

Packaging & Paper/Forest Products

Post 3Q: CCK, PKG. Signs of bottoming though still wood to chop

Price Objective Change

10/24: CCK, PKG; some positives in outlook

We update our models and investment points for Buy-rated Crown (CCK) and Neutral-rated Packaging Corp (PKG). While these companies are not directly comparable and there certainly are headwinds for both companies to navigate, the conference calls today suggest stable to improving sequential trends and some positives in the outlook for 2024. As discussed in our preview, we think anti-obesity (GLP-1) drug impact will be minimal near term, and there was color to that effect from Crown. CCK is rated Buy given its valuation and growth outlook. PKG is rated Neutral given lesser upside to our PO, and some remaining cyclical headwinds in containerboard (see our recent roundtable reports [\[from Boston here\]](#) and [\[NYC here\]](#), as well as last week's [Price Check here](#)).

PKG operations doing well, Wallula coming back

[PKG flash](#) (see report). Our estimates increase from \$8.10 in 2023 and \$7.60 in 2024 to \$8.35 and \$7.75, respectively, and our PO moves to \$162 from \$161. Keys?: (a) Our interpretation of company comments is that early 4Q volumes are up ~mid-single digit pcts. PKG stated bookings were up 14% so far in 4Q; (b) As our scan of recent job postings had suggested, the Wallula, WA (WW) paper machine (PM) 3 is being restarted on November 1 and management believes the demand outlook and inventory position (tight for PKG) are such that WW PM3 can run throughout 2024; (c) PKG reiterated that capex should be around \$400mn over 2023 and 2024.

Crown sees good supply/demand, other positives

[CCK flash](#) (see report). Our estimates decrease from \$6.20 in 2023 and \$7.40 in 2024 to \$6.00 and \$6.40, respectively, and our PO moves to \$95 from \$103. Keys?: (a) Our estimates are impacted by ~\$25-30mn of combined impact from sluggish Asia beverage can, North America tinplate, and Signode consumable volumes. Off the lower base and building in additional cushion for the macro, we also trim estimates in the other segments; (b) CCK sees North American operating rates in the "90-92%" range and doesn't see a supply/demand imbalance, even as contracts don't come up for renewal 'til 2026; (c) Crown can grow "without having to spend any more than ... (\$500mn)... over the next couple or three years." This is the first we recall CCK suggesting capex can stay at 2024's level through 2026, and this bodes well for free cash flow (FCF); (d) Crown seems unperturbed by GLP-1 impacts on volume.

24 October 2023

Equity
United States
Packaging

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Review of Relevant Operating Statistics

Crown Holdings (CCK)

Exhibit 1: CCK Relevant Operating Statistics

Review of results vs. BofA estimates

	3Q22A	3Q23A	BofA	Key Highlights
Americas Beverage				
Revenue (\$mn)	\$1,312.0	\$1,295.0	\$1,456.3	Volumes were up 12.6% in North America and CCK noted that it still expects volumes to be up 7% for the year. Meantime, Brazil was said to be improving.
Operating Profit (\$mn)	\$185.0	\$232.0	\$224.3	
Operating Margin	14.1%	17.9%	15.4%	
European Beverage				
Revenue (\$mn)	\$552.0	\$536.0	\$590.6	European Beverage vols were down 5% in 3Q. CCK mentioned that it benefitted from the contractual recovery of prior year cost increases.
Operating Profit (\$mn)	\$20.0	\$80.0	\$62.0	
Operating Margin	3.6%	14.9%	10.5%	
Asia Pacific				
Revenue (\$mn)	\$375.0	\$307.0	\$345.0	Volumes were down 9% y/y with continued softness in Vietnam. Meantime, volumes in China and Cambodia were said to be firm.
Operating Profit (\$mn)	\$35.0	\$33.0	\$34.5	
Operating Margin	9.3%	10.7%	10.0%	
Transit Packaging				
Revenue (\$mn)	\$609.0	\$554.0	\$578.6	Transit was said to be benefitting from positive price/cost management and reduced overhead costs. Additionally, higher equipment deliveries were said to be more than offset by lower consumables volumes.
Operating Profit (\$mn)	\$75.0	\$89.0	\$86.8	
Operating Margin	12.3%	16.1%	15.0%	
Total Reportable Segments				
Revenue (\$mn)	\$2,848.0	\$2,692.0	\$2,970.5	
Operating Profit (\$mn)	\$315.0	\$434.0	\$407.6	
Operating Margin	11.1%	16.1%	13.7%	
Other				
Revenue (\$mn)	\$411.0	\$377.0	\$398.7	North American aerosol volumes were said to be very soft.
Operating Profit (\$mn)	\$50.0	\$37.0	\$43.9	
Operating Margin	12.2%	9.8%	11.0%	
Corporate & other	(\$29.0)	(\$41.0)	(\$36.0)	

