



Imperial Brands plc (IMBBY)

Updated November 20th, 2023 by Nathan Parsh

Key Metrics

Current Price:	\$23	5 Year CAGR Estimate:	8.7%	Market Cap:	\$21 B
Fair Value Price:	\$23	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	11/24/23
% Fair Value:	100%	5 Year Valuation Multiple Estimate:	-0.3%	Dividend Payment Date:	01/08/24
Dividend Yield:	7.4%	5 Year Price Target	\$26	Years Of Dividend Growth:	N/A
Dividend Risk Score:	D	Retirement Suitability Score:	B	Rating:	Hold

Overview & Current Events

Imperial Brands is a tobacco company that was founded in 1901. Today, it is headquartered in the United Kingdom and has a market capitalization of ~\$21 billion. The company manufactures and sells a variety of tobacco products, including cigarettes, tobaccos, cigars, rolling papers, and tubes. Some of its core brands include Winston, Davidoff, Gauloises, L&B, Bastos, Fine, Gitanes, Kool, Jade, and many more. The company is organized into two operating segments, tobacco and logistics. The tobacco segment includes the manufacture and sale of its various tobacco products, while the logistics segment distributes tobacco to product manufacturers.

On November 8th, 2023, the U.K. government announced that it would introduce legislation that will raise the legal age every year for smoking cigarettes. This would ensure that those under the age of 14 would never be sold tobacco products.

Imperial Brands reported results for the fiscal year 2023 on November 14th, 2023. For the fiscal year, net revenue grew 0.7% in constant currency and 1.4% when excluding Russia. Excluding Russia, tobacco pricing improved 8%, but was partially offset by a 3.0% headwind from mix.

Adjusted earnings-per-share increased 5.1%, aided by a small tailwind from currency exchange. Total tobacco market share improved 10 basis points across the company's top five markets, led by a 65 basis points increase in the U.S. and a 10 basis point improvement in Spain, while Germany and the U.K. fell 80 basis points and 50 basis points, respectively.

Imperial Brands provided guidance for fiscal year 2024, with revenue still expected grow by a low single-digit constant currency figure while adjusted earnings-per-share are forecasted to higher by a mid-single-digit percentage. We expect earnings-per-share of \$3.49 for fiscal 2024.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2023	2028
EPS	\$1.93	\$2.31	\$0.86	\$1.92	\$3.55	\$3.49	\$3.36	\$3.30	\$3.15	\$3.31	\$3.49	\$4.05
DPS	\$1.56	\$2.36	\$1.96	\$2.16	\$2.45	\$2.48	\$1.07	\$1.87	\$1.83	\$1.71	\$1.71	\$1.71
Shares¹	961	958	959	956	960	953	953	946	953	928	928	915

Like the rest of the tobacco industry, Imperial Brands is struggling with the declining smoking rate in developed economies like the United States. Imperial Brands reported a 3.6% volume decline in fiscal 2018, a 4.4% decrease in the fiscal 2019, 2.1% drop in fiscal 2020, a 2.9% decline in fiscal year 2021, a 7.5% decline in fiscal year 2022, and a 10.4% drop in fiscal year 2023. That said, the company outperformed the broader industry during this time and continues to benefit from higher pricing.

Imperial Brands' future growth will be fueled by its next-generation product line. This includes vapor and heated tobacco products, such as its blu brand. Imperial Brands launched the myblu product in 2018. In addition, the company is developing heated tobacco products with consumer trials planned toward the end of the year. To help finance its

¹ In millions of shares

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growth investments, the company is launching an aggressive cost reduction program, targeting up to \$2.6 billion in cost savings over the next one to two years.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	29.9	22.1	21.6	59.4	23.5	6.5	5.3	6.4	6.6	6.2	6.6	6.5
Avg. Yld.	3.9%	3.7%	4.7%	3.8%	4.8%	11.0%	6.0%	8.8%	9.0%	8.4%	7.4%	6.5%

Imperial Brands' valuation has fluctuated somewhat wildly over the past 10 years. This is primarily due to earnings volatility. As an international company, Imperial Brands' earnings-per-share can deviate from year to year as a result of currency fluctuations. The current valuation is a price-to-earnings ratio of 6.6, while our fair value estimate for Imperial Brands is a price-to-earnings ratio of 6.5. We feel that this is an appropriate valuation for a slow-growth company that is facing structural headwinds to its main revenue streams. This implies that multiple contraction could reduce annual returns by 0.3% over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	81%	102%	228%	113%	65%	71%	32%	57%	58%	52%	49%	42%

