



# Philip Morris International Inc. (PM)

Updated April 20<sup>th</sup>, 2023, by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$97	<b>5 Year CAGR Estimate:</b>	8.4%	<b>Market Cap:</b>	\$150.4 B
<b>Fair Value Price:</b>	\$101	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date<sup>1</sup>:</b>	06/30/23
<b>% Fair Value:</b>	96%	<b>5 Year Valuation Multiple Estimate:</b>	0.8%	<b>Dividend Payment Date<sup>1</sup>:</b>	07/15/23
<b>Dividend Yield:</b>	5.2%	<b>5 Year Price Target</b>	\$117	<b>Years Of Dividend Growth:</b>	15
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	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 \$150.4 billion market cap.

On April 20<sup>th</sup>, 2023, Philip Morris reported its Q1-2023 results for the period ending March 31<sup>st</sup>, 2023. For the quarter, the company reported net revenue of \$8.0 billion, 3.5% higher compared to Q1-2022. Shipment volume was down 1.1% collectively, with cigarette shipment volume down 3.1% and heated tobacco, a much smaller portion of the business, up 10.1% year-over-year. The Swedish Mach acquisition has already started contributing to results, leading to the oral products' shipment volumes growing by nearly 50X. Earnings-per-share equaled \$1.28, down 4.4% versus Q1-2022.

Philip Morris continues to be impacted by the ongoing war between Ukraine and Russia. Before the war, 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 shared its fiscal 2023 guidance, expecting EPS to be between \$5.88 and \$6.00. Excluding currency effects and other non-cash items, management expects adjusted EPS to range between \$6.10 and \$6.22, 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 (GAAP results) in our estimates.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$5.26	\$4.76	\$4.42	\$4.48	\$3.88	\$5.08	\$4.61	\$5.16	\$5.83	\$5.81	<b>\$5.94</b>	<b>\$6.89</b>
<b>DPS</b>	\$3.58	\$3.88	\$4.04	\$4.12	\$4.22	\$4.49	\$4.62	\$4.74	\$4.90	\$5.04	<b>\$5.08</b>	<b>\$5.89</b>
<b>Shares<sup>2</sup></b>	1,589	1,547	1,549	1,551	1,553	1,554	1,555	1,558	1,559	1,552	<b>1,552</b>	<b>1,500</b>

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 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.

<sup>1</sup> Estimate

<sup>2</sup> In millions.

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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 \$5.94 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 is also expected to be accretive earnings.

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	17.0	17.7	18.8	21.5	23.4	17.3	15.7	15.0	16.4	17.0	<b>16.3</b>	<b>17.0</b>
Avg. Yld.	4.0%	4.6%	4.9%	4.3%	3.8%	5.1%	5.7%	6.1%	4.9%	5.2%	<b>5.2%</b>	<b>5.0%</b>

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 16.3 times anticipated earnings, the stock could be modestly undervalued. Due to the stock's qualities in a rather shaky macro environment, our fair P/E estimate remains at 17.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

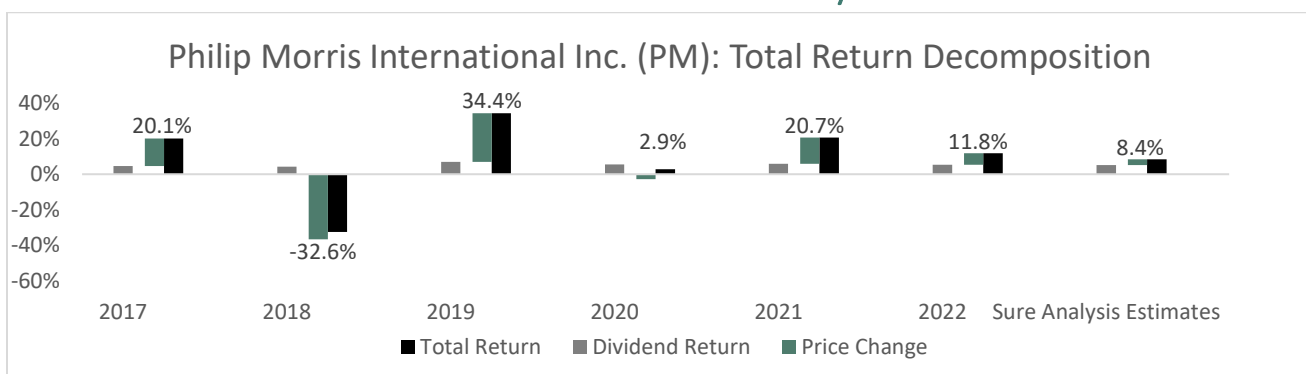
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	68%	82%	91%	92%	109%	88%	100%	92%	84%	87%	<b>86%</b>	<b>86%</b>

