



Vector Group Ltd. (VGR)

Updated December 28th, 2021 by Prakash Kolli

Key Metrics

Current Price:	\$17	5 Year CAGR Estimate:	8.6%	Market Cap:	\$2.61B
Fair Value Price:	\$19	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	03/18/22 ¹
% Fair Value:	91%	5 Year Valuation Multiple Estimate:	1.9%	Dividend Payment Date:	03/30/22
Dividend Yield:	4.7%	5 Year Price Target	\$22	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	C	Last Dividend Increase:	0.0%

Overview & Current Events

Vector Group Ltd. is a holding company that is an unusual combination of a cigarette company and real estate firm. The company owns and controls two tobacco companies: Liggett Group, LLC and Vector Tobacco, Inc. Vector Group also owns New Valley LLC, which is a real estate investment business. The Tobacco segment primarily sells discount cigarette brands including Eagle 20's, Pyramid, Grand Prix, Liggett Select, and Eve. New Valley also owns Douglas Elliman Realty, which is the largest real estate brokerage in New York City and has operations in the Long Island, Florida, Beverley Hills, Aspen, Massachusetts, and Connecticut. The company had revenue of \$2,002.7M in 2020.

Vector Group reported outstanding Q3 2021 results on November 8th, 2021. Companywide net revenue rose 19% to \$652.6M compared to \$547.8M and diluted GAAP earnings per share increased to \$0.32 compared to \$0.25 on a year-over-year basis. Tobacco segment revenues fell to \$297.4M from \$318.9M on lower volumes. Wholesale shipments fell to 2.11 billion from 2.39 billion in comparable periods. Retail shipments decreased (-6.1%) versus the overall industry's retail shipment decline of (-7.0%). Vector's market share increased to 4.22% from 4.18% in the prior year.

Real Estate segment revenue rose 55% to \$354.7M from \$229.0M on a year-over-year basis driven by a recovery in the NYC real estate market due to pent up demand and low interest rates. Closed sales volumes rose 62% to \$12.6B from \$7.8B in the prior year. The company announced the spinoff of Douglas Elliman into a separate company.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$0.36	\$0.26	\$0.93	\$0.29	\$0.42	\$0.50	\$0.56	\$0.35	\$0.63	\$0.60	\$1.25	\$1.45
DPS²	\$1.10	\$1.15	\$1.21	\$1.27	\$1.33	\$1.40	\$1.47	\$1.54	\$1.56	\$0.80	\$0.80	\$0.80
Shares³	112	120	124	139	143	141	141	141	148	148	148	148

Vector Group has consistently grown revenue the past decade. But earnings per share have been tremendously volatile, as the company's operating margins have fluctuated, interest expense has moved steadily higher, and its real estate business has seen impairment charges against it. However, the company performed better than expected in 2020 and momentum has continued in 2021 due to the significantly better NYC real estate market. After 2021, we anticipate annual 3% earnings per share growth on average out to 2026 assuming low single-digit growth for both segments.

Vector Group had previously paid a regular cash dividend of \$1.60 per share and a 5% stock dividend annually through 2019. However, as we noted in earlier reports, earnings and net operating cash did not cover the dividend in recent years. The company needed to use debt to pay the dividend. The greater share count from the stock dividend, increase in total debt at higher interest rates, and restrictive covenants on the debt eventually limited the company's ability to pay the dividend. The regular dividend was cut for 2020 and is now \$0.80 per share and the stock dividend was suspended as well. Dividend coverage has improved recently due to higher earnings, reasonable cash position, and retirement of the 5.5% Variable Interest Convertible Notes due in 2020. No long-term debt is due until 2025.

¹ Estimate based on prior years. Vector Group has not yet declared the next quarterly dividend payment.

² Adjusted for annual stock dividend of 5% through 2019.

³ Share count 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.



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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	33.8	46.8	13.2	57.6	45.6	38.5	35.2	45.1	17.2	12.0	13.6	15.0
Avg. Yld.	9.0%	9.4%	9.8%	7.7%	6.9%	7.3%	7.4%	9.2%	14.2%	7.3%	4.7%	3.7%

Vector Group's stock price is up significantly since our last report due to much higher revenues and earnings in the most recent quarter. We again raised our earnings per share estimate to \$1.25 in 2021. Our fair value multiple for the long haul is 15X accounting for recent challenges. Our fair value estimate is now \$19. Our 5-year price target is now \$22.

