Packaging & Paper/Forest Wrap-up

BofA Global Ag & Materials Conference: Early in the recovery

Industry Overview

05 March 2024

Equity
United States
Packaging & Paper/Forest Products

Positive tone at BofA Global Ag. & Mats Conf.

We hosted our Global Agriculture & Materials Conference in Fort Lauderdale, FL this past week, which included "fireside chat" discussions with 11 companies across Packaging & Paper/Forest (links at right) as well as several timely panels on topics including a review of: (a) Consumer GLP-1 trends; (b) North American boxboard markets; (c) Recycling and Recycled Fiber; (d) Containerboard & Corrugated trends; (e) Sustainable Plastics & Packaging; and (f) Trends being seen by two smaller-cap companies, Sylvamo and Clearwater, in a "Lightning Round" discussion. Our separate reports upgrading Ball Corp, International Paper, and Packaging Corp. to Buy and from our colleague Steve Byrne on the ag. & commodity chemical perspective are linked as well. We thank all the presenting companies and panelists, as well as the attending investors, who took part in our conference.

Outlooks improving; Signs of both inflation & productivity

The tone from presenting companies was largely consistent with or ahead of previously discussed trends from December-quarter reporting. Companies that pointed to improvements in early 2024 trends relative to 4Q-reporting commentary included Ball Corp. and Packaging Corp. That said, most companies expect stronger volume during 2H of 2024. Some companies in our view missed opportunities to comment on 1Q trends and/or more strongly defend their strategies. Again, please see the company discussions at right. Meantime, labor, and other costs remain elevated – please see our discussion on recycled fiber. Automation, sharing of best practices, benchmarking and other forms of increasing productivity look to be ahead.

Panels: Sustainability favors paper/metal?; C'board better

Meantime, our expert panels offered much color. On balance, there remains a lot of demand for recycled resin, well above that of available supply. Procurement costs and other factors remain a headwind. Meantime, look to an increase in box shipments in 2H of 2024, even as op. rates should be a touch better this year. Early trends were "pleasantly surprising", though versus very low expectations. Meantime in boxboard, panelists saw comparatively good volumes in bleached board and coated unbleached kraft but weaker trends in coated recycled board. New capacity coming into the market was seen as manageable for now – given project delays and mill closures, perhaps ~200k tons in bleached board. Imports overall were seen as ~15% of the folding boxboard market, itself 52% of the overall boxboard market (and, at ~500k tons, about 10% of the bleached board market). Separately, GLP-1 therapies were viewed to be mild impacts to consumption at present, with some potential for positive volumes as well.

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Exhibit 1: BofA Conference Reports

We include below links to reports from our 2024 Global Ag. & Materials Conference

Packaging	Paper/Forest
AMBP	GPK
ATR	IP
BALL	PKG
BERY	
CCK	
OI	
SLGN	
SON	

Deep-dive reports from Global Ag & Mats, 2024
BofA Packaging & Paper/Forest Upgrades
BofA Chemicals Wrap-up

Source: BofA Global Research

BofA GLOBAL RESEARCH

Refer to important disclosures on page 15 to 18. Analyst Certification on page 13. Price Objective Basis/Risk on page 6.

Key panels from Global Ag & Materials

Consumer GLP-1 Panel Discussion

Neutral implications for a possible wide-span adoption

Our opening conference panel featured a discussion on Glucagon-like peptide-1 (GLP-1) anti-obesity drugs and the implications on the consumer. The panel featured one of BofA's US packaged food & beverage analysts, Peter Galbo, and High Impact Analytics' Director of Client Growth, Matt Musgrave. The BofA house view is that there will be approximately 10mn users on GLP-1 by 2026 and 30-50mn users by the end of the decade, and which will impact calorie consumption by 2-3%.

Consumer trends and innovation likely mean limited impact for now

That said, key considerations to adoption include insurance reimbursement and the introduction of an oral (vs. injectable) application – injectables right now are not as favored by consumers. Additionally, smaller pack sizes, complementary consumer products and other sources of innovation were viewed to be reasons why investors should not fear these products too much from a packaging demand standpoint. From a category perspective, a key point is that bakery goods and high-caloric frozen foods may be most negatively affected should there be a wide-spread adoption of the drug and beer was viewed to be most negatively exposed on the beverage side. Meantime, protein (and protein supplements) may potentially benefit from GLP-1 trends. Interestingly, caffeine intake does not seem to be impacted by GLP-1 adoption (perhaps a positive for some beverage companies). Overall, users of GLP-1 might be losing some weight, but users are also losing muscle. According to our panelists, users may regain two-thirds of their weight loss once they get off the drug but that creates health issues – most of this comes back as fat relative to the original muscle.

