



Philip Morris International Inc. (PM)

Updated July 20th, 2023, by Nikolaos Sismanis

Key Metrics

Current Price:	\$100	5 Year CAGR Estimate:	8.8%	Market Cap:	\$155.1 B
Fair Value Price:	\$107	5 Year Growth Estimate:	3.0%	Ex-Dividend Date¹:	09/27/23
% Fair Value:	93%	5 Year Valuation Multiple Estimate:	1.4%	Dividend Payment Date¹:	10/12/23
Dividend Yield:	5.1%	5 Year Price Target	\$124	Years Of Dividend Growth:	15
Dividend Risk Score:	C	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 \$155.1 billion market cap. On July 20th, 2023, Philip Morris reported its Q2-2023 results for the period ending June 30th, 2023. For the quarter, the company reported net revenue of \$9.0 billion, 14.5% higher compared to Q2-2022, or 14.9% higher on an FX neutral basis. Excluding the acquisition of Swedish Match, net revenues still grew by an impressive 10.5%

Shipment volume was up 3.3% collectively, with cigarette shipment volume down 0.4% and heated tobacco, a much smaller portion of the business, up 26.6% year-over-year. The Swedish Mach acquisition has already started contributing to results, leading to the oral products' shipment volumes growing by nearly 33x. Adjusted EPS equaled \$1.60, up 16.9% versus Q2-2022.

Due to the Ukraine-Russia war, Philip Morris has experienced revenue impacts, with Ukraine accounting for 2% and Russia for 6% of net revenues before the war. Retail activities continue in Ukraine, but production in Kharkiv is suspended. Philip Morris invested \$30 million in a new production facility in Lviv, Western Ukraine, and starting work in July 2023, with production scheduled for Q1 2024. The company is exploring potential exits from the Russian market.

Management updated its fiscal 2023 guidance, expecting GAAP EPS to be between \$5.36 and \$5.45. While this implies a notable decline from last year's \$5.81, this mostly due to a \$0.60 per share amortization related to Swedish Match. Thus, we have applied the midpoint of management's adjusted EPS guidance of \$6.46 to \$6.55, which implies a year-over-year growth of 8.0% to 9.5% and another year of record adjusted earnings (versus FY2022's \$5.98). All other figures in GAAP.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$5.26	\$4.76	\$4.42	\$4.48	\$3.88	\$5.08	\$4.61	\$5.16	\$5.83	\$5.81	\$6.50	\$7.54
DPS	\$3.58	\$3.88	\$4.04	\$4.12	\$4.22	\$4.49	\$4.62	\$4.74	\$4.90	\$5.04	\$5.08	\$5.89
Shares²	1,589	1,547	1,549	1,551	1,553	1,554	1,555	1,558	1,559	1,552	1,553	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, EPS 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

¹ Estimate

² In millions.

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the fruits. Ramp-up of iQOS in international markets has resulted in growing net income, with HEETS expanding the company's margin mix.

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 \$6.50 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 has already proven 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	15.4	16.5
Avg. Yld.	4.0%	4.6%	4.9%	4.3%	3.8%	5.1%	5.7%	6.1%	4.9%	5.2%	5.1%	4.7%

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 15.4 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 16.5.

