



Altria Group, Inc. (MO)

Updated August 12th, 2021 by Samuel Smith

Key Metrics

Current Price:	\$47.5	5 Year CAGR Estimate:	9.7%	Market Cap:	\$87.3B
Fair Value Price:	\$50.8	5 Year Growth Estimate:	2.2%	Ex-Dividend Date:	9/14/21 ¹
% Fair Value:	93%	5 Year Valuation Multiple Estimate:	1.3%	Dividend Payment Date:	10/09/21
Dividend Yield:	7.2%	5 Year Price Target	\$57	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 \$87.3 billion.

On 7/29/21, Altria reported second quarter FY21 results. Smokeable product revenue increased by 8.0% year-over-year. Q2 net revenue grew 8.9% to \$6.9 billion due to higher net revenues in all reportable segments. Q2 diluted earnings per share came in at \$1.16, up by 11.5% year-over-year. Adjusted diluted earnings per share stood at \$2.30, up 5.5% due to higher adjusted OCI and fewer shares outstanding, partially offset by higher income taxes. The management also announced repurchasing 6.6 million shares at an average price of \$49.21 totaling \$325 million. Overall, Altria delivered a strong financial performance for the second quarter which resulted to an increased full-year adjusted diluted earnings-per-share guidance of \$4.56-\$4.62.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.64	\$2.06	\$2.26	\$2.56	\$2.67	\$2.76	\$3.39	\$3.99	\$4.21	\$4.36	\$4.62	\$5.15
DPS	\$1.58	\$1.70	\$1.84	\$2.08	\$2.17	\$2.35	\$2.54	\$3.00	\$3.28	\$3.44	\$3.44	\$4.00
Shares²	2044	2010	1994	1969	1960	1943	1901	1888	1860	1860	1830	1700

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 continues, though it has recently recovered some. In response to the negative long-term trend, Altria has invested heavily in new products that appeal to changing consumer preferences. They are also investing heavily into share repurchases to try to support continued earnings-per-share and dividend-per-share growth.

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 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	16.2	15.7	15.7	16.5	20.1	23.4	20.6	12.4	11.6	8.7	10.3	11.0
Avg. Yld.	6.0%	5.3%	5.2%	4.9%	4.0%	3.7%	3.6%	6.1%	6.9%	9.2%	7.2%	7.1%

¹ Estimate

² In millions

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



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We expect that Altria will generate earnings-per-share of approximately \$4.62 in 2021. As a result, Altria stock trades for a price-to-earnings ratio of 10.3. In the past 10 years, Altria stock traded for an average price-to-earnings ratio of 16.1. Our fair value estimate for Altria is a price-to-earnings ratio of 11.0, a reasonable multiple for a highly profitable company with a strong moat and a lengthy track record of success that is facing volume declines in its core business. As a result, the stock is slightly undervalued at present. In addition, the yield is very attractive at 7.2%, which is extremely high both on an absolute basis and against Altria’s own historical yields.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	96.3%	82.5%	81.4%	81.2%	81.3%	86.1%	74.9%	75.2%	80.0%	79.8%	74.5%	77.7%

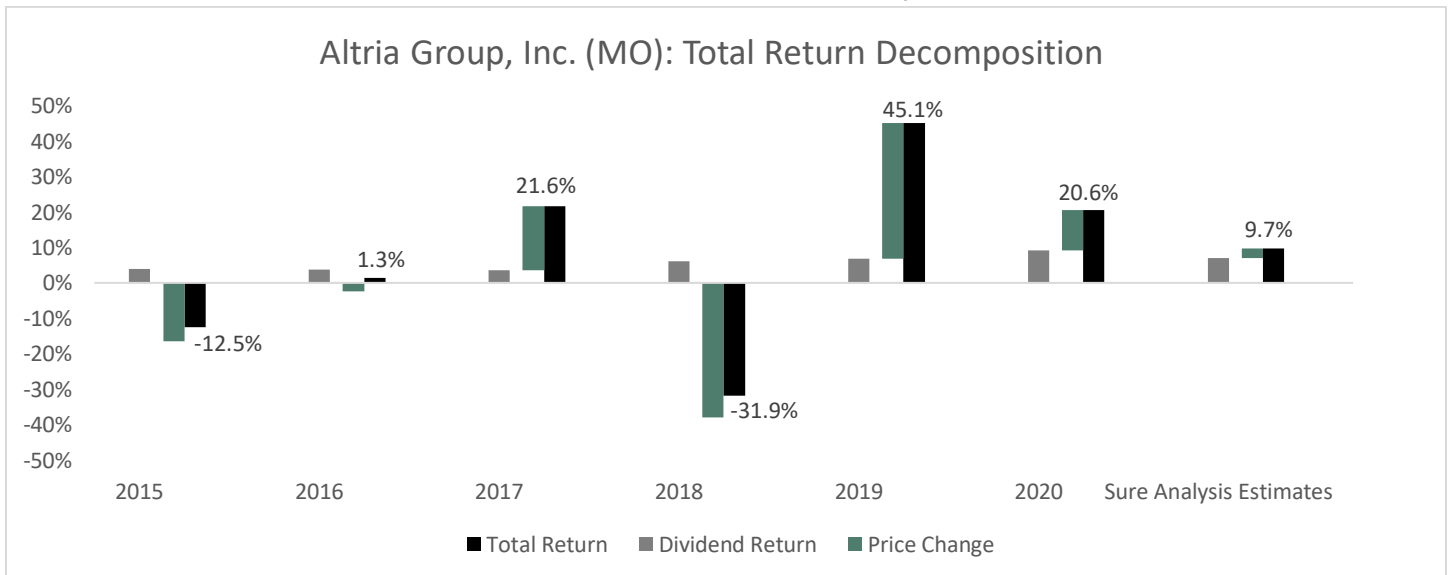
Altria ranks very highly in terms of safety because the company has tremendous competitive advantages. It operates in a highly regulated industry, which virtually eliminates the threat of new competition in the tobacco industry. Altria enjoys strong brands across its product portfolio, including the 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, enabling it to boast an impressive dividend growth streak of 51 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 were unscathed during the brief 2020 recession.