Source: Company reports, BofA Global Research estimates

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Packaging Corp. (PKG)

Exhibit 2: PKG Relevant Operating Statistics

Packaging and Paper segment results

	3Q22	3Q23A	BofA	Key highlights
Revenues (\$mn)				
Packaging	1,940	1,760	1,935	
Paper	165	158	162	
Corporate and Other	20	18	18	
Total	\$2,126	\$1,936	\$2,114	
Operating Profits (\$mn)				

Exhibit 2: PKG Relevant Operating Statistics

Packaging and Paper segment results

	3Q22	3Q23A	BofA	Key highlights
Packaging*	362	257	261	Box shipments were up 1.9% y/y on a per day basis while total shipments were down -1.3% y/y (with 2 fewer shipping days).
Paper*	26	30	22	Paper results were well ahead of our forecasts although paper volumes were seemingly lower than our model
Corporate and Other*	(25)	(26)	(30)	
Total	\$363	\$261	\$253	
Operating Margin %				
Packaging	18.7%	14.6%	13.5%	
Paper	15.9%	19.1%	13.7%	
Total	17.1%	13.5%	12.0%	
Production Volumes (000 tons)				
Containerboard	1,116	1,118	1,183	
Volume Growth				
Containerboard Production	-11.1%	0.2%		
Industry Box Shipments (actual)**	-0.2%	n/a		

Source: Company filings, BofA Global Research estimates; (*) Excludes unusual charges; (**) Fibre Box Association.

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Packaging & Paper/Forest

Exhibit 3: BofA Rigid Packaging valuation and EPS grid:

Summary of Rigid Packaging Price Objective, Estimate, and Valuation Changes

Ticker	Rating		PO	Calendar EPS estimates			Valuation/range method		Normal FCF	Cost of Equity	Comments
				2023	2024	2025	PE	EV / EBITDA			
CCK	New	B	\$95	\$6.00	\$6.40	\$7.10	15x	10-11x	\$900	11%	As discussed above, our estimates are impacted by ~\$25-30mn of combined impact from sluggish Asia beverage can, North America tinplate, and Signode consumable volumes. Off the lower base and building in additional cushion for the macro, we also trim estimates in the other segments. Given these changes, our EPS estimates move to \$6.00 (was \$6.20) in 2023, \$6.40 (was \$7.40) in 2024, and \$7.10 (was \$8.05) in 2025. These changes cause our PO to move to \$95 from \$103.
	Old	B	\$103	\$6.20	\$7.40	\$8.05	15x	10-11x	\$900	11%	

Source: BofA Global Research estimates. B = Buy, N = Neutral, UP = Underperform.

