



Philip Morris International Inc. (PM)

Updated February 8th, 2024, by Nikolaos Sismanis

Key Metrics

Current Price:	\$89	5 Year CAGR Estimate:	9.7%	Market Cap:	\$138.4 B
Fair Value Price:	\$97	5 Year Growth Estimate:	3.0%	Ex-Dividend Date¹:	03/22/24
% Fair Value:	92%	5 Year Valuation Multiple Estimate:	1.8%	Dividend Payment Date¹:	04/11/24
Dividend Yield:	5.8%	5 Year Price Target	\$113	Years Of Dividend Growth:	16
Dividend Risk Score:	C	Retirement Suitability Score:	B	Rating:	Buy

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 \$138.4 billion market cap. On February 8th, 2024, Philip Morris reported its Q4 and full-year results for the period ending December 31st, 2023. For the quarter, the company posted net revenues of \$9.05 billion, up 11% year-over-year.

Shipment volumes in cigarettes and heated tobacco units were down 0.5% collectively, with cigarette shipment volume down 1.9% and heated tobacco, a smaller portion of the business, up 6.1% year-over-year. The Swedish Match buyout contributed strongly to the oral products' shipment volumes, which grew by 222% compared to last year. Adjusted EPS equaled \$1.36, up 12.2% versus Q4-2022. For the year, adjusted EPS grew by 11% to \$6.01. GAAP EPS was \$5.02.

Management introduced its fiscal 2024 guidance, expecting GAAP EPS to be between \$5.90 and \$6.02. Note that this forecast includes \$0.42/share amortization of intangibles. Thus, we apply the midpoint of management's ex-currency adjusted EPS guidance of \$6.43 to \$6.55, which implies a year-over-year growth of 7% to 9% and another year of record adjusted EPS (versus FY2023's \$6.01). All past EPS figures are in GAAP.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$4.76	\$4.42	\$4.48	\$3.88	\$5.08	\$4.61	\$5.16	\$5.83	\$5.81	\$5.02	\$6.49	\$7.52
DPS	\$3.88	\$4.04	\$4.12	\$4.22	\$4.49	\$4.62	\$4.74	\$4.90	\$5.04	\$5.14	\$5.20	\$6.03
Shares²	1,547	1,549	1,551	1,553	1,554	1,555	1,558	1,559	1,552	1,553	1,553	1500.0

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 the fruits. Ramp-up of IQOS/Illumina in international markets has boosted net income and expanded the margin mix.

We anticipate growth of 3% per annum coming off \$6.49 in EPS as a starting baseline. The recently acquired a controlling stake in the U.K.-based Vectura, an inhaled therapeutics company, which should also contribute to Philip Morris' smoke-free growth plans. The Swedish Match acquisition has already proven to be accretive earnings.

¹ Estimate

² 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	17.7	18.8	21.5	23.4	17.3	15.7	15	16.4	17.0	18.2	13.7	15.0
Avg. Yld.	4.6%	4.9%	4.3%	3.8%	5.1%	5.7%	6.1%	4.9%	5.2%	5.6%	5.8%	5.3%

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 13.7 times anticipated earnings, the stock could be modestly undervalued. Our fair P/E estimate is set at 15, taking into account our optimistic outlook for sustained growth. It also considers a discount applied to the stock due to its controversial nature, which has led institutional investors to divert from ownership.

Safety, Quality, Competitive Advantage, & Recession Resiliency

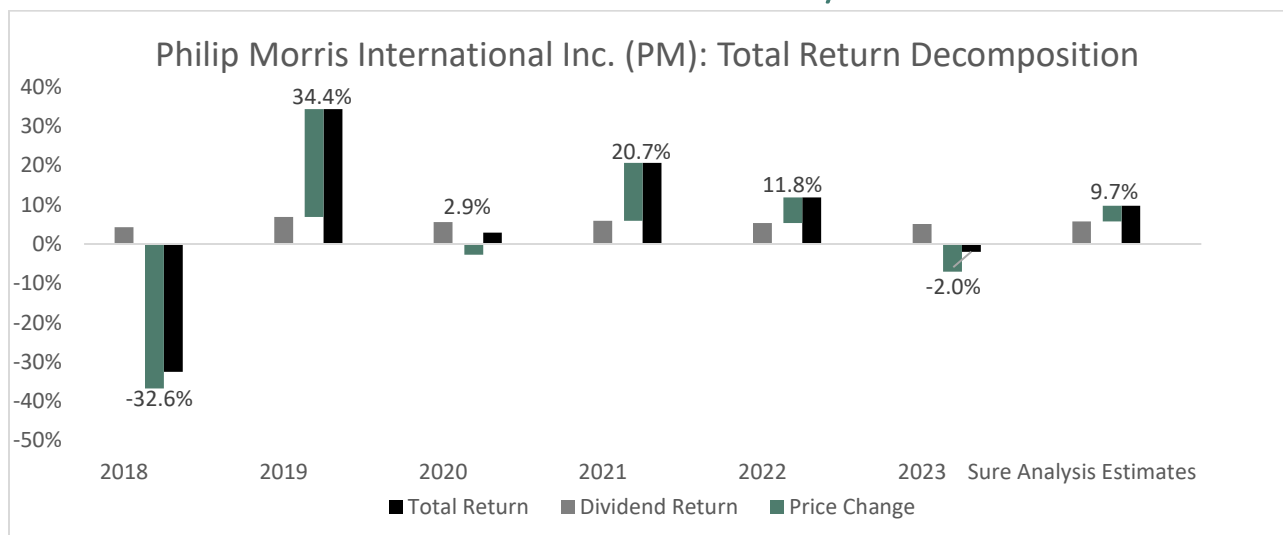
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	82%	91%	92%	109%	88%	100%	92%	84%	87%	102%	80%	80%

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 for 2023, while management's outlook points toward further earnings growth in fiscal 2024. The addition of Swedish Match and sustained growth in heated tobacco should continue to be favorable catalysts to earnings growth moving forward. Based on our growth estimates, the 5.8% yield, and the possibility of a modest valuation tailwind, the stock's return potential comes in at 9.7% per annum. We rate Philip Morris as 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	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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