



Philip Morris International Inc. (PM)

Updated October 17th, 2019 by Eli Inkrot

Key Metrics

Current Price:	\$78	5 Year CAGR Estimate:	10.0%	Volatility Percentile:	75.2%
Fair Value Price:	\$82	5 Year Growth Estimate:	4.0%	Momentum Percentile:	35.7%
% Fair Value:	95%	5 Year Valuation Multiple Estimate:	1.1%	Growth Percentile:	27.7%
Dividend Yield:	6.0%	5 Year Price Target	\$100	Valuation Percentile:	66.7%
Dividend Risk Score:	F	Retirement Suitability Score:	C	Total Return Percentile:	67.8%

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. Its sister company Altria sells the Marlboro brand (again, among others) in the U.S. Philip Morris has a market capitalization of \$121 billion.

On October 17th, 2019 Phillip Morris reported Q3 2019 results for the period ending September 30th, 2019. For the quarter the company generated net revenue of \$7.6 billion, which was up 1.8% as reported and up 7.0% on a like-for-like basis, excluding unfavorable currency fluctuations. Shipment volumes were down -5.9% for cigarettes, with every region showing a decline. Meanwhile, heated tobacco units – a much smaller portion of the business – were up 84.8% year-over-year. Collectively, shipments were down -2.1% for the entire business. Adjusted earnings-per-share totaled \$1.43 against \$1.44 in Q3 2018. The company's total international market share was 28.8%.

Philip Morris also provided an updated 2019 full-year forecast. The company now expects reported earnings-per-share to come in at \$4.73 or greater (from \$4.94), with adjusted earnings-per-share reaching \$5.14 or more per share (unchanged). Excluding currency fluctuations, the expectations is to earn \$5.28 per share (also unchanged).

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$3.24	\$3.92	\$4.85	\$5.17	\$5.26	\$4.76	\$4.42	\$4.48	\$4.72	\$5.10	\$5.14	\$6.25
DPS	\$2.24	\$2.44	\$2.84	\$3.24	\$3.58	\$3.88	\$4.04	\$4.12	\$4.22	\$4.49	\$4.68	\$5.43
Shares¹	1,887	1,802	1,726	1,654	1,589	1,547	1,549	1,551	1,553	1,554	1,555	1,450

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 International, the non-US business, would be the high-growth company. It looked like this would come true through 2013, as Philip Morris recorded near double-digit earnings-per-share growth through the first five years of its existence. This changed in the following years, as Philip Morris' profits declined and stagnated. Even during 2018, earnings-per-share remained 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 outside of the US.

Philip Morris' weak profit growth over the last couple of years was partially due to 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 stabilize its business. On April 30th, 2019 the U.S. FDA approved the marketing of the iQOS technology in the U.S., with Phillip Morris set to bring the product via Altria's U.S. subsidiary Phillip Morris USA. However, these products have faced increased safety and regulatory concerns as of late, making the fate of the products unknown.

Taking these items collectively, we are anticipating growth of 4% per annum over the intermediate-term.

¹ In millions.

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.



Philip Morris International Inc. (PM)

Updated October 17th, 2019 by Eli Inkrot

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	13.4	13.2	13.8	16.7	17.0	17.7	18.8	21.5	23.4	17.3	15.2	16.0
Avg. Yld.	5.1%	4.7%	4.2%	3.8%	4.0%	4.6%	4.9%	4.3%	3.8%	5.1%	6.0%	5.4%

Shares of Philip Morris traded at an elevated valuation in the 2015 through 2017 stretch, but otherwise a mid-teens multiple has been fairly typical. At the current mark of 15.2 times anticipated earnings, we believe shares are more or less fairly valued – indicating the potential for a small tailwind from the valuation component. Moreover, with the elevated and consistent payout ratio, Philip Morris’ dividend ought to add meaningfully to shareholder returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	69%	62%	59%	63%	68%	82%	91%	92%	89%	88%	89%	85%