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Exhibit 4: BofA Containerboard valuation and EPS grid:

Summary of Containerboard Price Objective, Estimate, and Valuation Changes

Ticker	Rating		PO	Calendar EPS estimates			PE	SOTP Value	Normal FCF	Cost of Equity	Comments
				2023	2024	2025					
PKG	New	N	\$162	\$8.35	\$7.75	\$8.15	18.0x	\$164.60	\$750	9%	Given PKG's performance in the quarter and trends heading into 4Qm we adjust our EPS estimates higher and are slightly above the company's guidance (of \$1.76 in EPS) for 4Q. Our estimates increase to \$8.35 (was \$8.10) in 2023, \$7.75 (was \$7.60) in 2024, and \$8.15 (was \$7.90) in 2025. Given these changes, our PO moves up by \$1 to \$162.
	Old	N	\$161	\$8.10	\$7.60	\$7.90	18.0x	\$163.68	\$750	9%	

Source: BofA Global Research estimates. B = Buy, N = Neutral, UP = Underperform.

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Next up

The table summarizes details for remaining earnings reports.

Exhibit 5: Upcoming earnings releases

Review of upcoming earnings releases for Packaging & Paper/Forest

Packaging - 3Q23 Earnings Calendar

Report						Earnings						Conference Call		
Date	Time*	Ticker	Price	Rating**	Q-R-Q	Actual	BofA Est.	Year Ago	Street	St. Low	St. High	Date	Time (ET)	Dial-in / Passcode
10/23	AMC	CCK	\$82.00	B	B-1-7	\$1.73	\$1.70	\$1.46	\$1.71	\$1.43	\$1.80	--	--	--
10/25	BMO	AVY	\$173.65	B	B-1-7		\$2.05	\$2.46	\$2.11	\$2.04	\$2.17	10/25	1:00pm	--
10/25	BMO	SLGN	\$41.05	B	B-1-7		\$1.10	\$1.28	\$1.14	\$1.10	\$1.18	10/25	11:00am	866-575-6539 / 2528033
10/25	AMC	ATR	\$123.42	B	B-1-7		\$1.29	\$0.95	\$1.27	\$1.25	\$1.29	10/26	9:00am	--
10/26	BMO	AMBP	\$2.63	N	B-2-8		\$0.05	\$0.06	\$0.05	\$0.02	\$0.07	10/26	9:00am	800-239-9838 / 7000018
10/31	AMC	SON	\$50.33	B	B-1-7		\$1.38	\$1.60	\$1.29	\$1.24	\$1.34	11/1	--	--
10/31	AMC	OI	\$15.11	B	C-1-9		\$0.68	\$0.63	\$0.69	\$0.66	\$0.73	11/1	9:00am	--
10/31	AMC	AMCR	\$8.64	UP	B-3-7		\$0.15	\$0.18	\$0.15	\$0.14	\$0.16	10/31	5:30pm	888-440-4149 / 8080870
11/1	AMC	PTVE	\$7.95	N	B-2-7		\$0.11	\$0.98	\$0.18	\$0.11	\$0.24	11/2	8:30am	--
11/2	BMO	BALL	\$45.98	N	B-2-7		\$0.81	\$0.75	\$0.80	\$0.74	\$0.86	11/2	11:00am	888-754-4437
11/2	BMO	SEE	\$30.27	B	B-1-7		\$0.60	\$0.98	\$0.63	\$0.59	\$0.73	11/2	10:00am	--
11/16	BMO	BERY	\$55.68	B	B-1-7		\$2.07	\$2.19	\$2.13	\$2.01	\$2.18	11/16	10:00am	--
12/6	AMC	GEF	\$62.94	N	B-2-7		\$1.41	\$1.83	\$1.30	\$1.17	\$1.41	12/7	8:30am	--
	BMO	BRC	\$52.54	UP	B-3-7		\$1.00	\$0.84	\$0.95	\$0.92	\$0.97	--	--	--
Total Packaging						\$1.73	\$1.70	\$1.46	\$1.71	\$1.43	\$1.80			

