Quenching North America's Thirst for Cans

far.rabobank.com

RaboResearch
Food & Agribusiness
far.rabobank.com

Susan Hansen
Global Strategist – F&A
Supply Chains
+31 6 516 904 75

For a long time, demand for food and beverage cans in North America[1] was more or less flat. Since 2019, this trend seems to be reversing, with major can producers reporting accelerating demand growth and, at the time of writing, a very tight supply of beverage cans. This has stimulated beverage can imports to the US and investments in production capacity. The market has even attracted a foreign investor that just announced plans to build a greenfield plant. There is quite a bit of additional capacity coming online very shortly, which raises the question: is the increased demand of a structural nature and sufficiently high to allow for new market entrants, or will the market be shaken up?

Cans Are Back on the Shelf

For a long time, demand for food and beverage cans in North America was more or less flat to declining. Between 2015 and 2018, average annual shipments of cans were 125.4bn cans[2], of which about 75% were beverage cans. Steady increases in demand for cans in some segments (e.g. beer and food) could not fully make up for the longer-term loss of cans in the soft drink segment resulting from the substitution of PET. In the past almost two years, this trend seems to be reversing. Major can producers are citing renewed interest in cans, driven by several different trends (*see Table 1*).

Table 1: Demand drivers for food and beverage metal cans in North America

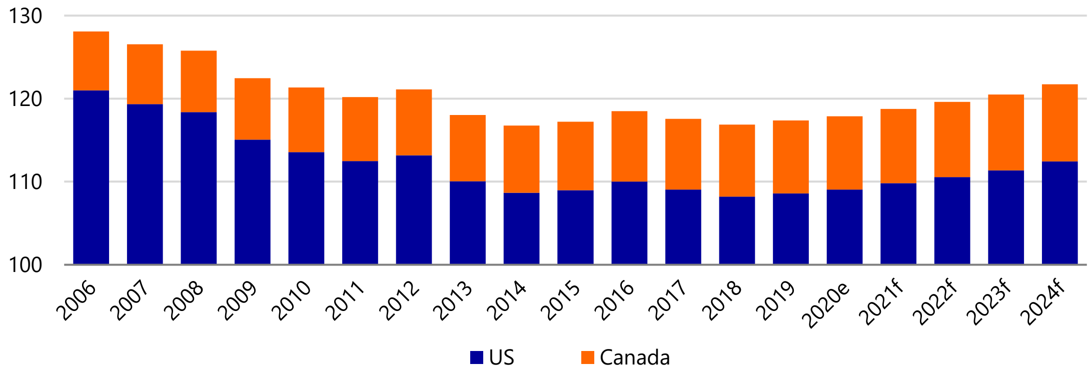
Driver	*Trends*
Innovation in design	The metal can industry has become very innovative, in terms of can design, sizes, functionality (e.g. closures), and printing capabilities. This is moving metal cans away from their commodity image and making them more attractive for the premium beverage segment. Brand owners are not only using more cans in traditional segments like water, but, to a much higher extent, for new product launches in categories like hard seltzers or cocktails. As an illustration, according to one source, the share of new beverage SKUs that are packaged in aluminum containers put on the US market almost doubled from 36% to 67% in just four years (between 2015 and 2019).[3]
Innovation in services	Mobile canning services, smaller off-take volumes (vs. glass bottles), low costs, innovation in flexibility, and options like shrink sleeves have made cans attractive for smaller players. In the craft beer segment, for example, cans have gained a large share over the years.
Convenience	The constantly growing need for convenience and for smaller food and beverage portions is increasing consumer acceptance of cans for new food and beverage products. Wine in cans, for example, might have been a total 'no go' in the past, but this segment is growing fast. Sales of wine in cans jumped 68% between July 2019 and July 2020 to a total of USD 188.8m.[4]
Sustainability	The recent wave of sustainable packaging strategies of leading brand owners drives substitution toward packaging solutions viewed as best for the environment. The metal can industry in the US seems to be successful in conveying a positive sustainability message for cans, focusing on its recyclability and high recycling rates. From a consumer perspective, the current anti-plastic sentiment is also an impetus for buying products in cans rather than PET, although Rabobank does not expect a massive shift in beverage packaging away from PET.

