



# Philip Morris International Inc. (PM)

Updated April 23<sup>th</sup>, 2024, by Nikolaos Sismanis

## Key Metrics

|                             |      |  |       |   |           |
|-----------------------------|------|--|-------|---|-----------|
| <b>Current Price:</b>       | \$97 | <b>5 Year CAGR Estimate:</b>               | 8.2%  | <b>Market Cap:</b>                        | \$150.4 B |
| <b>Fair Value Price:</b>    | \$99 | <b>5 Year Growth Estimate:</b>             | 3.0%  | <b>Ex-Dividend Date<sup>1</sup>:</b>      | 06/21/24  |
| <b>% Fair Value:</b>        | 98%  | <b>5 Year Valuation Multiple Estimate:</b> | 0.5%  | <b>Dividend Payment Date<sup>1</sup>:</b> | 07/11/24  |
| <b>Dividend Yield:</b>      | 5.4% | <b>5 Year Price Target</b>                 | \$115 | <b>Years Of Dividend Growth:</b>          | 16        |
| <b>Dividend Risk Score:</b> | C    | <b>Retirement Suitability Score:</b>       | B     | <b>Rating:</b>                            | 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 \$150.4 billion market cap. On April 23<sup>rd</sup>, 2024, Philip Morris reported its Q1 results for the period ending March 31<sup>st</sup>, 2024. For the quarter, the company posted net revenues of \$8.8 billion, up 9.7% year-over-year. Adjusted EPS equaled \$1.50, up 8.7% versus Q1-2023. In constant currency, adjusted EPS grew by a considerable 23.2%.

Total shipment volumes were up 3.6% collectively, as growth in heated tobacco and oral products more than offset the modest decline in combustibles. Specifically, shipment volumes in cigarettes, heated tobacco, and oral products were down 0.4%, up 20.9%, and up 35.8%, respectively. The Swedish Match buyout contributed strongly to the strong increase in oral products' shipment volumes.

Management revised its fiscal 2024 guidance downward on a GAAP basis, but raised it on an adjusted basis. They now expect GAAP EPS to be between \$5.70 and \$5.82 (down from \$5.90 and \$6.02). However, note that this outlook includes \$0.43/share amortization of intangibles. Thus, we apply the midpoint of management's ex-currency adjusted EPS target, which was raised to \$6.55 to \$6.67. Its midpoint implies a year-over-year growth between 9% and 11% and new 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          |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>EPS</b>                | \$4.76 | \$4.42 | \$4.48 | \$3.88 | \$5.08 | \$4.61 | \$5.16 | \$5.83 | \$5.81 | \$5.02 | <b>\$6.61</b> | <b>\$7.66</b> |
| <b>DPS</b>                | \$3.88 | \$4.04 | \$4.12 | \$4.22 | \$4.49 | \$4.62 | \$4.74 | \$4.90 | \$5.04 | \$5.14 | <b>\$5.20</b> | <b>\$6.03</b> |
| <b>Shares<sup>2</sup></b> | 1,547  | 1,549  | 1,551  | 1,553  | 1,554  | 1,555  | 1,558  | 1,559  | 1,552  | 1,553  | <b>1,554</b>  | <b>1,500</b>  |

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.

<sup>1</sup> Estimate

<sup>2</sup> In millions.

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We anticipate growth of 3% per annum coming off \$6.61 in EPS as a starting baseline. The recently acquired a controlling stake in the 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      | 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 | 14.7 | 15.0 |
| Avg. Yld. | 4.6% | 4.9% | 4.3% | 3.8% | 5.1% | 5.7% | 6.1% | 4.9% | 5.2% | 5.6% | 5.4% | 5.2% |

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 14.7 times management's target earnings, the stock should be more or less fairly valued. 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

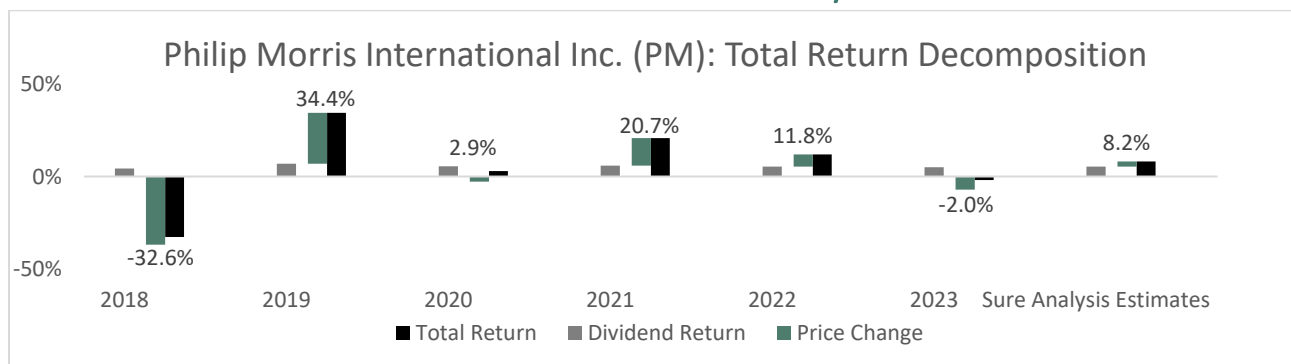
| Year   | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 82%  | 91%  | 92%  | 109% | 88%  | 100% | 92%  | 84%  | 87%  | 102% | 79%  | 79%  |

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 kicked off fiscal 2024 on a high note. The company posted strong growth in revenues and earnings, while management's outlook points toward sustained momentum moving forward. The addition of Swedish Match and heated tobacco seeing increased adoption should continue to be favorable catalysts to earnings growth moving forward. Based on our growth estimates, the 5.4% yield, and the possibility of a slight valuation tailwind, the stock's return potential comes in at 8.2% per annum. We rate Philip Morris as a hold.

