



Philip Morris International Inc. (PM)

Updated October 21st, 2022, by Nikolaos Sismanis

Key Metrics

Current Price:	\$85	5 Year CAGR Estimate:	9.2%	Market Cap:	\$134.0 B
Fair Value Price:	\$90	5 Year Growth Estimate:	3.0%	Ex-Dividend Date¹:	12/22/22
% Fair Value:	95%	5 Year Valuation Multiple Estimate:	1.1%	Dividend Payment Date¹:	01/10/22
Dividend Yield:	6.0%	5 Year Price Target	\$104	Years Of Dividend Growth:	15
Dividend Risk Score:	D	Retirement Suitability Score:	B	Rating:	Hold

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 \$134.0 billion market cap.

On September 14th, Philip Morris raised its dividend by 1.6% to a quarterly rate of \$1.27.

On October 20th, 2022, Philip Morris reported its Q3-2022 results for the period ending September 30th, 2022. For the quarter, the company reported net revenue of \$8.0 billion, 1.11% lower compared to Q3-2021. Shipment volume was up 2.3% collectively on a pro forma basis (excluding PM's operations in Ukraine and Russia), with cigarette shipment volume down 0.2% and heated tobacco, a much smaller portion of the business, up 21.9% year-over-year. Adjusted earnings-per-share equaled \$1.53, a currency-neutral increase of 8.2% versus the comparable period last year.

Philip Morris continues to be impacted by the ongoing war between Ukraine and Russia. Last year, Ukraine and Russia accounted for 2% and 6% of net revenues, respectively. In Ukraine, the company conducts retail activities where possible, but production remains suspended. In Russia, the company has scaled down manufacturing and intends to exit the country in an "orderly manner". Management revised its fiscal 2022 guidance, expecting adjusted EPS from \$5.22 to \$5.33 (previously \$5.23 to \$5.34). Excluding currency effects, management continues to expect adjusted EPS to range between \$6.09 and \$6.20, as all of the company's revenues are sourced in currencies other than USD against a strong dollar. We have utilized the midpoint of the first range in our estimates.

The company also raised its offer to buy the publicly traded Swedish Match AB from SEK 106 per share to SEK 116 in cash. The size of the deal had fallen significantly in USD terms since the initial offer due to the weakening of the Swedish Krona against the dollar. This is PM's final offer for the company and is currently subject to shareholder approval.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$5.17	\$5.26	\$4.76	\$4.42	\$4.48	\$4.72	\$5.10	\$5.19	\$5.17	\$6.08	\$5.28	\$6.12
DPS	\$3.24	\$3.58	\$3.88	\$4.04	\$4.12	\$4.22	\$4.49	\$4.62	\$4.74	\$4.90	\$5.08	\$5.89
Shares²	1,654	1,589	1,547	1,549	1,551	1,553	1,554	1,555	1,558	1,559	1,552	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 the company's revenues are generated outside of the U.S.

Philip Morris' weak profit growth between 2018 and 2020 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

¹ Estimate

² 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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needed to produce this reduced-risk product on a massive scale were costly, but Philip Morris has already begun reaping the fruits. Ramp-up of IQOS in international markets has resulted in growing net income, with HEETS expanding the company's margin mix. In FY2021, the company's adjusted operating income margin expanded from 29.6% to 33.2%.

The elevated inflation levels continue to be a concern for the global economy, but Philip Morris is in an industry with inelastic demand. As such, despite declining/stagnated shipment volumes in its cigarette business, the company has the fortitude and even pricing power in lesser times. Taking these items collectively, we are anticipating growth of 3% per annum coming off \$5.28 in EPS as a beginning baseline. The recently acquired controlling stake U.K.-based Vectura, an inhaled therapeutics company, should also contribute to Philip Morris' smoke-free growth plans. The Swedish Match acquisition, if it successfully closes, is also expected to be accretive to results.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	16.7	17	17.7	18.8	21.5	23.4	17.3	15.7	15.0	16.4	16.1	17.0
Avg. Yld.	3.8%	4.0%	4.6%	4.9%	4.3%	3.8%	5.1%	5.7%	6.1%	4.9%	6.0%	5.7%

Shares of Philip Morris traded at an elevated valuation in the 2015 through 2017 period, but otherwise, a mid-teens multiple has been typical. At the current multiple of around 16.1 times anticipated earnings, the stock could be slightly undervalued. Due to the stock's qualities in a rather shaky macro environment, our fair P/E estimate now stands at 17.

