



Altria Group, Inc. (MO)

Updated October 28th, 2023 by Samuel Smith

Key Metrics

Current Price:	\$39.8	5 Year CAGR Estimate:	11.7%	Market Cap:	\$69.5 B
Fair Value Price:	\$44.6	5 Year Growth Estimate:	1.8%	Ex-Dividend Date:	12/14/23 ¹
% Fair Value:	89%	5 Year Valuation Multiple Estimate:	2.3%	Dividend Payment Date:	1/10/24 ²
Dividend Yield:	9.8%	5 Year Price Target	\$49	Years Of Dividend Growth:	54
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	Buy

Overview & Current Events

Altria Group was founded by Philip Morris in 1847. Today, it is a consumer staples giant. It sells the Marlboro cigarette brand in the U.S. and a number of other non-smokeable brands, including Skoal, Copenhagen, and the Ste. Michelle brand of wine. Altria also has a 10% ownership stake in global beer giant Anheuser Busch InBev, in addition to large stakes in Juul, a vaping products manufacturer and distributor, as well as cannabis company Cronos Group (CRON). It currently trades at a market capitalization of \$69.5 billion.

On October 26, 2023, Altria Group, Inc. (MO) disclosed its financial results for the third quarter and nine months of 2023, narrowing its full-year earnings guidance. The reported net revenues for Q3 2023 stood at \$6.281 billion, marking a 4.1% decrease compared to the same period in the previous year. The revenues net of excise taxes amounted to \$5.277 billion, a 2.5% decline. The reported diluted earnings per share (EPS) for the quarter were \$1.22, while the adjusted diluted EPS was \$1.28, meeting the earnings expectations.

In Q3 2023, Altria repurchased 5.9 million shares at an average price of \$44.26, totaling \$260 million, as part of its share repurchase program. By September 30, 2023, \$268 million remained under this program, with completion expected by the year-end. Additionally, dividends of \$1.6 billion were paid during the quarter, with a notable 4.3% increase in the regular quarterly dividend in August.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$2.26	\$2.56	\$2.67	\$3.03	\$3.39	\$3.99	\$4.22	\$4.36	\$4.61	\$4.84	\$4.95	\$5.40
DPS	\$1.84	\$2.08	\$2.17	\$2.35	\$2.54	\$3.00	\$3.28	\$3.44	\$3.52	\$3.76	\$3.92	\$4.25
Shares³	1987.5	1964.8	1954.0	1936.2	1898.1	1874.4	1858.4	1858.7	1817.3	1785.6	1768.6	1660

Altria has generated steady earnings and dividend growth for many years after accounting for the spin-offs of Kraft Foods and Philip Morris International. This, however, is a period of transition for Altria. The decline in the U.S. smoking rate continues, though it has recently recovered some. In response to the negative long-term trend, Altria has invested heavily in new products that appeal to changing consumer preferences. They are also investing heavily into share repurchases to try to support continued earnings-per-share and dividend-per-share growth.

Altria invested billions of dollars in Canadian marijuana producer Cronos Group for a 55% equity stake (including warrants) and a 35% equity stake in e-vapor manufacturer Juul Labs. In light of these large investments, Altria announced a cost-cutting program designed to reduce annual expenses by \$500 million to \$600 million. We also note that the company's investments in Juul and Cronos have resulted in billions of dollars in losses for Altria since inception. Moving forward, we expect the company to generate low-single digit annualized earnings per share growth.

¹ Estimate

² Estimate

³ In millions

Disclosure: This analyst has a long position in the security discussed in this research report.



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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	15	16.4	15.4	15.8	17.7	19.3	20.8	20.2	12.9	13.2	8.0	9.0
Avg. Yld.	5.4%	5.0%	5.3%	4.9%	4.2%	3.9%	3.7%	3.9%	5.9%	5.9%	9.8%	8.7%

We expect that Altria will generate earnings-per-share of approximately \$4.95 in 2023. As a result, Altria stock trades for a price-to-earnings ratio of 8.0. Our fair value estimate for Altria is a price-to-earnings ratio of 9.0, a reasonable multiple for a highly profitable company with a strong moat and a lengthy track record of success that is facing volume declines in its core business and a rising interest rate environment. As a result, the stock is undervalued at present. In addition, the yield is very attractive at 9.8%, which is extremely high both on an absolute basis and against Altria's own historical yields.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	81.4%	81.3%	81.3%	77.6%	74.9%	75.2%	77.7%	78.9%	76.4%	77.7%	79.2%	78.7%

