



Vector Group Ltd. (VGR)

Updated February 17th, 2023 by Prakash Kollu

Key Metrics

Current Price:	\$14	5 Year CAGR Estimate:	7.2%	Market Cap:	\$2.20B
Fair Value Price:	\$14	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	03/18/23
% Fair Value:	102%	5 Year Valuation Multiple Estimate:	-0.5%	Dividend Payment Date:	03/31/23
Dividend Yield:	5.7%	5 Year Price Target	\$16	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Hold

Overview & Current Events

Vector Group Ltd. is a holding company that is a 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 Montego, Eagle 20's, Pyramid, Grand Prix, Liggett Select, and Eve. Vector Group spun off Douglas Elliman Realty, the 6th largest real estate brokerage in the US, in 2021. Around 7% of the share are owned by management and directors. The company had revenue of \$1.44B in 2022.

Vector Group reported Q4 2022 and full-year results on February 15th, 2023. For the quarter, companywide net revenue rose 18.6% to \$363.8M compared to \$313.7M and diluted GAAP earnings per share increased to \$0.30 compared to \$0.29 on a year-over-year basis.

Wholesale shipments rose 15.3% to 2.56 billion from 2.22 billion in comparable periods compared to a (-9%) decline for the industry. Vector's wholesale market share increased to 5.5% from 4.4% in the prior year. Retail shipments increased 19.5% versus the overall industry's retail shipment decline of (-9.3%). Vector's retail market share increased to 5.8% from 4.4% in the prior year. Vector's revenue and market share is benefitting from expanded distribution of its low-price Montego brand, but this investment is affecting overall profitability.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS¹	\$0.93	\$0.29	\$0.42	\$0.50	\$0.56	\$0.35	\$0.63	\$0.60	\$1.12	\$0.97	\$1.15	\$1.33
DPS²	\$1.21	\$1.27	\$1.33	\$1.40	\$1.47	\$1.54	\$1.56	\$0.80	\$0.80	\$0.80	\$0.80	\$0.80
Shares³	131	146	151	148	148	148	148	153	154	154	154	154

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. After the NYC real estate market improved in 2021, Vector spun off the Douglas Elliman Realty business into a separate company. After 2022, we anticipate annual 3% earnings per share growth on average out to 2028 assuming low single-digit growth for cigarette revenue on higher prices and volumes.

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 in 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 2026.

¹ VGR spun off Douglas Elliman in 2021, which is treated as discontinued operations from 2021.

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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	13.2	57.6	45.6	38.5	35.2	45.1	17.2	12.0	15.0	14.4	12.3	12.0
Avg. Yld.	9.8%	7.7%	6.9%	7.3%	7.4%	9.2%	14.2%	7.3%	5.7%	5.7%	5.7%	6.6%

Vector Group's stock price is up significantly since our last report on good results. We set our earnings per share estimate at consensus in 2023. Our fair value multiple for the long haul is now 12X, accounting for recent challenges and the spinoff of Douglas Elliman. Our fair value estimate is now \$14. Our 5-year price target is now \$16.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	130%	438%	317%	280%	263%	440%	248%	133%	71%	82%	70%	60%

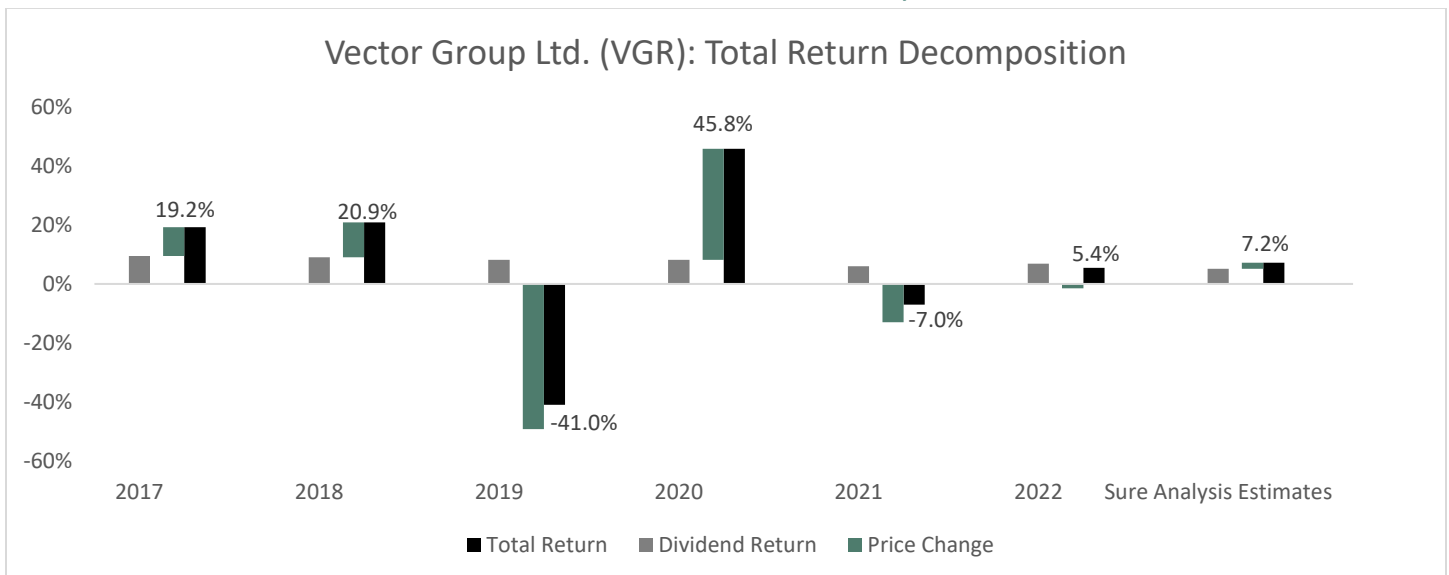
Vector Group's main competitive advantage is the tobacco business, which tends to have stable cash flows. The company focuses on tobacco outlets and discount stores for its value brands. However, e-cigarettes represent a threat and cigarette sales are in a secular decline. The New Valley business does not have a competitive advantage.