Sustainable Plastics Panel Discussion

Demand for recycled resin still high…

We co-hosted a panel discussion on plastics sustainability with our BofA colleague analysts Steve Byrne, who covers US Chemicals & Agricultural Biotechnology and Mike Feniger, who covers US Machinery, Engineering & Construction and Environmental Services. Our panelists included Kevin Kwilinski, Chief Executive Officer of Berry Global (BERY; Buy), Katheryn Scott, General Engineer at the Department of Energy, Pankaj Gupta, VP Investor Relations at Dow Inc. (DOW; rated Buy by Steve Byrne, B-1-7, $57.02), and Howard Coker, Chief Executive Officer of Sonoco Products (SON; Buy). Overall, it appears that there is significant demand for recycled resin but the supply of this material still remains somewhat limited, given several factors.

…though, challenges remain

As discussed in prior years, the availability of feedstock is a principal hurdle to increasing the production of recycled resin and ultimately the companies appeared supportive of extended producer responsibility (EPR) legislation to fund recycling infrastructure investments. Additionally, consumer education on recycling was seen as another factor needed to improve plastic collection. Relative to other substrates, panelists noted that customers do care about packaging material in the context of sustainability, but that "fit for purpose" matters most in making substrate decisions. Interestingly, recycled polyethylene resin was seen as costing 2x as much to manufacture relative to virgin. That said, our panelists believed that consumers (and consumer product goods [CPG] companies) are willing to pay some premium for recycled and sustainable materials, but there was uncertainty as to the absolute levels. Lastly, carbon footprint was viewed as favoring plastics on a "virgin" basis but comparisons become much more difficult to make when looking at recycled materials.

Containerboard Panel Discussion

Destocking has concluded in c'board

We hosted a panel discussion on the demand outlook, industry news, and the new normal in containerboard (c'board). The panel included Ralph A. Young, Principal at Alternative Paper Solutions, Carl Bohm, President at CRB Consulting, Ronald D. Sasine, Principal at Hudson Windsor, and Randy Banks, President at Sharp International. Given the current market outlook our panelists saw companies prioritizing restructuring operations to modernize mill capabilities and optimize their footprints. With that in mind, our panelists saw relatively low downstream levels of inventory and the larger destocking phenomenon as largely concluded. While spotty, over demand is improving – our panelists relayed that customers were "pleasantly surprised" by 1Q volume trends relative to the low expectations from several months ago.

The "new normal" in c'board – improvement over time

The discussion then moved to what the "new normal" will look like. Panelists offered an optimistic growth outlook overall for containerboard over the next few years, between 2.5-3% pa. In terms of operating rates, our panel did not see operating rates exceeding 90% until 2025-26, and the consensus figure for this year was placed at ~88% in North America. On the positive side of the ledger, onshoring and nearshoring will support growth – a figure cited was that approximately 1,300 suppliers are in the process returning to or near the US. Meantime, automation investments in distribution channels will increasingly favor corrugated shipments, even as short-run supply and commercial models increasingly find their way to the US from Europe and elsewhere.

Sylvamo & Clearwater panel discussion

Companies see positive industry outlooks of paper, board, tissue

We hosted a fireside, "Lightning Round" panel with Arsen Kitch, Chief Executive Officer at Clearwater Paper (CLW; not covered), and John Sims, Chief Financial Officer of Sylvamo (SLVM; Buy).

Printing recession over for SLVM

Overall, Sylvamo indicated the '*Printing Recession*' destocking which began last year as part of the pullback in advertising in North America and Europe has largely concluded. The company mentioned that backlogs have strengthened across all markets from a pick-up in demand. Further, SLVM mentioned that the Red Sea conflict has increased lead times for Asian imports into Europe by approximately 4-6 weeks and may cause Europe to be more reliant on domestic supply, a positive for the company. As mentioned in separate reports, Packaging Corp (PKG; Buy) is out with a $100/ton price hike for uncoated freesheet (UCFS) effective April 1. Among other points, Sylvamo sees a positive sector structure, ability to reinvest, and good progress on its Project Horizon cost-reduction program.

