

# Packaging & Paper/Forest Products

## Post 4Q: PKG, WY. Improving underlying outlook into 2024

Earnings Review

### PKG, WY; positives in fundamentals for both

We update our models and investment points for Neutral-rated Packaging Corp (PKG) and Buy-rated Weyerhaeuser (WY). While these companies are not directly comparable (and PKG's results were stronger-than-expected overall), their conference calls this week (which kick-off earnings season for 4Q) suggest to us improving sequential trends and positives in the 2024 outlook. PKG is scheduled to attend our Annual Global Ag & Materials Conference on 2/28-29 in Ft. Lauderdale – please contact your BofA rep. for details.

### PKG: Is the restock here? Raise estimates

Our PKG flash report ([see PKG note here](#)) has details from 4Q. Our estimates increase from \$8.15 in 2024E and \$9.25 in 2025E to \$8.50 and \$9.75, respectively, and our PO moves to \$179 from \$176. Keys? (a) Is the restock here? While there is dissonance between PKG's volume trends and those reported elsewhere, the 8% volume PKG is seeing in early 1Q suggests a restock with GDP growing 3%; (b) Was there a pull forward? We don't think so. Recall, too, PKG has been discussing better volume trends since 3Q, before its announced price increase; (c) Pricing mechanism needs a reboot? PKG suggested that customers are paying at the new rate, \$70/ton, despite RISI not reflecting pricing increases in January, and is looking to establish new pricing models. We do expect traction on industry pricing over 1Q but plan to evaluate the risks over the next few weeks.

### WY: Trim estimates but wood, timber trending better

Our WY flash report ([see WY note here](#)) has details from 4Q. Our estimates decrease from \$1.10 in 2024E and \$1.15 in 2025E to \$1.00 and \$1.05, respectively, but our PO is unchanged (we are not adjusting the LT sum-of-the-parts and other estimates driving our PO). Keys? (a) Our estimates decline but Unallocated is a large driver in 1Q given lower interest income and other non-operating impacts; (b) The outlook is improving. Lumber should see a solid pickup in results after a particularly weak 4Q, while timber harvests should be up in 2024 with potentially a slight pickup in mix (our view – West should see lower salvage-volume harvests, Japan exports should be up in 1Q); (c) While not mentioned on the call, Red Sea impacts should be modestly positive for lumber, timber. In particular, WY's timber exports should have less competition from European wood products in Asia; (d) Engineered Wood Products (EWP) continues to have modest sequential realization trends given prior-year commercial strategies, but WY is looking for good trends in 2024.

We continue with details below.

26 January 2024

Equity  
United States  
Packaging

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### Exhibit 1: PO changes

A summary of PO changes in this report

	New	Old
Paper/Forest		
PKG	\$179	\$176
WY	\$37	\$37

Source: BofA Global Research estimates  
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# Review of Relevant Operating Statistics

## Packaging Corp (PKG)

### Exhibit 2: PKG Relevant Operating Statistics

Review of results vs. BofA estimates

	4Q22	4Q23A	BofA	Key highlights
<b>Revenues (\$mn)</b>				
Packaging	1,809	1,735	1,735	
Paper	154	137	137	
Corporate and Other	16	17	18	
<b>Total</b>	<b>\$1,978</b>	<b>\$1,889</b>	<b>\$1,889</b>	
<b>Operating Profits (\$mn)</b>				
Packaging*	284	244	244	PKG experienced higher volume, lower operating and converting costs, and lower freight and logistic expenses. This was partially offset by lower price/mix. Box shipments were up 5.1% on actual basis and on a per day basis.
Paper*	32	22	22	
Corporate and Other*	(26)	(30)	(30)	Paper segment results were above our forecast, supported by higher price/mix, lower operating costs, and lower freight rates than expected.
<b>Total</b>	<b>\$290</b>	<b>\$236</b>	<b>\$237</b>	
<b>Operating Margin %</b>				
Packaging	15.7%	14.1%	14.1%	
Paper	20.8%	16.4%	16.4%	
<b>Total</b>	<b>14.7%</b>	<b>12.5%</b>	<b>12.5%</b>	
<b>Production Volumes (000 tons)</b>				
Containerboard	961	1,213	1,009	
<b>Volume Growth</b>				
Containerboard Production	-22.7%	26.2%		
Industry Box Shipments (actual)**	-0.2%	n/a		

**Source:** Company reports, BofA Global Research estimates

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## Weyerhaeuser (WY)