Of greater concern is that long-term debt has increased over time to pay the dividend and fund operations. Short-term and current long-term debt was \$51M and long-term debt was \$1,389.2M offset by \$500.8M in cash, equivalents, and marketable securities at the end of Q3 2022. 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 \$539.8M of 10.5% Senior Notes due in 2026 that have restrictive covenants for paying the dividend.

Final Thoughts & Recommendation

At present we are forecasting 7.2% total annualized return over the next five years from a dividend yield of 5.7%, 3.0% EPS growth, and (-0.5%) P/E multiple expansion. Vector's operational performance and market share are improving as it focuses on deep-discount cigarettes and lower priced brands. Despite this, and balance sheet improvements, we remain negative for the long-term about Vector due to the cut in the regular cash dividend, suspended stock dividend, high debt, and secular decline of cigarette volumes. We still do not recommend this stock but kept our rating at 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	1096	1080	1591	1657	1691	1807	1870	1904	2003	1221
Gross Profit	263	313	494	547	594	579	578	602	636	451
Gross Margin	24.0%	29.0%	31.1%	33.0%	35.1%	32.1%	30.9%	31.6%	31.7%	36.9%
SG&A Exp.	108	114	279	320	339	337	356	370	330	131
D&A Exp.	11	13	24	26	22	19	19	18	18	16
Operating Profit	155	199	215	227	255	242	222	232	306	320
Operating Margin	14.1%	18.5%	13.5%	13.7%	15.1%	13.4%	11.9%	12.2%	15.3%	26.2%
Net Profit	31	37	37	59	71	85	58	101	93	219
Net Margin	2.8%	3.5%	2.3%	3.6%	4.2%	4.7%	3.1%	5.3%	4.6%	17.9%
Free Cash Flow	73	39	84	134	71	112	164	111	248	242
Income Tax	23	24	33	41	49	-2	22	33	42	63

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	1087	1264	1423	1281	1404	1328	1550	1505	1343	871
Cash & Equivalents	406	234	326	240	394	301	585	371	353	193
Accounts Receivable	11	12	23	24	19	29	34	37	41	16
Inventories	100	93	90	87	90	90	91	99	98	95
Goodwill & Int. Ass.	108	275	270	264	262	268	267	266	208	108
Total Liabilities	1166	1286	1444	1403	1657	1660	2097	2190	2003	1713
Accounts Payable	6		11	20	11	19	13	10	13	9
Long-Term Debt	624	692	913	865	1172	1228	1643	1606	1406	1399
Shareholder's Equity	-79	-95	-100	-206	-332	-414	-548	-685	-660	-842
D/E Ratio	-7.87	-7.29	-9.16	-4.20	-3.53	-2.97	-3.00	-2.34	-2.13	-1.67

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	3.0%	3.2%	2.7%	4.4%	5.3%	6.2%	4.0%	6.6%	6.5%	19.8%
Return on Equity	-36.4%	-42.8%	-37.8%	-38.7%	-26.4%	-22.7%	-12.1%			
ROIC	6.1%	6.1%	4.7%	7.2%	8.6%	9.3%	5.8%	10%	11.1%	34.3%
Shares Out.	120	124	139	143	141	141	141	148	148	152
Revenue/Share	9.65	9.22	12.71	11.57	12.34	12.97	13.41	12.92	13.33	8.00
FCF/Share	0.64	0.33	0.67	0.93	0.52	0.80	1.18	0.76	1.65	1.59

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

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