigid Packaging				
Revenue (\$mn)	\$770	\$772	\$830	Segment volumes were down -12% y/y given lower volumes in North America. This was said to be partially offset by new business wins which drove mid-single digit growth in North America.
Adj. EBIT (\$mn)	\$51	\$57	\$57	
Adj. EBIT Margin	6.6%	7.4%	6.9%	
Other / Corporate				
Revenue (\$mn)	\$0	\$0	\$0	
Adj. EBIT (\$mn)	(\$11)	(\$28)	(\$11)	
Adj. EBIT Margin	-	-	-	

Source: Company reports, BofA Global Research estimates

BofA GLOBAL RESEARCH

Price objective basis & risk

Amcor PLC (AMCR / AMCCF)

Our \$9.70 price objective (AU\$14.85) 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.

Berry Global (BERY, B-1-7, \$ 64.28)

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.

Sealed Air Corp. (SEE, B-1-7, \$34.72)

Our \$42 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.

Sonoco Products Co. (SON, B-1-7, \$56.45)

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. - CI 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
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



US - Paper and Packaging Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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

iQmethodSM 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 & 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

iQmethodSM 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 valuations. 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.

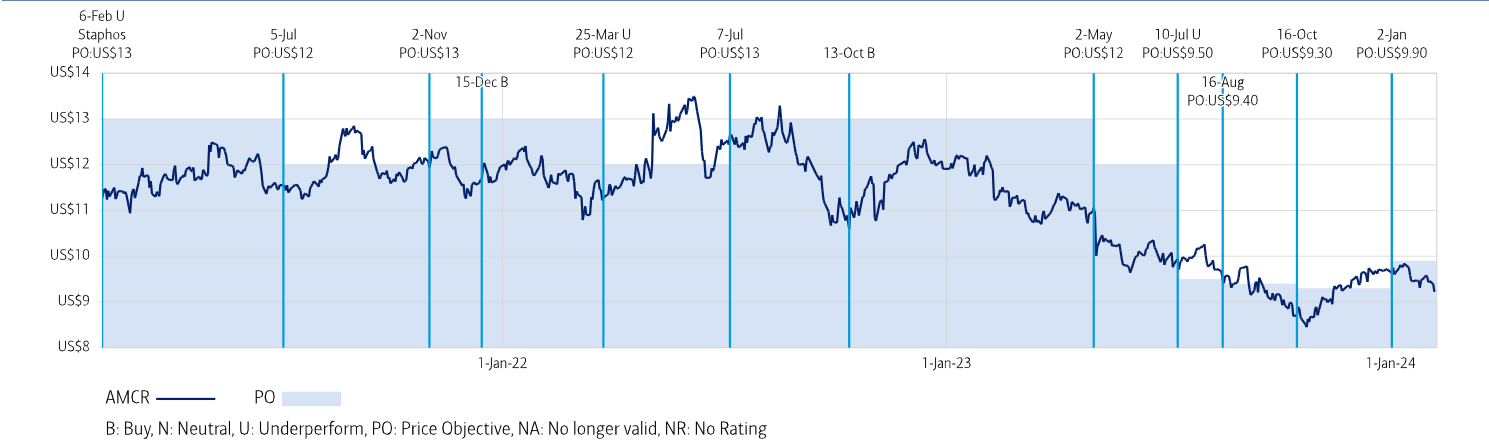
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Disclosures

