Ball Corporation is the largest producer of aluminum beverage cans in the world. The company’s five operating segments are its three beverage operating segments; North and Central America, Europe and South America which make up roughly 75% of their business. Ball’s Aerospace segment makes and sells aerospace and related products for the civil, commercial and national security aerospace markets. BLL provides metal packaging for beverages, food and household products and separately supplies aerospace and other technology services to both commercial and government customers. The company operates about 75 facilities spanning Asia, Europe, North America, and South America. The US accounts for half of total revenues. Ball’s acquisition of Rexam could create enormous value for shareholders if it’s able to achieve or exceed synergy targets. The company employees own about 10% of Ball shares, and most employees are motivated by economic value-added metrics, which will help the company focus on increasing shareholder value. Higher beverage packaging volumes across most geographies, the acquisition of Rexam, and a significant uptick in US defense contracts within the aerospace segment have been the chief growth drivers for BLL especially over the past 5 years.

Our Valuation Model Indicates that BLL is currently undervalued in terms of our basic DCF valuation. BLL is currently trading around $72.61 which is under our conservative price target of $81.30. The technical analysis shows that BLL is overbought in the market as the RSI score is nearing 72 and the MACD has converged signaling a sell. The stock was up around 3.4% on Monday due to a high volume and high news on canned beverage demand. BLL is positioned for growth in N.A., Europe, S.A. and developing countries in canned beverage segments. They are also expanding their aerospace segment which seen as a catalyst for future growth. Their current weighted average cost of capital is 6.751% and the industry multiple from NYU Stern is 9.5x so we used a more conservative number of 9x.

Discussion of Economic Moat: The acquisition of Rexam should strengthen Ball’s narrow economic moat and improve its bargaining power with global customers. We think Ball has a narrow moat. High transportation costs, predictable demand, staggered long-term contracts, and high capital costs lead to an industry that benefits from efficient scale. Ball’s acquisition of Rexam could create enormous value for shareholders if it’s able to achieve or exceed synergy targets.