Paper/Forest - 3Q23 Earnings Calendar

Report						Earnings						Conference Call		
Date	Time	Ticker	Price	Rating**	Q-R-Q	Actual	BofA Est.	Year Ago	Street	St. Low	St. High	Date	Time (ET)	Dial-in / Passcode
10/23	AMC	PKG	\$150.78	N	B-2-7	\$2.05	\$1.95	\$2.83	\$1.93	\$1.88	\$1.97	--	--	--
10/26	BMO	IP	\$33.27	UP	B-3-7		\$0.58	\$1.01	\$0.58	\$0.53	\$0.63	10/26	10:00am	844-291-6362 / 266985
10/26	AMC	WY	\$28.85	B	B-1-7		\$0.31	\$0.42	\$0.33	\$0.20	\$0.39	10/27	10:00am	877-407-0792 / 13734909
10/30	AMC	PCH	\$43.04	N	B-2-7		\$0.18	\$0.74	\$0.18	\$0.06	\$0.28	10/31	12:00pm	888-510-2008 / 7281983
10/30	AMC	BCC	\$91.66	UP	B-3-7		\$3.30	\$5.52	\$3.18	\$1.75	\$3.81	10/31	11:00am	--
10/31	BMO	GPX	\$20.35	N	B-2-7		\$0.70	\$0.67	\$0.71	\$0.67	\$0.73	10/31	10:00am	833-470-1428 / 856688
11/1	BMO	LPX	\$52.67	UP	B-3-7		\$1.47	\$1.72	\$1.54	\$1.37	\$2.22	11/1	11:00am	--
11/9	BMO	WRK	\$34.82	B	B-1-7		\$0.70	\$1.43	\$0.75	\$0.69	\$0.81	N/A	N/A	--
11/9	BMO	SLVM	\$42.45	B	C-1-7		\$1.29	\$1.27	\$1.33	\$1.29	\$1.36	11/9	10:00am	877-336-4440 / 763504
Total Paper/Forest						\$2.05	\$1.95	\$2.83	\$1.93	\$1.88	\$1.97			

Source: Bloomberg, BofA Global Research estimates. Priced on 10/24/23.

Bloomberg estimates as of 10/23/23. GEF, WRK, BERY, AMCR and BRC upcoming quarters reflect F4Q, F4Q, F4Q, F1Q and F1Q respectively. Full-year estimates calendarized.

*Time: after market close (AMC), before market open (BMO), to be determined (TBD)

**Ratings: Buy (B), Neutral (N), Underperform (UP); No Rating (NR)

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Exhibit 6: Stock Mentioned

Stock prices and ratings mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
CCK	CCK US	Crown Holdings	US\$ 81.6	B-1-7
PKG	PKG US	Packaging Corp	US\$ 148.93	B-2-7

Source: BofA Global Research

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Price objective basis & risk

Crown Holdings Inc. (CCK)

We calculate our PO of \$95 by using our 2024 estimates and averaging the fair values derived from (1) a 15x 2024E P/E multiple (adj. for asbestos), (2) a 10-11x 2024E EV/EBITDA multiple, and (3) our intrinsic FCF valuation, which assumes \$900mn normalized FCF, a 11% cost of equity and a 2% growth rate. Multiple ranges are in line with past valuation levels reached when fundamentals are positive, and are targeted with past normalized ranges in mind for rigid packaging (10-17x).

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.

Packaging Corp. of America (PKG)

Our \$162 price objective is based on an average of (a) an EPS forecast of \$7.75 in 2024E and a P/E of 18x, 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.

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.