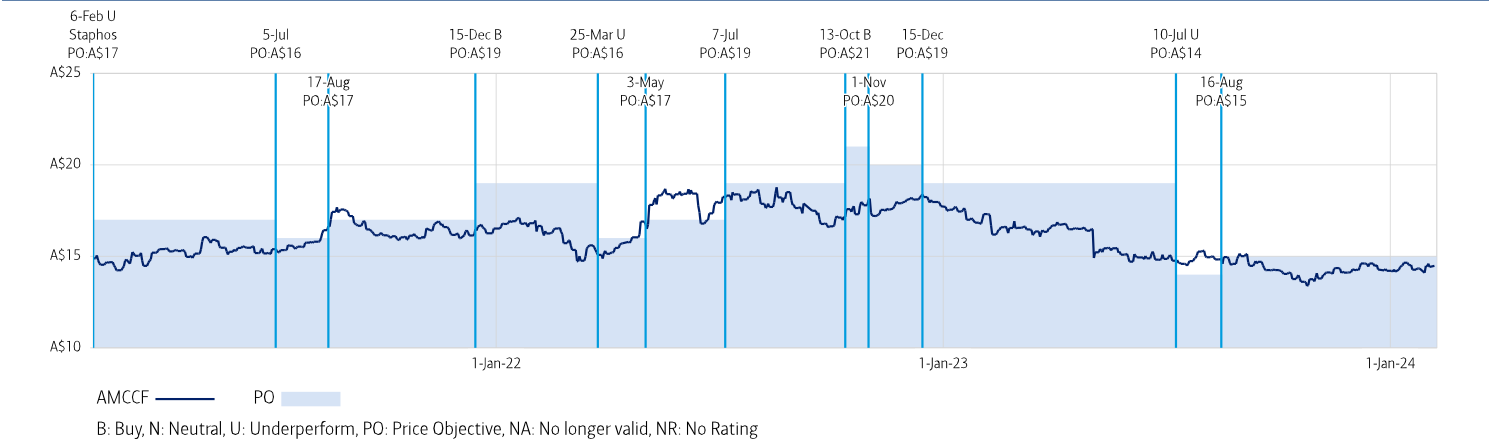
Important Disclosures

Amcor PLC (AMCR) Price Chart



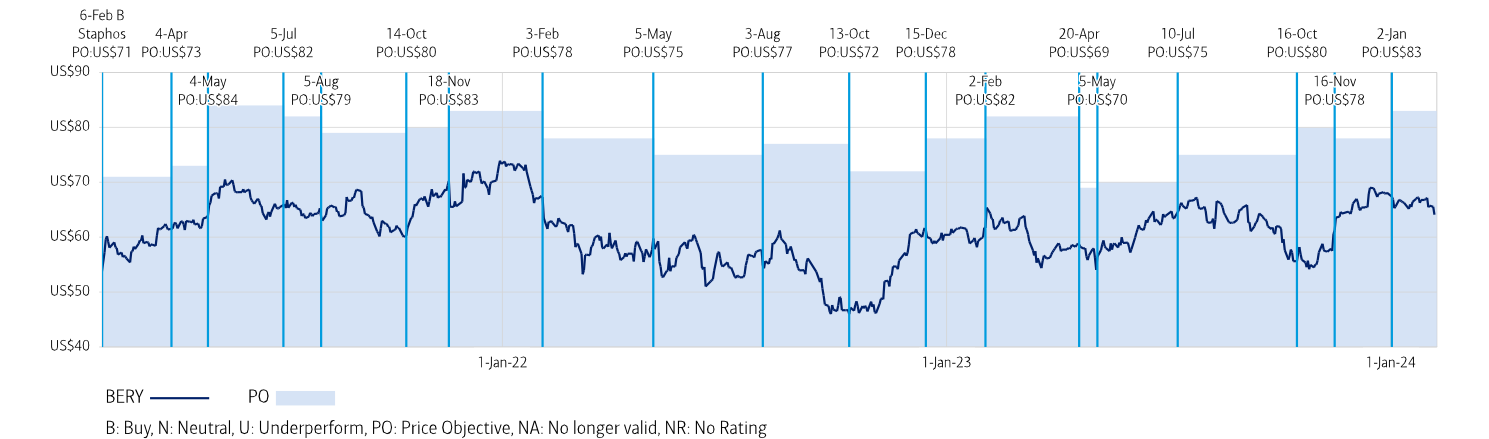
The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey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

