



Altria Group, Inc. (MO)

Updated August 8th, 2019 by Samuel Smith

Key Metrics

Current Price:	\$46	5 Year CAGR Estimate:	17.9%	Volatility Percentile:	47.5%
Fair Value Price:	\$63	5 Year Growth Estimate:	4.0%	Momentum Percentile:	22.4%
% Fair Value:	73%	5 Year Valuation Multiple Estimate:	6.6%	Growth Percentile:	26.2%
Dividend Yield:	7.3%	5 Year Price Target	\$77	Valuation Percentile:	90.1%
Dividend Risk Score:	B	Retirement Suitability Score:	A	Total Return Percentile:	90.4%

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. It currently trades at a market capitalization of \$86 billion.

On 7/30/19, Altria reported second-quarter earnings. Smokeable products shipment volume outperformed considerably by rising 0.4% against the expected 10.6% decline. However, smokeless products shipments underwhelmed expectations by declining 3.6% against expectations of only declining 2.4%. To capitalize on the suppressed share price, management announced a new \$1 billion share repurchase program to run through 2020. Looking ahead, the company is guiding full-year domestic cigarette volume to continue declining at a rate of 5%-6%. Earnings-per-share guidance, meanwhile, exceeded Street expectations but matched ours, coming in at a midpoint of \$4.21 against a \$4.19 consensus.

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	\$5.12
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	10.9	15.0
Avg. Yld.	7.6%	6.6%	6.0%	5.3%	5.2%	4.9%	4.0%	3.7%	3.6%	6.1%	7.3%	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 10.9. In the past 10 years, Altria stock traded for an average price-to-

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earnings ratio of 16.2. Our fair value estimate for Altria is a price-to-earnings ratio of 15, a reasonable multiple for a highly profitable company with a strong moat and a lengthy track record of success. As a result, the stock is significantly undervalued. An expanding valuation could boost annual returns by approximately 6.6%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

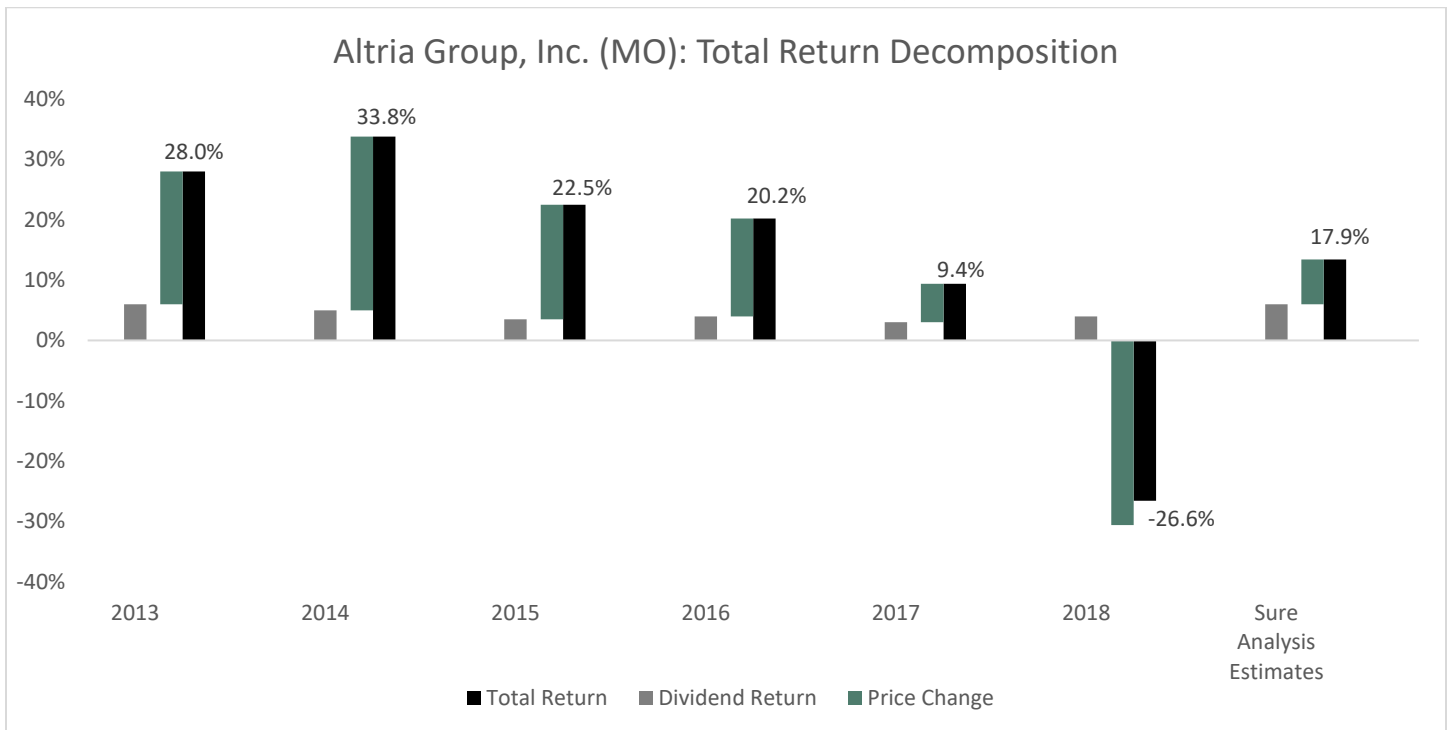
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	75.0%	78.1%	96.3%	82.5%	81.4%	81.2%	81.3%	86.1%	74.9%	75.2%	80.0%	80.0%