Final Thoughts & Recommendation

Altria offers attractive 9.7% annualized total return potential along with an even more attractive 7.2% 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 compelling dividend growth stock right now. 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. Furthermore, the company has struggled to effectively allocate capital in attempts to grow outside of the core business. That said, given the attractiveness and sustainability of the dividend, we rate it a Buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	16619	17500	17663	17945	18854	19337	19494	19627	19796	20841
Gross Profit	8939	9563	10457	10160	11114	11572	11963	12254	12711	13023
Gross Margin	53.8%	54.6%	59.2%	56.6%	58.9%	59.8%	61.4%	62.4%	64.2%	62.5%
SG&A Exp.	2643	2301	2340	2539	2708	2662	2338	2756	2226	2154
D&A Exp.	253	225	212	208	225	204	209	227	226	257
Operating Profit	6290	7314	8095	7619	8365	8910	9625	9498	10485	10869
Op. Margin	37.8%	41.8%	45.8%	42.5%	44.4%	46.1%	49.4%	48.4%	53.0%	52.2%
Net Profit	3390	4180	4535	5070	5241	14239	10222	6963	-1293	4467
Net Margin	20.4%	23.9%	25.7%	28.3%	27.8%	73.6%	52.4%	35.5%	-6.5%	21.4%
Free Cash Flow	3476	3761	4244	4500	5614	3637	4702	8153	7591	8154
Income Tax	2189	2294	2407	2704	2835	7608	(399)	2374	2064	2436

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	36751	35329	34859	34475	31459	45932	43202	55459	49271	47414
Cash & Equivalents	3270	2900	3175	3321	2369	4569	1253	1333	2117	4945
Acc. Receivable	268	193	115	124	124	151	142	142	152	137
Inventories	1779	1746	1879	2040	2031	2051	2225	2331	2293	1966
Goodwill & Int.	17272	17252	17232	17334	17313	17321	17707	17475	17864	17792
Total Liabilities	33068	32159	30741	31465	28586	33159	27822	40670	42952	44489
Accounts Payable	503	451	409	416	400	425	374	399	325	380
Long-Term Debt	13689	13878	14517	14693	12847	13881	13894	25746	28042	29471
Total Equity	3680	3168	4119	3014	2880	12770	15377	14787	6222	2839
D/E Ratio	3.72	4.38	3.52	4.87	4.46	1.09	0.90	1.74	4.51	10.38

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	9.1%	11.6%	12.9%	14.6%	15.9%	36.8%	22.9%	14.1%	-2.5%	9.2%
Return on Equity	76.4%	122%	125%	142%	178%	182%	72.6%	46.2%	-12.3%	98.6%
ROIC	19.5%	24.3%	25.4%	27.9%	31.4%	67.2%	36.6%	19.9%	-3.5%	13.4%
Shares Out.	2044	2010	1994	1969	1960	1943	1901	1888	1860	1860
Revenue/Share	8.05	8.65	8.84	9.07	9.61	9.91	10.15	10.40	10.59	11.21
FCF/Share	1.68	1.86	2.12	2.28	2.86	1.86	2.45	4.32	4.06	4.39

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

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