Amcor (AMCCF) Price Chart



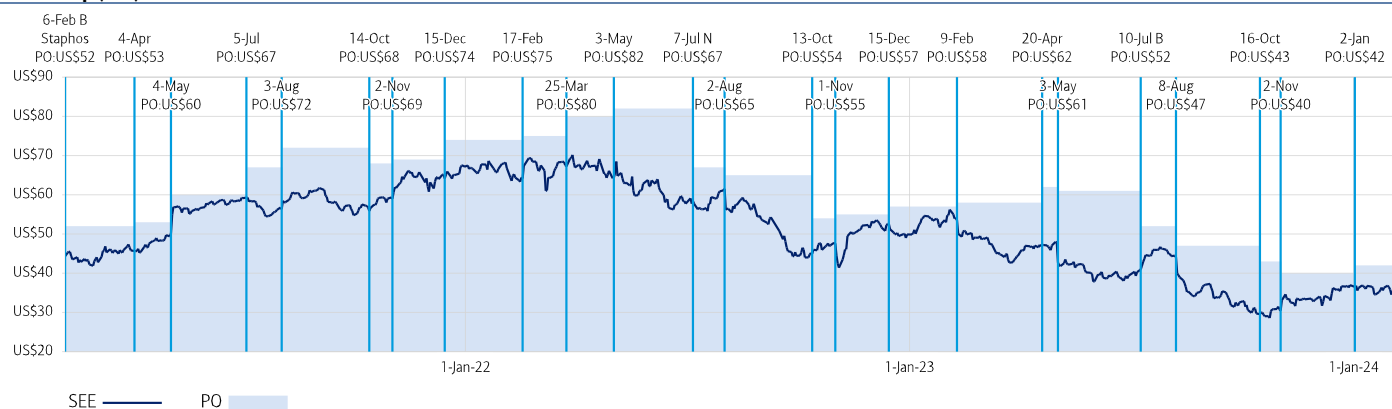
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Berry Global (BERY) Price Chart

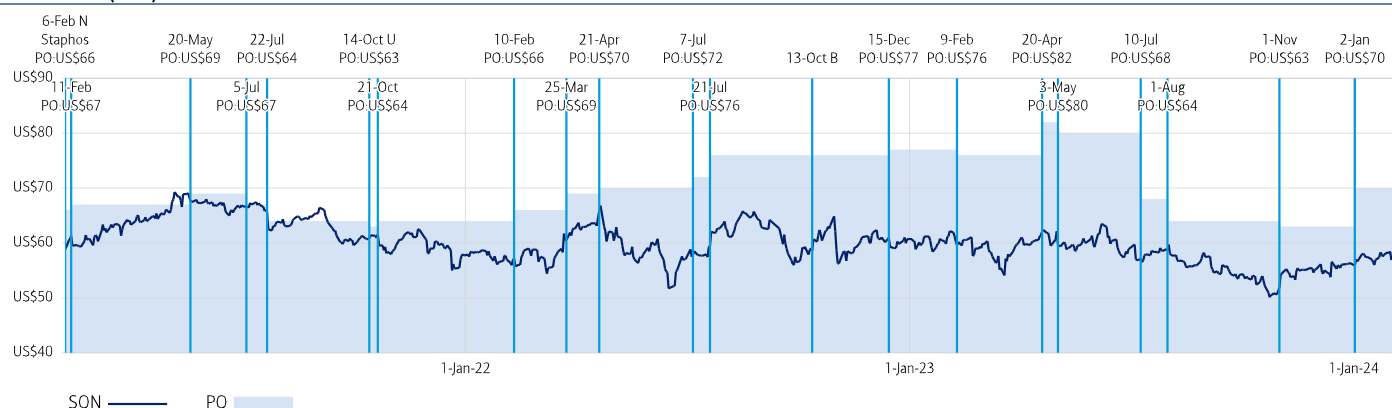


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Sealed Air Corp (SEE) Price Chart

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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: 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.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

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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