

Paper/Forest Products

Pkgg/Paper Wrap-up, Daily – 1/30/24: Commod pricing ticks up, SON divestiture

Industry Overview

Commodity Tracker

Exhibit 2: Paper/Forest Packaging Materials Summary: Pricing moving up, week to week

Summary of raw material prices

	Date	Price	w/w (%)	y/y (%)
Fiber - US\$/MT				
Hardwood China - Net	30-Jan-24	\$655.74	0.0%	-17.2%
Hardwood Europe	30-Jan-24	\$1,068.29	0.6%	-22.6%
Softwood China - Net	30-Jan-24	\$747.39	1.2%	-15.4%
Softwood Europe	30-Jan-24	\$1,299.89	0.1%	-7.8%
Softwood US	30-Jan-24	\$1,307.43	0.0%	-22.3%
Old Corrugated Cartons (OCC) (*)	01-Jan-24	\$87.00		200.0%
Metals				
Aluminum Cash Official LME (\$/mt)	30-Jan-24	\$2,214.00	4.2%	-10.1%
US Midwest Domestic HRC Steel (CRU) Near Term (NYM \$/st)	30-Jan-24	\$1,077.00	0.7%	46.5%
Oil				
Crude Oil WTI /Global Spot NYMEX (\$/bbl)	30-Jan-24	\$76.80	5.9%	-9.8%
Crude Oil Brent ICE Near Term (\$/bbl)	30-Jan-24	\$82.40	6.4%	-11.1%
	Date		m/m (%)	y/y (%)
Petrochemicals/Resin				
Polypropylene (PP)	Jan-24		-11.7%	-4.2%
HDPE (Blow Mldg.)	Jan-24		0.0%	5.2%
LDPE	Jan-24		0.0%	10.0%
Polystyrene (PS)	Jan-24		-34.2%	-33.9%
Polyethylene terephthalate (PET)	Jan-24		-6.0%	-11.9%

Source: ICIS, Fastmarkets RISI/FOEX, FactSet, BofA Global Research; (*) OCC price in \$/st for month of January

BofA GLOBAL RESEARCH

January paper pricing lower despite Red Sea constraints

Fastmarkets RISI's Pulp & Paper Week (PPW) published lower January prices for printing & writing (PW) paper, even though RISI contacts cited freight pressures associated with Red Sea constraints. In January, uncoated free sheet (UCFS) prices decreased by \$20/ton at \$1,285/ton, while coated free sheet (CFS) prices decreased by \$30/ton at \$1,405/ton. In our coverage universe, Sylvamo (SLVM; Buy) and Packaging Corp. (PKG; Neutral) have UCFS exposure. **SLVM and PKG will participate at our Annual Global Ag & Materials Conference in Fort Lauderdale, 2/28-29 in fireside chats.**

Sonoco to sell Protective Solutions Business for \$80mn

Sonoco (SON; Buy) announced today that it will sell its Protective Solutions business to Black Diamond Capital for approximately \$80mn in cash. The sale should close in 1H 2024. This unit, acquired in 2011 as part of Tegrant, focused on manufacturing expanded polypropylene and polystyrene solutions for automotive and other industrial applications and produced \$170mn in net sales in 2023. We never thought this portion fit very well with Sonoco because of differences in end markets, manufacturing and working capital cycles. Sonoco CEO Howard Coker said the deal will help Sonoco align its strategy to focus on its core businesses and "achieve greater scale, profitability, and market leadership." Sonoco's Investor Day on 2/22 should offer additional insights on SON's portfolio moves. **SON will also participate in a fireside chat, and plastics sustainability and recycled fiber panels at our Annual Global Ag & Materials Conference.**

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Refer to important disclosures on page 4 to 8. Analyst Certification on page 3. Price Objective Basis/Risk on page 2.