Clearwater focusing on strategy, capital allocation

Meantime, Clearwater plans to focus on deleveraging its balance sheet after its recent acquisition announcement of the Augusta mill which will add ~600k tons of solid bleached sulfate (SBS) capacity and a strategic review of its Tissue business. Clearwater expects to have stable and growing demand in Paperboard, particularly in the food service category, as Paperboard has been the "economic engine" for the company in recent years. CLW sees room for both integrated and non-integrated suppliers to this market growing 1-2%. Meantime, Tissue is viewed by the company to have a more concentrated customer- and fragmented supplier-base. EBITDA more than doubled between 2023 and 2022 and Clearwater could continue to remain in Tissue, but it did mention, when brought up during Q&A, that higher pulp prices would be a potential risk for the company.

Recycling and Recycled Fiber Panel Discussion

OCC prices may rise further before stabilizing

We hosted a panel discussion on recycled fiber trends. Our panelists included Sonoco's (SON) Vice President & General Manager of Paper and Fiber Supply, Palace Stepps, and Greg Rudder, Fastmarkets RISI's Managing Editor of Pulp & Paper Week. Recall, old corrugated containers (OCC) prices have moved up significantly since January 2023 from ~$29/ton to ~$91/ton at current levels. Overall, our panelists predicted an increase in box shipments for 2H24 which would increase available supply. That said, considering the increase in recycled linerboard capacity in North America (2.4mn tons gross, according to Mr. Rudder, which has yet to work through learning curve) and the increase in distribution premiums, overall OCC prices look to be heading higher in 2024. Collection is viewed to be already relatively efficient, with over 50% of what winds up at a materials recovery facility (MRF) by weight being fiber. As such, we are seeing increased usage of technology allowing paper mills to run mixed- and/or lower-quality fiber in mills (with as much as 65% mixed paper, 35% OCC). Looking at recycling, paper was viewed to be the most widely recycled, followed by metal. In both cases, existing technology that sorts well allowed for this. Plastics like polyethylene terephthalate (PET) or high-density polyethylene are sorted and recycled well, though glass was viewed to be a challenge given sorting and handling economics.

Exhibit 2: Summary of Companies Mentioned
Packaging and Paper/Forest companies mentioned in the report

Company	Ticker	Q-R-Q	PO	Recent Price
Packaging				
Amcor Plc	AMCR	B-3-7	$9.70	9.17
AptarGroup	ATR	B-1-7	$154	141.96
Ardagh Metal Packaging	AMBP	B-2-8	$4.10	3.27
Avery Dennison	AVY	B-3-7	$214	216.13
Ball Corp	BALL	B-1-7	$72	64.52
Berry Global	BERY	B-1-7	$83	57.67
Brady Corp	BRC	B-1-7	$64	58.94
Crown Holdings	CCK	B-1-7	$89	75.9
Greif	GEF	B-2-7	$77	63.26
O-I Glass	OI	C-1-9	$21	16.83
Pactiv Evergreen	PTVE	C-1-7	$16	12.99
Sealed Air	SEE	B-1-7	$40	34.57
Silgan Holdings	SLGN	B-1-7	$53	43.37
Sonoco Products	SON	B-1-7	$64	56.7
Paper/Forest				
Boise Cascade	BCC	B-3-7	$132	135.55
Graphic Packaging	GPK	B-1-7	$31	25.5
International Paper	IP	B-1-7	$42	35.89
Louisiana-Pacific	LPX	C-3-7	$68	75.54
Packaging Corp.	PKG	B-1-7	$202	185.43
PotlatchDeltic	PCH	B-2-7	$55	47.42
Sylvamo Corp.	SLVM	C-1-7	$65	61.56
WestRock	WRK	B-1-7	$47	44.97
Weyerhaeuser	WY	B-1-7	$37	35.36

Source: Bloomberg, BofA Global Research estimates. Priced as of 3/4/24.

BofA GLOBAL RESEARCH

Price objective basis & risk

Amcor PLC (AMCR / AMCCF)

Our $9.70 price objective (AU$14.85) is derived from a three-part valuation approach, which includes (1) a 16-17x calendarized 2024E P/E multiple, (2) a 10-12x calendarized 2024E EV/EBITDA multiple, (3) a normalized FCF estimate of $1,100mn, an estimated cost of equity of 10% and forecast rate of growth of 0%. We believe the multiples (in-line to a slight premium) are appropriate relative to peers given the company's quality, size, and low leverage.

