

## Packaging Corp. of America

**4Q Flash: Results > BofA/Street; Positive vols, 1Q impact from Jackson conversion**

Maintain Rating: NEUTRAL | PO: 176.00 USD | Price: 165.01 USD

**PKG EPS of \$2.13 vs. BofA at \$1.83 & Street at \$1.80**

We maintain our Neutral rating on Packaging Corp. (PKG) based on valuation, despite its long-term excellent operating performance within the sector. PKG delivered again, reporting 4Q23 EPS of \$2.13, above BofA at \$1.83 and the Street at ~\$1.80 (Visible Alpha). Relative to our model, adj. EBITDA was above our forecasts (at \$393.5mn vs. our \$367.7mn est.). In Packaging, box shipments were quite good and up +5.1% on a per-workday basis. Production was 1,213k tons, up ~15k tons y/y, and above our 1,009k ton estimate. Bridging from 4Q22, PKG saw yy negative variance from lower price/mix in both the Packaging segment (\$1.93) and the Paper segment (\$0.04). Additionally, lower volume (\$0.03) and higher depreciation expense (\$0.10) from the Paper segment combined for (\$0.13) per share of negative vs. 4Q22. This was partially offset by higher volumes in the Packaging segment of \$1.07 and operating cost which was a \$0.81 benefit vs. 4Q22. PKG's call is tomorrow (1/25) at 9:00am ET. Dial-in: 833-816-1102.

**Point for the call will include 1Q trends, Jackson conversion**

We expect additional details on: (a) Volume trends in 4Q across PKG's segments; (b) 4Q exit trends and the early 1Q volume outlook; (c) underlying trends in 1Q, both as regards PKG's guidance of \$1.54 (which includes \$0.16 of negative from the conversion outage at Jackson), and the broader box market in light of Fastmarkets RISI's published flat pricing for January, this past week; (d) cost and margin trends across the segments, particularly in Packaging; and (e) capital allocation priorities for PKG in 2024. Separately, please note that Packaging Corp (along with other leading containerboard and boxboard companies, and expert panelists on corrugated, boxboard, recycled fiber and sustainable plastics, and from Fastmarkets RISI) will be **presenting at BofA's Annual Global Ag & Materials Conference in Ft. Lauderdale, 2/28-29. Please call your BofA representative for details.**

**Segment details & 1Q guide**

At the segment level, Packaging EBITDA of \$384.7mn was above our \$364.3mn estimate. Packaging EBITDA/ton (produced) was lower at \$317/ton vs. our \$361/ton. As for Paper, EBITDA of \$35.2mn was above our \$29.4mn forecast. Meantime, Corp. & Other was at (\$26.4mn) vs. our (\$26mn) est. at the EBITDA line. PKG's EPS guidance for 1Q24 is \$1.54 and compares to BofA at \$1.72 and the Street generally at ~\$1.74. PKG's guidance includes higher price/mix and better sequential shipments per day vs. the fourth quarter in Packaging (2 more shipping days) offset by flat sales volumes in Paper and higher recycled fiber prices, energy costs. As noted earlier, what appears to be driving the negative variance versus our 1Q estimate is the Jackson conversion outage. The industry trade associations, the Fibre Box Association (FBA) and American Forest & Paper Association (AF&PA), will report containerboard and box stats on Friday, January 26 (after market close).

24 January 2024

## Equity

**George L. Staphos**  
Research Analyst  
BofAS  
+1 646 855 4495  
[george.l.staphos@bofa.com](mailto:george.l.staphos@bofa.com)

**Cashen Keeler**  
Research Analyst  
BofAS  
+1 646 855 4256  
[cashen.keeler@bofa.com](mailto:cashen.keeler@bofa.com)

**Lucas Hudson**  
Research Analyst  
BofAS  
+1 917 861 6981  
[lucas.hudson@bofa.com](mailto:lucas.hudson@bofa.com)

## Stock Data

Price	165.01 USD
Price Objective	176.00 USD
Date Established	2-Jan-2024
Investment Opinion	B-2-7
52-Week Range	122.20 USD - 171.61 USD
Mrkt Val (mn) / Shares Out (mn)	14,768 USD / 89.5
Free Float	98.3%
Average Daily Value (mn)	100.10 USD
BofA Ticker / Exchange	PKG / NYS
Bloomberg / Reuters	PKG US / PKG.N
ROE (2023E)	20.0%
Net Dbt to Eqty (Dec-2022A)	56.7%
ESGMeter™	High

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Timestamp: 24 January 2024 07:19PM EST

## Price objective basis & risk

### Packaging Corp. of America (PKG)

Our \$176 price objective is based on an average of (a) an EPS forecast of \$8.15 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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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.

24-Jan B  
Staphos  
PO:US\$150

27-Apr  
PO:US\$165

5-Jul  
PO:US\$175

14-Oct  
PO:US\$160

20-Jan  
PO:US\$155

25-Mar  
PO:US\$165

7-Jul  
PO:US\$156

13-Oct  
PO:US\$134

15-Dec N  
PO:US\$139

15-Feb  
PO:US\$149

20-Apr  
PO:US\$150

10-Jul  
PO:US\$138

16-Oct  
PO:US\$161

2-Jan  
PO:US\$176

US\$200

21-Mar  
PO:US\$146

14-Jun  
PO:US\$174

10-May  
PO:US\$166

27-Jan  
PO:US\$160

21-Apr  
PO:US\$185

26-Apr  
PO:US\$190

18-Aug  
PO:US\$155

26-Oct  
PO:US\$132

22-Nov  
PO:US\$146

26-Jan  
PO:US\$143

25-Apr  
PO:US\$145

26-Jul  
PO:US\$158

24-Oct  
PO:US\$162

30-Nov  
PO:US\$170

US\$150

US\$100

1-Jan-22

1-Jan-23

1-Jan-24

PKG — PO

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.

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Buy	14	60.87%	Buy	10	71.43%
Hold	6	26.09%	Hold	5	83.33%
Sell	3	13.04%	Sell	2	66.67%

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%

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

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