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Equity
United States
Paper/Forest Products

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Exhibit 1: Paper/Packaging Research

Summary of recent BofA notes

	Date	Link
Notes		
Weekly	26-Jan	Market Commentary
Weekly	19-Jan	Paper and Pulp Pricing
Year-Ahead	2-Jan	Year-Ahead Note
Daily		
Daily	18-Jan	Investor Comments
Daily	17-Jan	Wood Prices
Daily	16-Jan	Commodity Tracker

Source: BofA Global Research

BofA GLOBAL RESEARCH

Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
PKG	PKG US	Packaging Corp	US\$ 169.7	B-2-7
SON	SON US	Sonoco Products	US\$ 58.12	B-1-7
SLVM	SLVM US	Sylvamo	US\$ 47.9	C-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.

Sonoco Products Co. (SON)

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.

Sylvamo Corp. (SLVM)

Our \$59 price objective is based on an average of: (a) an EPS forecast of \$4.75 in 2024E and a P/E of 12x, which is within the range in which paper companies have traded, (b) a normalized FCF estimate of around \$258mn, a calculated cost of equity of 8% and forecast rate of decline of 3%, (c) our SLVM sum-of-the-parts (SOTP) value, based on forecast midcycle EBITDA values and applying multiples of 4-7x across the regions.

Risks to our PO are: (1) Broader employment and macro picture, (2) Paper sector volatility and demand trends, (3) Changes in the cost or availability of key inputs, energy and transportation, (4) Demand, supply chain and other risks created by the pandemic, (5) Potential cash outflow related to the pending tax ruling on the deductibility of goodwill from IP's 2007 acquisition of the Luis Antonio mill, (6) Emerging market risk, including potential for volatility in Latin America, (7) Potential dis-synergies and operational risks related to the spin-off from IP, (8) Operational risks associated with the Svetogorsk recovery boiler project, (9) Potential for supply/demand imbalances in UCFS, (10) Potential loss of a key customer, (11) Risks of fragmentation in Europe. Volatility in macro and micro factors and the earnings leverage that exists could mean fundamental trends wind up worse than expected, causing further downside to the shares relative to our PO. Alternatively, better performance could cause the shares to perform better than our PO.

Analyst Certification

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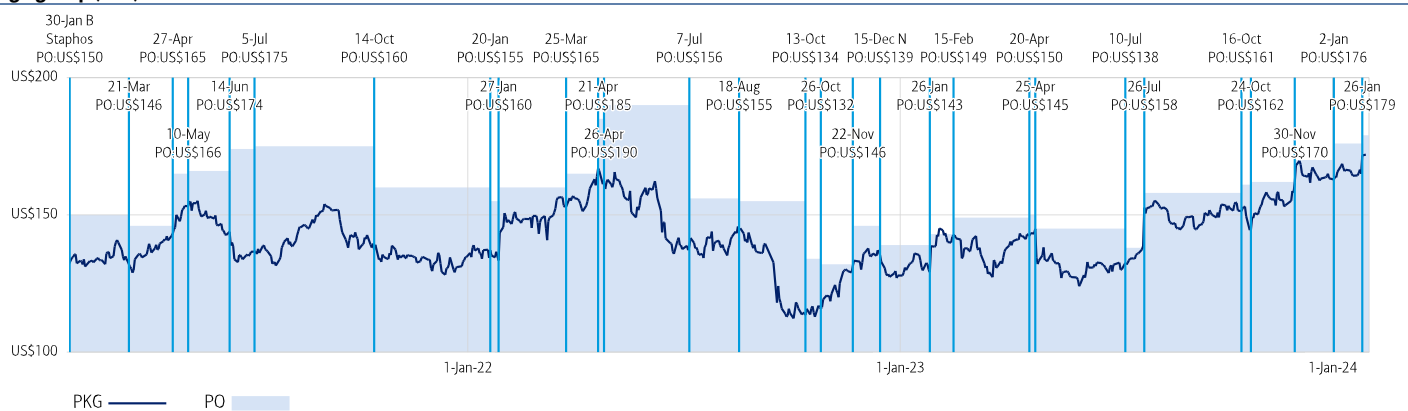
US - Paper and Packaging Coverage Cluster