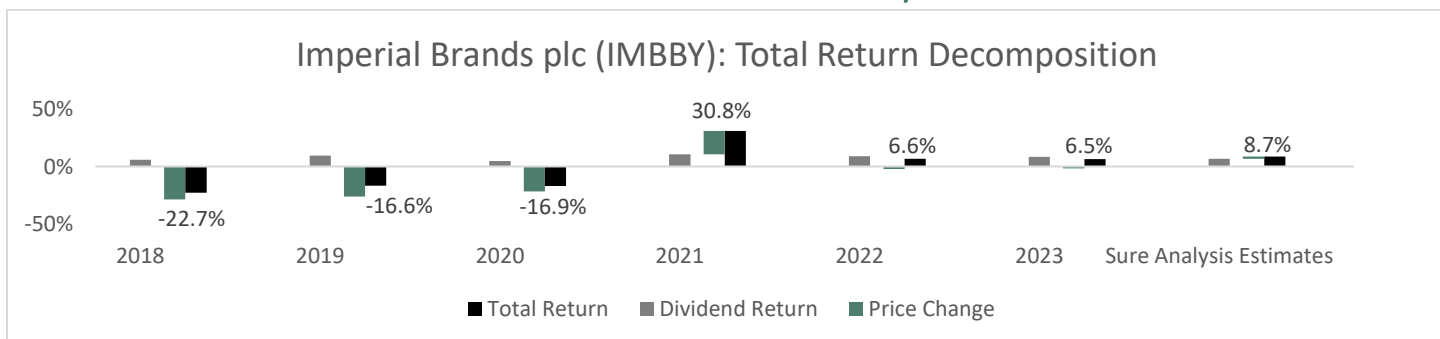
Imperial Brands has a fairly high level of debt, which has eroded its interest coverage ratio. At the end of the second half of fiscal year 2023, Imperial Brands had net debt of ~\$8.4 billion. This is especially concerning in a rising interest rate environment, as higher finance costs would reduce earnings growth.

That said, Imperial Brands has multiple competitive advantages. It operates in a highly regulated industry, with high barriers to entry. It also has pricing power due to the addictive nature of nicotine. Another positive for the stock is that the underlying business is highly recession-resistant. In general, tobacco sales hold up very well during recessions.

Final Thoughts & Recommendation

Shares of Imperial Brands have increased 4.5% since the time of our last report. Following results, the company is expected to offer a total annual return of 8.7% through fiscal 2029, up slightly from our prior estimate of 8.8%. Our projected return stems from a 3% earnings growth rate and a starting yield of 7.4%, offset by a small headwind from multiple compression. Imperial Brands' fiscal year results were mixed results within its top markets. New legislation to curb smoking in the U.K. will be something to watch to see if it spreads to other markets. We again note that while Imperial Brands offers a very high dividend yield, growth has been very inconsistent over the years. In fact, the company had cut its dividend in 2020 before raising it the following year. We continue to rate shares of the company as a hold due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	43834	39068	39349	38307	40448	40342	41538	44868	41706	39870
Gross Profit	8583	7989	8481	8140	8085	7968	7884	8247	7736	8201
Gross Margin	19.6%	20.4%	21.6%	21.2%	20.0%	19.8%	19.0%	18.4%	18.5%	20.6%
SG&A Exp.	3645	3272	3439	3376	3167	3185	3384	3358	3003	3429
D&A Exp.	1522	1452	1771	1727	1703	1680	1161	1115	846	776
Operating Profit	3871	3640	3611	3380	3502	3178	3858	4275	4297	4242
Op. Margin	8.8%	9.3%	9.2%	8.8%	8.7%	7.9%	9.3%	9.5%	10.3%	10.6%
Net Profit	2356	2612	898	1784	1840	1290	1907	3878	2012	2858
Net Margin	5.4%	6.7%	2.3%	4.7%	4.5%	3.2%	4.6%	8.6%	4.8%	7.2%
Free Cash Flow	3578	(3275)	4166	3526	4063	4110	4955	2965	4065	3617
Income Tax	133	51	339	524	533	778	776	453	1135	804

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	42049	45665	42427	41617	40192	40655	41563	39059	34571	35982
Cash & Equivalents	2295	3094	1497	838	1010	2810	2092	1728	2066	1641
Acc. Receivable	4149	3370	3134	3099	3008	3106	2956	3173	2441	2621
Inventories	4669	4307	4534	4840	4810	5018	5229	5148	4623	5517
Goodwill & Int.	24903	28323	26839	26540	24908	22858	23361	22388	19852	20673
Total Liabilities	33176	37033	34984	33256	31795	33791	34465	31084	26226	27878
Accounts Payable	1608	1496	1226	1672	1561	2182	1532	1367	1502	1839
Long-Term Debt	16064	21529	18068	16852	15628	16759	14989	13188	11175	11446
Total Equity	8226	8073	6885	7633	7518	6069	6266	7186	7661	7346
LTD/E Ratio	1.95	2.67	2.62	2.21	2.08	2.76	2.39	1.84	1.46	1.56

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	5.4%	6.0%	2.0%	4.2%	4.5%	3.2%	4.6%	9.6%	5.5%	8.1%
Return on Equity	27.3%	32.1%	12.0%	24.6%	24.3%	19.0%	30.9%	57.7%	27.1%	38.1%
ROIC	9.0%	9.5%	3.2%	7.0%	7.5%	5.4%	8.3%	17.9%	9.9%	14.6%
Shares Out.	961	958	959	956	960	953	953	946	953	928
Revenue/Share	45.66	40.87	41.13	40.03	42.34	42.25	43.92	47.35	43.76	42.95
FCF/Share	3.73	(3.43)	4.36	3.68	4.25	4.30	5.24	3.13	4.27	3.90

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

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