Risks to our PO are: (1) plastic packaging markets' potential sustainability challenges, particularly in rigid plastic bottles, (2) food, beverage and other packaging fundamentals' potential to disappoint relative to expectations, (3) unfavorable resin price volatility relative to our forecasts could impact results despite contractual pass throughs, (4) competitive factors, (5) unfavorable volume and pricing trends relative to our forecasts, (6) unfavorable macroeconomic trends. Should risk factors cited here and the company fundamentals prove more benign/favorable versus our forecasts, AMCR results and its PO could exceed our forecasts over time.

AptarGroup Inc. (ATR)

Our $154 PO is based on a two-part valuation approach: (1) Sum-of-the-parts (SOTP) valuation based on our projection of ATR's 2024 segment results. Given our evaluation of peer and market multiples, we project ATR's Pharma business will be valued at 26x our 2024E EBITDA forecast given where peers currently trade. We value Aptar Closures at 7-8x EV/EBITDA and we value Aptar Beauty segment at a 7x multiple given a longer than expected rebound in the beauty and fragrance market. (2) Normalized FCF valuation which reflects our expectation that it will generate nearly $300mn of FCF on a normalized basis, an estimated COE of 10%, and a forecast growth rate of 5%.

Upside risks: (1) strength of ATR's project backlog given conversions to dispensing products, (2) specialty packagers' ability to surprise in performance in the mid-to-late cycle, (3) a stronger-than-expected recovery from Asian beverage market destocking, (4) depreciation of USD, (5) ATR's restructuring program which could add materially to forecasts.

Downside risks: (1) should consumer trends remain unfavorable for the stock, (2) acquisition risks, given ATR's balance sheet, (3) unfavorable resin swings, (4) unfavorable international growth and potential effects from coronavirus, (5) mgmt transitions, (6) should trends reverse in the policy or regulatory outlook for the US or other countries.

Ardagh Metal Packaging S.A. (AMBP)

Our $4.10 price objective is based on a three-part valuation approach, which takes: (1) a 15x 2024E P/E multiple, (2) a 10-12x 2024E EV/EBITDA multiple and (3) our intrinsic free cash flow (FCF) valuation, which assumes $200mn of normalized FCF, 10% cost of equity, and a 2% growth rate. These multiples are consistent with comparable company multiples and we'd expect the company to trade slightly below peers.

Downside risks to our price objective are (1) AMBP's ability to compete with well established peers, (2) growth, pricing and valuation considerations should volumes slow, (3) a more concentrated customer base relative to peers, (4) end-market mix given its weighting to hard seltzer, (5) raw material availability in light of recent supply-chain disruptions and the need to pass through primary raw materials (i.e. aluminum can sheet), (6) leverage relative to other rigid packaging companies, (7) energy cost volatility in Europe, and (8) future equity dilution related to existing warrants and an earnout agreement with Ardagh Group.

As with all paper/forest and packaging companies a multitude of micro and macro factors are at work and, coupled with operational leverage, results could be better- or worse-than-expected with downside & upside risks to our PO should fundamentals wind up above or below expectations.

Avery Dennison Corp. (AVY)

Our $214 price objective is derived from a three-part valuation approach, which includes the use of (1) a 20x 2024E P/E multiple, (2) a 16-17x 2024E EV/EBITDA multiple, and (3) our intrinsic free cash flow (FCF) valuation, which estimates $800mn of normalized FCF (please see our free cash flow model for additional information), 9% cost of equity and a 5% growth rate. Based on history, we think our valuation multiples are appropriate for a late-cycle period with limited inflation.

Risks to our price objective are (1) risk relative to AVY's ability to execute on its cost reduction plans, (2) volume and pricing trends in core Materials Group and Solutions Group segments, (3) growing dependence on emerging economies, (4) dilution from radio frequency identification (RFID) investments, (5) unfavorable volume and pricing trends, (6) unfavorable macroeconomic environment, (7) variability in governmental policy.

Ball Corp. (BALL)

Our $72 price objective is based on a three-part valuation approach, which takes: (1) a 19x 2025E P/E multiple, (2) a sum-of-the-parts (SOTP) valuation which values North and Central America at 14x EBITDA, EMEA at 13x, South America at 13x, and Other at 12x, (3) our intrinsic free cash flow (FCF) valuation, which assumes $1.2bn of normalized FCF, 11% cost of equity and a 3% growth rate. Multiple ranges are higher vs. past valuation levels given packaging group valuations and the growth trajectory offered by the beverage can market.

