



Altria Group, Inc. (MO)

Updated October 25th, 2018 by Bob Ciura

Key Metrics

Current Price:	\$62	5 Year CAGR Estimate:	13.0%	Volatility Percentile:	26.1%
Fair Value Price:	\$64	5 Year Growth Estimate:	7.0%	Momentum Percentile:	53.8%
% Fair Value:	97%	5 Year Valuation Multiple Estimate:	0.9%	Growth Percentile:	62.5%
Dividend Yield:	5.1%	5 Year Price Target	\$91	Valuation Percentile:	49.6%
Dividend Risk Score:	B	Retirement Suitability Score:	A	Total Return Percentile:	68.2%

Overview & Current Events

Altria Group was founded by Philip Morris in 1847. Today, it is a consumer staples giant. It sells the Marlboro cigarette brand in the U.S., and a number of other non-smokeable brands, including Skoal, Copenhagen, and Ste. Michelle. Altria also has a 10% ownership stake in global beer giant Anheuser Busch Inbev.

On 10/25/18, Altria reported third-quarter earnings. Revenue net of excise taxes increased 3.3% to \$5.29 billion, and beat expectations by \$80 million. Adjusted earnings-per-share of \$1.08 beat analyst estimates by \$0.02 per share, and increased 20% from the same quarter a year ago. Net revenue increased 1.0% in the core smokeable products segment, as price increases more than offset the impact of falling shipment volumes. After adjusting for trade inventory movements, Altria's cigarette shipment volume declined by 5%, worse than the estimated industry decline of 4.5%. The company generated strong earnings growth, primarily to share repurchases and a lower tax rate.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$1.66	\$1.76	\$1.87	\$1.64	\$2.06	\$2.26	\$2.56	\$2.67	\$2.76	\$3.39	\$3.99	\$5.60
DPS	\$1.68	\$1.32	\$1.46	\$1.58	\$1.70	\$1.84	\$2.08	\$2.17	\$2.35	\$2.54	\$2.90	\$4.07
Shares	2061	2076	2089	2044	2010	1994	1969	1960	1943	1901	1891	1850

Altria has generated steady earnings and dividend growth for many years, after accounting for the spin-offs of Kraft Foods and Philip Morris International. In fact, Altria has increased its dividend in 49 of the past 52 years. Going forward, Altria's growth will be fueled by price increases and new products. Altria enjoys strong brands across its product portfolio, including the No. 1 cigarette brand. As a result, it has pricing power and brand loyalty.

Along with third-quarter earnings, the company tightened its full-year outlook. Altria now expects adjusted earnings-per-share in a range of \$3.95 to \$4.03. We have adjusted our 2018 forecast as a result. Investors should also note Altria's revised strategy when it comes to e-cigarettes. Due to heightened regulatory and public scrutiny of marketing e-cigarette products to minors, Altria announced it would discontinue the MarkTen Elite and Apex by MarkTen pod-based products until these products receive a market order from the FDA. For remaining MarkTen and Green Smoke products, it will only offer tobacco, menthol, and mint varieties. This is not expected to materially impact the company's future earnings growth. We continue to forecast 7% annual earnings growth through 2023.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	11.9	9.9	11.8	16.2	15.7	15.7	16.5	20.1	23.4	20.6	15.5	16.2
Avg. Yld.	8.5%	7.6%	6.6%	6.0%	5.3%	5.2%	4.9%	4.0%	3.7%	3.6%	5.1%	4.5%

At the midpoint of Altria's 2018 guidance, the company expects earnings-per-share of approximately \$3.99. As a result, Altria stock trades for a price-to-earnings ratio of 15.5. In the past 10 years, Altria stock traded for an average price-to-earnings ratio of 16.2. This is a reasonable estimate of fair value for Altria, and as a result the stock is slightly undervalued. An expanding valuation could boost annual returns by approximately 0.9%.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Safety, Quality, Competitive Advantage, & Recession Resiliency

