



Rating  
**Buy**

North America  
United States

Industrials  
Packaging

Company  
**Ball Corporation**

Reuters Bloomberg Exchange Ticker  
BLL.N BLL UN NYS BLL

Date  
1 November 2018

Forecast Change

Price at 1 Nov 2018 (USD)	47.62
Price target	51.00
52-week range	47.62 - 35.25

## Q3'18 Recap

### Market shrugs off NA shortfall; no change to 2019 outlook

Q3 EBITDA of \$471M was modestly below consensus of \$475M, but missed our estimate by \$8M largely due to freight headwinds in North America related to out of pattern shipments. While volume growth of ~3% y/y was encouraging, we weren't sure how investors would respond given the earnings shortfall in North and Central America relative to expectations. Ultimately, materials generally outperformed today. Rigid packaging peers were mostly up mid-single digits and Ball was up ~6.3% (vs. the S&P up ~1.1%). Considering that we expect 2018 and 2019 consensus EBITDA estimates to come down, including ours with this note, we expect pressure on shares of Ball tomorrow relative to peers. So why keep the Buy rating? It is our belief that Ball's multi-year margin expansion story, consistent share repurchase activity and optimism around volume growth (which could accelerate due to sustainability goals of customers) will result in a forward FCF yield in the mid-5% range if more significant volume growth materializes. Thus, we continue to like Ball as a more defensive option when considering risk/reward of other stocks in our universe.

### Three key points.

- Volumes grew ~3% y/y. Earnings, however, would have been more impressive had freight headwinds in the US not been an issue.** The company did see \$32M of earnings improvement y/y to \$153M in North and Central America. This improvement was largely driven by lapping ~\$35M in headwinds from last year's hurricanes. This segment would have been in-line with our estimate if it weren't for ~\$15M of freight headwinds driven by out of pattern shipments, which would have driven margins ~120 bps higher in the segment as well (13.6% vs. 12.4%). Some of the issues that impacted the quarter will likely linger, including the mention of metal supply constraints that the company expects to manage through in Q4 and anticipates alleviating by year-end. As a result, we are reducing our Q4 segment estimate from \$155M to \$146M. Looking to 2019, we see significant earnings improvement in the region driven by the Goodyear plant and specialty can growth.
- Benefit from sustainability a focus on the call.** In Ball's prepared remarks, CEO Hayes noted, "We are leading more efforts on our sustainability initiatives to ensure aluminum packages for beverage and aerosol are properly positioned as the environmental solution for our customers' brand portfolios." We believe this focus will start to pick up steam in the coming quarters and could elevate volume growth for

### Valuation & Risks

Debbie Jones

Research Analyst  
+1-212-250-2956

Kyle White

Research Associate  
+1-212-250-7628

Steven Sheeckutz

Research Associate  
+1-212-250-9128

### Key changes

EPS (USD)	2.28 to 2.21	↓	-3.0%
Revenue (USDm)	11,462.1 to 11,546.1	↑	0.7%

Source: Deutsche Bank

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	8.5	21.1	11.5
S&P 500 INDEX	-6.3	-2.6	6.2

Source: Deutsche Bank

### Stock option liquidity data

Market Cap (USDm)	16,415.3
Shares outstanding (m)	344.7
Free float (%)	100
Volume (1 Nov 2018)	735,625
Option volume (und. shrs., 1M avg.)	7,300

Source: Deutsche Bank

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the company, especially in Europe. With the myriad of CPG companies highlighting their sustainability initiatives, our take is that aluminum containers win, especially for beverage vs. PET plastic, which was highlighted as an opportunity on the call. We note that volumes in Europe were up ~10% y/y in the quarter, which we believe had more to do with replenishment of volumes in Russia post the World cup and favorable weather conditions vs. a significant pack mix shift.

- **Tempering our estimates for 2018 primarily due to North and Central America, while 2019 goes lower due to South America.** Our 2018 EBITDA goes from \$1,871M to \$1,845M driven by the aforementioned headwinds in the US. Our 2019 EBITDA goes from \$1,967M to \$1,950M as we are tempering our expectations in Brazil driven by a larger estimated impact from the conclusion of the third-party end sales agreement. This is partially offset by higher estimated performance in Europe driven by favorable volume trends and cost savings from G&A reductions. Ball reiterated its 2019 financial targets with EBITDA of \$2B and FCF of \$1B. Consistent with its investor day, management also noted that it expects to repurchase ~\$1B in shares annually beginning in 2019 through 2021 or ~18% of shares outstanding.

