



Altria Group, Inc. (MO)

Updated November 9th, 2020 by Samuel Smith

Key Metrics

Current Price:	\$37	5 Year CAGR Estimate:	14.6%	Market Cap:	\$69.3B
Fair Value Price:	\$47	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	1/14/21
% Fair Value:	79%	5 Year Valuation Multiple Estimate:	4.8%	Dividend Payment Date:	1/15/21
Dividend Yield:	9.2%	5 Year Price Target	\$55	Years Of Dividend Growth:	51
Dividend Risk Score:	B	Retirement Suitability Score:	A	Last Dividend Increase:	2.4%

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, in addition to large stakes in Juul, a vaping products manufacturer and distributor, as well as cannabis company Cronos Group (CRON). It currently trades at a market capitalization of \$69.3 billion.

On 10/30/20, Altria reported third-quarter earnings. Non-GAAP earnings-per-share for the quarter came in at \$1.19 while GAAP earnings-per-share disappointed at -\$0.51. Despite the challenges caused by the pandemic, the company reported 4.8% year-over-year growth in revenue to \$5.67B. That said, they also narrowed their adjusted diluted EPS guidance range to \$4.30 to \$4.38, implying 2%-4% year-over-year growth. Management stated that the company has demonstrated resilience during the third quarter and has delivered a strong financial performance while still making progress against their 10-year Vision despite COVID-19 headwinds.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$1.87	\$1.64	\$2.06	\$2.26	\$2.56	\$2.67	\$2.76	\$3.39	\$3.99	\$4.21	\$4.31	\$5.00
DPS	\$1.46	\$1.58	\$1.70	\$1.84	\$2.08	\$2.17	\$2.35	\$2.54	\$3.00	\$3.28	\$3.44	\$4.00
Shares¹	2089	2044	2010	1994	1969	1960	1943	1901	1888	1860	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, however, is a period of transition for Altria. The decline in the U.S. smoking rate is accelerating. In response, Altria has invested heavily in new products that appeal to changing consumer preferences.

Altria recently invested billions of dollars in Canadian marijuana producer Cronos Group for a 55% equity stake (including warrants) and a 35% equity stake in e-vapor manufacturer Juul Labs. In light of these large investments, Altria announced a cost-cutting program designed to reduce annual expenses by \$500 million to \$600 million. We expect slight disruption to the industry to result in earnings-per-share coming in at \$4.31. We also note that the company's investments in Juul and Cronos have generated billions of dollars in losses for Altria since inception.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	11.8	16.2	15.7	15.7	16.5	20.1	23.4	20.6	12.4	11.6	8.7	11.0
Avg. Yld.	6.6%	6.0%	5.3%	5.2%	4.9%	4.0%	3.7%	3.6%	6.1%	6.9%	9.2%	7.3%

We expect that Altria will generate earnings-per-share of approximately \$4.31 in 2020. As a result, Altria stock trades for a price-to-earnings ratio of 8.7. 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 11.0, a reasonable multiple for a highly profitable

¹ In millions

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



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company with a strong moat and a lengthy track record of success that is facing steep volume declines in its core business. As a result, the stock is undervalued at present. In addition, the yield is enormous at more than 9%, which is extremely high both on an absolute basis, and against Altria's own historical yields.

Safety, Quality, Competitive Advantage, & Recession Resiliency

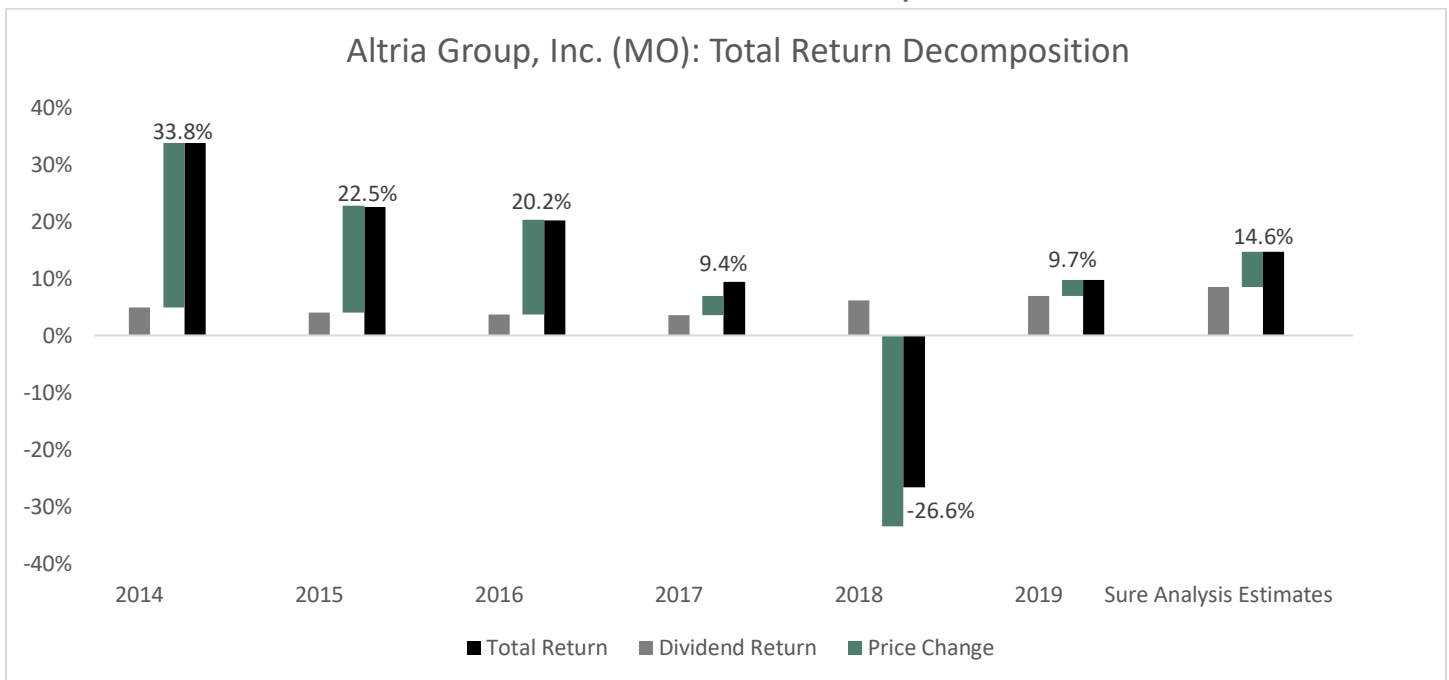
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	78.1%	96.3%	82.5%	81.4%	81.2%	81.3%	86.1%	74.9%	75.2%	80.0%	79.8%	80.0%

