



## Stock of the Week – Amcor Limited (AMC)

by ST Wong

### What is the stock?

Amcor is a major packaging company, with operations across the US, Europe and Australia. Amcor has leadership positions in the European and Australian markets and has selectively strong positions in parts of the US market.

### How long have you held the stock?

We have held Amcor over the years but exited from our position. We have recently re-built a position in Amcor as the share price has fallen to attractive levels.

### What do you like about it?

The combination of attractive valuations and significant longer term upside. Investors have been impatient and have been selling Amcor on two key reasons. First, Amcor's profit margins had come under pressure, as raw materials costs such as resin have risen substantially over the past 18 months. However, a number of Amcor's contractual agreements have a cost pass-through mechanism. Over time, Amcor will be able to recoup the higher cost of raw materials, allowing the company to regain margins. Look beyond the short term.

Second, Amcor is in the midst of acquiring US mid-cap company Bemis Co., a complementary business to Amcor's US operations. The returns on the Bemis acquisition is likely to be long dated, rather than in the immediate future. We expect the upside to be quite significant for Amcor. We believe Amcor's initial cost synergies from the acquisition of an estimated \$180 million may well be conservative. In addition, Amcor's balance sheet has also been strengthened through this proposed transaction.

### How is it better than its competitors?

The US\$6 billion Bemis acquisition will double Amcor's flexible packaging business in the US to US\$9 billion in revenues. Improved scale, breath of offering and larger competitive footprint should enhance Amcor's position in the US market.

### What do you like about its management?

The management team is deep and experienced and excellent in managing its manufacturing facilities and has been through many acquisitions. The management profile gives us confidence in the synergies outlook with Bemis we highlighted above.

### What is your target price?

We value Amcor at \$15.40, based on a discount cash flow calculation.

### At what point would you sell it?

We assess Amcor's fundamentals regularly and continue to assess if our expectations for Amcor's revenue growth outlook may be too optimistic. Economic and consumer spending growth appears to have softened rapidly over the December 2018 quarter and may impact Amcor's fast-moving consumer goods clients. The company also has an exposure to Latin American countries such as Argentina and Venezuela, where economies can be unstable.

### How much has it added (subtracted) to your overall portfolio over the last 12 months?

Building a position when Amcor's share price was weak has added to portfolio performance in the past three months.

## Where do you see the value?

Amcor doesn't appear to have many investors' attention at the moment, which is the best time to look at investing in the company.

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