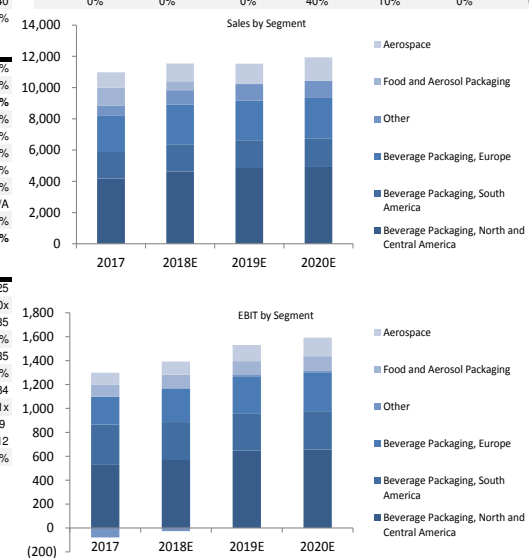
Forecasts and ratios

Year End Dec 31	2017A	2018E	2019E	2020E
1Q EPS	0.38	0.50A	-	-
2Q EPS	0.53	0.58A	-	-
3Q EPS	0.52	0.56A	-	-
4Q EPS	0.60	0.56	-	-
FY EPS (USD)	2.03	2.21	2.63	2.93
OLD FY EPS (USD)	2.03	2.28	2.70	3.01
% Change	0.0%	-3.0%	-2.6%	-2.7%
Dividend yield (%)	0.9	0.8	0.8	0.8
Revenue (USDm)	10,983.0	11,546.1	11,532.5	11,931.0