Source: Rabobank 2020

Structurally Stronger Demand

For the first time in years, demand for food and beverage cans in North America started growing again as of Q1 2019. According to data from CMI, shipments of beverage cans increased by 3% during 2019[5], and all major players expect this trend to continue in the years to come. Ball Corporation (Ball), for example, noted during the presentation of its Q1 2020 figures that the size of the US beverage can market is now about 100bn cans per year vs. an average of 93.8bn cans between 2015 and 2018 (Rabobank, CMI). Ball expects annual growth rates to accelerate to between 4% and 6% for at least the next five to seven years. This trend can also be observed in demand data from GlobalData, which shows that 2019 was an inflection point and that demand is forecasted to grow slowly until at least 2024 (*see Figure 1*).[6]

Figure 1: Metal can and bottle demand in North America, 2009-2024f (bn units)



Source: Rabobank, GlobalData 2020

With the publication of their Q1 and Q2 2020 figures, leading beverage can producers Ball, Crown Holdings Corp. (Crown), and Ardagh Group (Ardagh) all reported they were in very short supply and sold out for the year as a result of persistently strong demand. Crown said in Q1 that the company expected shipments (of beverage cans) in North America to increase by 10% during 2020. Around the same time, Ardagh noted a 20% increase in sales of specialty cans in the region.

Whether the growth rates will be 4%, 6%, or something different remains to be seen, but Rabobank expects growth patterns to continue, due to the strong fundamental demand drivers.

Short-Term Gains: Cans and Corona

On top of what seems to be structurally higher demand for cans, coronavirus has further bloated market imbalances, in particular in the US. The leading US can producers reported sales increases up to double-digit numbers in North America during the first half of 2020. There is especially strong demand for beverage cans. This is partly due to pantry stocking and partly due to the (temporary) closure of most of the foodservice channels across the US. In combination with stay-at-home orders, consumers have shifted (social) drinking occasions to their homes. This has, for example, led to beer being canned instead of supplied in kegs. According to CMI, beverage can demand (volumes) grew an impressive 8.3% YOY in Q1 2020, which is a record growth rate, with non-alcoholic beverage cans leading over alcoholic beverage cans (+9.3% and 6.7%, respectively).

The tight market can even be felt by competing materials. Glass bottles have steadily lost market share to cans over the years, but O-I reported in its Q2 2020 earnings call that it has somewhat benefited from the US beverage can shortage that has driven additional demand for glass bottles. According to O-I, this trend is likely to extend through 2021. To meet the solid demand for beverage cans, Ball and Crown combined will import at least 2bn to 3bn beverage cans to the US in the next 12 to 18 months, sourcing cans from their networks in Latin America and as far away as Europe to fulfill demand. This will increase costs for some off-takers, due to the additional transportation costs of imported vs. locally produced cans.

Pantry stocking, eating more at home, and fears of frequent in-store grocery shopping have also supported strong growth in metal food can demand. Players like Silgan, Crown, and Trivium Packaging reported strong shipments of North American food cans during 1H 2020.

North American Can Revival – New Kid on the Block

The North American metal can industry has gone through some years of footprint optimization as a result of the previous flat market conditions. This has led to the closures of 15 plants in North America (one of which in Canada) between 2015 and 2019. However, due to the growing attractiveness of the market, key players started investing in capacity expansions across the region as of late 2018/early 2019. The lion's share of new capacity is destined for beverage cans – only a small share of additional capacity will be used to produce food cans. Many plants are getting additional production lines, and there are four greenfield plants in the pipeline (*see Table 2*). The latter are all expected to be in operation during 2021.

The structural need for additional capacity seems to be exacerbated by the positive impact of Covid-19 on food and beverage cans alike. The attractive market has also lured a new foreign entrant, Polish-based CANPACK Group (CANPACK). In July 2020, CANPACK, which has 33 plants across Europe, North Africa, the Middle East, Asia, and Latin America, announced plans to build a greenfield plant that will have a capacity of 1bn cans, with room to expand to 3bn cans. Ardagh is the only other recent example of a foreign investor entering the North American can market through the company's acquisitions of the Impress Group (2011) and the divested Ball-Rexam plants (2016) stemming from an anti-trust decision.

Table 2: Selected expansions in metal can/bottle capacity in the US and Canada, 2018-2021

Group	*Plant*	*Country*	*Investment*	*Year*
CANPACK	Olyphant, PA	US	Greenfield plant	2021 exp.
Ball	Glendale, AZ	US	Greenfield plant	2021 exp.
Ball	Northeast region	US	Greenfield plant	2021 exp.
Crown	Bowling Green, KY	US	Greenfield plant	2021 exp.
Ardagh	Various facilities, not disclosed	US	Additional capacity	2020-2021
Crown	Olympia, WA	US	Additional capacity	2020-2021
Crown	Nichols, Tioga County, NY	US	Additional capacity	2020
Ball	Fort Worth, TX	US	Additional capacity	2020
Crown	Batesville, MS	US	Additional capacity	2020
Silgan	Lancaster, SC	US	Additional capacity	2020
Crown	Weston, Ontario	Canada	Additional capacity	2020
Crown	Weston, Ontario	Canada	Additional capacity	2019
Ardagh	Valparaiso, IN	US	Additional capacity	2019
Silgan	Allentown-Breinigsville, PA	US	Greenfield plant	2018-2019
Ball	Goodyear (Phoenix), AZ	US	Greenfield plant	2018

Source: Rabobank 2020

Enough Room in the Market?