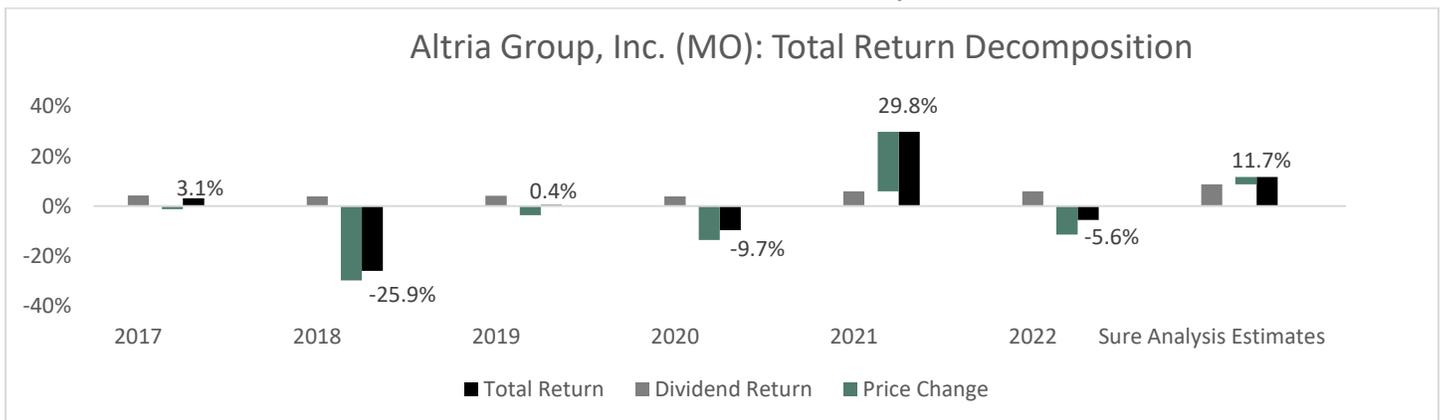
Altria ranks very highly in terms of safety because the company has tremendous competitive advantages. It operates in a highly regulated industry, which virtually eliminates the threat of new competition in the tobacco industry. Altria enjoys strong brands across its product portfolio, including the No. 1 cigarette brand. As a result, it has pricing power and brand loyalty. In addition, tobacco companies enjoy low manufacturing and distribution costs, thanks to its economies of scale. This has fueled Altria's tremendous dividend growth, enabling it to boast an impressive dividend growth streak of 54 years.

Altria's business model is also highly resistant to recessions. Sales of cigarettes and other tobacco products hold up well when the economy declines. This explains why Altria's earnings rose steadily throughout the Great Recession, and why earnings were unscathed during the brief 2020 recession.

Final Thoughts & Recommendation

Altria offers an attractive 11.7% annualized total return potential along with an attractive 9.8% dividend yield and a very impressive dividend growth track record. Furthermore, its business model has proven to be defensive. As a result, it is a compelling dividend growth investment right now. The risk investors need to keep in mind is that the core industry is gradually declining as volumes continue to move lower year after year. Furthermore, the company has struggled to effectively allocate capital in attempts to grow outside of the core business. Overall, however, we rate it a Buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	17663	17945	18854	19337	19494	19627	19796	20841	21111	20,688
Gross Profit	10457	10160	11114	11572	11963	12254	12711	13023	13992	14,246
Gross Margin	59.2%	56.6%	58.9%	59.8%	61.4%	62.4%	64.2%	62.5%	66.3%	68.9%
SG&A Exp.	2340	2539	2708	2662	2338	2756	2226	2154	2432	2,143
D&A Exp.	212	208	225	204	209	227	226	257	244	226
Operating Profit	8095	7619	8365	8910	9625	9498	10485	10869	11560	12,103
Op. Margin	45.8%	42.5%	44.4%	46.1%	49.4%	48.4%	53.0%	52.2%	54.8%	58.5%
Net Profit	4535	5070	5241	14239	10222	6963	(1293)	4467	2475	5,764
Net Margin	25.7%	28.3%	27.8%	73.6%	52.4%	35.5%	-6.5%	21.4%	11.7%	27.9%
Free Cash Flow	4244	4500	5614	3637	4702	8153	7591	8154	8236	8,051
Income Tax	2407	2704	2835	7608	(399)	2374	2064	2436	1349	1,625

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	34859	34475	31459	45932	43202	55459	49271	47414	39523	36,954
Cash & Equivalents	3175	3321	2369	4569	1253	1333	2117	4945	4544	4,030
Acc. Receivable	115	124	124	151	142	142	152	137	47	1,721
Inventories	1879	2040	2031	2051	2225	2331	2293	1966	1194	1,180
Goodwill & Int.	17232	17334	17313	17321	17707	17475	17864	17792	17483	17,561
Total Liabilities	30741	31465	28586	33159	27822	40670	42952	44489	41129	40,877
Accounts Payable	409	416	400	425	374	399	325	380	449	552
Long-Term Debt	14517	14693	12847	13881	13894	25746	28042	29471	28044	26,680
Total Equity	4119	3014	2880	12770	15377	14787	6222	2839	(1606)	(3,973)
LTD/E Ratio	3.52	4.87	4.46	1.09	0.90	1.74	4.51	10.38	(17.46)	(6.72)

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	12.9%	14.6%	15.9%	36.8%	22.9%	14.1%	-2.5%	9.2%	5.7%	15.1%
Return on Equity	124.5%	142.2%	177.8%	182.0%	72.6%	46.2%	-12.3%	98.6%	401.5%	
ROIC	25.4%	27.9%	31.4%	67.2%	36.6%	19.9%	-3.5%	13.4%	8.4%	23.4%
Shares Out.	1987.5	1964.8	1954.0	1936.2	1898.1	1874.4	1858.4	1858.7	1832.0	1785.5
Revenue/Share	8.84	9.07	9.61	9.91	10.15	10.40	10.59	11.21	11.44	11.47
FCF/Share	2.12	2.28	2.86	1.86	2.45	4.32	4.06	4.39	4.46	4.46

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

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