



Vector Group Ltd. (VGR)

Updated February 15th, 2024 by Prakash Kollu

Key Metrics

Current Price:	\$12	5 Year CAGR Estimate:	13.0%	Market Cap:	\$1.84B
Fair Value Price:	\$15	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	03/16/24
% Fair Value:	77%	5 Year Valuation Multiple Estimate:	5.3%	Dividend Payment Date:	03/30/24
Dividend Yield:	6.8%	5 Year Price Target	\$18	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Hold

Overview & Current Events

Vector Group Ltd. is a holding company that is a combination of a cigarette company and real estate firm. The company owns and controls two tobacco companies: Liggett Group, LLC and Vector Tobacco, Inc, making it the fourth largest cigarette company. Vector Group also owns New Valley LLC, which is a real estate investment business. The Tobacco segment primarily sells discount cigarette brands like Montego, Eagle 20's, Pyramid, Grand Prix, Liggett Select, and Eve. Vector Group spun off Douglas Elliman Realty, the 6th largest real estate brokerage in the U.S., in 2021. Around 7% of the shares are owned by management and directors. The company had revenue of \$1.42B in 2023.

Vector Group reported Q4 2023 and full-year results on February 13th, 2024. Companywide net revenue fell 0.9% to \$360.4M compared to \$363.8M. Diluted GAAP earnings per share increased to \$0.37 compared to \$0.30 on a year-over-year basis because of lower expenses.

Wholesale shipments declined 7.4% to 2.37 billion from 2.56 billion in comparable periods compared to a (-9.5%) decline for the industry. Vector's wholesale market share increased to 5.7% from 5.5% in the prior year. Retail shipments decreased 8.4% versus the overall industry's retail shipment decline of (-8.5%). Vector's retail market share was flat at 5.8% relative to the prior year. Vector's revenue and market share are benefitting from expanded distribution of its low-price Montego brand, but this investment has been affecting overall profitability.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS¹	\$0.29	\$0.42	\$0.50	\$0.56	\$0.35	\$0.63	\$0.60	\$1.12	\$0.97	\$1.23	\$1.27	\$1.47
DPS²	\$1.27	\$1.33	\$1.40	\$1.47	\$1.54	\$1.56	\$0.80	\$0.80	\$0.80	\$0.80	\$0.80	\$0.80
Shares³	146	151	148	148	148	148	153	154	154	156	156	156

Vector Group has consistently grown revenue the past decade. But earnings per share have been tremendously volatile, as the company's operating margins have fluctuated, interest expense has moved steadily higher, and its real estate business has seen impairment charges against it. After the NYC real estate market improved in 2021, Vector spun off the Douglas Elliman Realty business into a separate company. After 2024, we anticipate annual 3% earnings per share growth on average out to 2029 assuming low single-digit growth for cigarette revenue on higher prices and volumes.

Vector Group had previously paid a regular cash dividend of \$1.60 per share and a 5% stock dividend annually through 2019. However, as we noted in earlier reports, earnings and net operating cash did not cover the dividend. The company needed to use debt to pay the dividend. The greater share count from the stock dividend, increase in total debt at higher interest rates, and restrictive covenants on the debt eventually limited the company's ability to pay the dividend. The regular dividend was cut in 2020 and is now \$0.80 per share and the stock dividend was suspended as well. Dividend coverage has improved recently due to higher earnings, reasonable cash position, and retirement of the 5.5% Variable Interest Convertible Notes due in 2020. No long-term debt is due until 2026.

¹ VGR spun off Douglas Elliman in 2021, which is treated as discontinued operations from 2021.

² Adjusted for annual stock dividend of 5% through 2019.

³ Share count 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	57.6	45.6	38.5	35.2	45.1	17.2	12.0	15.0	10.9	9.2	9.3	12.0
Avg. Yld.	7.7%	6.9%	7.3%	7.4%	9.2%	14.2%	7.3%	5.7%	7.3%	7.1%	6.8%	4.5%

Vector Group's stock price is up slightly since our last report on better results. We set our earnings per share estimate at consensus in 2024. Our fair value multiple for the long haul is now 12X, accounting for recent challenges and the spinoff of Douglas Elliman. Our fair value estimate is now \$15. Our 5-year price target is now \$18.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	438%	317%	280%	263%	440%	248%	133%	71%	82%	65%	63%	54%