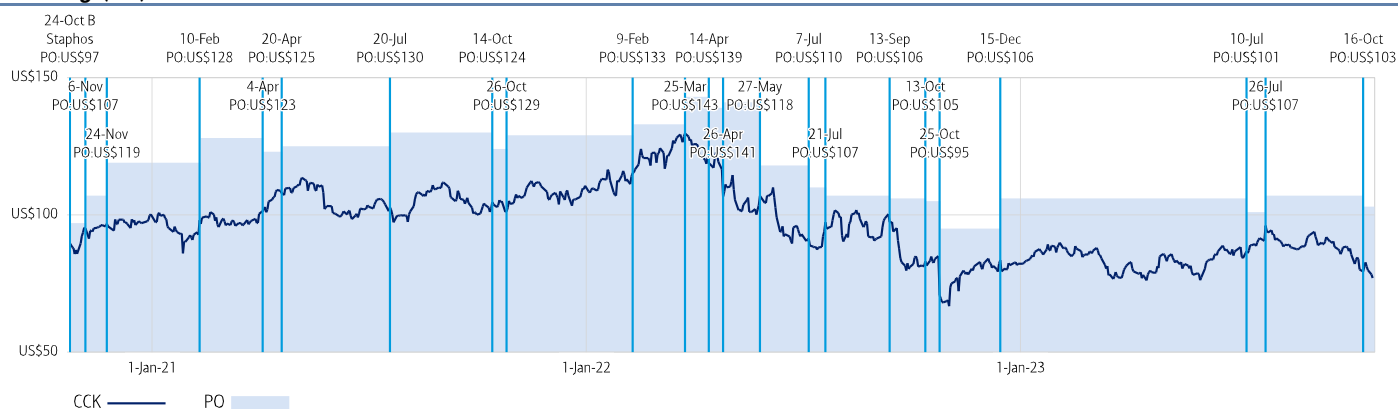
US - Paper and Packaging Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	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
	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
NEUTRAL				
	Ardagh Metal Packaging S.A.	AMBP	AMBP US	George L. Staphos
	Ball Corp.	BALL	BALL US	George L. Staphos
	Graphic Packaging	GPK	GPK 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
UNDERPERFORM				
	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	George L. Staphos
	International Paper Co.	IP	IP US	George L. Staphos
	Louisiana-Pacific Corp.	LPX	LPX US	George L. Staphos

Disclosures

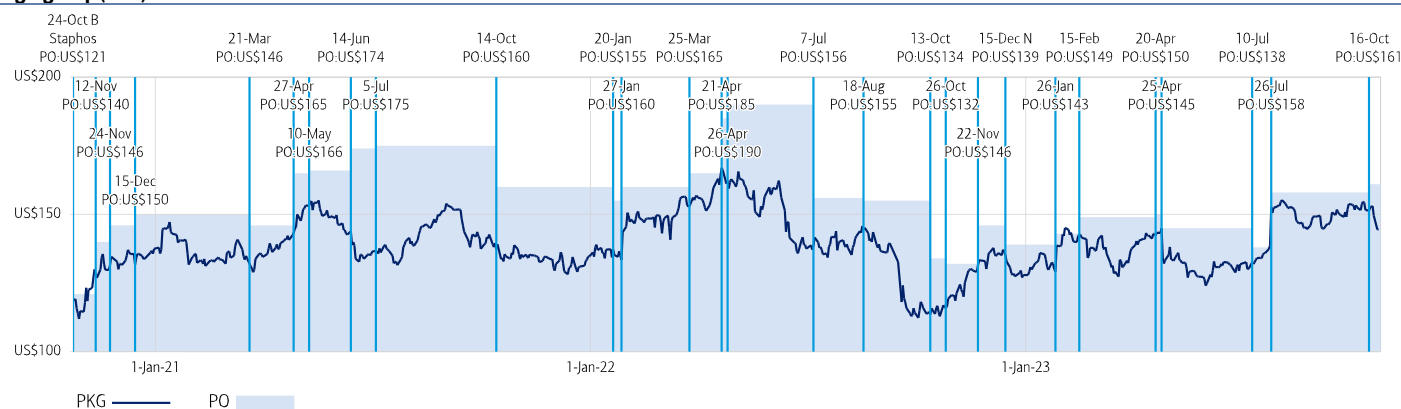
Important Disclosures

Crown Holdings (CCK) 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.

Packaging Corp (PKG) 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 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	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: Global Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	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%

^{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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