Risks to our PO are (1) increasing operational challenges from new capacity onboarding, (2) potentially increased competition arising from new entrants, (3) BALL's ability to realize benefits from prior capital spending (e.g., new capacity, custom cans, productivity, etc.), (4) input cost volatility including energy cost volatility in Europe, (5) overseas/emerging market risks (for example, currency), (6) demand trends in beverages, including the risks to overall valuation, demand and pricing should growth slow, (7) seasonal-weighting of full-year earnings to the key 2Q/3Q period, (8) potential governmental policy and regulatory changes in the US and elsewhere, (9) increasing risk from Russia and South America.

And, there are numerous macro risks and other risks around volumes, pricing, and input costs.

Berry Global (BERY)

Our $83 price objective is derived from a three-part valuation approach, which includes: (1) a 13x calendarized 2024E P/E multiple, (2) a 9x calendarized 2024E EV/EBITDA multiple, (3) a normalized FCF estimate of $900mn, an estimated cost of equity of 11% and forecast rate of growth of 0%. We believe the multiples (in-line to a slight discount) we use are appropriate relative to peers given the increased leverage.

Downside risks to our PO are: (1) plastic packaging markets' potential sustainability challenges, including in Europe, (2) food, beverage and other packaging fundamentals could disappoint relative to expectations, (3) unfavorable resin price volatility could impact results despite contractual pass-through, (4) competitive factors, (5) financial leverage, (6) unfavorable volume and pricing trends, (7) unfavorable macroeconomic trends.

Overall, energy, commodity and macro volatility represent ongoing risks for packaging companies. We have tried to forecast and model accurately. However, industry and economic trends could prove weaker or stronger than we modeled.

Boise Cascade Company (BCC)

Our $132 PO is based on the average of (a) a free cash flow (FCF) valuation based on our estimate of $400mn in FCF, a calculated cost of equity of 11% and forecast rate of growth of 3%, (b) a sum-of-the-parts (SOTP) value that values BCC's Wood segment at 6x EBITDA (which is consistent with Wood multiples at this stage of the cycle) and 0.8x sales while its Building Materials Distribution segment will be valued at 8x and 0.5x, respectively. We then discount this valuation back to derive our 12 month PO.

Downside risks to our price objective being achieved are: (1) a slower housing recovery, (2) downwards commodity pricing volatility, (3) demand, supply-chain, (4) distribution business inventory and inflation trends, (5) potential volatility in actual performance relative to consensus given operating and financial leverage, (6) potential increases in Brazilian exports of plywood to the US.

Upside risks are: (1) increases in single and multi-family construction, and/or greater-than-expected usage of BCC products in construction, (2) upwards commodity pricing volatility, (3) reduced imports of plywood from Brazil.

BCC is impacted by numerous macro, inflation, currency and other considerations. To the extent that the points above are more negative than expected, BCC's results and stock price could wind up below our forecasts. Similarly, to the extent that the points above are more positive than expected, BCC results and stock price could wind up above our forecasts.

Brady Corp. - Cl A (BRC)

Our $64 PO is based on a three-part valuation approach, which includes: (1) a 17-18x calendarized 2024E P/E multiple, (2) a 10-11x calendarized 2024E EV/EBITDA multiple, and (3) our intrinsic free cash flow (FCF) valuation, which assumes $185mn normalized FCF, 10% cost of equity, and a 3% growth rate. We apply multiple ranges to reflect a more normalized environment. The selected ranges reflect historical company ranges as well as current peer market multiples.

Downside risks to our PO: (1) risk relative to BRC's ability to generate performance from its comprehensive industrial track and trace investments & other efforts, (2) unfavorable organic growth (volume/pricing) trends in key economies, (3) acquisition/integration risk, (4) senior management succession and bench development risk, (5) unfavorable macroeconomic environments, (6) potential for BRC's future valuation to be impaired relative to our expectations given secular headwinds, or other factors, (8) risks associated with trade & other administration policies.