### Exhibit 3: WY Relevant Operating Statistics

Review of results vs. BofA estimates

	4Q22	3Q23	4Q23	BofA
<b>Segment Revenue (\$mn)</b>				
Timberlands	\$437	\$380	\$395	\$402
Wood products	\$1,331	\$1,537	\$1,302	\$1,378
Real Estate & ENR	\$55	\$105	\$77	\$71
Total Segment Revenues	\$1,823	\$2,022	\$1,774	\$1,851
<b>Segment EBITDA</b>				
Timberlands	\$150	\$143	\$143	\$148
Wood products	\$197	\$328	\$159	\$152
Real Estate & ENR	\$46	\$94	\$67	\$57
Corporate / Other	(\$24)	(\$56)	(\$48)	(\$48)
Segment EBITDA	\$369	\$509	\$321	\$309
EBITDA margin %	20.2%	25.2%	18.1%	16.7%

Source: Company reports, BofA Global Research estimates

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### Exhibit 4: WY Relevant Segment Data

Review of results vs. BofA estimates t

	4Q22	3Q23	4Q23	BofA
<b>Sales Volumes</b>				
<b>Timberlands</b>				
US West (000 tons)	1,503	1,479	1,445	1,653
US South (000 tons)	4,252	4,180	4,266	4,295
US North (000 tons)	202	148	179	204
<b>Wood Products</b>				
Softwood lumber (mbf)	996	1,184	1,125	1,215
Plywood & veneer (msf)	66	86	79	65
OSB (msf)	686	683	688	700
Eng. solid section (000 cubic feet)	5.0	6.2	5	5.0
Eng. I-joists (000 lineal feet)	29	42	41	44
<b>Price Realizations</b>				
<b>Timberlands</b>				
US West (\$/ton)	\$142	\$119	127	\$119
US South (\$/ton)	\$39	\$37	37	\$36
US North (\$/ton)	\$79	\$74	73	\$70
<b>Wood Products</b>				
Softwood lumber (\$/mbf)	\$496	\$481	413	\$453
Plywood & veneer (\$/msf)	\$530	\$488	494	\$508
OSB (\$/msf)	\$335	\$416	344	\$368
Eng. solid section (\$/000 cubic feet)	\$3,720	\$3,484	3,389	\$3,300
Eng. I-joists (\$/000 lineal feet)	\$3,517	\$2,905	2,732	\$2,800

Source: Company reports, BofA Global Research estimates

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## Packaging & Paper/Forest

### Exhibit 5: BofA Wood & Timber valuation and EPS grid:

Summary of Specialty Packaging Price Objective, Estimate, and Valuation Changes

Wood & Timber:											
Ticker	Rating	PO	Calendar EPS estimates			PE	Valuation/range method		Cost of Equity	Comments	
			2024	2025	2026		SOTP Value	Normal FCF			
WY	New	B	\$37	\$1.00	\$1.05	\$1.00	N/A	\$42	N/A	7%	We refine our forecasts across the segments to reflect management’s guidance. In Wood, our EBITDA estimate for 1Q increased by \$9mn to \$197mn. Meanwhile in Timber, our EBITDA forecast decreased by \$13mn. Our REE&NR segment forecast stayed largely the same relative to our prior model. Given our refinements, our 1Q24 EPS forecast declines 3c to 16c in 1Q24. Upon further review of our long-term forecast, our estimates move to \$1.00 in 2024 (was \$1.10), \$1.05 in 2025 (was \$1.15), and \$1.00 in 2026.
	Old	B	\$37	\$1.10	\$1.15	-	N/A	\$42	N/A	7%	

Source: FactSet, BofA Global Research estimates. B = Buy, N = Neutral, UP = Underperform.

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### Exhibit 6: BofA Containerboard valuation and EPS grid:

Summary of Containerboard Price Objective, Estimate, and Valuation Changes

Containerboard & related:											
Ticker	Rating		PO	Calendar EPS estimates			PE	SOTP Value	Normal FCF	Cost of Equity	Comments
				2024	2025	2026					
PKG	New	N	\$179	\$8.50	\$9.75	\$10.25	20x	\$175	\$750	9%	Our PO moves to \$179 from \$177, and we maintain our Neutral rating. In Packaging, we update our volume forecasts to include increase downtime at PKG's Jackson mill in 1Q24. As for paper, we continue to project negative, though slightly better sequential volumes in the first quarter. We are slightly below guidance for 1Q (BofA at \$1.60 vs. Street at \$1.63, Visible Alpha). Upon further review of our long-term forecast, our estimates move to \$8.50 in 2024 (was \$8.15), \$9.75 in 2025 (was \$9.25), and \$10.25 in 2026.
	Old	N	\$177	\$8.15	\$9.25	-	20x	\$175	\$750	9%	

Source: FactSet, BofA Global Research estimates. B = Buy, N = Neutral, UP = Underperform.

