

## Paper/Forest Products

**Demand uptick + margin recovery driving c'board price hikes? (WRK, others raising)**

Industry Overview

**More producers out with hike; inflation a consideration**

WestRock (WRK; Buy) has also announced a containerboard price hike for January 2024. Based on the commentary, it appears that WRK's price announcement is similar to those announced by International Paper (IP; U/P) and Packaging Corp. (PKG; Neutral) this week (i.e. \$70/ton on linerboard and \$100-110/ton on medium). See [here](#) for our recent notes [regarding IP's](#) and [PKG's price announcements](#). One of our industry contacts relayed that Cascade, Pratt and others are out with their own increases, with "current market conditions" being used to support the hike. We are getting the increased sense from our industry contacts that margin preservation ahead of potential cost inflation (i.e. recycled fiber, wood fiber, etc.) is the motivating factor behind these moves.

**Likely increase goes through in part, though demand key**

At this juncture, it seems likely to us that the increase will go through in containerboard at least in part, given that most producers have raised. How much of the \$70/ton is reflected in containerboard, and ultimately pushed through in boxes (where we had previously reported industry contacts' concerns on excess capacity), will be driven by demand trends, as well as op. rates, inventories, and export trends. Our forecasts remain unchanged and we'll continue to evaluate datapoints as we receive them. We maintain our Buy on WRK, Neutral on PKG, and Underperform on IP.

03 December 2023

Equity  
United States  
Paper/Forest Products

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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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Timestamp: 03 December 2023 09:05PM EST

**Exhibit 1: Stocks mentioned**

Prices and ratings for stocks mentioned in this report

<b>BofA Ticker</b>	<b>Bloomberg ticker</b>	<b>Company name</b>	<b>Price</b>	<b>Rating</b>
IP	IP US	Intl Paper Co	US\$ 37.19	B-3-7
PKG	PKG US	Packaging Corp	US\$ 169.71	B-2-7
WRK	WRK US	WestRock	US\$ 41.73	B-1-7

Source: BofA Global Research

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**Price objective basis & risk****International Paper Co. (IP)**

Our \$34 price objective is based on an average of (a) an EPS forecast of \$1.75 in 2024E 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) demand, supply-chain and other risks created by the Covid-19 pandemic, (5) trends in the US\$ and its effect on trade flows, (6) emerging market risk, (7) operational risks related to investment projects, (8) IP's pension, (9) the potential for new capacity to come into the market, (10) 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.

**Packaging Corp. of America (PKG)**

Our \$170 price objective is based on an average of (a) an EPS forecast of \$7.75 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.

**WestRock (WRK)**

Our \$45 PO is based on an average of (a) a calendarized EPS forecast of \$2.02 in C24 and a P/E of 16x, given optionality with the potential Smurfit Kappa deal, (b) a normalized free cash flow (FCF) of \$1bn, a cost of equity of 11% and forecast growth rate of 2%, (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.

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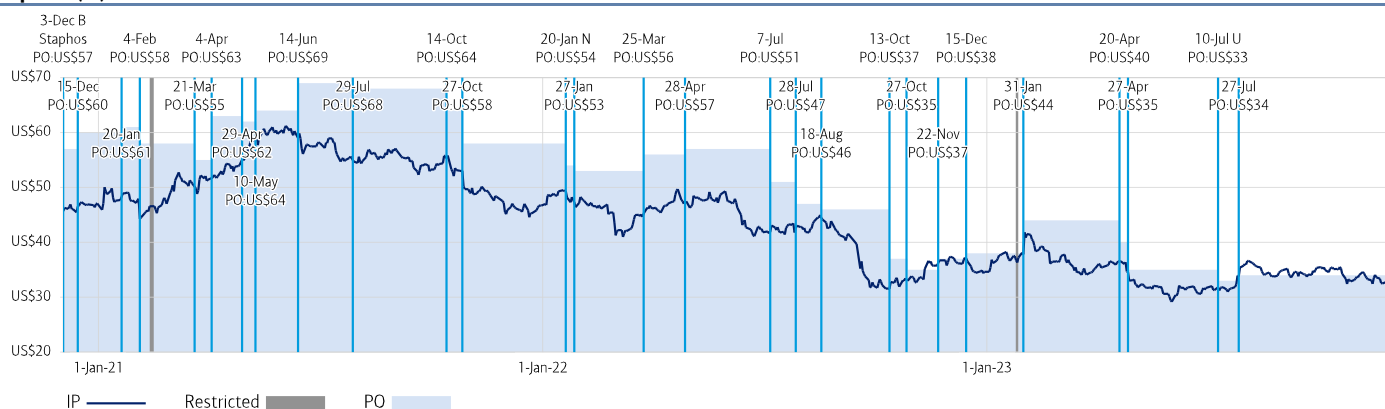
## US - Paper and Packaging Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	AptarGroup Inc.	ATR	ATR US	George L. Staphos
	Avery Dennison Corp.	AVY	AVY US	George L. Staphos
	Berry Global	BERY	BERY US	George L. Staphos
	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
	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
<b>NEUTRAL</b>				
	Ardagh Metal Packaging S.A.	AMBP	AMBP US	George L. Staphos
	Ball Corp.	BALL	BALL US	George L. Staphos
	Greif Inc.	GEF	GEF US	George L. Staphos
	Packaging Corp. of America	PKG	PKG US	George L. Staphos
	Pactiv Evergreen	PTVE	PTVE US	George L. Staphos
	PotlatchDeltic Corp.	PCH	PCH US	George L. Staphos
<b>UNDERPERFORM</b>				
	Amcor Plc	AMCCF	AMC AU	George L. Staphos
	Amcor PLC	AMCR	AMCR US	George L. Staphos
	Boise Cascade Company	BCC	BCC US	George L. Staphos
	Brady Corp. - Cl A	BRC	BRC US	Cashen Keeler
	International Paper Co.	IP	IP US	George L. Staphos
	Louisiana-Pacific Corp.	LPX	LPX US	George L. Staphos

