



Imperial Brands plc (IMBBY)

Updated May 22nd, 2022 by Nathan Parsh

Key Metrics

Current Price:	\$23	5 Year CAGR Estimate:	8.2%	Market Cap:	\$21.5 B
Fair Value Price:	\$22	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	05/26/22
% Fair Value:	107%	5 Year Valuation Multiple Estimate:	-1.3%	Dividend Payment Date:	07/08/22
Dividend Yield:	7.9%	5 Year Price Target	\$25	Years Of Dividend Growth:	N/A
Dividend Risk Score:	D	Retirement Suitability Score:	B	Rating:	Hold

Overview & Current Events

Imperial Brands is a tobacco company that was founded in 1901. Today, it is headquartered in the United Kingdom and has a market capitalization of almost \$22 billion. The company manufactures and sells a variety of tobacco products, including cigarettes, tobaccos, cigars, rolling papers, and tubes. Some of its core brands include Winston, Davidoff, Gauloises, L&B, Bastos, Fine, Gitanes, Kool, Jade, and many more. The company is organized into two operating segments, tobacco and logistics. The tobacco segment includes the manufacture and sale of its various tobacco products, while the logistics segment distributes tobacco to product manufacturers.

On May 17th, 2022, Imperial Brands reported first half of fiscal year 2022 results for the period ending March 31st, 2022. For the first half, net revenue grew 0.3% in constant currency. Tobacco revenues grew 0.1% while volume declined 0.7%. Adjusted earnings-per-share improved 7.7%, aided by a small tailwind from currency exchange. Total tobacco market share improved 70 basis points in both the U.S. and Australia and 105 basis points in the U.K. Market share fell 80 basis points in Germany and 45 basis points in Spain. Average priority market share improved 25 basis points in the first half. Imperial Brands continues to expect 0% to 1% constant currency revenue growth for the fiscal year, with EPS at a slightly lower rate due to investments. We continue to expect earnings-per-share of \$3.32 for fiscal 2021.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$1.07	\$1.21	\$1.93	\$2.31	\$0.86	\$1.92	\$3.55	\$3.49	\$3.36	\$3.30	\$3.32	\$3.85
DPS	\$1.29	\$1.42	\$1.56	\$2.36	\$1.96	\$2.16	\$2.45	\$2.48	\$1.07	\$1.87	\$1.81	\$1.81
Shares¹	994	975	961	958	959	956	960	953	953	946	946	946

Like the rest of the tobacco industry, Imperial Brands is struggling with the declining smoking rate in developed economies like the United States. Imperial Brands reported a 3.6% volume decline in fiscal 2018, a 4.4% decline in the fiscal 2019, 2.1% decline in fiscal 2020, and a 2.9% decline in fiscal year 2021. That said, the company outperformed the broader industry during this time.

Imperial Brands' future growth will be fueled by its next-generation product line. This includes vapor and heated tobacco products, such as its blu brand. Imperial Brands launched the myblu product in 2018. In addition, the company is developing heated tobacco products with consumer trials planned toward the end of the year. To help finance its growth investments, the company is launching an aggressive cost reduction program, targeting up to \$2.6 billion in cost savings over the next one to two years.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	11.8	36.1	29.9	22.1	21.6	59.4	23.5	6.5	5.3	6.4	6.9	6.5
Avg. Yld.	3.4%	3.3%	3.9%	3.7%	4.7%	3.8%	4.8%	11.0%	6.0%	8.8%	7.9%	7.2%

¹ In millions of shares

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Imperial Brands' valuation has fluctuated somewhat wildly over the past 10 years. This is primarily due to earnings volatility. As an international company, Imperial Brands' earnings-per-share can deviate from year to year as a result of currency fluctuations. The current valuation is a price-to-earnings ratio of 6.9, while our fair value estimate for Imperial Brands is a price-to-earnings ratio of 6.5. This implies that multiple contraction could reduce annual returns by 1.3% over the next five years. We feel that this is an appropriate valuation for a slow-growth company that is facing structural headwinds to its main revenue streams.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	121%	117%	81%	102%	228%	113%	65%	71%	32%	57%	55%	47%

