

Packaging

Post 4Q: AVY, SLGN - expecting better volumes, buy SLGN given valuation

Estimate Change

Vols improving, a little more sluggishness to get through

We update our models and investment points for U/P-rated Avery (AVY) and Buy-rated Silgan (SLGN). In aggregate, both companies appear to be pointing to a stronger 2H with some lingering volume softness in the early part of this year. That said, cost reduction actions will serve somewhat as an offset and we are modeling for earnings to be up y/y for both companies. **AVY and SLGN will attend our Annual Global Ag & Materials Conference on 2/28-29 in Ft. Lauderdale – please contact your BofA rep. for details.**

AVY: Topline a touch weak, raise on margin

Our AVY flash report ([see note here](#)) has details from 4Q. Our estimates increase from \$8.95 in 2024E and \$10.10 in 2025E to \$9.35 and \$10.20, respectively, and our PO moves to \$214 from \$208. Keys? (a) Intelligent label (IL) was a bit below the guided 40% growth for 4Q but there was 110% growth in logistics/food end markets; (b) Margins were particularly good in Solutions, coming in at 11.6% v. our 10.7% estimate for the quarter, and this launch point serves to raise forecasts, despite...; (c) ... the continued sluggishness in apparel, which was one reason we had downgraded earlier in the month, and which will likely continue through 1H; (d) as discussed in past research, AVY likely needs to see this last puzzle piece fall into place (apparel getting back to normal – so ~double-digit growth in 2H) to get to \$10/share of annualized earnings power. We don't have that occurring until, perhaps, 4Q24.

SLGN: Guidance seems achievable, and that's good

Our SLGN flash report ([see here for our note](#)) has details from 4Q. Our estimates move from \$3.70 in 2024E and \$4.05 in 2025E to \$3.65 and \$4.00, respectively, and our PO remains at \$53. Keys? (a) Despite ~\$10mn of lagged steel inventory margin compression and \$15-20mn of higher depreciation, SLGN's implied \$35mn of profit growth into 2024 (taking the midpoint of EPS guidance) seems achievable. Silgan should generate roughly \$40mn of cost reduction efforts and positive operations reversals versus 2023, along with another, say, \$5mn from new awards in Custom Containers (CC), and \$25mn from the benefits of 2% and 5% growth (our forecasts) in Metal Container (MC) and Dispensing & Specialty Containers (DSC), respectively; (b) Destocking remains in 1Q for DSC in food & beverage and into 2Q for MC in pet food.

31 January 2024

Equity
United States
Packaging

George L. Staphos
Research Analyst
BofAS
+1 646 855 4495
george.l.staphos@bofa.com

Cashen Keeler
Research Analyst
BofAS
+1 646 855 4256
cashen.keeler@bofa.com

Lucas Hudson
Research Analyst
BofAS
+1 917 861 6981
lucas.hudson@bofa.com

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Review of Relevant Operating Statistics

Avery Dennison (AVY)

Exhibit 1: SLGN Model Changes

Review of latest estimates and forecast changes

	Actual	BofA	Consensus
Quarterly Result	\$2.16	\$2.11	\$2.16
Model Changes	New	Old	Consensus
2024E	\$9.35	\$8.95	\$9.43
2025E	\$10.20	\$10.10	\$10.72
2026E	\$11.00		\$12.06
Price Objective	\$214	\$208	

Source: Company reports, BofA Global Research estimates

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Exhibit 2: AVY Model Changes

Review of latest estimates and forecast changes

	4Q22A	4Q23A	BofA	Key Highlights
Materials Group				
Revenue (\$mn)	\$1,441.3	\$1,418.8	\$1,455.7	Organic sales were down -3.9% y/y . Label Materials were down mid-single digits organically including a low-single digit volume increase. Graphics and Reflectives were up mid-single digits while Performance Tapes and Medical were down low-to-mid-single digits.
Operating Profit (\$mn)	\$150.4	\$198.4	\$211.1	
Operating Margin	10.4%	14.0%	14.5%	
Solutions Group				
Revenue (\$mn)	\$584.6	\$691.7	\$619.7	On an organic basis, sales were up 13.9%. High-value categories were said to be up 20%+ organically and base categories were up mid-single digits. Meantime, Intelligent Labels was up more than 30% including 110% in non-food categories.
Operating Profit (\$mn)	\$53.1	\$80.5	\$66.3	
Operating Margin	9.1%	11.6%	10.7%	
Corporate Expenses (\$mn)	(\$15.6)	(\$17.8)	(\$20.0)	

Source: Company reports, BofA Global Research estimates.

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Silgan Holdings (SLGN)

Exhibit 3: SLGN Model Changes

Review of latest estimates and forecast changes

	Actual	BofA	Consensus
Quarterly Result	\$0.63	\$0.56	\$0.58
Model Changes	New	Old	Consensus

Exhibit 3: SLGN Model Changes

Review of latest estimates and forecast changes

	2025E	2026E	Price Objective
	\$4.00	\$4.30	\$53
	\$4.05	\$4.22	\$53

Source: Company reports, BofA Global Research estimates

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Exhibit 4: SLGN Relevant Operating Statistics

