

Packaging & Paper/Forest Products

Post 4Q: Here comes the (2H) SON; For SLVM, (+) results/guide &... poof, +24%

Price Objective Change

Summary: Improving outlooks over course of 2024

We update our models and investment points for Buy-rated Sylvamo (SLVM) and Sonoco (SON). While SON performed below our expectations in 4Q and the initial guidance was lower than our estimates, SLVM beat and guided in line with our 1Q24 estimates. Given the positive market reaction (and weak retail sales data), SON's positive move suggests in part that investors were looking for worse results/guide. SLVM's stock rallied ~24% today – along with in-line to better results and 1Q guidance, the direction of estimates seems up given commentary on demand, downtime, etc. Investors also potentially reassessed their valuation analysis on Sylvamo given its Brazil land discussion even as sentiment was likely negative going into reporting. We stay with Buys on both due to valuation. SON and SLVM will be attending our Annual Global Ag & Materials Conference on 2/28-29 in Ft. Lauderdale – contact your BofA rep. for details.

SON: here comes the “SON”, 2H-weighted

For Sonoco, our ests. move to \$5.25 in '24E (was \$5.75) and \$5.95 in '25E (was \$6.25). Given the changes to our model our PO moves to \$64 from \$70. Takeaways: (a) While 4Q was in-line with the guidance midpoint when adjusting some items in tax, receivables, and SGA (tax was worth 2c, the other two items combined to 5c), the 2024 guide seemingly has more potential for negative than upward revisions. The ultimate divestiture of Protective Solutions will likely be another ~7c from guidance, while paperboard pricing actions are already included in guidance (and SON will likely only get a portion, north of 50% of this in full year results). (b) Nonetheless, given the stock move today we think investors were likely looking for worse. The Metal Pack guidance was directionally better (i.e., up volumes in 2024; +1-2% in 1Q with better trends in aerosol) relative to what Buy-rated Crown (CCK) reported. (c) Commentary on operating rates in uncoated recycled board (URB) with 87% globally and 92% in North America (and a mid-90s level on the horizon) was perhaps better than anticipated. This bodes well for SON as well as Graphic Packaging (GPK; Buy), though we think pricing will take time to implement; (d) Combining the ultimately positive guidance on price (trending up, even if trailing cost), operating rates, productivity (another record year coming after \$100mn+) and Consumer volumes (+low- to mid-single digit pcts), 2024 seems to be an improving year, if back-end loaded.

See below for our SLVM summary (PO moves to \$65 from \$57) and see Exhibits 3 and 4 for further explanation of our PO changes...

15 February 2024

Equity
United States
Packaging

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SLVM: Positive results and outlook, land values

For Sylvamo, our ests. move to \$5.75 in '24E (was \$4.40) and \$5.50 in '25E (was \$5.40). Our PO moves to \$65 from \$57 on the increased earnings and also as we take our sum-of-the-parts valuation higher by 1x, given SLVM's discussion on Brazil. Takeaways: (a) SLVM comments and slides remind investors, perhaps, of the value of its Brazilian timberlands (currently appraised at ~\$1bn, up \$600mn since its '21 comment). A strategic asset, not likely to be monetized at present, it is nonetheless a source of operating strength and value; (b) As suggested in past research, supply constraints and pulp price increases do strengthen SLVM's European business. Our sense from SLVM comments - ~10% of paper production in Europe is below breakeven. Meantime, SLVM which had a difficult year and quarter in Europe (including a 3rd-party issue, now resolved, worth \$5mn at the Saillat mill) is pointing to "significant" improvement in this region in 2024; (c) Shipments, order books, pricing trends were relatively positive, as described by the company. Yes, North American benchmark prices did decline in January and that puts directional pressure on results, but SLVM is out with price increases in Europe and Latam; (d) As order books are improving, SLVM is requiring less downtime across its regions which is one important driver of the strong operating cost performance v. guidance in 4Q and the guided improvement for 1Q. Our sense is SLVM results should strengthen over the balance of 2024, particularly 2H; (e) All of this interplayed with potentially negative sentiment into reporting and the +24%.