## Total Return Breakdown by Year



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## Income Statement Metrics

| Year             | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  | 2023  |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue          | 29767 | 26794 | 26685 | 28748 | 29625 | 29805 | 28690 | 31400 | 31760 | 35170 |
| Gross Profit     | 19331 | 17429 | 17294 | 18316 | 18867 | 19292 | 19120 | 21380 | 20360 | 22280 |
| Gross Margin     | 64.9% | 65.0% | 64.8% | 63.7% | 63.7% | 64.7% | 66.6% | 68.1% | 64.1% | 63.3% |
| SG&A Exp.        | 7001  | 6656  | 6405  | 6725  | 7449  | 8784  | 7481  | 8419  | 8138  | 10100 |
| D&A Exp.         | 889   | 754   | 743   | 875   | 989   | 964   | 981   | 998   | 1189  | 1398  |
| Operating Profit | 12237 | 10691 | 10815 | 11503 | 11336 | 10442 | 11570 | 12860 | 12220 | 12180 |
| Op. Margin       | 41.1% | 39.9% | 40.5% | 40.0% | 38.3% | 35.0% | 40.3% | 41.0% | 38.5% | 34.6% |
| Net Profit       | 7493  | 6873  | 6967  | 6035  | 7911  | 7185  | 8056  | 9109  | 9048  | 7813  |
| Net Margin       | 25.2% | 25.7% | 26.1% | 21.0% | 26.7% | 24.1% | 28.1% | 29%   | 28.5% | 22.2% |
| Free Cash Flow   | 6586  | 6905  | 6905  | 7364  | 8042  | 9238  | 9210  | 11220 | 9726  | 7883  |
| Income Tax       | 3097  | 2688  | 2768  | 4307  | 2445  | 2293  | 2377  | 2671  | 2244  | 2339  |

## Balance Sheet Metrics

| Year               | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022  | 2023   |
|--------------------|--------|--------|--------|--------|--------|--------|--------|--------|-------|--------|
| Total Assets       | 35187  | 33956  | 36851  | 42968  | 39801  | 42875  | 44820  | 41290  | 61680 | 65300  |
| Cash & Equivalents | 1682   | 3417   | 4239   | 8447   | 6593   | 6861   | 7280   | 4496   | 3207  | 3060   |
| Acc. Receivable    | 4004   | 2778   | 3499   | 3194   | 2950   | 3080   | 2905   | 3123   | 3850  | 3461   |
| Inventories        | 8592   | 8473   | 9017   | 8806   | 8804   | 9235   | 9591   | 8720   | 9886  | 10770  |
| Goodwill & Int.    | 11373  | 10038  | 9794   | 10098  | 9467   | 7971   | 7983   | 9498   | 26390 | 26640  |
| Total Liabilities  | 46390  | 45432  | 47751  | 53198  | 50540  | 52474  | 55450  | 49500  | 67990 | 74750  |
| Accounts Payable   | 1242   | 1289   | 1666   | 2242   | 2068   | 2299   | 2780   | 3331   | 4076  | 4143   |
| Long-Term Debt     | 29455  | 28480  | 29067  | 34339  | 31759  | 31045  | 31540  | 27810  | 43120 | 47910  |
| Total Equity       | -12.6B | -13.2B | -12.7B | -12.1B | -12.5B | -11.6B | -12.6B | -10110 | -8957 | -11220 |
| LTD/E Ratio        | -2.33  | -2.15  | -2.29  | -2.84  | -2.55  | -2.68  | -2.51  | -2.75  | -4.81 | -4.37  |

## Profitability & Per Share Metrics

| Year             | 2014   | 2015   | 2016   | 2017   | 2018   | 2019  | 2020  | 2021  | 2022  | 2023  |
|------------------|--------|--------|--------|--------|--------|-------|-------|-------|-------|-------|
| Return on Assets | 20.4%  | 19.9%  | 19.7%  | 15.1%  | 19.1%  | 17.4% | 18.4% | 21.2% | 17.6% | 12.3% |
| Return on Equity | -73.5% | -53.1% | -53.7% | -48.7% | -64.5% | ---   | ---   | ---   | ---   | ---   |
| ROIC             | 37.8%  | 39.0%  | 39.6%  | 28.6%  | 35.1%  | 33.8% | 38.0% | 45.0% | 32.1% | 20.8% |
| Shares Out.      | 1566   | 1549   | 1551   | 1553   | 1555   | 1555  | 1558  | 1559  | 1552  | 1553  |
| Revenue/Share    | 19.01  | 17.30  | 17.21  | 18.51  | 19.05  | 19.15 | 18.42 | 20.14 | 20.47 | 22.65 |
| FCF/Share        | 4.21   | 4.46   | 4.45   | 4.74   | 5.17   | 5.94  | 5.91  | 7.20  | 6.27  | 5.08  |

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

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