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. Indeed, Altria has increased its dividend 54 times in the past 50 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, and why earnings should be relatively unscathed during the present downturn.

Final Thoughts & Recommendation

Altria offers compelling 14.6% annualized total return potential along with a very attractive 9.2% dividend yield, and a very impressive dividend growth record. Furthermore, its business model has proven to be very defensive. As a result, it is a very attractive dividend growth stock. The risk investors need to keep in mind is that the core industry is gradually declining as volumes continue to move lower year after year. Further, the company has struggled to effectively allocate capital in attempts to grow outside of the core business.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	16892	16619	17500	17663	17945	18854	19337	19494	19627	19796
Gross Profit	9188	8939	9563	10457	10160	11114	11572	11963	12254	12711
Gross Margin	54.4%	53.8%	54.6%	59.2%	56.6%	58.9%	59.8%	61.4%	62.4%	64.2%
SG&A Exp.	2735	2643	2301	2340	2539	2708	2662	2338	2756	2226
D&A Exp.	276	253	225	212	208	225	204	209	227	226
Operating Profit	6264	6290	7314	8095	7619	8365	8910	9625	9498	10485
Op. Margin	37.1%	37.8%	41.8%	45.8%	42.5%	44.4%	46.1%	49.4%	48.4%	53.0%
Net Profit	3905	3390	4180	4535	5070	5241	14239	10222	6963	-1293
Net Margin	23.1%	20.4%	23.9%	25.7%	28.3%	27.8%	73.6%	52.4%	35.5%	-6.5%
Free Cash Flow	2599	3476	3761	4244	4500	5614	3637	4702	8153	7591
Income Tax	1816	2189	2294	2407	2704	2835	7608	(399)	2374	2064

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	37402	36751	35329	34859	34475	31459	45932	43202	55459	49271
Cash & Equivalents	2314	3270	2900	3175	3321	2369	4569	1253	1333	2117
Acc. Receivable	85	268	193	115	124	124	151	142	142	152
Inventories	1803	1779	1746	1879	2040	2031	2051	2225	2331	2293
Goodwill & Int.	17292	17272	17252	17232	17334	17313	17321	17707	17475	17864
Total Liabilities	32175	33068	32159	30741	31465	28586	33159	27822	40670	42952
Accounts Payable	529	503	451	409	416	400	425	374	399	325
Long-Term Debt	12194	13689	13878	14517	14693	12847	13881	13894	25746	28042
Total Equity	5192	3680	3168	4119	3014	2880	12770	15377	14787	6222
D/E Ratio	2.35	3.72	4.38	3.52	4.87	4.46	1.09	0.90	1.74	4.51

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	10.5%	9.1%	11.6%	12.9%	14.6%	15.9%	36.8%	22.9%	14.1%	-2.5%
Return on Equity	84.3%	76.4%	122%	125%	142%	178%	182%	72.6%	46.2%	-12.3%
ROIC	23.3%	19.5%	24.3%	25.4%	27.9%	31.4%	67.2%	36.6%	19.9%	-3.5%
Shares Out.	2089	2044	2010	1994	1969	1960	1943	1901	1888	1860
Revenue/Share	8.13	8.05	8.65	8.84	9.07	9.61	9.91	10.15	10.40	10.59
FCF/Share	1.25	1.68	1.86	2.12	2.28	2.86	1.86	2.45	4.32	4.06

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

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