

RPC Group PLC - Business overview

RPC is a UK-based company which manufactures packaging products and other non-packaging plastic applications for the food industry (27% of sales), personal care (15%), non-food sector (23%), beverage (14%), healthcare (5%) and technical components industries (16%).

RPC realizes 59% of its sales in mainland Europe, 27% in the UK and the rest of the world represent 14%.

RPC is listed on the London Stock Exchange. RPC:LSE; RPC:LN

Main shareholders at December 2017 in number of shares

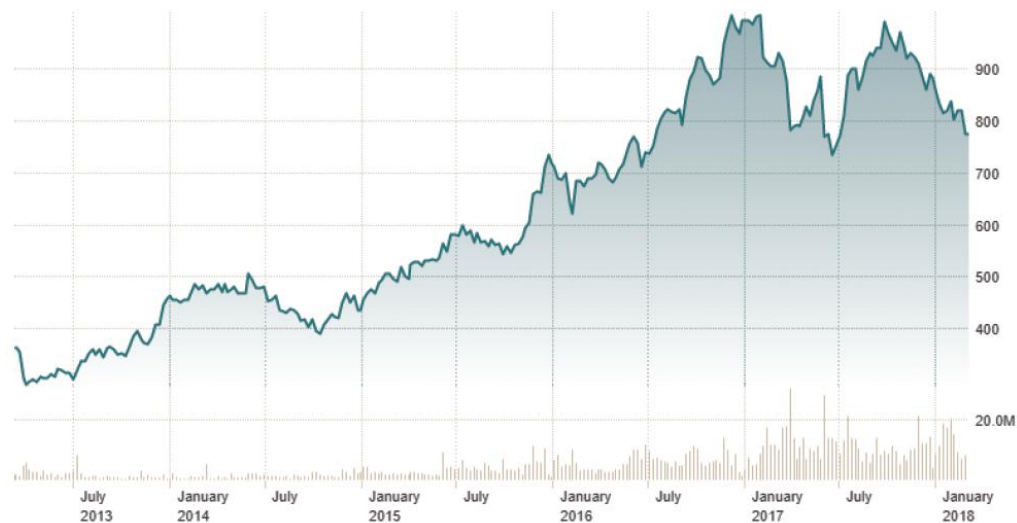
Standard Life	6%
Axa IM	5%

Market data

Share price 2018/03/05	£ 7,77
EPS	0,3
P/E	24,4
Div. Yield	3,1%
Market capitalization	£ 3 160

Financial data M€ Year end in March

	2015	2016	2017
Sales	1 222	1 642	2 747
Operating margin	6,8%	5,8%	7,0%
Net income	41	55	132
FCF	-2	50	101
Total assets	1 817	2 791	4 752
Total gross debt	513	905	1 345
Gross cash position	47	130	258
Reported Equity	581	894	1 823



Credits: <https://markets.ft.com/data/equities/tearsheet/summary?s=RPC:LSE>

Main competitors:

- Australia-based AMCOR
- France-based Groupe Guillin
- US-based Aptargroup
- France-based PSB Industries

Investment thesis and valuation

RPC appealed to us first because of its YoY -13% decline in price. These are the favourable points attached to RPC:

- RPC is a global player in the plastic packaging sector, it has the capabilities to serve global clients on a global and regional scale.
- RPC is well positioned to profit from the favourable developments within the plastic packaging business i.e.:
 - Growing population with growing disposable income with needs for plastic packaging.
 - New packaging requirements, with reinforced environmental norms.

But we see significant issues in terms of earnings quality

- RPC has acquired numerous and significant companies during the past years. **The numerous acquisitions gave rise to numerous accounting issues**, first because it is more difficult to compare the current results to the past results. **And second and more important accounting issue** is that ***RPC has numerous recurring restructuring charges and exceptional or “non-core” charges. In our opinion, the company’s choices about what is non-recurring are flawed:*** for example, among other choices, it has included net pension interest costs (related to defined benefit schemes) within its non-recurring finance costs...
- RPC has a leveraged financial structure as a result of its numerous and significant acquisitions.
- RPC does not have a significant controlling shareholder who could balance the power of its management.

We also see other risks attached to the plastic packaging industry overall:

- Risks related to environmental issues. The plastic packaging industry is very criticised for plastic pollution. However, we think that the plastic issues are not directly linked to the plastic packaging manufacturers but rather related to waste management issues. Plastic still is very convenient for packaging purposes.
- Risks related to technology changes, with the large scale adoption of 3D printing capabilities. For now this risk seems not material. For example, some packaging companies are prototyping packaging products before producing in large scale, but large scale production still is based on moulding and other than 3D printing technologies.

On the upside we think there is a long-term need for packaging products, and in this environment plastic packaging is gaining share compared to other packaging materials

- Plastic packaging is growing faster than GDP, meaning it is gaining market share as opposed to other packaging products such as glass, paper and metal products. This is may be explained by more weight reduction capabilities and more favourable carbon footprint.

We value RPC at around £4 per share, at its current price of £7.77 we recommend to sell the company’s shares.

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