

## Sonoco Products Co.

# 4Q Flash: Qtr below our est on mixed biz results, other items; '24 guide also < BofA

Maintain Rating: BUY | PO: 70.00 USD | Price: 56.03 USD

## Op. EPS of \$1.02 vs. BofA and Street at \$1.08

We maintain Buy on SON given our view of its valuation and solid balance sheet. Sonoco's 4Q operating EPS were \$1.02 compared to BofA and the Street at \$1.08 (Visible Alpha), as well as the company's prior guidance of \$1.01-1.16 for 4Q. Total segment operating profit of \$166.8mn was \$2.3mn below our \$169.1mn estimate (or -2c on EPS). Meantime, a slightly higher net interest expense was a 2c drag on EPS relative to our model and slightly higher tax rate was a 1c drag. Compared to 4Q22 base op. profit, volume/mix was a drag of -\$10mn y/y, FX/Other was a -\$43mn impact, and price/cost was -\$14mn. Meantime, productivity benefits helped by \$49mn y/y given footprint optimization and supply chain programs. We expect a muted to negative reaction to these results when considering SON's already inexpensive valuation.

## '24 guide below our estimates, in-line with the Street

Looking to 2024, SON expects adj. EPS of \$5.10-5.40 which compares to BofA at \$5.75 and the Street at \$5.34. The company also expects 1Q EPS of \$1.05-1.15 which is lower than BofA at \$1.27 and compares to the Street at \$1.14. We'll inquire on the call in terms of what is embedded in the outlook, but our forecasts currently do not include the pending divestiture of Protective Solutions (\$170mn of sales in 2023) in the All Other segment, or the recent Sumner, WA uncoated recycled board (URB) mill closure. Moreover, our forecasts assume an uncoated recycled board (URB) price hike. Overall, the company commented that it expects volumes to be down y/y in 1Q and also is expecting negative price/cost as a result of metal price overlap and prior year comps in Industrial. As for the full year, SON mentioned that it expects sales to be up modestly, with negative price/cost. As for volumes, SON expect a low-single digit increase in Consumer Packaging for the full year, flat 1H volumes in Industrial, and "stable demand" in All Other. Meantime, the company stated that it will generate positive productivity benefits and will manage costs. The company also expects adj. EBITDA of \$1.05-1.1bn which compares to our \$1.131bn estimate and the Street at \$1.099bn. Additionally, SON is guiding operating cash flow (OCF) of \$650-750mn along with capex of \$350mn. OCF is below our forecasts as we have been at \$897mn in OCF, \$350mn in capex, and resultingly \$574mn in free cash flow for 2024.

## Consumer above our ests, Industrial & All Other below

At the segment level, Consumer Packaging came in \$14.2mn above our model and SON noted that volumes were down given seasonality and inflationary impacts resulting in lower consumer purchases for household and food products. We'll inquire about metal/aerosol volumes on the call as this was an area we had expected some potentially less favorable trends given earlier commentary from Crown (CCK; Buy, \$73.47). As for Industrial Paper Packaging, segment earnings were below our model at \$61.5mn (vs. our \$74.6mn est.) and volumes were said to have been muted. Additionally, SON highlighted that price/cost was negatively driven by North America and Europe. The company's All Other segment was below our \$25.8mn estimate at \$22.3mn and volumes were said to be lower in the healthcare business.

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### Stock Data

Price	56.03 USD
Price Objective	70.00 USD
Date Established	2-Jan-2024
Investment Opinion	B-1-7
52-Week Range	49.98 USD - 63.74 USD
Mrkt Val (mn) / Shares Out (mn)	5,647 USD / 100.8
Free Float	99.2%
Average Daily Value (mn)	21.48 USD
BofA Ticker / Exchange	SON / NYS
Bloomberg / Reuters	SON US / SON.N
ROE (2023E)	23.7%
Net Dbt to Eqty (Dec-2022A)	143.6%
ESGMeter™	Medium

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## Price objective basis & risk

### Sonoco Products Co. (SON)

Our \$70 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.

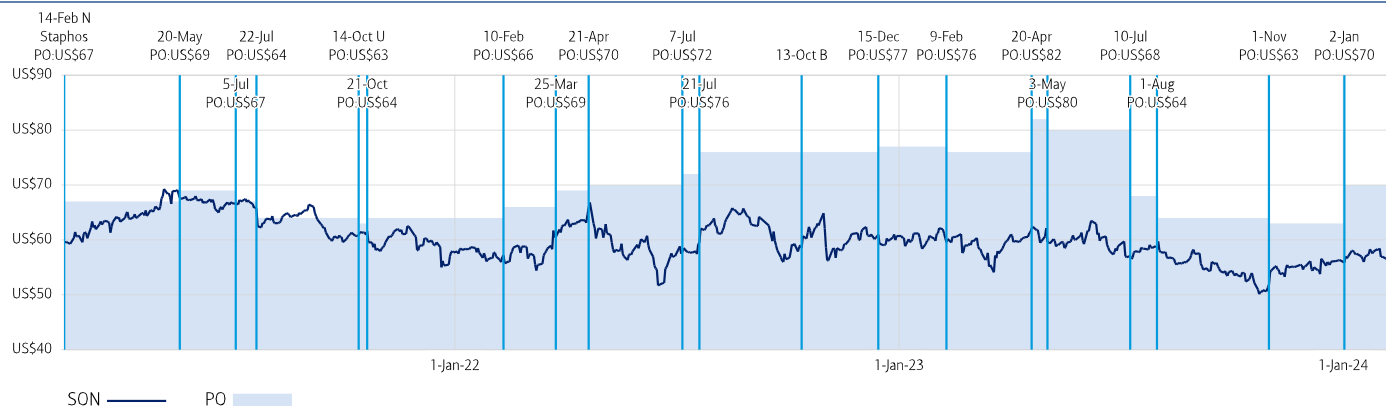
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### Sonoco Products (SON) Price Chart



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

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### 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
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Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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