



Altria Group, Inc. (MO)

Updated August 5th, 2022 by Samuel Smith

Key Metrics

Current Price:	\$43.8	5 Year CAGR Estimate:	11.8%	Market Cap:	\$79.3 B
Fair Value Price:	\$53.5	5 Year Growth Estimate:	1.4%	Ex-Dividend Date:	09/14/22 ¹
% Fair Value:	82%	5 Year Valuation Multiple Estimate:	4.1%	Dividend Payment Date:	10/11/22 ²
Dividend Yield:	8.2%	5 Year Price Target	\$57	Years Of Dividend Growth:	52
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	Buy

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 \$79.3 billion.

On 07/28/22, Altria reported second quarter results. Adjusted diluted earnings-per-share increased 2.4% to \$1.26 year-over-year. Net revenue stood at \$6.5 billion, down by 5.7% year-over-year. Reported diluted earnings per share stood at \$0.49, down by 57.8% year-over-year. Revenue decreased 4.1% to \$5.37 billion year-over-year. Meanwhile, Altria reported approximately \$750 million remaining under the company's existing \$3.5 billion share repurchase program which is expected to complete by December 31, 2022. The company also reaffirmed full-year 2022 adjusted diluted earnings-per-share guidance of \$4.79-\$4.93 which represents an adjusted diluted earnings-per-share growth rate of 4% to 7%.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$2.06	\$2.26	\$2.56	\$2.67	\$3.03	\$3.39	\$3.99	\$4.22	\$4.36	\$4.61	\$4.86	\$5.20
DPS	\$1.70	\$1.84	\$2.08	\$2.17	\$2.35	\$2.54	\$3.00	\$3.28	\$3.44	\$3.52	\$3.60	\$4.00
Shares³	2003.3	1987.5	1964.8	1954.0	1936.2	1898.1	1874.4	1858.4	1858.7	1832.0	1800.8	1660

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 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 resulted in billions of dollars in losses for Altria since inception.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	15.7	15.7	16.5	20.1	23.4	20.6	12.4	11.6	8.7	9.7	9.0	11.0
Avg. Yld.	5.3%	5.2%	4.9%	4.0%	3.7%	3.6%	6.1%	6.9%	9.2%	8.1%	8.2%	7.0%

¹ Estimate

² Estimate

³ 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 \$4.86 in 2022. As a result, Altria stock trades for a price-to-earnings ratio of 9.0. 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 undervalued at present. In addition, the yield is very attractive at 8.2%, which is extremely high both on an absolute basis and against Altria's own historical yields.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	82.5%	81.4%	81.2%	81.3%	86.1%	74.9%	75.2%	80.0%	79.8%	77.9%	74.1%	76.9%