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 100% 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. Despite the ongoing war and overall tough trading environment, improved earnings have relaxed the payout ratio lately. 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

Philip Morris reported decent results in Q1, while management's outlook points toward further earnings growth in fiscal 2023. The acquisition of Swedish Match should be a favorable catalyst to earnings growth moving forward as well based on its most recent metrics. Based on our growth estimates, the 5.2% yield, and the possibility of a small valuation tailwind, the stock's return potential comes in at 8.4% per annum. We rate Philip Morris as a hold.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	31217	29767	26794	26685	28748	29625	29805	28690	31400	31760
<b>Gross Profit</b>	20807	19331	17429	17294	18316	18867	19292	19120	21380	20360
<b>Gross Margin</b>	66.7%	64.9%	65.0%	64.8%	63.7%	63.7%	64.7%	66.6%	68.1%	64.1%
<b>SG&amp;A Exp.</b>	6890	7001	6656	6405	6725	7449	8784	7481	8419	8138
<b>D&amp;A Exp.</b>	882	889	754	743	875	989	964	981	998	1189
<b>Operating Profit</b>	13824	12237	10691	10815	11503	11336	10442	11570	12860	12220
<b>Op. Margin</b>	44.3%	41.1%	39.9%	40.5%	40.0%	38.3%	35.0%	40.3%	41.0%	38.5%
<b>Net Profit</b>	8576	7493	6873	6967	6035	7911	7185	8056	9109	9048
<b>Net Margin</b>	27.5%	25.2%	25.7%	26.1%	21.0%	26.7%	24.1%	28.1%	29%	28.5%
<b>Free Cash Flow</b>	8935	6586	6905	6905	7364	8042	9238	9210	11220	9726
<b>Income Tax</b>	3670	3097	2688	2768	4307	2445	2293	2377	2671	2244

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	38168	35187	33956	36851	42968	39801	42875	44820	41290	61680
<b>Cash &amp; Equivalents</b>	2154	1682	3417	4239	8447	6593	6861	7280	4496	3207
<b>Acc. Receivable</b>	3853	4004	2778	3499	3194	2950	3080	2905	3123	3850
<b>Inventories</b>	9846	8592	8473	9017	8806	8804	9235	9591	8720	9886
<b>Goodwill &amp; Int.</b>	12086	11373	10038	9794	10098	9467	7971	7983	9498	26390
<b>Total Liabilities</b>	44442	46390	45432	47751	53198	50540	52474	55450	49500	67990
<b>Accounts Payable</b>	1274	1242	1289	1666	2242	2068	2299	2780	3331	4076
<b>Long-Term Debt</b>	27678	29455	28480	29067	34339	31759	31045	31540	27810	43120
<b>Total Equity</b>	-7766	-12.6B	-13.2B	-12.7B	-12.1B	-12.5B	-11.6B	-12.6B	-10110	-8957
<b>LTD/E Ratio</b>	-3.56	-2.33	-2.15	-2.29	-2.84	-2.55	-2.68	-2.51	-2.75	-4.81

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	22.6%	20.4%	19.9%	19.7%	15.1%	19.1%	17.4%	18.4%	21.2%	17.6%
<b>Return on Equity</b>	-153%	-73.5%	-53.1%	-53.7%	-48.7%	-64.5%	---	---	---	---
<b>ROIC</b>	41.7%	37.8%	39.0%	39.6%	28.6%	35.1%	33.8%	38.0%	45.0%	32.1%
<b>Shares Out.</b>	1622	1566	1549	1551	1553	1555	1555	1558	1559	1552
<b>Revenue/Share</b>	19.25	19.01	17.30	17.21	18.51	19.05	19.15	18.42	20.14	20.47
<b>FCF/Share</b>	5.51	4.21	4.46	4.45	4.74	5.17	5.94	5.91	7.20	6.27

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

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