Source: Deutsche Bank estimates, company data

Figure 1: BLL Summary Model

Price = \$47.62											DB Rating = BUY						DB Price Target = \$51		
	2015	2016	2017	1Q18	2Q18	3Q18	4Q18E	2018E	2019E	2020E	2014	2015	2016	2017	2018E	2019E	2020E		
<b>SUMMARY P&amp;L</b>																			
<b>Sales</b>	\$7,997	\$9,117	\$10,983	\$2,785	\$3,101	\$2,946	\$2,714	\$11,546	\$11,533	\$11,931	<b>Growth YoY</b>								
Global Beverage Packaging (reporting post Rexam)		7,129	8,854	2,246	2,507	2,663	2,413	9,829	10,224	10,426	1%	-7%	14%	20%	5%	0%	3%		
Beverage Packaging, North and Central America		3,613	4,178	1,035	1,241	1,237	1,114	4,627	4,851	4,924	4%	-100%	N/A	24%	11%	4%	2%		
Beverage Packaging, South America		1,014	1,692	459	379	391	513	1,742	1,775	1,828	N/A	N/A	N/A	67%	3%	2%	3%		
Beverage Packaging, Europe		1,971	2,360	609	703	683	554	2,549	2,531	2,582	4%	-100%	N/A	20%	8%	-1%	2%		
Other		531	624	143	184	352	233	912	1,067	1,092	N/A	N/A	N/A	18%	46%	17%	2%		
Food and Aerosol Packaging	1,297	1,170	1,138	275	304	0	0	579	0	0	-3%	-14%	-10%	-3%	-49%	-100%	N/A		
Aerospace	810	818	991	264	290	283	301	1,138	1,308	1,505	4%	-13%	1%	21%	15%	15%	15%		
Gross Profit	1,537	1,851	2,266	548	617	584	549	2,298	2,402	2,476	5%	-8%	20%	22%	1%	5%	3%		
<b>Adj. EBITDA</b>	<b>1,085</b>	<b>1,366</b>	<b>1,752</b>	<b>436</b>	<b>490</b>	<b>471</b>	<b>448</b>	<b>1,845</b>	<b>1,950</b>	<b>2,009</b>	2%	-10%	26%	28%	5%	6%	3%		
Adj. EBIT	800	977	1,220	300	352	340	315	1,307	1,415	1,474	5%	-13%	22%	25%	7%	8%	4%		
Global Beverage Packaging (reporting post Rexam)		782	1,020	252	296	314	280	1,142	1,280	1,319	31%	-100%	N/A	30%	12%	12%	3%		
Beverage Packaging, North and Central America		470	533	113	157	153	146	569	647	655	N/A	N/A	N/A	13%	7%	14%	1%		
Beverage Packaging, South America		185	333	98	66	71	81	316	308	323	N/A	N/A	N/A	80%	-5%	-3%	5%		
Beverage Packaging, Europe		217	233	60	75	84	64	283	308	319	22%	-100%	N/A	7%	21%	9%	4%		
Other	(93)	(90)	(79)	(19)	(2)	6	(11)	(26)	17	21	11%	8%	-3%	-12%	-67%	-164%	27%		
Food and Aerosol Packaging	108	108	102	23	32	32	28	115	116	119	-13%	-30%	0%	-6%	12%	1%	2%		
Aerospace	82	87	98	25	24	26	35	110	135	155	17%	-13%	6%	13%	12%	23%	15%		
<b>Net Income - Adjusted</b>	<b>490</b>	<b>564</b>	<b>727</b>	<b>180</b>	<b>207</b>	<b>197</b>	<b>191</b>	<b>775</b>	<b>872</b>	<b>916</b>	13%	-11%	15%	29%	7%	12%	5%		
Diluted shares	281.9	161.4	358.0	357.6	354.9	349.7	344.2	351.6	332.1	313.4	-5%	-1%	-43%	122%	-2%	-6%	-6%		
<b>Headline EPS</b>	<b>\$1.74</b>	<b>\$1.74</b>	<b>\$2.03</b>	<b>\$0.50</b>	<b>\$0.58</b>	<b>\$0.56</b>	<b>\$0.56</b>	<b>\$2.21</b>	<b>\$2.63</b>	<b>\$2.93</b>	18%	-10%	0%	17%	9%	19%	11%		
Dividends per share	\$0.26	\$0.26	\$0.37	\$0.10	\$0.10	\$0.10	\$0.10	\$0.40	\$0.40	\$0.40	0%	0%	0%	40%	10%	0%	0%		
Dividend yield (annualized)	0.7%	0.5%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%									
<b>MARGINS</b>																			
Gross margin	19.2%	20.3%	20.6%	19.7%	19.9%	19.8%	20.2%	19.9%	20.8%	20.8%									
EBITDA margin	13.6%	15.0%	16.0%	15.7%	15.8%	16.0%	16.5%	16.0%	16.9%	16.8%									
<b>EBIT margin</b>	<b>10.0%</b>	<b>10.7%</b>	<b>11.1%</b>	<b>10.8%</b>	<b>11.4%</b>	<b>11.5%</b>	<b>11.6%</b>	<b>11.3%</b>	<b>12.3%</b>	<b>12.4%</b>									
Global Beverage Packaging (reporting post Rexam)	N/A	11.0%	11.5%	11.2%	11.8%	11.8%	11.6%	11.6%	12.5%	12.6%									
Beverage Packaging, North and Central America	N/A	13.0%	12.8%	10.9%	12.7%	12.4%	13.1%	12.3%	13.3%	13.3%									
Beverage Packaging, South America	N/A	18.2%	19.7%	21.4%	17.4%	18.2%	15.9%	18.2%	17.4%	17.7%									
Beverage Packaging, Europe	N/A	11.0%	9.9%	9.9%	10.7%	12.3%	11.5%	11.1%	12.2%	12.4%									
Other	N/A	-16.9%	-12.7%	-13.3%	-1.1%	1.7%	-4.8%	-2.9%	1.6%	2.0%									
Food and Aerosol Packaging	8.3%	9.2%	9.0%	8.4%	10.5%	N/A	N/A	19.8%	N/A	N/A									
Aerospace	10.1%	10.6%	9.9%	9.5%	8.3%	9.2%	11.5%	9.6%	10.3%	10.3%									
<b>Net Income margin</b>	<b>6.1%</b>	<b>6.2%</b>	<b>6.6%</b>	<b>6.5%</b>	<b>6.7%</b>	<b>6.7%</b>	<b>7.1%</b>	<b>6.7%</b>	<b>7.6%</b>	<b>7.7%</b>									
<b>FCF, CapEx &amp; D&amp;A</b>																			
Cap ex	\$528	\$606	\$556	\$242	\$202	\$172	\$84	\$700	\$525	\$525									
Capex/D&A	1.8x	1.6x	1.0x	1.8x	1.5x	1.3x	0.6x	1.3x	1.0x	1.0x									
D&A	286	389	532	136	138	131	133	538	535	535									
% of sales	3.6%	4.3%	4.8%	4.9%	4.5%	4.4%	4.9%	4.7%	4.6%	4.5%									
D&A (including customer-related intangibles from REX)	286	453	729	180	178	171	133	662	535	535									
% of sales	3.6%	5.0%	6.6%	6.5%	5.7%	5.8%	4.9%	5.7%	4.6%	4.5%									
Net Debt	2,753	6,935	6,523	6,991	6,798	6,075	5,979	5,979	6,137	6,284									
Net Leverage	2.5x	4.5x	3.7x	3.8x	3.6x	3.2x	3.2x	3.2x	3.1x	3.1x									
Free cash flow	558	(426)	922	(316)	306	421	391	802	975	979									
FCF per Share	\$1.98	-\$2.64	\$2.58	-\$0.88	\$0.86	\$1.20	\$1.14	\$2.28	\$2.94	\$3.12									
FCF Yield	4.7%	-3.4%	5.4%					4.8%	6.2%	6.6%									



Source: Deutsche Bank estimates, Company Filings, FactSet



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# Appendix 1

## Important Disclosures

\*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Ball Corporation	BLL.N	44.80 (USD) 31 Oct 2018	1, 7, 8, 14, 15

\*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <https://research.db.com/Research/Disclosures/CompanySearch>. Aside from within this report, important risk and conflict disclosures can also be found at <https://research.db.com/Research/Topics/Equities?topicId=RB0002>. Investors are strongly encouraged to review this information before investing.