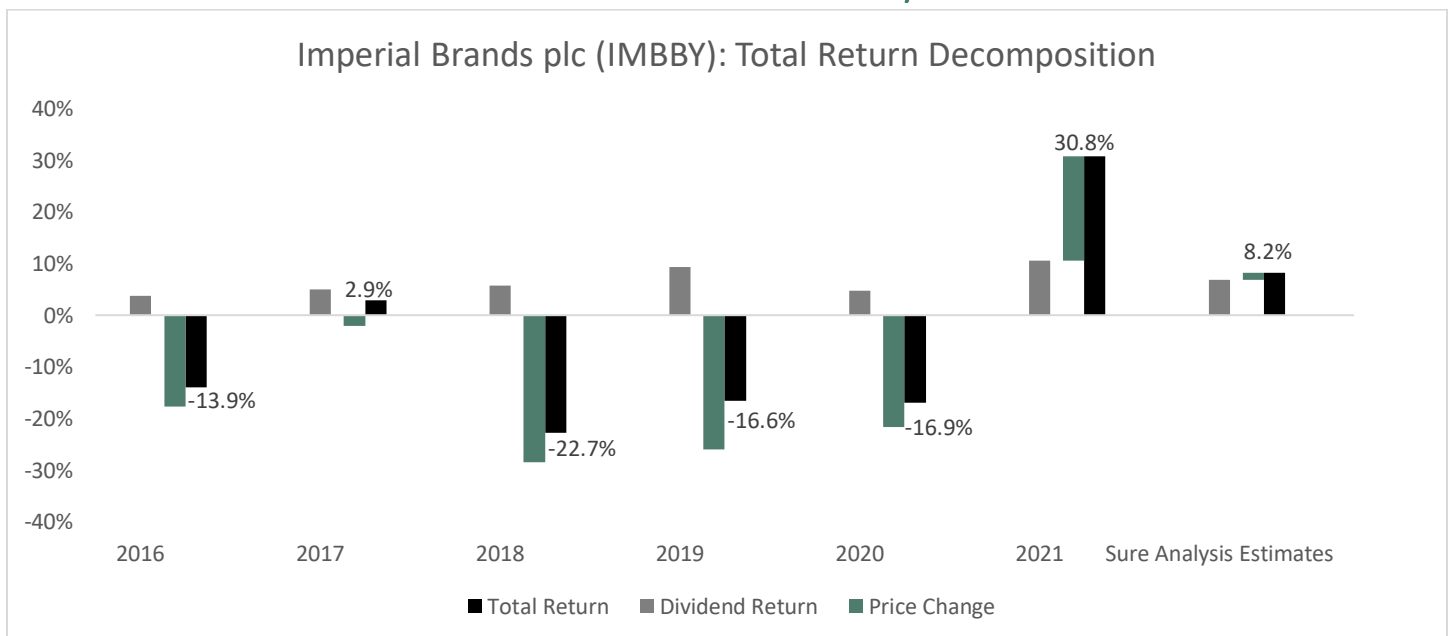
Imperial Brands has a fairly high level of debt, which has eroded its interest coverage ratio. At the end of the first half of fiscal year 2022, Imperial Brands had net debt of more than \$10 billion. This is especially concerning in a rising interest rate environment, as higher finance costs would reduce earnings growth.

That said, Imperial Brands has multiple competitive advantages. It operates in a highly regulated industry, with high barriers to entry. It also has pricing power due to the addictive nature of nicotine. Another positive for the stock is that the underlying business is highly recession-resistant. In general, tobacco sales hold up very well during recessions.

Final Thoughts & Recommendation

Shares of Imperial Brands have gained 9.5% since the time of our last report. Following first half results, the company is expected to offer a total annual return of 8.2% through fiscal 2027, down from our prior estimate of 10.4%. Our projected return stems from a 3% earnings growth rate, a starting yield of 7.9%, offset by a small headwind from multiple compression. Imperial Brands saw market share gains in most of its key regions and reaffirmed guidance of slight growth compared to the prior fiscal year. We do note that while Imperial Brands offers a very high dividend yield, growth has been very inconsistent over the years. In fact, the company had cut its dividend last year before raising it again for this year. We now rate shares of the company as a hold due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	45032	44135	43834	39068	39349	38307	41064	40342	41538	44868
Gross Profit	8658	8632	8583	7989	8481	8140	8677	7968	7884	8247
Gross Margin	19.2%	19.6%	19.6%	20.4%	21.6%	21.2%	21.1%	19.8%	19.0%	18.4%
SG&A Exp.	3160	3205	3196	2869	2948	3083	3284	2930	3384	3358
D&A Exp.	2777	1897	1522	1452	1771	1727	1703	1680	1161	1115
Operating Profit	4263	4384	3871	3640	3611	3380	3650	3182	3858	4275
Op. Margin	9.5%	9.9%	8.8%	9.3%	9.2%	8.8%	8.9%	7.9%	9.3%	9.5%
Net Profit	1069	1413	2356	2612	898	1784	1840	1290	1907	3878
Net Margin	2.4%	3.2%	5.4%	6.7%	2.3%	4.7%	4.5%	3.2%	4.6%	8.6%
Free Cash Flow	2829	3196	3578	-3275	4166	3526	3623	4110	4955	2965
Income Tax	602	453	133	51	339	524	533	778	776	453

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	44855	45947	42049	45665	42427	41617	40192	41461	41563	39059
Cash & Equivalents	1024	2924	2295	3094	1497	838	1010	2810	2092	1728
Acc. Receivable	4629	4459	4149	3370	3134	3099	3008	3679	2956	3173
Inventories	5083	5328	4669	4307	4534	4840	4810	5018	5229	5148
Goodwill & Int.	28578	28100	24903	28323	26839	26540	24908	22858	23361	22388
Total Liabilities	34982	36810	33176	37033	34984	33256	31795	34597	34465	31084
Accounts Payable	1681	1706	1608	1496	1226	1672	1561	11722	1532	1367
Long-Term Debt	15526	17999	16064	21529	18068	16852	15628	16759	14989	13188
Total Equity	9794	9046	8226	8073	6885	7633	7518	6069	6266	7186
LTD/E Ratio	1.59	1.99	1.95	2.67	2.62	2.21	2.08	2.76	2.39	1.84

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	2.3%	3.1%	5.4%	6.0%	2.0%	4.2%	4.5%	3.2%	4.6%	9.6%
Return on Equity	9.8%	15.0%	27.3%	32.1%	12.0%	24.6%	24.3%	19.0%	30.9%	57.7%
ROIC	4.0%	5.4%	9.0%	9.5%	3.2%	7.0%	7.5%	5.4%	8.3%	17.9%
Shares Out.	994	975	961	958	959	956	960	953	953	946
Revenue/Share	45.11	45.20	45.66	40.87	41.13	40.03	42.98	42.25	43.92	47.35
FCF/Share	2.83	3.27	3.73	-3.43	4.36	3.68	3.79	4.30	5.24	3.13

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

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