Review of Relevant Operating Statistics

Sonoco Products (SON)

Exhibit 2: SON Model Changes

Review of latest estimates and forecast changes

	4Q22A	4Q23A	BofA	Key Highlights
Industrial Paper Packaging				
Revenue (\$mn)	\$596.6	\$593.1	\$557.8	Industrial volumes were said to have declined by low-single digit %s y/y in 4Q. Meantime, price/cost was negative primarily driven by paper in North America and Europe.
Operating Profit (\$mn)	\$79.1	\$61.5	\$74.6	
Operating Margin	13.3%	10.4%	13.4%	
Consumer Packaging				
Revenue (\$mn)	\$879.3	\$855.7	\$773.8	Segment vols were down low-single digits given the impact of inflation on the consumer as well as customer inventory management.
Operating Profit (\$mn)	\$85.1	\$83.0	\$68.8	
Operating Margin	9.7%	9.7%	8.9%	
All Other				
Revenue (\$mn)	\$200.1	\$187.0	\$198.1	Volumes were said to be down in All Other, but this was somewhat offset by positive price/cost and productivity benefits.
Operating Profit (\$mn)	\$19.6	\$22.3	\$25.8	
Operating Margin	9.8%	11.9%	13.0%	

Source: Company reports, BofA Global Research estimates.

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Sylvamo (SLVM)

Exhibit 1: SLVM Operating Statistics

Review of latest estimates and forecast changes

	4Q22	4Q23A	BofA	Key highlights
Operating Profits (\$mn)				
North America	65	52	36	NA operating profits were above our forecast by \$16mn
Europe	12	(23)	(11)	
Latin America	56	48	36	
Total	\$133	\$77	\$61	Latin America operating profits were above our forecast by \$12mn
Sales Volumes				
North America				
Uncoated Paper	352	351	317	NA volumes were above our forecast by 11% (at 351k tons vs. our 317k ton est.).
Market Pulp	23	37	23	
Europe				
Uncoated Paper	51	164	135	European volumes were above our forecast by 21% (at 164k tons vs. our 135k ton estimate).
Market Pulp	34	41	31	
Latin America				
Uncoated Paper	281	310	284	Latin American volumes were above our forecast by +9% (310k tons vs. our 284k ton est.).
Market Pulp	37	32	37	

Source: Company reports, BofA Global Research estimates.

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Packaging Price Objective, Estimate, and Valuation Changes

Exhibit 3: BofA Diversified/Industrial Packaging strategy, valuation and EPS grid

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

Diversified / Industrial:

Diversified / Industrial			Valuation/range method								
Ticker		Rating	PO	Calendar EPS estimates			PE	EV / EBITDA	Normal FCF	Cost of Equity	Comments
				2024	2025	2026					
SON	New	B	\$64	\$5.25	\$5.95	\$6.35	12-13x	8-9x	\$600	10%	Given SON's guidance and commentary, we lower our estimates to \$5.25 (was \$5.75) in 2024E and \$5.95 (was \$6.25) in 2025E. Meantime, our new 2026 estimate is \$6.35. Overall, in Consumer, we expect the metal price overlap in 1Q along with contract pricing resets to result in negative price/cost for the year. Meantime, volumes should be slightly down y/y with improving trends in 2H which should result in low-single digit volume growth for the year. As for Industrial, we expect a softer start to the year on volumes (though this should be somewhat offset by positive acquisition effects) and for price/cost to remain negative given the moves in raw materials and lagged impact of pricing. Despite negative price/cost in the business, we expect strong productivity benefits of greater than \$100mn for the full year. Given the changes to our model, our PO moves to \$64 from \$70.
	Old	B	\$70	\$5.75	\$6.25		12-13x	8-9x	\$600	10%	

Source: FactSet, BofA Global Research estimates. Full-year estimates calendarized. B = Buy, N = Neutral, UP = Underperform. Note: our cost of equity percentages are adjusted typically based on changes in beta (**source:** Bloomberg)

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Exhibit 4: BofA Pulp, Specialty Fibers & Paper strategy, valuation, and EPS grid

Summary of Pulp, Specialty Fiber & Paper Price Objective, Estimate, and Valuation Changes

Pulp, Specialty Fibers & Paper:

Valuation/range method											
Ticker	Rating	PO	Calendar EPS estimates				PE	SOTP	Normal	Cost of Equity	Comments
			2024	2025	2026	Value		FCF			
SLVM	New	B	\$65	\$5.75	\$5.50	\$5.70	12x	\$60.29	\$245	8%	Given Sylvamo's guidance, we raise our estimates to \$5.75 (was \$4.40) in 2024E, \$5.50 (was \$5.40) in 2025E, and \$5.70 (was \$5.55) in 2026E. Overall, we increase our volume forecast in North America, Europe, and Latin America for 2024 to reflect a gradual uplift. Upon further review of valuation and fundamentals for Latin America and SLVM, we increase our EV/EBITDA multiple by 1x in consideration of the Brazilian timberland assessment and our SOTP valuation for SLVM increases towards ~\$69/share. Meantime, our EPS forecast for 2024E increases to \$5.75 in our EPS valuation (the P/E multiple remains 12x). Lastly, our normalized FCF moves to \$245mn (was \$258mn) with a calculated cost of equity of 8% and a forecast rate of decline of 3%. Our PO moves to \$65 from \$57, and we rate SLVM at Buy.
	Old	B	\$57	\$4.40	\$5.40	\$5.55	12x	\$59.73	\$258	8%	