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. - 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
	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

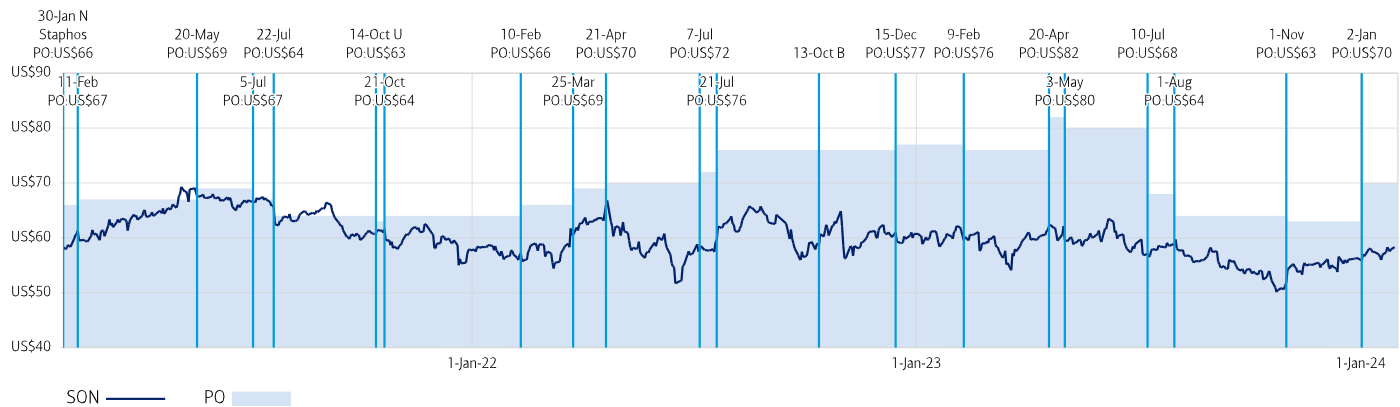
Important Disclosures

Packaging Corp (PKG) Price Chart

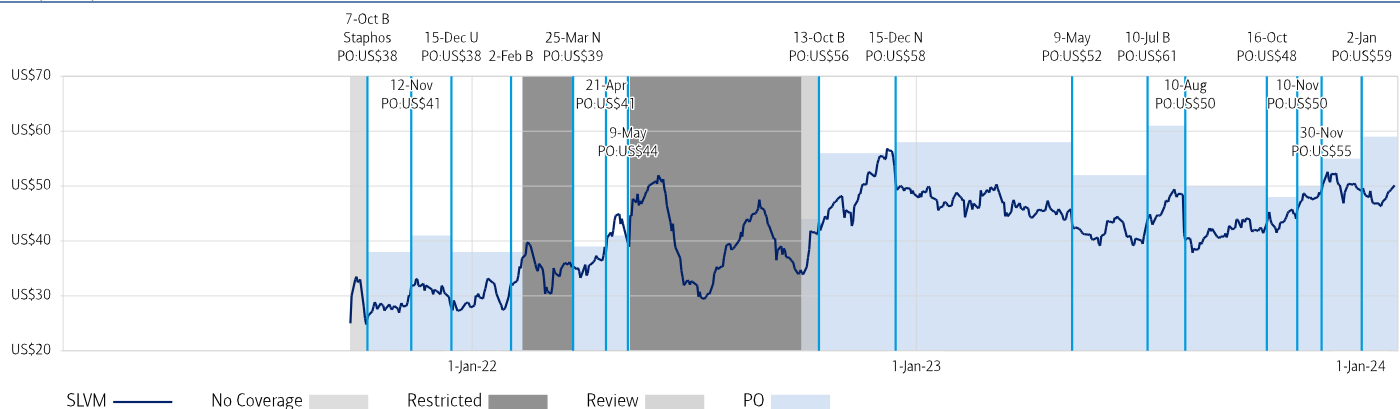


B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Sonoco Products (SON) Price Chart

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Sylvamo (SLVM) 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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