Crown Holdings Inc. (CCK)

We calculate our PO of $89 by using our 2024 estimates and averaging the fair values derived from (1) a 15-16x '24E P/E multiple (adj. for asbestos), (2) a sum-of-the-parts (SOTP) valuation which values the Americas Beverage segment at 11x EBITDA, European Beverage at 7x, Asia Pacific at 9x, Transit Packaging at 10x and Other at 7x, (3) our intrinsic FCF valuation, which assumes $800mn normalized FCF, a 11% cost of equity and a 2% growth rate.

Downside risks to our PO are (1) weather uncertainties during key seasonal periods in 2Q-3Q, (2) asbestos liabilities that could present a greater drain on cash flow than we currently expect, (3) FX translation, as the majority of sales are outside the US, (4) increasing investment, particularly in EM, (5) share loss to aseptic or plastic/flexible pkgg or other materials, particularly as regards its food can ops, (6) unfavorable demand trends in key food & beverage end markets, and the overall risks to valuation, demand and pricing should growth slow, (7) unfavorable volume and pricing trends, (8) potential governmental policy and regulatory changes in the US and elsewhere.

And, as with most packaging companies, there are numerous macro risks and other risks around volumes, pricing, input costs and other factors that could negatively affect fundamental & stock price performance. Similarly should these factors prove more constructive than expected, CCK's performance/PO could exceed our forecasts.

Graphic Packaging (GPK)

Our $31 PO is based on the average of (a) an EV/EBITDA valuation calculated by applying a 8x EV/EBITDA multiple to our 2024 EBITDA estimate of $1.8bn (our multiple is consistent with where comparable companies have traded), (b) a P/E valuation calculated by applying a 15x P/E multiple to our 2024 EPS estimate of $2.75 (our multiple is consistent with where comparable companies have traded), (c) a free cash flow (FCF) valuation based on our estimate of $676mn in FCF, a calculated cost of equity of 10% and forecast rate of growth of 2%.

Risks to our PO: (1) closing and integration risks associated with the acquisitions, (2) demand trends in food & bev and other GPK end markets, (3) potential volatility in fiber, energy, other input costs, (4) paper/board sector volatility & demand trends, including trade flow volatility created by exchange rates, (5) fundamental trends that could wind up being worse than expected, (6) should trends reverse in the policy outlook for the current Administration, that would present a source of volatility and risk for the shares, (7) various factors associated with its new CRB machine

Also, industry & economic trends could prove weaker or stronger than modeled. Greater-than-expected weakness could lead to valuation multiples and earnings below our forecasts, even as better-than expected trends could lead to a higher relative multiple premium & stock price.

Greif Inc. (GEF)

Our $77 PO for Class A shares is based on (1) a 14x calendarized 2024E P/E, (2) an 10x calendarized 2024E EV/EBITDA which derives a value for the combined equity market cap of Class A and B shares. We believe the multiples (a discount versus market and peers) are appropriate given weaker fundamentals against past normalized ranges (PE of 10-17x) and 5-10x EV/EBITDA for peers. We assume the elimination of a premium or discount to our combined equity value will occur equally for Class A and B, driving our target for Class A shares on this method, and (3) our intrinsic FCF valuation assumes $400mn normalized FCF, 10% cost of equity and 2% growth rate.

Risks to our PO: (1) unfavorable demand in GEF's markets and geographies, (2) volatility in steel, resin, OCC, energy and other inputs, (3) acquisition/integration risks, (4) Class B share ownership, which retains voting power, is 70% held by insiders, (5) Regulatory review or litigation, (6) trade policy.

International Paper Co. (IP)

Our $42 price objective is based on an average of (a) an EPS forecast of $2.70 in 2025E and a P/E of 14x, which is consistent with historical ranges, (b) a normalized free cash flow (FCF) estimate of $1bn, a calculated cost of equity of 10% and forecast rate of growth of 2%, (c) our IP sum-of-the-parts (SOTP) value, based on normal EBITDA, which is an average of historical periods 2016-22 and our forecasts through '25E.

Risks to our price objective are (1) the broader employment & macro picture, (2) paper/board sector volatility & demand trends, (3) wastepaper/input cost volatility, (4) trends in the US$ and its effect on trade flows, (5) emerging market risk, (6) operational risks related to investment projects, (7) IP's pension, (8) the potential for new capacity to come into the market, (9) potential volatility coming from any future Administration policy changes. Fundamental trends could wind up worse than expected, causing further downside to the shares relative to our PO. Better performance or macro news could cause the shares to perform better than our price objective.