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**Stocks mentioned**

Prices and ratings for stocks mentioned in this report

<b>BofA Ticker</b>	<b>Bloomberg ticker</b>	<b>Company name</b>	<b>Price</b>	<b>Rating</b>
PKG	PKG US	Packaging Corp	US\$ 171.96	B-2-7
WY	WY US	Weyerhaeuser Co	US\$ 33.11	B-1-7

Source: BofA Global Research

**Price objective basis & risk****Packaging Corp. of America (PKG)**

Our \$179 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.



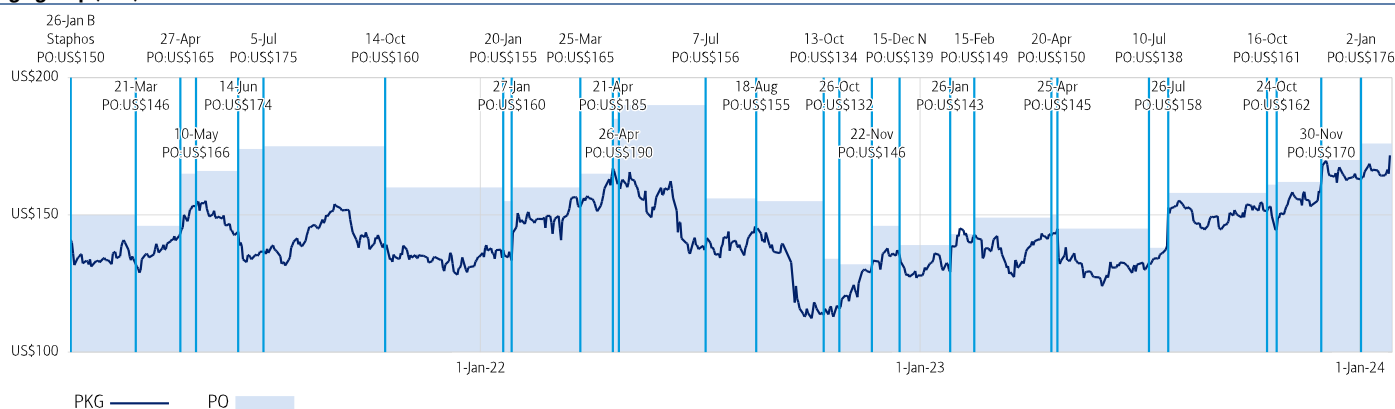
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Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	AptarGroup Inc.	ATR	ATR US	George L. Staphos
	Berry Global	BERY	BERY US	George L. Staphos
	Brady Corp. - CI A	BRC	BRC US	Cashen Keeler
	Crown Holdings Inc.	CCK	CCK US	George 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
<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

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## Important Disclosures

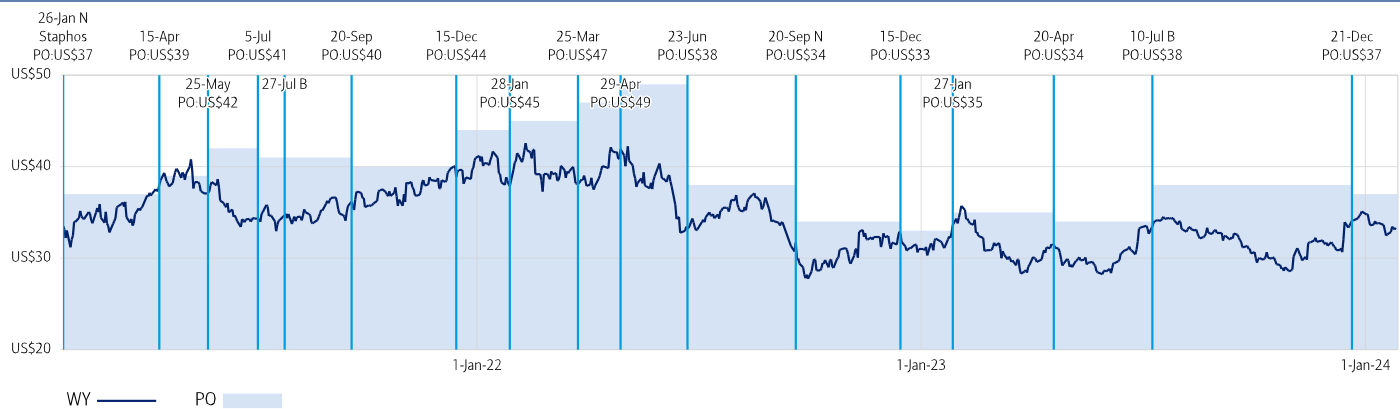
## Packaging Corp (PKG) Price Chart



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.

## Weyerhaeuser Co (WY) Price Chart



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

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## 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>
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> 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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