The Key Question: Will There Be a Market Shake-Up?

Could CANPACK's entrance into the US shake up the market? CANPACK will build a plant of significant size and has a reputation for shaking up markets it enters by being very price competitive.

Three Growth Scenarios

Rabobank estimates that the four greenfield plants, including CANPACK's, will add at least 8.3bn units of beverage can capacity. This is equivalent to about 8% of current demand. The impact from the expansion of existing lines is harder to assess as there is limited public information available.

We present three scenarios for growth up to 2025, assuming that Ball's 100bn beverage can estimate is accurate and that the entire market is operating at full capacity now (*see Table 3*). We use Ball's 4% to 6% annual growth rate assumption for the next five years. In addition, we have added a 2% growth scenario, which is conservative in light of current market developments. Such a scenario would represent a more stabilizing situation in which the market share of cans vs. competing materials would grow at more modest rates. This could be due to demand shifts for beverages, channel shifts (e.g. drinking more on-premises again), or end users switching to competing materials. Rabobank considers the latter to be the most prominent potential risk if there is a prolonged can shortage. For example, a representative of the Brewers Association told CNN in July 2020: "We are seeing extended wait times for can orders and also some of the smaller players not having orders fulfilled." Consequently, smaller off-takers might be prompted to switch back to glass to ensure they are able to bottle their products without interruptions. Another potential driver to switch away from cans would be if the cost competitiveness of cans vs. glass or PET declines substantially. This would be driven by higher aluminum prices – for example, as a result of changes in import tariffs. In early August 2020, the Trump administration announced the reimposition of a 10% import tariff on "non-alloyed unwrought aluminum" from Canada, and it is unclear if more actions will follow.

Table 3: Estimated incremental beverage can demand 2020-2025, three scenarios

Annual average growth rate	*Average annual demand*	*Total demand*	*Total no. of 'CANPACK' plant equivalents*
2%	2.1bn cans	10.4bn cans	2
4%	4.3bn cans	21.7bn cans	13
6%	6.8bn cans	33.8bn cans	25

Note: Assuming 2020 demand is 100bn cans and annual growth rates range between 2% (Rabobank), 4%, and 6% (Ball). The number of 'CANPACK' plant equivalents assumes that a plant is 1bn cans. The number is found by subtracting the estimated 8.3bn unit capacity that Rabobank expects to come online by 2021 from the total estimated incremental demand per scenario.

Source: Rabobank 2020

The Answer: Room for All to Grow

Let's return to the key question: should existing players be worried about CANPACK's entrance to the market? Probably not, because:

- The market has been tight all year and is expected to remain so. Substantial can imports are currently needed until production can be ramped up. This indicates room in the market for additional capacity.
- Can producers note that (most of) the current expansions are based on contracts.
- New capacity will be added in steps, due to timing and planning, which makes it easier for the market to absorb.
- CANPACK's added capacity will equal 3% to 10% of the total incremental demand from 2020 to 2025. In addition, the company will operate from a single location. In a market that relies on scale and footprint, the latter might be a challenge. CANPACK, though, has successfully proven its concept in other markets.

Final Word

The arrival of the new kid on the block will almost certainly bring some new dynamics to the market. Yet, summing up, it is unlikely that CANPACK would shake up the current market with high growth rates and a single plant. Major players have also recently renewed contracts with their large accounts. Even in the conservative scenario, the newly added capacity can be absorbed by the market. And if demand continues to grow in the coming five years, as Ball expects, there will be a lot of space in the market for all players to further grow capacities. In the most optimistic scenario, this opportunity would be the equivalent of up to 25 additional 'CANPACK-size' plants/production lines.

Regardless of this positive outlook, it would be wise to critically monitor demand developments in the coming 12 to 18 months before making further sizeable investment decisions. The seemingly structural growth in demand is still relatively new compared to years of stagnation. Yet it seems safe to assume that, no matter which of the three growth scenarios will materialize, demand will continue to grow. This means that some level of investments will continuously be needed.

[1] For the purpose of this report, North America refers to the US and Canada.

[2] According to Can Manufacturers Institute (CMI)

[3] Ball Corporation. Annual Report, 2019

[4] According to Nielsen data cited by CBS News

[5] As cited in Crown's 2019 Annual Report

[6] Please note that GlobalData's annual average demand growth is less than 1%, which is less than the increased shipment rates. The shipment data from CMI and consumption data from GlobalData do not match one-to-one, due to differences in reporting and methodology (e.g. reported numbers vs. estimated numbers, total domestic shipments vs. total domestic consumption, and so on). The data should thus be regarded as complementary, to get a sense of the direction of market trends.

Imprint

RaboResearch
Food & Agribusiness
far.rabobank.com

Susan Hansen	Global Strategist – F&A Supply Chains	susan.hansen@rabobank.com +31 6 516 904 75