Louisiana-Pacific Corp. (LPX)
Our $68 PO is based on an average of (a) a normalized free cash flow (FCF) estimate of $383mn, a calculated cost of equity of 13% and forecast rate of growth of 4%, (b) a SOTP value, using our evaluation of normal EBITDA, which is an average of historical periods 2016-22 and our forecasts through '25E. We project LPX's OSB segment will be valued at 5x our 2024E EBITDA forecast and its Siding segment will be valued at 10x EBITDA given building product/siding peer comps. We apply 6-8x EBITDA multiples to its other businesses. Separately, we value LPX's OSB business at 1.5x sales, its siding business at 2.5x sales and its other businesses at 1-2x sales. We assume the average of our EV/EBITDA and EV/Sales valuations, and then discount this to derive our 12-month PO.

Downside risks: (1) the broader housing picture, (2) weak demand and supply-chain, (3) changes in average home size, (4) OSB supply/demand dynamics, (5) cost volatility (wood fiber, resin, and foreign exchange), (6) operational risks associated with the expansion of LPX's siding segment, (7) regulatory and policy changes, and (8) supply/demand and market risks in Siding, and across LPX's business.

Upside risks: Should housing and related demand trends or supply/demand in LPX's various product markets prove better-than-expected, LPX stock could exceed our PO.

O-I Glass Inc (OI)
Our $21 PO is based on an average of P/E, EV/EBITDA and intrinsic free cash flow (FCF) valuations. We use a 8x 2024E P/E multiple, a 6-7x 2024E EV/EBITDA multiple, and our intrinsic FCF valuation, which assumes $350mn normalized FCF, 13% cost of equity, and a -3% growth rate. Multiples are in line with those of metal/rigid packaging peers. Similar to CCK, OI has a larger international presence relative to its peers.

Risks to our PO are: (1) unfavorable demand and pricing, (2) the potential for pension or asbestos risks/claims to consume greater amounts of earnings or cash flow, (3) unfavorable international market volatility and FX risks, (4) integration risk with acquisitions, (5) risks in Mexican pricing and pack mix, (6) potential governmental policy changes in the US and other portions of the world. As is the case with all our coverage, packaging and paper/forest stocks are highly sensitive to macro, FX, commodity inflation and other factors which could create variances with our forecasts and POs. Similarly, should the factors discussed above prove less negative or more positive to forecasts, OI's price could exceed our PO.

Packaging Corp. of America (PKG)
Our $202 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 $800mn, a calculated cost of equity of 8% 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.

Pactiv Evergreen (PTVE)

Our $16 price objective is derived from a three-part valuation approach using our estimates, which includes (1) a 12x 2024E P/E multiple, (2) an 9x 2024E EV/EBITDA multiple, (3) a normalized FCF estimate of $185mn, an estimated cost of equity of 11% and forecast rate of growth of -2%. Our multiples represent discounts to foodservice/food packaging peers given the company's leverage and its weak earnings performance from 2018 to 2020.

Risks to our PO are (1) financial leverage, (2) rising labor and other costs, (3) Rank Group majority ownership, (4) unfavorable resin price volatility and/or price/cost, (5) the competitive landscape, (6) potential missteps with its Strategic Investments, (7) potential volatility in food, beverage and other packaging fundamentals, (8) COVID-related volatility, (9) macro and geopolitical risks, (10) sustainability trends. We have tried to forecast accurately, but risk factors could significantly affect results relative to forecasts

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PotlatchDeltic Corp. (PCH)

Our $55 PO is based on: (a) an assumed mid-cycle dividend yield of 3% and dividend of $1.80-2.00/share, (b) a 21-25x mid-cycle AFFO multiple, and (c) a sum-of-the-parts (SOTP) value. Our SOTP model values PCH's Resources 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 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) Flattening yield curve, (2) Housing market weakness, which can impact PCH's Wood Products and Real Estate operations, as well as timberland profits, (3) Broader housing and economic trends, which can impact timberland and REIT valuations, including the threat of deflation, (4) Risk that synergies with CatchMark is not realized (5) Dividend trends, (6) Demand, supply chain and other risks created by the Covid-19 pandemic, (7) Regulations on tax status of REITs. Upside risks to our PO are better-than-expected improvement in the housing market and dividend trends.

While we have tried to be conservative in our modeling, certain fundamental trends could wind up worse than expected, causing further downside to the shares relative to our price objective. Similarly, PCH performance could prove better than our forecast, lifting the shares above our PO.