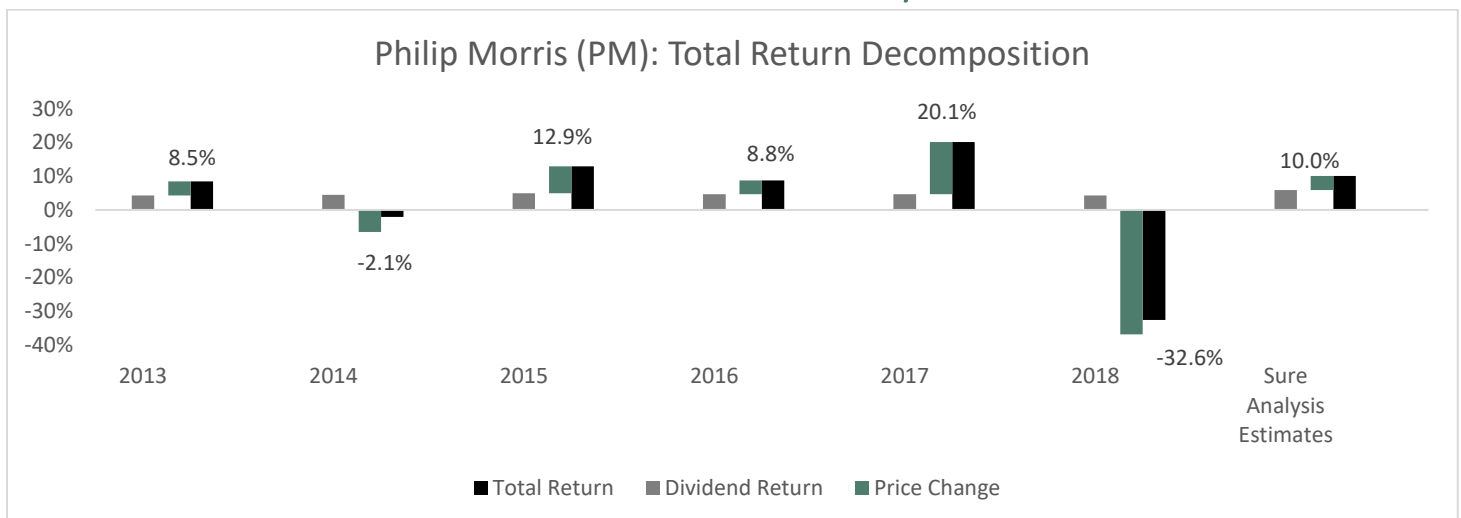
Philip Morris’ dividend payout ratio has never been especially low, and the ratio increased further during the last decade. At the peak, Philip Morris has paid out more than 90% of its net profits to its owners. The dividend payout ratio has come down slightly but remains at a high level. Due to strong cash generation, low capex requirements and the stability of Philip Morris’ business model during recessions the dividend still appears to be relatively well-covered.

Philip Morris has one of the most valuable 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 tremendous cost advantages. This means that Philip Morris is generally 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

Shares are down about 10% since our last update. Philip Morris is an international tobacco giant that is heavily impacted by currency rate movements. The payout ratio is elevated, but thus far the company has proven more than capable of sustaining its lofty dividend. However, both growth expectations and the valuation are average. Total return potential comes in at 10% per annum, driven by a 4% growth rate and a 6% starting dividend yield. While the security is suitable for income investors, we remain somewhat cautious today, and continue to rate shares as a hold.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



Philip Morris International Inc. (PM)

Updated October 17th, 2019 by Eli Inkrot

Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	25035	27208	31097	31377	31217	29767	26794	26685	28748	29625
Gross Profit	16013	17495	20419	21004	20807	19331	17429	17294	18316	18867
Gross Margin	64.0%	64.3%	65.7%	66.9%	66.7%	64.9%	65.0%	64.8%	63.7%	63.7%
SG&A Exp.	5870	6160	6870	6961	6890	7001	6656	6405	6725	7449
D&A Exp.	853	932	993	898	882	889	754	743	875	989
Operating Profit	10069	11247	13451	13946	13824	12237	10691	10815	11503	11336
Op. Margin	40.2%	41.3%	43.3%	44.4%	44.3%	41.1%	39.9%	40.5%	40.0%	38.3%
Net Profit	6342	7259	8591	8800	8576	7493	6873	6967	6035	7911
Net Margin	25.3%	26.7%	27.6%	28.0%	27.5%	25.2%	25.7%	26.1%	21.0%	26.7%
Free Cash Flow	7169	8724	9632	8365	8935	6586	6905	6905	7364	8042
Income Tax	2691	2826	3653	3833	3670	3097	2688	2768	4307	2445

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	34552	35050	35488	37670	38168	35187	33956	36851	42968	39801
Cash & Equivalents	1540	1703	2550	2983	2154	1682	3417	4239	8447	6593
Acc. Receivable	3131	3065	3201	3589	3853	4004	2778	3499	3194	2950
Inventories	9207	8317	8120	8949	9846	8592	8473	9017	8806	8804
Goodwill & Int.	12658	14034	13625	13519	12086	11373	10038	9794	10098	9467
Total Liabilities	28407	29929	34937	40824	44442	46390	45432	47751	53198	50540
Accounts Payable	670	835	1031	1103	1274	1242	1289	1666	2242	2068
Long-Term Debt	15416	16502	18545	22839	27678	29455	28480	29067	34339	31759
Total Equity	5716	3506	229	-3476	-7766	-12.6B	-13.2B	-12.7B	-12.1B	-12.5B
D/E Ratio	2.70	4.71	80.98	-6.57	-3.56	-2.33	-2.15	-2.29	-2.84	-2.55

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	18.8%	20.9%	24.4%	24.1%	22.6%	20.4%	19.9%	19.7%	15.1%	19.1%
Return on Equity	96.0%	157.4%	460%	-542%	-153%	-73.5%	-53.1%	-53.7%	-48.7%	-64.5%
ROIC	30.6%	33.6%	42.2%	45.4%	41.7%	37.8%	39.0%	39.6%	28.6%	35.1%
Shares Out.	1950	1842	1762	1692	1622	1566	1549	1551	1553	1555
Revenue/Share	12.84	14.77	17.65	18.54	19.25	19.01	17.30	17.21	18.51	19.05
FCF/Share	3.68	4.74	5.47	4.94	5.51	4.21	4.46	4.45	4.74	5.17

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

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.