Philip Morris International (PM)

Updated July 19th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$77	**5 Year CAGR Estimate:**	13.5%	**Volatility Percentile:**	40.9%
Fair Value Price:	$84	**5 Year Growth Estimate:**	5.9%	**Momentum Percentile:**	4.5%
% Fair Value:	92%	**5 Year Valuation Multiple Estimate:**	1.7%	**Valuation Percentile:**	68.4%
Dividend Yield:	5.9%	**5 Year Price Target**	$111	**Total Return Percentile:**	80.6%

Overview & Current Events

Philip Morris International is a tobacco company that came into being when its parent company Altria (MO) spun off its international operations. Philip Morris sells cigarettes under the Marlboro brand, among others, internationally. Altria uses the Marlboro brand (again, among others) in the U.S. Philip Morris has a market capitalization of $121 billon.

Philip Morris reported its most recent quarterly results on July 19. The company earned $1.41 per share, an increase of 20% year over year. Net revenues grew at an 11.7% pace to $7.7 billion. At constant foreign exchange rates revenues would have grown by 8.3%. Management also updated its financial guidance. The company now believes it will earn between $5.02 and $5.12 during 2018. The reduction in the company's forward guidance was based on currency rate changes. The market reacted negatively to these results, sending shares below $80 once again.

Philip Morris has raised its dividend by 6.5% in June, the new quarterly payout is $1.14 per share.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$3.32	$3.24	$3.92	$4.85	$5.17	$5.26	$4.76	$4.42	$4.48	$4.72	***$5.07***	***$6.75***
DPS	$1.54	$2.24	$2.44	$2.84	$3.24	$3.58	$3.88	$4.04	$4.12	$4.22	***$4.49***	***$5.38***

When the spin-off of Philip Morris was announced, the market assumed that Altria (the US business) would be the low-growth company, and that Philip Morris (the non-US business) would be the high-growth company. It looked like this would come true through 2013, as Philip Morris recorded a 9.6% EPS growth rate through the first five years of its existence. This changed in the following years, as Philip Morris' profits declined and stagnated, and even during 2018 earnings per share will remain below the peak set in 2013.

Currency rates are a major factor for Philip Morris' profitability, as all of the company's revenues are generated out of the US. The recent advance of the US dollar has led to a reduction in Philip Morris' guidance for 2018, the company forecasts a $0.07 headwind from currency rates during the current year.

Another reason for Philip Morris' weak profit growth over the last couple of years were the company's investments into the iQOS / Heatsticks technology. The investment in the development of this device and the manufacturing equipment needed to produce this reduced-risk product on a massive scale were costly, but Philip Morris is hoping that those investments will pay off in the long run. Ramp-up of iQOS in markets such as Japan and South Korea has been a success, and the product is one of the reasons why Philip Morris has been able to grow its revenues by a very sizeable 13% during the first half of 2018 despite cigarette volumes declining by 3% during these six months.

Cigarette volume declines have decelerated from Q1 to Q2, and with the added benefit of rising Heatsticks sales Philip Morris has ample potential to grow its revenues and earnings over the coming years.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	14.7	13.4	13.2	13.8	16.7	17.0	17.7	18.8	21.5	23.4	***15.2***	***16.5***
Avg. Yld.	3.1%	5.1%	4.7%	4.2%	3.8%	4.0%	4.6%	4.9%	4.3%	3.8%	***5.9%***	***4.8%***

Disclosure: This analyst has a long position in the security discussed in this article.

Due to share price decreases over the last couple of months and profit growth shares are now valued at a significantly lower valuation compared to the last couple of years. The inexpensive valuation provides an attractive entry point. Philip Morris' dividend yield is 5.9%, which is among the highest yields investors can get from blue chip stocks right now. The stock's high yield and stable earnings make it a compelling choice for investors looking for high payouts.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	49.7%	46.2%	50.1%	57.5%	55.7%	54.5%	54.8%	51.2%	46.9%	42.6%	***44.0%***	***47.0%***
Debt/A	76.1%	82.1%	85.2%	98.3%	108%	116%	132%	134%	130%	124%	***120%***	***100%***
Int. Cov.	33.0	12.7	12.9	16.8	16.3	14.0	11.2	10.7	12.3	12.8	***13.0***	***13.0***
Payout	46.4%	69.1%	62.2%	58.6%	62.7%	68.1%	81.5%	91.4%	92.0%	89.4%	***88.6%***	***79.7%***
Std. Dev.	28.8%	27.7%	21.8%	17.3%	16.5%	13.4%	12.9%	18.0%	14.2%	18.9%	***19.0%***	***21.0%***