Safety, Quality, Competitive Advantage, & Recession Resiliency

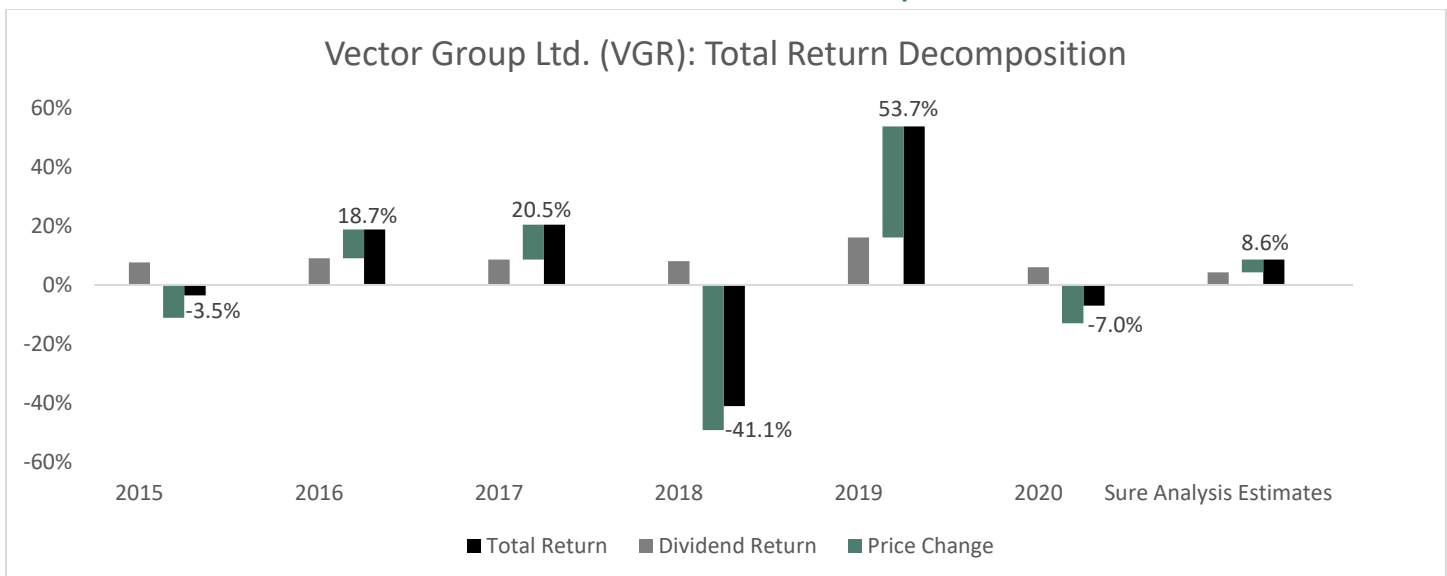
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	306%	442%	130%	438%	317%	280%	263%	440%	248%	133%	64%	55%

Vector Group's main competitive advantage is the tobacco business, which tends to have stable cash flows. However, e-cigarettes represent a threat and cigarette volumes are declining. Vector Group is also starting to lose market share despite the cost advantage of its discount brands. We do not believe that the real estate business has a competitive advantage despite Douglas Elliman being the largest residential real estate brokerage in NYC. Of greater concern is that long-term debt has increased over time to pay the dividend and fund operations. Short-term debt was \$12.6M and long-term debt was \$1,402.9M offset by \$678.8M in cash, equivalents, and marketable securities at the end of Q3 2021. The company has been able to refinance debt but at high rates. Vector Group carries \$875M of 5.75% Senior Secured Notes due in 2029 and \$552.2M of 10.5% Senior Notes due in 2026 that have restrictive covenants for paying the dividend.

Final Thoughts & Recommendation

At present we are forecasting 8.6% total annualized return over the next five years. Vector is performing well on surging home sale volumes in NYC and recovery of the real estate segment earnings. Vector is taking advantage and announced the spinoff of Douglas Elliman, which will be the 6th largest real estate brokerage in the US. We remain negative for the long-term about Vector due to the cut in the regular cash dividend, suspended stock dividend, high debt, and declining cigarette volumes. We still do not recommend this stock but upped our rating to a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	1133	1096	1080	1591	1657	1691	1807	1870	1904	2003
Gross Profit	240	263	313	494	547	594	579	578	602	636
Gross Margin	21.2%	24.0%	29.0%	31.1%	33.0%	35.1%	32.1%	30.9%	31.6%	31.7%
SG&A Exp.	97	108	114	279	320	339	337	356	370	330
D&A Exp.	11	11	13	24	26	22	19	19	18	18
Operating Profit	143	155	199	215	227	255	242	222	232	306
Operating Margin	12.6%	14.1%	18.5%	13.5%	13.7%	15.1%	13.4%	11.9%	12.2%	15.3%
Net Profit	75	31	37	37	59	71	85	58	101	93
Net Margin	6.6%	2.8%	3.5%	2.3%	3.6%	4.2%	4.7%	3.1%	5.3%	4.6%
Free Cash Flow	24	73	39	84	134	71	112	164	111	248
Income Tax	48	23	24	33	41	49	-2	22	33	42

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	928	1087	1264	1423	1281	1404	1328	1550	1505	1343
Cash & Equivalents	241	406	234	326	240	394	301	585	371	353
Accounts Receivable	25	11	12	23	24	19	29	34	37	41
Inventories	109	100	93	90	87	90	90	91	99	98
Goodwill & Int. Ass.	108	108	275	270	264	262	268	267	266	208
Total Liabilities	1017	1166	1286	1444	1403	1657	1660	2097	2190	2003
Accounts Payable	10	6		11	20	11	19	13	10	13
Long-Term Debt	544	624	692	913	865	1172	1228	1643	1606	1406
Shareholder's Equity	-89	-79	-95	-100	-206	-332	-414	-548	-685	-660
D/E Ratio	-6.11	-7.87	-7.29	-9.16	-4.20	-3.53	-2.97	-3.00	-2.34	-2.13

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	8.0%	3.0%	3.2%	2.7%	4.4%	5.3%	6.2%	4.0%	6.6%	6.5%
Return on Equity	-111%	-36.4%	-42.8%	-37.8%	-38.7%	-26.4%	-22.7%	-12.1%		
ROIC	15.5%	6.1%	6.1%	4.7%	7.2%	8.6%	9.3%	5.8%	10.0%	11.1%
Shares Out.	112	120	124	139	143	141	141	141	148	148
Revenue/Share	10.21	9.65	9.22	12.71	11.57	12.34	12.97	13.41	12.92	13.33
FCF/Share	0.22	0.64	0.33	0.67	0.93	0.52	0.80	1.18	0.76	1.65

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

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