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’s 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.

Final Thoughts & Recommendation

Altria stock has declined heavily 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 yield and the likelihood of annual dividend increases. Through earnings growth (4%), dividends (7.3%), and multiple expansion (6.6%), we expect 17.9% 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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	16824	24363	23800	24618	24466	24522	25434	25744	25576	25364
Gross Profit	8834	9188	8939	9563	10457	10160	11114	11572	11963	12254
Gross Margin	52.5%	37.7%	37.6%	38.8%	42.7%	41.4%	43.7%	45.0%	46.8%	48.3%
SG&A Exp.	2843	2735	2643	2301	2340	2539	2708	2662	2338	2756
D&A Exp.	291	276	253	225	212	208	225	204	209	227
Operating Profit	5971	6264	6290	7314	8095	7619	8365	8910	9625	9498
Op. Margin	35.5%	25.7%	26.4%	29.7%	33.1%	31.1%	32.9%	34.6%	37.6%	37.4%
Net Profit	3206	3905	3390	4180	4535	5070	5241	14239	10222	6963
Net Margin	19.1%	16.0%	14.2%	17.0%	18.5%	20.7%	20.6%	55.3%	40.0%	27.5%
Free Cash Flow	3170	2599	3476	3761	4244	4500	5614	3637	4702	8153
Income Tax	1669	1816	2189	2294	2407	2704	2835	7608	-399	2374

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	36677	37402	36751	35329	34859	34475	31459	45932	43202	55638
Cash & Equivalents	1871	2314	3270	2900	3175	3321	2369	4569	1253	1333
Acc. Receivable	96	85	268	193	115	124	124	151	142	142
Inventories	1810	1803	1779	1746	1879	2040	2031	2051	2225	2331
Goodwill & Int.	17312	17292	17272	17252	17232	17334	17313	17321	17707	17475
Total Liabilities	32573	32175	33068	32159	30741	31465	28586	33159	27822	40849
Accounts Payable	494	529	503	451	409	416	400	425	374	399
Long-Term Debt	11960	12194	13689	13878	14517	14693	12847	13881	13894	25746
Total Equity	4069	5192	3680	3168	4119	3014	2880	12770	15377	14787
D/E Ratio	2.94	2.35	3.72	4.38	3.52	4.87	4.46	1.09	0.90	1.74

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	10.0%	10.5%	9.1%	11.6%	12.9%	14.6%	15.9%	36.8%	22.9%	14.1%
Return on Equity	93.0%	84.3%	76.4%	122%	126%	142%	178%	182%	72.6%	46.2%
ROIC	24.3%	23.3%	19.5%	24.3%	25.4%	27.9%	31.4%	67.2%	36.6%	19.9%
Shares Out.	2076	2089	2044	2010	1994	1969	1960	1943	1901	1888
Revenue/Share	8.12	11.72	11.53	12.16	12.24	12.40	12.97	13.19	13.31	13.43
FCF/Share	1.53	1.25	1.68	1.86	2.12	2.28	2.86	1.86	2.45	4.32

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

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