

Packaging Corp. of America

PKG at BofA's Global Ag & Materials Conference

Maintain Rating: NEUTRAL | PO: 178.00 USD | Price: 176.36 USD

PKG at BofA's Global Ag. & Materials Conference

Packaging Corporation of America's (PKG: Neutral) Chairman & CEO, Mark Kowlzan, and Executive Vice President and CFO, Robert Mundy, presented at BofA's Global Agriculture & Materials Conference. Overall, PKG discussed its earnings guidance ([see here for our note](#)), market fundamentals, volumes, and capital allocation, among other topics. Overall, the company mentioned packaging volumes are strong with bookings up ~13%+ and billings up ~10%. As for paper, volumes have also 'picked-up dramatically' with the company's management citing that the order book at the International Falls mill is currently full across cut-size and offset grades. Importantly, PKG announced that it plans to implement \$100 price hike for uncoated freesheet (UCFS). Over time, Packaging Corp. was successful in increasing productivity by 35% per unit hour of labor (vs. six years ago) given its restructuring efforts, footprint optimization, and high-performance light-weight system. PKG has shifted from a traditionally heavy weight linerboard system of ~50+ lbs. to ~35 lbs. Over time the company, during the question-and-answer segment, mentioned the aspirational target of \$300/share over the next few years. We maintain our Neutral rating on PKG based on valuation despite its long-term operational excellence.

29 February 2024

Equity

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Stock Data

Price	176.36 USD
Price Objective	178.00 USD
Date Established	6-Feb-2024
Investment Opinion	B-2-7
52-Week Range	122.20 USD - 176.97 USD
Mrkt Val (mn) / Shares Out (mn)	15,784 USD / 89.5
Free Float	98.3%
Average Daily Value (mn)	122.20 USD
BofA Ticker / Exchange	PKG / NYS
Bloomberg / Reuters	PKG US / PKG.N
ROE (2024E)	19.1%
Net Dbt to Eqty (Dec-2023A)	48.6%
ESGMeter™	High

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Timestamp: 29 February 2024 08:37AM EST

Price objective basis & risk

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.

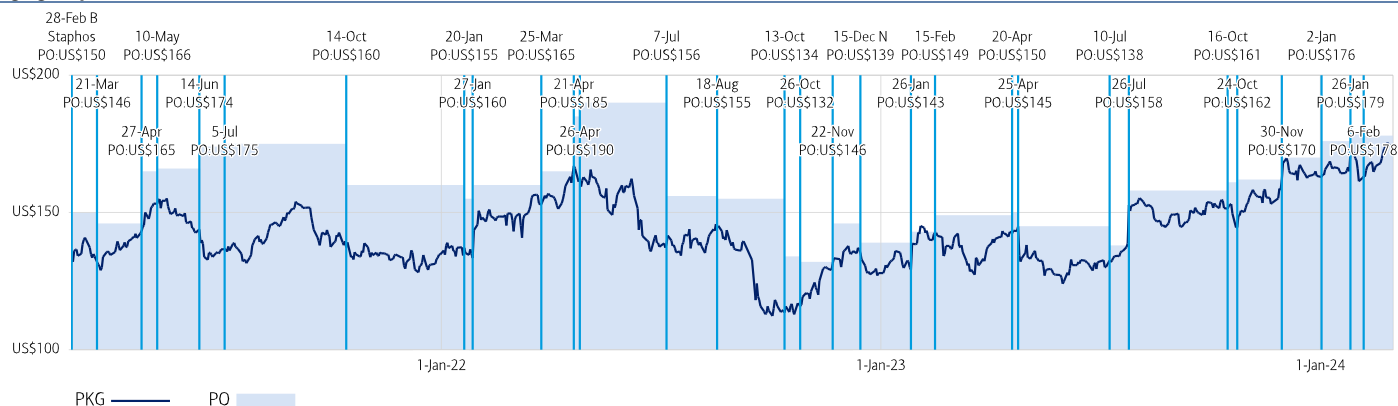
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Packaging Corp (PKG) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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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%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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