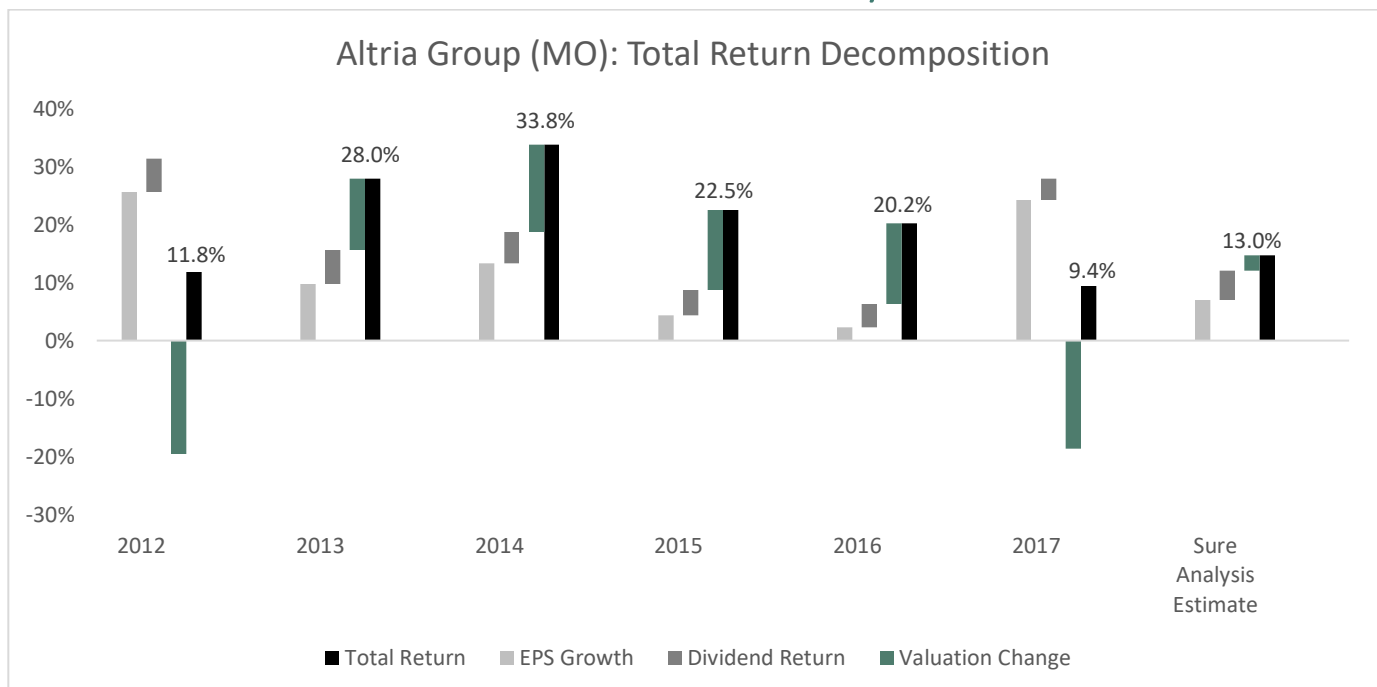
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	28.2%	24.1%	24.6%	24.3%	27.1%	30.0%	29.5%	35.3%	25.2%	27.7%	28.0%	28.0%
Debt/A	89.6%	88.8%	86.0%	89.9%	90.9%	88.1%	91.2%	90.7%	72.2%	64.4%	65.0%	65.0%
Int. Cov.	30.1	5.1	6.0	5.6	6.7	7.6	10.7	10.9	30.3	15.0	23.0%	23.0%
Payout	101%	75.0%	78.1%	96.3%	82.5%	81.4%	81.2%	81.3%	86.1%	74.9%	72.7%	72.7%
Std. Dev.	21.8%	18.0%	15.0%	12.9%	15.4%	13.5%	13.9%	19.6%	12.5%	20.6%	21.0%	21.0%