Sealed Air Corp. (SEE)

Our $40 price objective is derived from a three-part valuation approach, which includes: (1) a 14-15x 2024E P/E multiple, (2) a 10x 2023E EV/EBITDA multiple, and (3) our intrinsic free cash flow (FCF) valuation, which assumes $450mn of normalized FCF, 11% cost of equity, and a 3% growth rate. Our target multiples are based on SEE's past trading history and also peer multiples. SEE has been able to trade in the high teens to low twenties on a P/E basis, and a premium to the market when fundamentals improve.

Downside risks to our price objective are (1) risks relative to the company's ability to manage pricing and spreads, given (2) energy volatility, resin price volatility and agricultural market risks, (3) international business risks (approximately 65% of sales derived abroad), including FX and emerging market trends, (4) competitive and other factors negatively impacting volume to a greater degree than expected, (5) risks relative to execution of the company's transformation strategies over the last several years, (6) challenges associated with management transitions.

Overall, energy and commodity volatility represent ongoing risks for packaging companies. Industry and economic trends could prove weaker or stronger than we modeled. Greater-than-expected weakness could lead to valuation multiples and earnings that are below our forecasts.

Silgan Holdings Inc. (SLGN)
Our $53 PO is based on a 13x 2024E P/E multiple, a 10x 2024E EV/EBITDA multiple, and our intrinsic FCF valuation which assumes $375mn normalized FCF, 9% cost of equity and 1% growth rate. We believe SLGN should trade about in line with to slightly below its packaging peers given its relatively defensive profile.

Downside risks: (1) potential for metal cans to lose a greater amount of share over time, (2) potential for raw material costs to swing sufficiently so as to alter normal purchasing patterns, (3) food can business' heavy seasonality during 2Q/3Q pack, (4) SLGN's ability to integrate its recent acquisitions, (5) potential for bisphenol A (BPA) concerns to again impact demand, (6) operational considerations related to SLGN's new metal and plastic packaging ops, (7) risks related to policy changes.

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.

WestRock (WRK)
Our $47 PO is based on an average of (a) a calendarized EPS forecast of $2.38 in C24 and a P/E of 16x, given optionality with the potential Smurfit Kappa deal, (b) a normalized free cash flow (FCF) of $1.1bn, a cost of equity of 11% and forecast growth rate of 3%, (c) our WRK sum-of-the-parts (SOTP) value, based on our evaluation of normal EBITDA, which is an average of historical periods 2020-22 and our forecasts through '25E. Based on current market and sector valuations, we estimate 9x to 10x EV/EBITDA multiple for Corrugated Packaging and an 8x to 9x multiple for Consumer Packaging. Separately, we apply 6x EV/EBITDA multiple for WRK's Global Paper business and a 5x EV/EBITDA multiple for WRK's Distribution businesses.

Risks to our PO are (1) the broader employment, macro and consumer spending outlook, (2) potential volatility in OCC prices, (3) paper/board sector volatility and demand trends across end markets, (4) supply-chains, (5) potential governmental policy and regulatory changes, (6) risks related to the closing of the Smurfit Kappa transaction. As with all our packaging and paper/forest product companies, WRK must contend with a variety of macro, FX, commodity inflation and other considerations. Should the factors above impact WRK more negatively than expected, its results and stock price will have difficulty achieving our forecasts. Similarly, should these factors combine more positively than expected, WRK's results and stock price could exceed our forecasts.

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.

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We, George L. Staphos and Cashen Keeler, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective 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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Manufacturing Facility to Clearwater Paper Corporation, which was announced on 20 February 2024.

US - Paper and Packaging Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AptarGroup Inc.	ATR	ATR US	George L. Staphos
	Ball Corp.	BALL	BALL US	George L. Staphos
	Berry Global	BERY	BERY US	George L. Staphos
	Brady Corp. - Cl A	BRC	BRC US	Cashen Keeler
	Crown Holdings Inc.	CCK	CCK US	George L. Staphos
	Graphic Packaging	GPK	GPK US	George L. Staphos
	International Paper Co.	IP	IP US	George L. Staphos
	O-I Glass Inc	OI	OI US	George L. Staphos
	Packaging Corp. of America	PKG	PKG 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
	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
	Boise Cascade Company	BCC	BCC US	George L. Staphos
	Louisiana-Pacific Corp.	LPX	LPX US	George L. Staphos

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Important Disclosures

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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