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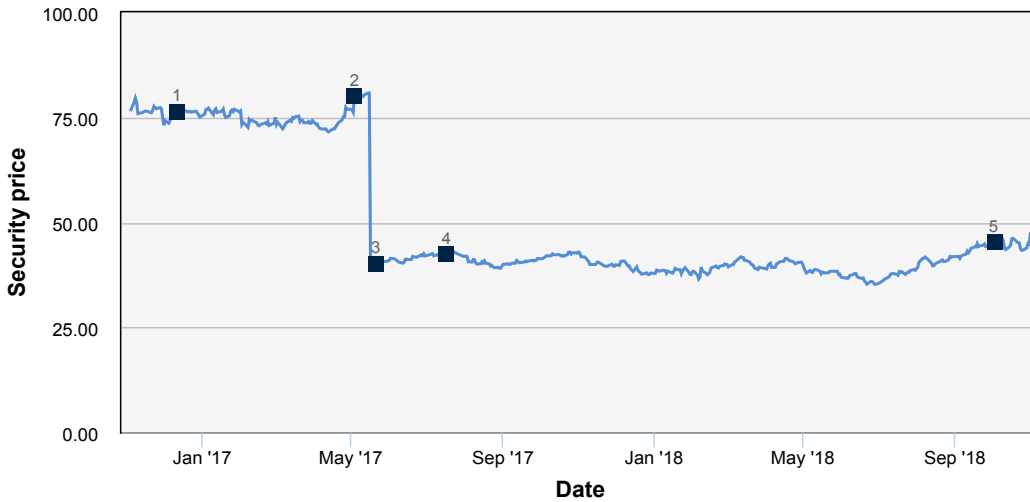
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Historical recommendations and target price. Ball Corporation (BLL.N)

(as of 11/01/2018)



Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

\*\* Analyst is no longer at Deutsche Bank

1.	12/12/2016	Buy, Target Price Change USD 86.00	Debbie Jones
2.	05/05/2017	Buy, Target Price Change USD 88.00	Debbie Jones
3.	05/22/2017	Buy, Target Price Change USD 44.00	Debbie Jones
4.	07/18/2017	Buy, Target Price Change USD 47.00	Debbie Jones
5.	10/04/2018	Buy, Target Price Change USD 51.00	Debbie Jones

Equity Rating Key

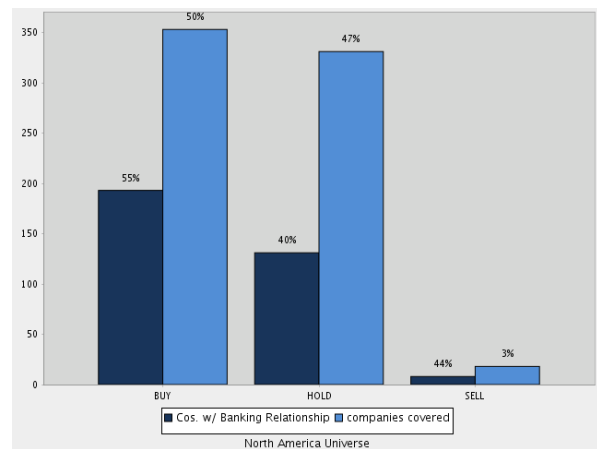
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Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

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Equity rating dispersion and banking relationships



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Group Chief Economist and Global Head of Research

Pam Finelli  
Global Chief Operating Officer  
Research

Michael Spencer  
Head of APAC Research

Steve Pollard  
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Anthony Klarman  
Global Head of  
Debt Research

Kinner Lakhani  
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### International Production Locations

#### Deutsche Bank AG

Deutsche Bank Place  
Level 16  
Corner of Hunter & Phillip Streets  
Sydney, NSW 2000  
Australia  
Tel: (61) 2 8258 1234

#### Deutsche Bank AG

Mainzer Landstrasse 11-17  
60329 Frankfurt am Main  
Germany  
Tel: (49) 69 910 00

#### Deutsche Bank AG

Filiale Hongkong  
International Commerce Centre,  
1 Austin Road West, Kowloon,  
Hong Kong  
Tel: (852) 2203 8888

#### Deutsche Securities Inc.

2-11-1 Nagatacho  
Sanno Park Tower  
Chiyoda-ku, Tokyo 100-6171  
Japan  
Tel: (81) 3 5156 6770

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#### Deutsche Bank AG London

1 Great Winchester Street  
London EC2N 2EQ  
United Kingdom  
Tel: (44) 20 7545 8000

#### Deutsche Bank Securities Inc.

60 Wall Street  
New York, NY 10005  
United States of America  
Tel: (1) 212 250 2500

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