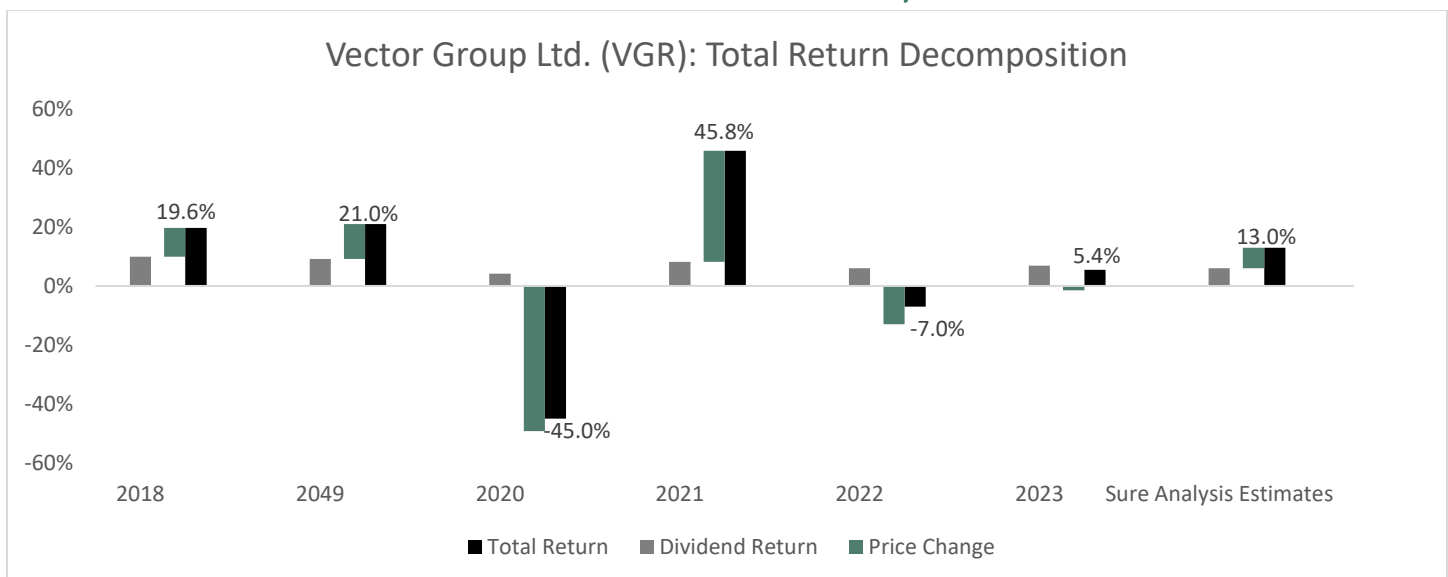
Vector Group's main competitive advantage is the tobacco business, which tends to have stable cash flows. The company focuses on tobacco outlets and discount stores for its value brands. However, e-cigarettes represent a threat and cigarette sales are in a secular decline. The New Valley business does not have a competitive advantage.

Of greater concern is that long-term debt has increased over time to pay the dividend and fund operations. Short-term and current long-term debt was \$15M and long-term debt was \$1,385.5M offset by \$565.2M in cash, equivalents, and marketable securities at the end of Q3 2023. The company has been able to refinance debt but at high rates. Vector Group carries \$875M of 5.75% Senior Secured Notes due in 2029 and \$531.9M of 10.5% Senior Notes due in 2026 that have restrictive covenants for paying the dividend.

Final Thoughts & Recommendation

At present we are forecasting 13.0% total annualized return over the next five years from a dividend yield of 6.8%, 3.0% EPS growth, and 5.3% P/E multiple expansion. Vector's operational performance and market share are improving as it focuses on deep-discount cigarettes and lower priced brands. Despite this, and balance sheet improvements, we remain negative for the long-term about Vector due to the cut in the regular cash dividend, suspended stock dividend, high debt, and secular decline of cigarette volumes. We still do not recommend this stock but kept our rating at 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	1080	1591	1657	1691	1807	1870	1904	2003	1221	1441
Gross Profit	313	494	547	594	579	578	602	636	451	442
Gross Margin	29.0%	31.1%	33.0%	35.1%	32.1%	30.9%	31.6%	31.7%	36.9%	30.7%
SG&A Exp.	114	279	320	339	337	356	370	330	131	103
D&A Exp.	13	24	26	22	19	19	18	18	16	7
Operating Profit	199	215	227	255	242	222	232	306	320	339
Operating Margin	18.5%	13.5%	13.7%	15.1%	13.4%	11.9%	12.2%	15.3%	26.2%	23.5%
Net Profit	37	37	59	71	85	58	101	93	219	159
Net Margin	3.5%	2.3%	3.6%	4.2%	4.7%	3.1%	5.3%	4.6%	17.9%	11.0%
Free Cash Flow	39	84	134	71	112	164	111	248	242	171
Income Tax	24	33	41	49	-2	22	33	42	63	62

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1264	1423	1281	1404	1328	1550	1505	1343	871	909
Cash & Equivalents	234	326	240	394	301	585	371	353	193	225
Accounts Receivable	12	23	24	19	29	34	37	41	16	41
Inventories	93	90	87	90	90	91	99	98	95	92
Goodwill & Int. Ass.	275	270	264	262	268	267	266	208	108	108
Total Liabilities	1286	1444	1403	1657	1660	2097	2190	2003	1713	1716
Accounts Payable		11	20	11	19	13	10	13	9	6
Long-Term Debt	692	913	865	1172	1228	1643	1606	1406	1399	1412
Shareholder's Equity	-95	-100	-206	-332	-414	-548	-685	-660	-842	-808
D/E Ratio	-7.29	-9.16	-4.20	-3.53	-2.97	-3.00	-2.34	-2.13	-1.67	-1.75

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	3.2%	2.7%	4.4%	5.3%	6.2%	4.0%	6.6%	6.5%	19.8%	17.8%
Return on Equity	-42.8%	-37.8%	-38.7%	-26.4%	-22.7%	-12.1%	-12.1%	---	---	---
ROIC	6.1%	4.7%	7.2%	8.6%	9.3%	5.8%	10%	11.1%	34.3%	27.3%
Shares Out.	124	139	143	141	141	141	148	148	152	153
Revenue/Share	9.22	12.71	11.57	12.34	12.97	13.41	12.92	13.33	8.00	9.42
FCF/Share	0.33	0.67	0.93	0.52	0.80	1.18	0.76	1.65	1.59	1.12

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

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