Safety, Quality, Competitive Advantage, & Recession Resiliency

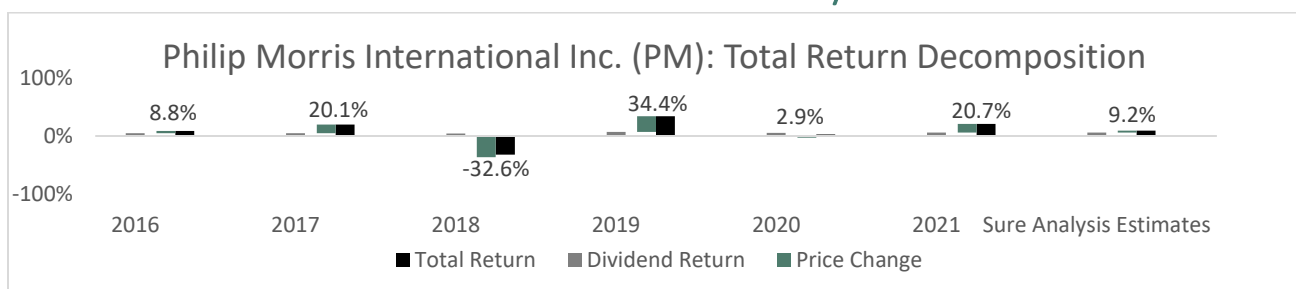
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	63%	68%	82%	91%	92%	89%	88%	89%	92%	81%	96%	96%

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 remains relatively well-covered. Still, lower earnings following the ongoing war have once again squeezed the payout ratio. In terms of a competitive advantage, 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

The persistent strength in the dollar is currently adversely impacting the company's results. Yet, in constant currency terms, Philip Morris continues to perform resiliently and even grow profits. Based on our growth estimates, the 6.0% yield, and possible valuation tailwinds, the stock's return potential comes in at 9.2% per annum. We rate PM a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	31377	31217	29767	26794	26685	28748	29625	29805	28690	31400
Gross Profit	21004	20807	19331	17429	17294	18316	18867	19292	19120	21380
Gross Margin	66.9%	66.7%	64.9%	65.0%	64.8%	63.7%	63.7%	64.7%	66.6%	68.1%
SG&A Exp.	6961	6890	7001	6656	6405	6725	7449	8784	7481	8419
D&A Exp.	898	882	889	754	743	875	989	964	981	998
Operating Profit	13946	13824	12237	10691	10815	11503	11336	10442	11570	12860
Op. Margin	44.4%	44.3%	41.1%	39.9%	40.5%	40.0%	38.3%	35.0%	40.3%	50.0%
Net Profit	8800	8576	7493	6873	6967	6035	7911	7185	8056	9109
Net Margin	28.0%	27.5%	25.2%	25.7%	26.1%	21.0%	26.7%	24.1%	28.1%	29%
Free Cash Flow	8365	8935	6586	6905	6905	7364	8042	9238	9210	11220
Income Tax	3833	3670	3097	2688	2768	4307	2445	2293	2377	2671

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	37670	38168	35187	33956	36851	42968	39801	42875	44820	41290
Cash & Equivalents	2983	2154	1682	3417	4239	8447	6593	6861	7280	4496
Acc. Receivable	3589	3853	4004	2778	3499	3194	2950	3080	2905	3123
Inventories	8949	9846	8592	8473	9017	8806	8804	9235	9591	8720
Goodwill & Int.	13519	12086	11373	10038	9794	10098	9467	7971	7983	9498
Total Liabilities	40824	44442	46390	45432	47751	53198	50540	52474	55450	49500
Accounts Payable	1103	1274	1242	1289	1666	2242	2068	2299	2780	3331
Long-Term Debt	22839	27678	29455	28480	29067	34339	31759	31045	31540	27810
Total Equity	-3476	-7766	-12.6B	-13.2B	-12.7B	-12.1B	-12.5B	-11.6B	-12.6B	-10110
LTD/E Ratio	-6.57	-3.56	-2.33	-2.15	-2.29	-2.84	-2.55	-2.68	-2.51	-2.75

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	24.1%	22.6%	20.4%	19.9%	19.7%	15.1%	19.1%	17.4%	18.4%	21.2%
Return on Equity	542%	-153%	-73.5%	-53.1%	-53.7%	-48.7%	-64.5%	---	---	---
ROIC	45.4%	41.7%	37.8%	39.0%	39.6%	28.6%	35.1%	33.8%	38.0%	45.0%
Shares Out.	1692	1622	1566	1549	1551	1553	1555	1555	1558	1559
Revenue/Share	18.54	19.25	19.01	17.30	17.21	18.51	19.05	19.15	18.42	20.14
FCF/Share	4.94	5.51	4.21	4.46	4.45	4.74	5.17	5.94	5.91	7.20

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

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