

## Sealed Air Corp.

**Post 4Q: 1Q guide < Street; valuation attractive, esp. w/ turnaround efforts**

Reiterate Rating: BUY | PO: 40.00 USD | Price: 35.03 USD

**1Q guide below expectations, but lots of progress/upside**

We reiterate our Buy-rating on Sealed Air (SEE) given its relative valuation and potential turnaround efforts. Our [earlier flash note](#) has the details from the quarter. Takeaways: (a) SEE progressing in its turnaround efforts. Key from the call was discussion regarding commercial-team rightsizing efforts and the reallocation of resources to facilitate reengaging with traditional customers. Further, SEE guided to \$90mn of y/y savings in 2024 (from a current \$65mn run rate) as a result of its programs and footprint rationalization (with potential for incremental savings should SEE close additional facilities that are currently “under review”); (b) Additionally, Sealed Air is rolling out new products to align with customer sustainability goals and regain share, with its paper-based auto bag solution being one example; (c) Volumes remain soft in 1H and the company commented that 1Q will be down y/y to the tune of “a couple points”. That said SEE is looking for an “L-shaped” (gradual) recovery in 2H and guided overall full-year volumes to be flat, with 1% growth in Food and a 2% decline in Protective; (d) Given 1Q volume declines and negative operating leverage, SEE expects 1Q adj. EBITDA of \$240mn and 50-60c of adj. EPS which was below our initial \$265mn and 65c estimates and the Street at \$260.4mn and 63c, respectively. This comment turned the initial positive (+5-6%) market reception to a down 2% during the call. In consideration of similar comments from other companies during C4Q, SEE’s turnaround efforts, and its attractive 12x multiple, we reiterate our Buy rating.

**Update estimates and PO moves to \$40**

Given the points discussed above and in consideration of SEE’s guidance, we move our EPS estimates to \$2.85 in 2024 (was \$3.00) and \$3.25 in 2025 (was \$3.35). Meantime, our new 2026 estimate is \$3.60. Based on these changes, our PO moves to \$40 from \$42.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	4.10	3.18	2.85	3.25	3.60
GAAP EPS	3.33	2.34	2.85	3.25	3.60
EPS Change (YoY)	15.5%	-22.4%	-10.4%	14.0%	10.8%
Consensus EPS (Bloomberg)			2.97	3.33	3.67
DPS	0.80	0.80	0.80	0.80	0.80
Valuation (Dec)					
P/E	8.5x	11.0x	12.3x	10.8x	9.7x
GAAP P/E	10.5x	15.0x	12.3x	10.8x	9.7x
Dividend Yield	2.3%	2.3%	2.3%	2.3%	2.3%
EV / EBITDA*	6.8x	7.2x	7.1x	6.8x	6.6x
Free Cash Flow Yield*	7.4%	4.0%	9.1%	9.5%	11.8%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

27 February 2024

## Equity

**Key Changes**

(US\$)	Previous	Current
Price Obj.	42.00	40.00
2024E Rev (m)	5,375.3	5,397.9
2025E Rev (m)	5,478.3	5,501.3
2026E Rev (m)	NA	5,606.7
2024E EPS	3.00	2.85
2025E EPS	3.35	3.25
2026E EPS	NA	3.60
2024E EBITDA (m)	1,130.4	1,385.5
2025E EBITDA (m)	1,178.0	1,441.5
2026E EBITDA (m)	NA	1,484.4

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**Stock Data**

Price	35.03 USD
Price Objective	40.00 USD
Date Established	27-Feb-2024
Investment Opinion	B-1-7
52-Week Range	28.50 USD - 50.15 USD
Mrkt Val (mn) / Shares Out (mn)	5,076 USD / 144.9
Free Float	99.0%
Average Daily Value (mn)	53.31 USD
BofA Ticker / Exchange	SEE / NYS
Bloomberg / Reuters	SEE US / SEE.N
ROE (2024E)	66.5%
Net Dbt to Eqty (Dec-2023A)	NA
ESGMeter™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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Timestamp: 27 February 2024 10:46PM EST

# iQprofile<sup>SM</sup> Sealed Air Corp.

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	14.6%	13.5%	11.5%	12.2%	12.7%
Return on Equity	204.1%	103.2%	66.5%	60.2%	52.2%
Operating Margin	16.9%	14.8%	15.3%	16.0%	16.5%
Free Cash Flow	376	201	463	485	598

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.0x	1.0x	1.7x	1.6x	1.7x
Asset Replacement Ratio	1.0x	0.9x	0.8x	0.8x	0.8x
Tax Rate	32.6%	21.0%	26.0%	26.0%	26.0%
Net Debt-to-Equity Ratio	NM	NM	NM	475.3%	350.2%
Interest Cover	5.9x	3.1x	3.0x	3.3x	3.6x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	5,642	5,489	5,398	5,501	5,607
% Change	2.0%	-2.7%	-1.7%	1.9%	1.9%
Gross Profit	1,773	1,641	1,781	1,815	1,850
% Change	5.5%	-7.4%	8.5%	1.9%	1.9%
EBITDA	1,445	1,375	1,386	1,441	1,484
% Change	6.1%	-4.9%	0.8%	4.0%	3.0%
Net Interest & Other Income	(226)	(385)	(277)	(268)	(259)
<b>Net Income (Adjusted)</b>	<b>605</b>	<b>461</b>	<b>404</b>	<b>453</b>	<b>491</b>
<b>% Change</b>	<b>11.8%</b>	<b>-23.7%</b>	<b>-12.3%</b>	<b>11.9%</b>	<b>8.5%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	491	339	404	453	491
Depreciation & Amortization	235	268	282	282	282
Change in Working Capital	(184)	(202)	32	(30)	50
Deferred Taxation Charge	(30)	(28)	(31)	5	0
Other Adjustments, Net	101	67	0	0	0
Capital Expenditure	(237)	(244)	(225)	(225)	(225)
<b>Free Cash Flow</b>	<b>376</b>	<b>201</b>	<b>463</b>	<b>485</b>	<b>598</b>
<b>% Change</b>	<b>-24.3%</b>	<b>-46.6%</b>	<b>130.6%</b>	<b>4.7%</b>	<b>23.4%</b>
Share / Issue Repurchase	(280)	(80)	(175)	(175)	(175)
Cost of Dividends Paid	(119)	(118)	(114)	(111)	(109)
Change in Debt	4	1,007	(150)	(150)	(150)