Review of results vs. BofA estimates

	4Q22A	4Q23A	BofA	Key Highlights
Metal Food Containers				
Revenue (\$mn)	\$754.6	\$665.3	\$709.3	Unit vols decreased -7% y/y due to customer destocking. Meantime, less favorable price/mix of was a headwind of -4% y/y.
Operating Income (\$mn)	\$68.4	\$40.8	\$42.6	
Operating Margin	9.1%	6.1%	6.0%	
Custom Containers				
Revenue (\$mn)	\$160.0	\$152.5	\$152.0	The segment saw volumes decline by -2% y/y given customer destocking. Meantime, price/mix was lower by 2% y/y given the pass through of lower resin costs along with less favorable mix.
Operating Income (\$mn)	\$11.2	\$13.0	\$10.6	
Operating Margin	7.0%	8.5%	7.0%	
Dispensing and Specialty Closures				
Revenue (\$mn)	\$540.8	\$522.3	\$524.6	Segment volumes were down by -5% y/y given destocking in food and beverage along with double digit decreases in "higher volume" metal closures.
Operating Income (\$mn)	\$74.5	\$87.0	\$81.8	
Operating Margin	13.8%	16.7%	15.6%	

Source: Company reports, BofA Global Research estimates.

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Price objective basis & risk**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.

Silgan Holdings Inc. (SLGN)

Our \$53 price objective (PO) is based on a 15x 2024E P/E multiple, a 11x 2024E EV/EBITDA multiple, and our intrinsic FCF valuation, which assumes \$375mn normalized FCF, 9% cost of equity, and a 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.

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

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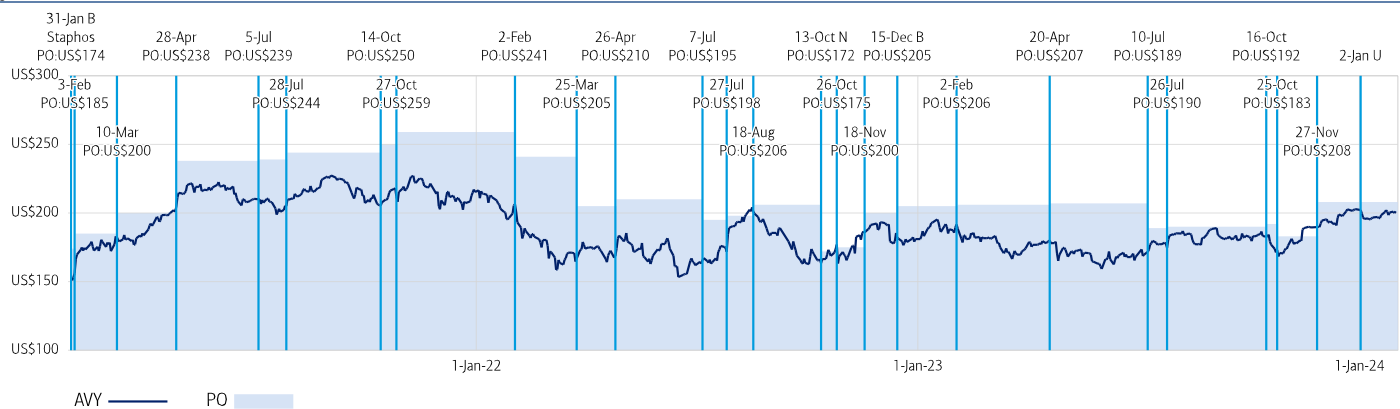
US - Paper and Packaging Coverage Cluster

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	Berry Global	BERY	BERY US	George L. Staphos
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	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
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	PotlatchDeltic Corp.	PCH	PCH US	George L. Staphos
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	Amcor PLC	AMCR	AMCR US	George L. Staphos
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	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

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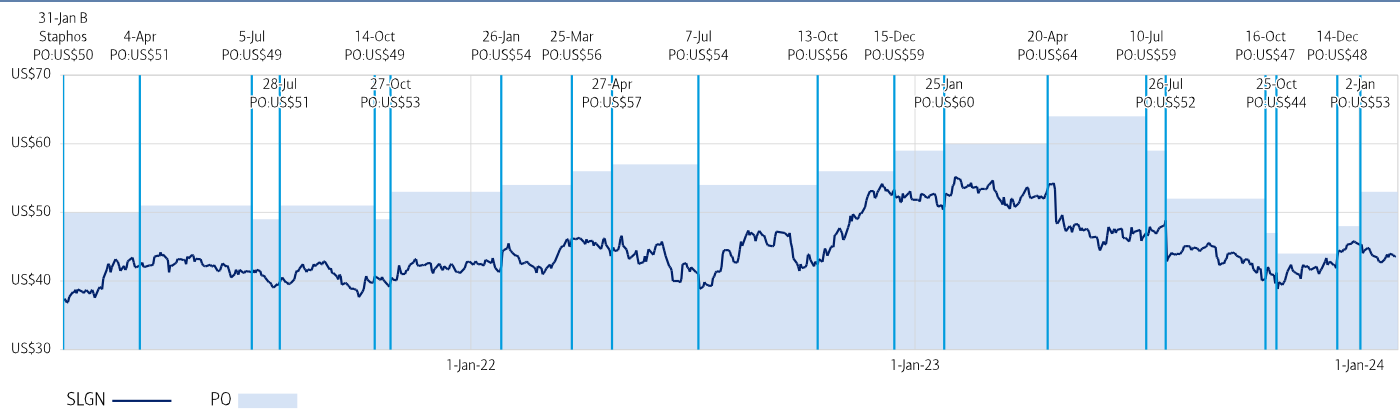
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Avery Dennison (AVY) Price Chart



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.

Silgan Holdings (SLGN) Price Chart

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

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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: Global Group (as of 31 Dec 2023)

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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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