



Philip Morris International Inc. (PM)

Updated April 21st, 2021 by Eli Inkrot

Key Metrics

Current Price:	\$94	5 Year CAGR Estimate:	6.8%	Market Cap:	\$147 B
Fair Value Price:	\$90	5 Year Growth Estimate:	3.0%	Ex-Dividend Date¹:	06/19/21
% Fair Value:	105%	5 Year Valuation Multiple Estimate:	-0.9%	Dividend Payment Date¹:	07/10/21
Dividend Yield:	5.1%	5 Year Price Target	\$104	Years Of Dividend Growth:	13
Dividend Risk Score:	C	Retirement Suitability Score:	B	Last Dividend Increase:	2.6%

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 (among others) in the U.S. Philip Morris has a \$147 billion market cap.

On April 20th, 2021 Philip Morris reported Q1 2021 results for the period ending March 31st, 2021. For the quarter the company generated net revenue of \$7.59 billion, which was up 6.0% compared to Q1 2020. Shipment volume was down -3.7% collectively, with cigarette shipment volume down -7.3% and heated tobacco, a much smaller portion of the business, up 29.9%. Adjusted earnings-per-share equaled \$1.57 compared to \$1.21 in Q1 2020.

Philip Morris also updated its 2021 forecast, now anticipating adjusted earnings-per-share of \$5.95 to \$6.05. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$4.85	\$5.17	\$5.26	\$4.76	\$4.42	\$4.48	\$4.72	\$5.10	\$5.19	\$5.17	\$6.00	\$6.96
DPS	\$2.84	\$3.24	\$3.58	\$3.88	\$4.04	\$4.12	\$4.22	\$4.49	\$4.62	\$4.74	\$4.80	\$5.56
Shares²	1,726	1,654	1,589	1,547	1,549	1,551	1,553	1,554	1,555	1,558	1,560	1,500

When the spin-off of Philip Morris was announced, the market assumed that Altria, the U.S. business, would be the low-growth company, and that Philip Morris International, the non-U.S. 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 2019, prior to the pandemic, 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 U.S.

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 international markets has taken hold and the product is one of the reasons why Philip Morris has been able to stabilize its business.

The COVID-19 pandemic continues to be a concern for the global economy, but Philip Morris is in an industry with inelastic demand. As such, despite declining shipment volumes in its cigarette business, the company has fortitude and even pricing power in lesser times. Still, with the company turning in stagnant results last year, it's clear that the business will be affected to some degree. Taking these items collectively we are anticipating growth of 3% per annum over the intermediate term using the midpoint of recent guidance as a beginning baseline.

¹ Estimate

² In millions.

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	13.8	16.7	17.0	17.7	18.8	21.5	23.4	17.3	15.7	15.0	15.7	15.0
Avg. Yld.	4.2%	3.8%	4.0%	4.6%	4.9%	4.3%	3.8%	5.1%	5.7%	6.1%	5.1%	5.3%

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 nearly 16 times anticipated earnings, this implies the possibility of a small valuation headwind. On the other hand, with the elevated and consistent payout ratio, Philip Morris' dividend ought to add meaningfully to shareholder returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	59%	63%	68%	82%	91%	92%	89%	88%	89%	92%	80%	80%