Safety, Quality, Competitive Advantage, & Recession Resiliency

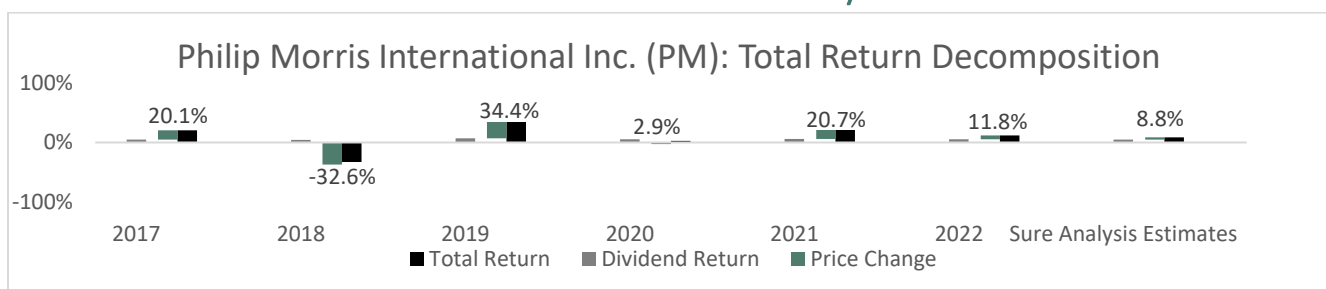
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	68%	82%	91%	92%	109%	88%	100%	92%	84%	87%	78%	78%

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 very strong results in Q2, while management's outlook points toward further earnings growth in fiscal 2023. The acquisition of Swedish Match has proven to be a favorable catalyst to earnings growth moving forward too, based on its most recent metrics. Based on our growth estimates, the 5.1% yield, and the possibility of a modest valuation tailwind, the stock's return potential comes in at 8.8% 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
Revenue	31217	29767	26794	26685	28748	29625	29805	28690	31400	31760
Gross Profit	20807	19331	17429	17294	18316	18867	19292	19120	21380	20360
Gross Margin	66.7%	64.9%	65.0%	64.8%	63.7%	63.7%	64.7%	66.6%	68.1%	64.1%
SG&A Exp.	6890	7001	6656	6405	6725	7449	8784	7481	8419	8138
D&A Exp.	882	889	754	743	875	989	964	981	998	1189
Operating Profit	13824	12237	10691	10815	11503	11336	10442	11570	12860	12220
Op. Margin	44.3%	41.1%	39.9%	40.5%	40.0%	38.3%	35.0%	40.3%	41.0%	38.5%
Net Profit	8576	7493	6873	6967	6035	7911	7185	8056	9109	9048
Net Margin	27.5%	25.2%	25.7%	26.1%	21.0%	26.7%	24.1%	28.1%	29%	28.5%
Free Cash Flow	8935	6586	6905	6905	7364	8042	9238	9210	11220	9726
Income Tax	3670	3097	2688	2768	4307	2445	2293	2377	2671	2244

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	38168	35187	33956	36851	42968	39801	42875	44820	41290	61680
Cash & Equivalents	2154	1682	3417	4239	8447	6593	6861	7280	4496	3207
Acc. Receivable	3853	4004	2778	3499	3194	2950	3080	2905	3123	3850
Inventories	9846	8592	8473	9017	8806	8804	9235	9591	8720	9886
Goodwill & Int.	12086	11373	10038	9794	10098	9467	7971	7983	9498	26390
Total Liabilities	44442	46390	45432	47751	53198	50540	52474	55450	49500	67990
Accounts Payable	1274	1242	1289	1666	2242	2068	2299	2780	3331	4076
Long-Term Debt	27678	29455	28480	29067	34339	31759	31045	31540	27810	43120
Total Equity	-7766	-12.6B	-13.2B	-12.7B	-12.1B	-12.5B	-11.6B	-12.6B	-10110	-8957
LTD/E Ratio	-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
Return on Assets	22.6%	20.4%	19.9%	19.7%	15.1%	19.1%	17.4%	18.4%	21.2%	17.6%
Return on Equity	-153%	-73.5%	-53.1%	-53.7%	-48.7%	-64.5%	---	---	---	---
ROIC	41.7%	37.8%	39.0%	39.6%	28.6%	35.1%	33.8%	38.0%	45.0%	32.1%
Shares Out.	1622	1566	1549	1551	1553	1555	1555	1558	1559	1552
Revenue/Share	19.25	19.01	17.30	17.21	18.51	19.05	19.15	18.42	20.14	20.47
FCF/Share	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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