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	456	346	371	419	582
Trade Receivables	592	443	450	450	450
Other Current Assets	1,068	1,175	1,150	1,150	1,150
Property, Plant & Equipment	1,276	1,416	1,361	1,306	1,251
Other Non-Current Assets	2,822	3,821	3,821	3,821	3,821
<b>Total Assets</b>	<b>6,215</b>	<b>7,201</b>	<b>7,153</b>	<b>7,146</b>	<b>7,255</b>
Short-Term Debt	441	176	176	176	176
Other Current Liabilities	1,641	1,333	1,348	1,318	1,368
Long-Term Debt	3,238	4,514	4,364	4,214	4,064
Other Non-Current Liabilities	551	628	597	602	602
<b>Total Liabilities</b>	<b>5,871</b>	<b>6,651</b>	<b>6,486</b>	<b>6,311</b>	<b>6,211</b>
<b>Total Equity</b>	<b>344</b>	<b>550</b>	<b>667</b>	<b>836</b>	<b>1,044</b>
<b>Total Equity &amp; Liabilities</b>	<b>6,215</b>	<b>7,201</b>	<b>7,153</b>	<b>7,146</b>	<b>7,255</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## Company Sector

Packaging

## Company Description

With \$5.5bn in sales for 2021, Sealed Air is a leading global manufacturer of food and protective packaging products. SEE's Food products are used by food processors to package proteins and other food products. The company's Protective segment makes protective packaging products incl. Bubble Wrap(R) cushioning, Jiffy(R) mailers, and Instapak(R) used in e-commerce and other applications.

## Investment Rationale

A large, plastic-based flexible and protective packager and packaging machinery/automation supplier, SEE's relative valuation has been particularly attractive by historical standards. This, coupled with its quality, potential for meaningful earnings growth, and longer-term strategic action opportunities underpin our Buy rating. SEE will likely face continued destocking, trade-down and/or other demand headwinds in its protective and food packaging segments.

## Stock Data

Average Daily Volume 1,521,793

## Quarterly Earnings Estimates

	2023	2024
Q1	0.74A	0.53E
Q2	0.80A	0.72E
Q3	0.77A	0.77E
Q4	0.88A	0.83E



## Price objective basis & risk

### 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.

## Analyst Certification

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.

### 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
	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	GPK	GPK 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
<b>NEUTRAL</b>				
	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
<b>UNDERPERFORM</b>				
	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

## US - Paper and Packaging Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**Numerator**

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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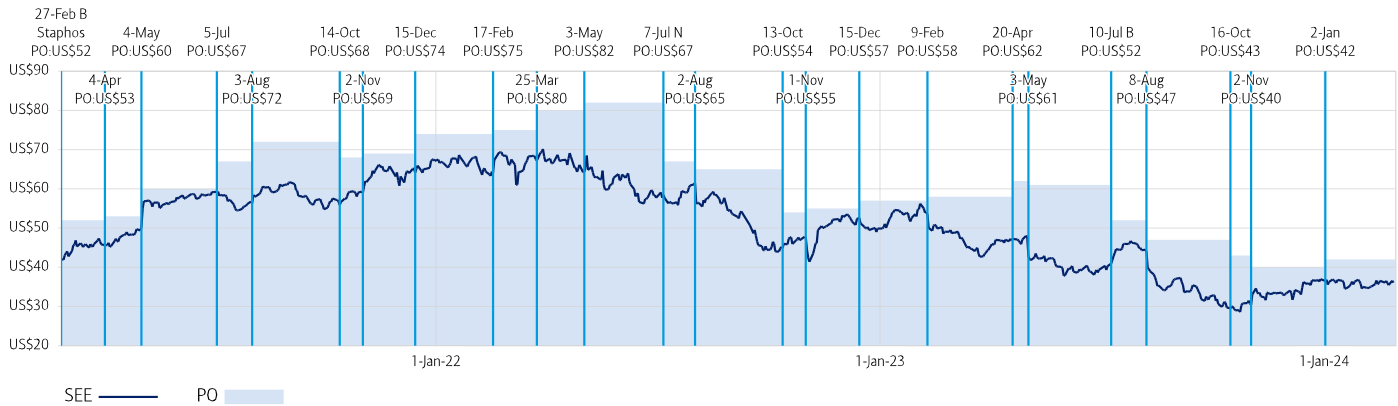
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### Sealed Air Corp (SEE) Price Chart



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 <sup>R1</sup>	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)

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%

<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>
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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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