Altria ranks very highly in terms of safety because the company has tremendous competitive advantages. It operates in a highly regulated industry, which virtually eliminates the threat of new competition in the tobacco industry. In addition, tobacco companies enjoy high brand loyalty and low manufacturing and distribution costs, thanks to its economies of scale. Altria spent just \$199 million in capital expenditures last year and generated \$4.9 billion of operating cash flow. Altria's business model is also highly resistant to recessions. Sales of cigarettes and other tobacco products hold up well when the economy declines. This explains why Altria's earnings rose steadily throughout the Great Recession. From a dividend perspective, Altria's long dividend history combined with its reasonable payout ratio allows it to earn a B rating for Dividend Safety, while its high safety score and dividend yield earn it an A rating for Retirement Suitability.

Final Thoughts & Recommendation

Altria stock has declined 13% year-to-date, as investor sentiment has turned negative toward tobacco companies due to falling smoking rates. However, Altria stock has performed well since our last report, and the company reported stabilization of the core tobacco segment in the third quarter. There remains credible long-term risks for tobacco stocks, but Altria is investing in next-generation products to meet the changing consumer habits. In the meantime, investors are paid well to be patient, with a 5.1% dividend yield. Through earnings growth, dividends, and valuation changes, we expect 13% annual returns for Altria stock over the next five years, which makes the stock a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	15957	16824	24363	23800	24618	24466	24522	25434	25744	25576
Gross Profit	7687	8834	9188	8939	9563	10457	10160	11114	11591	11951
Gross Margin	48.2%	52.5%	37.7%	37.6%	38.8%	42.7%	41.4%	43.7%	45.0%	46.7%
SG&A Exp.	2753	2843	2735	2643	2301	2340	2539	2708	2650	2362
D&A Exp.	215	291	276	253	225	212	208	225	204	209
Operating Profit	4927	5971	6264	6290	7314	8095	7619	8365	8941	9589
Op. Margin	30.9%	35.5%	25.7%	26.4%	29.7%	33.1%	31.1%	32.9%	34.7%	37.5%
Net Profit	4930	3206	3905	3390	4180	4535	5070	5241	14239	10222
Net Margin	30.9%	19.1%	16.0%	14.2%	17.0%	18.5%	20.7%	20.6%	55.3%	40.0%
Free Cash Flow	4640	3170	2599	3476	3761	4244	4500	5614	3632	4723
Income Tax	1699	1669	1816	2189	2294	2407	2704	2835	7608	-399

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	27215	36677	37402	36751	35329	34859	34475	31459	45932	43202
Cash & Equivalents	7916	1871	2314	3270	2900	3175	3321	2369	4569	1253
Acc. Receivable	N/A	96	85	268	193	115	124	124	151	142
Inventories	1069	1810	1803	1779	1746	1879	2040	2031	2051	2225
Goodwill & Int.	3116	17312	17292	17272	17252	17232	17334	17313	17321	17707
Total Liabilities	24387	32573	32175	33068	32159	30741	31465	28586	33159	27822
Accounts Payable	510	494	529	503	451	409	416	400	425	374
Long-Term Debt	7474	11960	12194	13689	13878	14517	14693	12847	13881	13894
Total Equity	2828	4069	5192	3680	3168	4119	3014	2880	12770	15377
D/E Ratio	2.64	2.94	2.35	3.72	4.38	3.52	4.87	4.46	1.09	0.90

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	11.7%	10.0%	10.5%	9.1%	11.6%	12.9%	14.6%	15.9%	36.8%	22.9%
Return on Equity	46.1%	93.0%	84.3%	76.4%	122%	125%	142%	178%	182%	72.6%
ROIC	29.3%	24.3%	23.3%	19.5%	24.3%	25.4%	27.9%	31.4%	67.2%	36.6%
Shares Out.	2061	2076	2089	2044	2010	1994	1969	1960	1943	1901
Revenue/Share	7.66	8.12	11.72	11.53	12.16	12.24	12.40	12.97	13.19	13.31
FCF/Share	2.23	1.53	1.25	1.68	1.86	2.12	2.28	2.86	1.86	2.46

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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