Source: FactSet, BofA Global Research estimates. Full-year estimates calendarized. B = Buy, N = Neutral, UP = Underperform. Note: our cost of equity percentages are adjusted typically based on changes in beta (**source:** Bloomberg)

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Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
SON	SON US	Sonoco Products	US\$ 57.21	B-1-7
SLVM	SLVM US	Sylvamo	US\$ 56.48	C-1-7

Source: BofA Global Research

Price objective basis & risk

Sonoco Products Co. (SON)

Our \$64 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 \$65 price objective is based on an average of: (a) an EPS forecast of \$5.75 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 \$245mn, 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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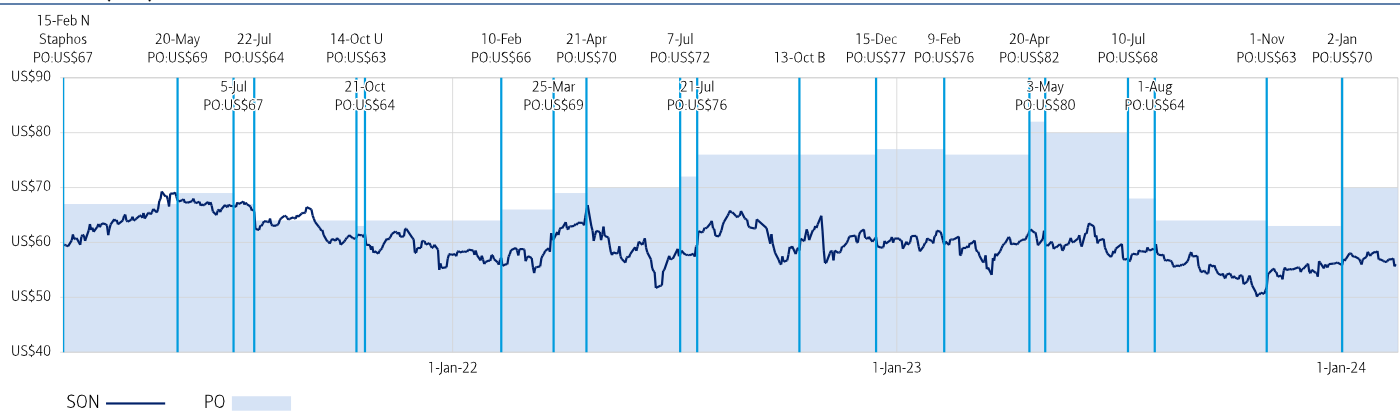
US - Paper and Packaging Coverage Cluster

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

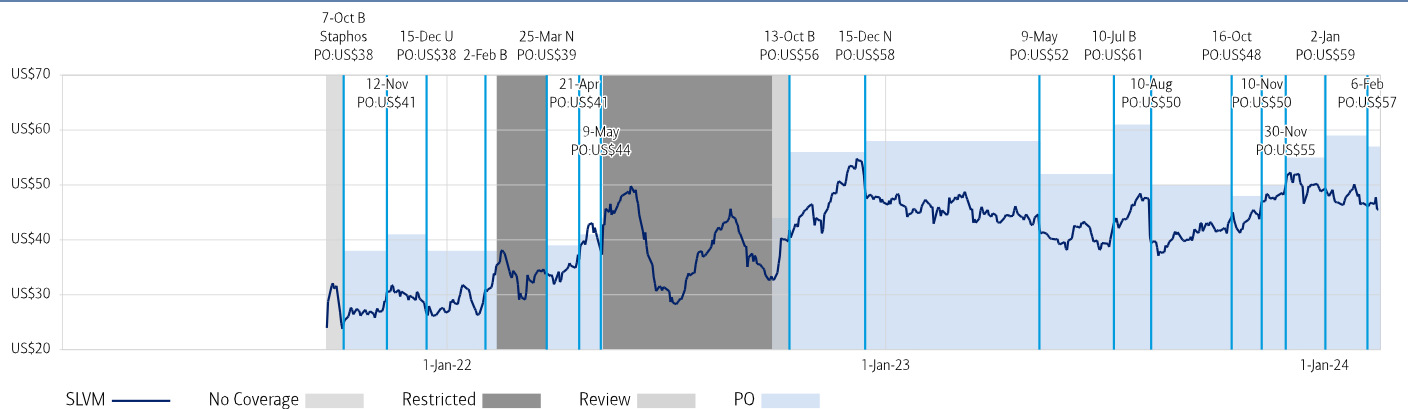
Sonoco Products (SON) Price Chart



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.

Sylvamo (SLVM) 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.

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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