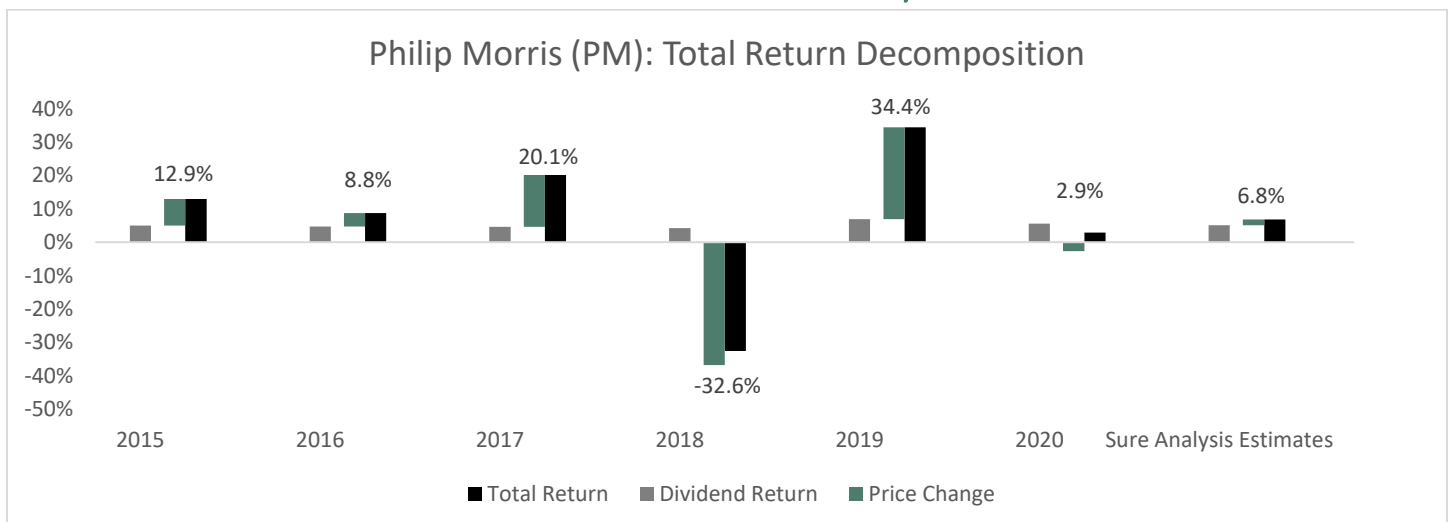
Philip Morris' dividend payout ratio has never been especially low, and the ratio increased further during the last decade. At the peak, Philip Morris has paid out more than 90% of its net profits to its owners. Due to strong cash generation, low capex requirements and the stability of Philip Morris' 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

After being up 9% in our last report, shares are up another 12% in the last three months. 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 6.8% per annum, driven by a 3% growth rate and the 5.1% yield, offset by the potential for a small valuation headwind. Shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	31097	31377	31217	29767	26794	26685	28748	29625	29805	28690
Gross Profit	20419	21004	20807	19331	17429	17294	18316	18867	19292	19120
Gross Margin	65.7%	66.9%	66.7%	64.9%	65.0%	64.8%	63.7%	63.7%	64.7%	66.6%
SG&A Exp.	6870	6961	6890	7001	6656	6405	6725	7449	8784	7481
D&A Exp.	993	898	882	889	754	743	875	989	964	981
Operating Profit	13451	13946	13824	12237	10691	10815	11503	11336	10442	11570
Op. Margin	43.3%	44.4%	44.3%	41.1%	39.9%	40.5%	40.0%	38.3%	35.0%	40.3%
Net Profit	8591	8800	8576	7493	6873	6967	6035	7911	7185	8056
Net Margin	27.6%	28.0%	27.5%	25.2%	25.7%	26.1%	21.0%	26.7%	24.1%	28.1%
Free Cash Flow	9632	8365	8935	6586	6905	6905	7364	8042	9238	9210
Income Tax	3653	3833	3670	3097	2688	2768	4307	2445	2293	2377

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	35488	37670	38168	35187	33956	36851	42968	39801	42875	44820
Cash & Equivalents	2550	2983	2154	1682	3417	4239	8447	6593	6861	7280
Acc. Receivable	3201	3589	3853	4004	2778	3499	3194	2950	3080	2905
Inventories	8120	8949	9846	8592	8473	9017	8806	8804	9235	9591
Goodwill & Int.	13625	13519	12086	11373	10038	9794	10098	9467	7971	7983
Total Liabilities	34937	40824	44442	46390	45432	47751	53198	50540	52474	55450
Accounts Payable	1031	1103	1274	1242	1289	1666	2242	2068	2299	2780
Long-Term Debt	18545	22839	27678	29455	28480	29067	34339	31759	31045	31540
Total Equity	229	-3476	-7766	-12.6B	-13.2B	-12.7B	-12.1B	-12.5B	-11.6B	-12.6B
D/E Ratio	80.98	-6.57	-3.56	-2.33	-2.15	-2.29	-2.84	-2.55	-2.68	-2.51

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	24.4%	24.1%	22.6%	20.4%	19.9%	19.7%	15.1%	19.1%	17.4%	18.4%
Return on Equity	460%	-542%	-153%	-73.5%	-53.1%	-53.7%	-48.7%	-64.5%	---	---
ROIC	42.2%	45.4%	41.7%	37.8%	39.0%	39.6%	28.6%	35.1%	33.8%	38.0%
Shares Out.	1762	1692	1622	1566	1549	1551	1553	1555	1555	1558
Revenue/Share	17.65	18.54	19.25	19.01	17.30	17.21	18.51	19.05	19.15	18.42
FCF/Share	5.47	4.94	5.51	4.21	4.46	4.45	4.74	5.17	5.94	5.91

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

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