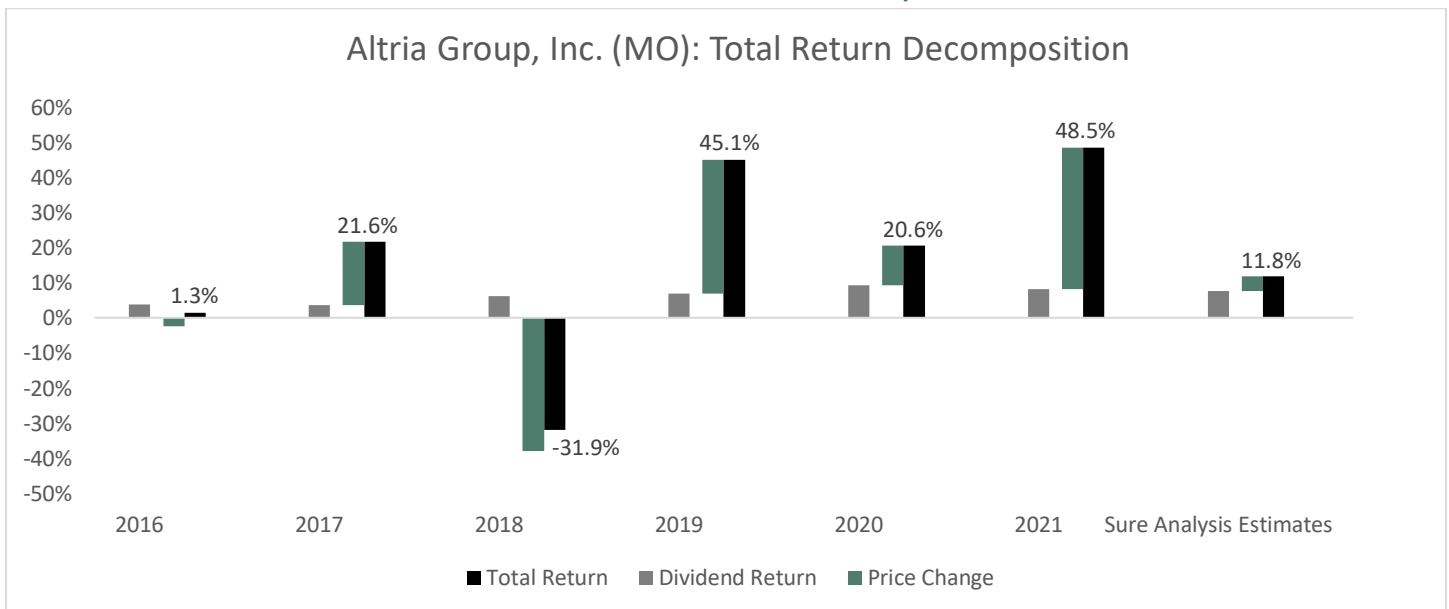
Altria ranks very highly in terms of safety because the company has tremendous competitive advantages. It operates in a highly regulated industry, which virtually eliminates the threat of new competition in the tobacco industry. Altria enjoys strong brands across its product portfolio, including the 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 52 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 11.8% annualized total return potential along with an attractive 8.2% dividend yield and a very impressive dividend growth track 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 and the double-digit total return expectation, we rate it a Buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	17500	17663	17945	18854	19337	19494	19627	19796	20841	21111
Gross Profit	9563	10457	10160	11114	11572	11963	12254	12711	13023	13992
Gross Margin	54.6%	59.2%	56.6%	58.9%	59.8%	61.4%	62.4%	64.2%	62.5%	66.3%
SG&A Exp.	2301	2340	2539	2708	2662	2338	2756	2226	2154	2432
D&A Exp.	225	212	208	225	204	209	227	226	257	244
Operating Profit	7314	8095	7619	8365	8910	9625	9498	10485	10869	11560
Op. Margin	41.8%	45.8%	42.5%	44.4%	46.1%	49.4%	48.4%	53.0%	52.2%	54.8%
Net Profit	4180	4535	5070	5241	14239	10222	6963	(1293)	4467	2475
Net Margin	23.9%	25.7%	28.3%	27.8%	73.6%	52.4%	35.5%	-6.5%	21.4%	11.7%
Free Cash Flow	3761	4244	4500	5614	3637	4702	8153	7591	8154	8236
Income Tax	2294	2407	2704	2835	7608	(399)	2374	2064	2436	1349

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	35329	34859	34475	31459	45932	43202	55459	49271	47414	39523
Cash & Equivalents	2900	3175	3321	2369	4569	1253	1333	2117	4945	4544
Acc. Receivable	193	115	124	124	151	142	142	152	137	47
Inventories	1746	1879	2040	2031	2051	2225	2331	2293	1966	1194
Goodwill & Int.	17252	17232	17334	17313	17321	17707	17475	17864	17792	17483
Total Liabilities	32159	30741	31465	28586	33159	27822	40670	42952	44489	41129
Accounts Payable	451	409	416	400	425	374	399	325	380	449
Long-Term Debt	13878	14517	14693	12847	13881	13894	25746	28042	29471	28044
Total Equity	3168	4119	3014	2880	12770	15377	14787	6222	2839	(1606)
LTD/E Ratio	4.38	3.52	4.87	4.46	1.09	0.90	1.74	4.51	10.38	(17.46)

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	11.6%	12.9%	14.6%	15.9%	36.8%	22.9%	14.1%	-2.5%	9.2%	5.7%
Return on Equity	122.1%	124.5%	142.2%	177.8%	182.0%	72.6%	46.2%	-12.3%	98.6%	401.5%
ROIC	24.3%	25.4%	27.9%	31.4%	67.2%	36.6%	19.9%	-3.5%	13.4%	8.4%
Shares Out.	2003	1987.5	1964.8	1954.0	1936.2	1898.1	1874.4	1858.4	1858.7	1832.0
Revenue/Share	8.65	8.84	9.07	9.61	9.91	10.15	10.40	10.59	11.21	11.44
FCF/Share	1.86	2.12	2.28	2.86	1.86	2.45	4.32	4.06	4.39	4.46

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

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