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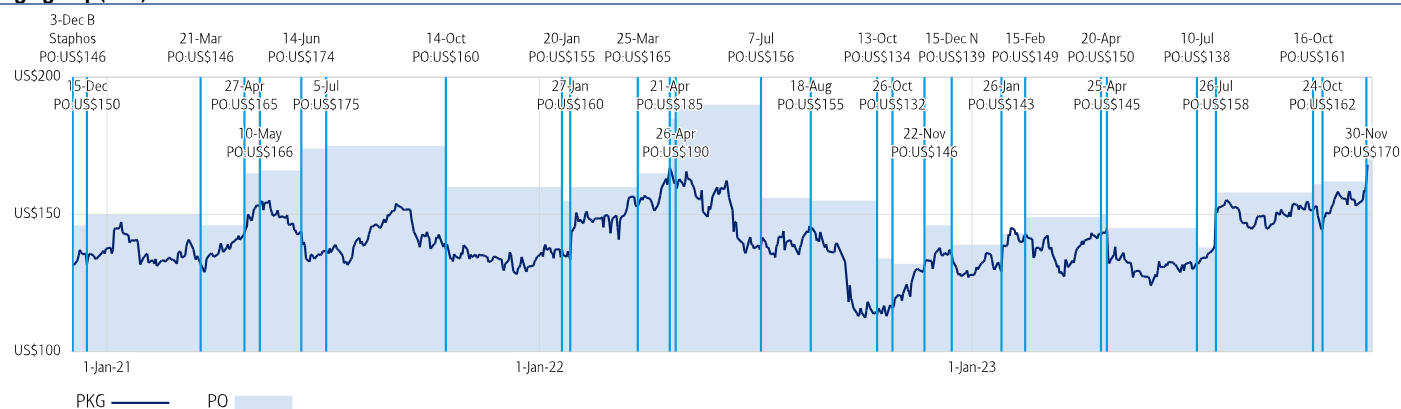
## Important Disclosures

## Intl Paper Co (IP) Price Chart

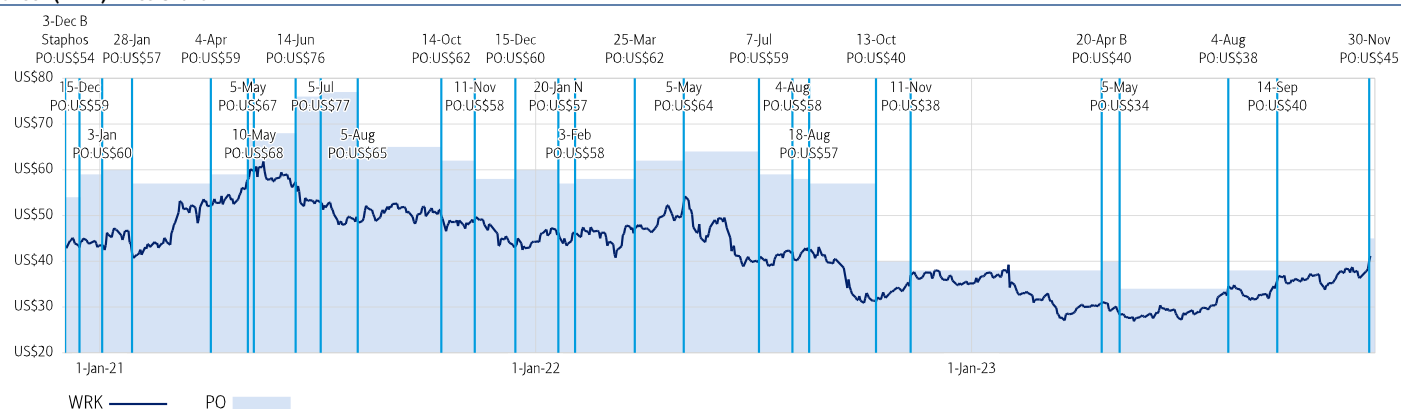


B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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**Packaging Corp (PKG) Price Chart**

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**WestRock (WRK) Price Chart**

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**Equity Investment Rating Distribution: Packaging Group (as of 30 Sep 2023)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	13	56.52%	Buy	9	69.23%
Hold	7	30.43%	Hold	4	57.14%
Sell	3	13.04%	Sell	2	66.67%

**Equity Investment Rating Distribution: Paper/Forest Products Group (as of 30 Sep 2023)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	8	42.11%	Buy	7	87.50%
Hold	3	15.79%	Hold	2	66.67%
Sell	8	42.11%	Sell	5	62.50%

**Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1869	53.48%	Buy	1046	55.97%
Hold	828	23.69%	Hold	461	55.68%
Sell	798	22.83%	Sell	370	46.37%

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> 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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