

Altria Group, Inc. (MO)

Updated January 31st, 2019 by Bob Ciura

Key Metrics

Current Price:	\$49	5 Year CAGR Estimate:	16.1%	Volatility Percentile:	33.3%
Fair Value Price:	\$64	5 Year Growth Estimate:	4.0%	Momentum Percentile:	12.2%
% Fair Value:	77%	5 Year Valuation Multiple Estimate:	5.5%	Growth Percentile:	22.0%
Dividend Yield:	6.6%	5 Year Price Target	\$77	Valuation Percentile:	85.4%
Dividend Risk Score:	С	Retirement Suitability Score:	Α	Total Return Percentile:	89.5%

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 the Ste. Michelle brand of wine. Altria also has a 10% ownership stake in global beer giant Anheuser Busch Inbev.

On 1/31/19, Altria reported fourth-quarter earnings. Revenue net of excise taxes increased 1.5% to \$4.8 billion, missing expectations by \$20 million. Adjusted earnings-per-share of \$0.95 increased 4.4% from the same quarter a year ago. Net revenue increased 0.4% 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 5.5%, worse than the estimated industry decline of 5.0%. The company managed positive earnings growth primarily due to share repurchases and a lower tax rate.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$1.76	\$1.87	\$1.64	\$2.06	\$2.26	\$2.56	\$2.67	\$2.76	\$3.39	\$3.99	\$4.21	<i>\$5.12</i>
DPS	\$1.32	\$1.46	\$1.58	\$1.70	\$1.84	\$2.08	\$2.17	\$2.35	\$2.54	\$3.00	\$3.37	\$4.10
Shares	2076	2089	2044	2010	1994	1969	1960	1943	1901	1888	1860	1800

Altria has generated steady earnings and dividend growth for many years after accounting for the spin-offs of Kraft Foods and Philip Morris International. This is a period of transition for Altria. The decline in the U.S. smoking rate continues and is accelerating. In response, Altria has invested heavily in new products that appeal to changing consumer preferences. Altria recently announced a \$1.8 billion investment in Canadian marijuana producer Cronos Group for a 45% equity stake, as well as a warrant to acquire an additional 10% ownership interest in Cronos Group at a price of C\$19.00 per share, exercisable over four years from the closing date. Altria will help Cronos accelerate its research and development capabilities.

Separately, Altria announced it will invest \$12.8 billion in e-vapor manufacturer Juul Labs. The investment represents a 35% equity stake in the company, valuing Juul at \$38 billion. It appears likely from the Juul investment that Altria will discontinue its own e-cigarette brand MarkTen. In light of these large investments, Altria announced a cost-cutting program designed to reduce annual expenses by \$500 million to \$600 million. Still, due to the higher-than-expected volume decline in 2018, we have adjusted our five-year earnings forecast to 4% annual growth.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2023
Avg. P/E	9.9	11.8	16.2	15.7	15.7	16.5	20.1	23.4	20.6	12.4	11.5	15.0
Avg. Yld.	7.6%	6.6%	6.0%	5.3%	5.2%	4.9%	4.0%	3.7%	3.6%	6.1%	6.6%	5.3%

At the midpoint of Altria's 2019 guidance, the company expects earnings-per-share of approximately \$4.21. As a result, Altria stock trades for a price-to-earnings ratio of 11.5. In the past 10 years, Altria stock traded for an average price-to-earnings ratio of 16.2. Our fair value estimate for Altria is a price-to-earnings ratio of 15, a reasonable multiple for a

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highly profitable company. As a result, the stock is significantly undervalued. An expanding valuation could boost annual returns by approximately 5.5%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

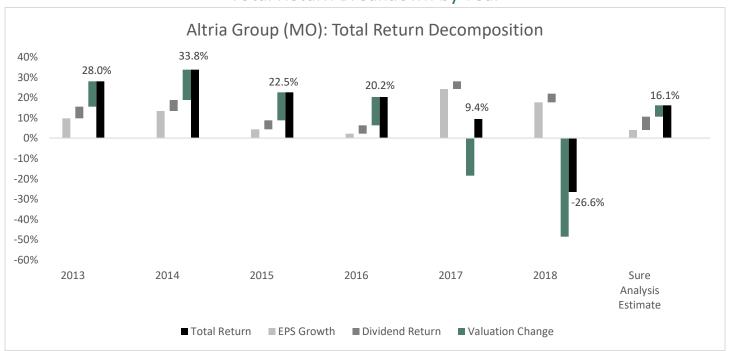
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	75.0%	78.1%	96.3%	82.5%	81.4%	81.2%	81.3%	86.1%	74.9%	75.2%	80.0%	80.0%

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. Altria enjoys strong brands across its product portfolio, including the No. 1 cigarette brand. As a result, it has pricing power and brand loyalty. In addition, tobacco companies enjoy low manufacturing and distribution costs, thanks to its economies of scale. This has fueled Altria' tremendous dividend growth. Altria has increased its dividend 53 times in the past 49 years. 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 high payout ratio allows it to earn a C 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 31% in the past year, as investor sentiment has turned negative toward tobacco companies due to falling smoking rates. Altria is investing in next-generation products to meet the changing consumer habits. Judging by the steep decline in Altria's share price, investors do not seem convinced of Altria's growth plan. However, the company is doing what is necessary against an undeniable consumer trend. In the meantime, investors are paid well to be patient, with a very high 6.6% yield and the likelihood of annual dividend increases. Through earnings growth, dividends, and valuation changes, we expect 16% annual returns for Altria stock over the next five years, which earns the stock a buy recommendation from Sure Dividend at current prices.

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

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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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