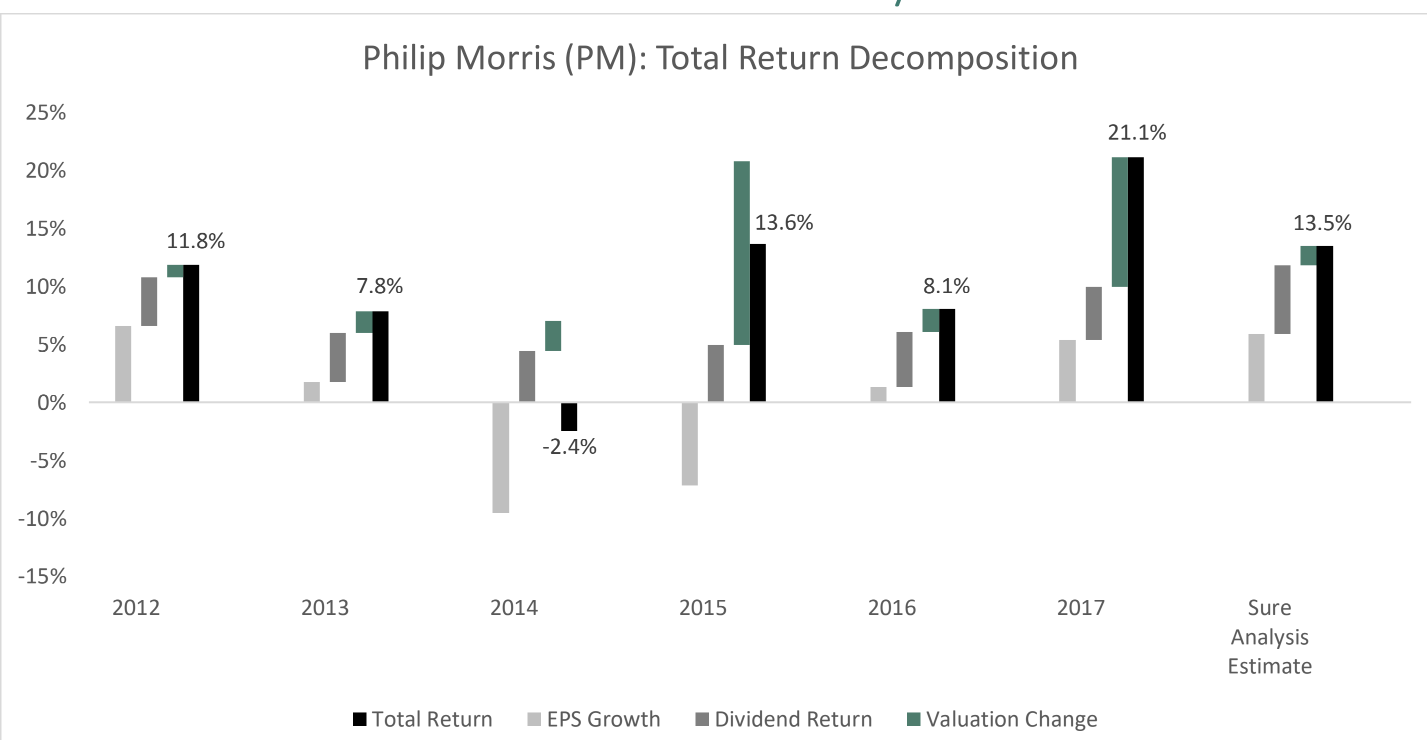
Philip Morris' balance sheet is highly leveraged. The company has negative equity, which is why total debt is higher than all assets. This is due to the company's share repurchases in the past, which lowered equity levels (and which were partially funded via debt). The interest coverage ratio is still quite high though, as Philip Morris' long term debt is inexpensive. The company therefore is not in a dangerous situation financially.

Philip Morris has one of the best cigarette brands in the world, Marlboro, and is a leader in the reduced-risk product segment with iQOS. At the same time the company's massive scale allows for cost advantages, and in the cigarette industry there are no up-and-coming competitors trying to get into the market. This means that Philip Morris generally is a low-risk business, with regulation being the exception. Smoking bans can affect the company's results, although Philip Morris is safer in this regard than many other tobacco companies due to its geographic diversification.

Final Thoughts & Recommendation

iQOS sales and price increases will allow for solid earnings growth going forward. An inexpensive valuation and a high dividend yield will also be beneficial for Philip Morris' total returns. The company looks like a buy for those seeking current income as well as for those interested in compelling total returns over the coming years.

Total Return Breakdown by Year



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