



# Imperial Brands plc (IMBBY)

Updated November 25<sup>th</sup>, 2024 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$32	<b>5 Year CAGR Estimate:</b>	0.9%	<b>Market Cap:</b>	\$27 B
<b>Fair Value Price:</b>	\$21	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	11/29/24
<b>% Fair Value:</b>	155%	<b>5 Year Valuation Multiple Estimate:</b>	-8.4%	<b>Dividend Payment Date:</b>	01/08/25
<b>Dividend Yield:</b>	5.9%	<b>5 Year Price Target</b>	\$24	<b>Years Of Dividend Growth:</b>	1
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Sell

## 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 ~\$27 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 8<sup>th</sup>, 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. The raising of the league age to purchase tobacco products will begin in 2027.

On November 19<sup>th</sup>, 2024, Imperial Brands reported results for fiscal year 2024 for the period ending September 30<sup>th</sup>, 2024. For the fiscal year, net revenue fell 0.2% on a reported basis, but was flat on a constant currency basis. Tobacco pricing and mix improved 6%, which was partially offset by a 3.5% decrease in volume.

Currency exchange was a headwind, but adjusted earnings-per-share improved 10.9% for the fiscal year. Total tobacco market share improved in four out of five top markets. Improvements in the U.S. (+15 basis points), Australia (+5), Spain (+5), and Germany (+2) was offset by a decline in the U.K. (-50).

Imperial Brands provided partial guidance for fiscal year 2025, with revenue projected to grow by low single-digits. We expect the company to earn \$3.18 per share for the fiscal year. We have initiated our forecast accordingly.

## Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
<b>EPS</b>	\$2.31	\$0.86	\$1.92	\$3.55	\$3.49	\$3.36	\$3.30	\$3.15	\$3.31	\$3.12	<b>\$3.18</b>	<b>\$3.69</b>
<b>DPS</b>	\$2.36	\$1.96	\$2.16	\$2.45	\$2.48	\$1.07	\$1.87	\$1.83	\$1.71	\$1.89	<b>\$1.89</b>	<b>\$1.89</b>
<b>Shares<sup>1</sup></b>	958	959	956	960	953	953	946	953	928	874	<b>874</b>	<b>860</b>

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, a 2.1% drop in fiscal 2020, a 2.9% decline in fiscal year 2021, a 7.5% decline in fiscal year 2022, a 10.4% drop in fiscal year 2023, and a 3.5% decrease in fiscal year 2024. 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 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.

<sup>1</sup> In millions of shares

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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	22.1	21.6	59.4	23.5	6.5	5.3	6.4	6.6	6.2	9.3	10.1	6.5
Avg. Yld.	3.7%	4.7%	3.8%	4.8%	11.0%	6.0%	8.8%	9.0%	8.4%	6.5%	5.9%	7.9%

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 stock has a price-to-earnings ratio of 10.1 currently, while our fair value estimate for Imperial Brands is a price-to-earnings ratio of 6.5. We feel that this is an appropriate target 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 8.4% over the next five years.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	102%	228%	113%	65%	71%	32%	57%	58%	52%	61%	59%	51%

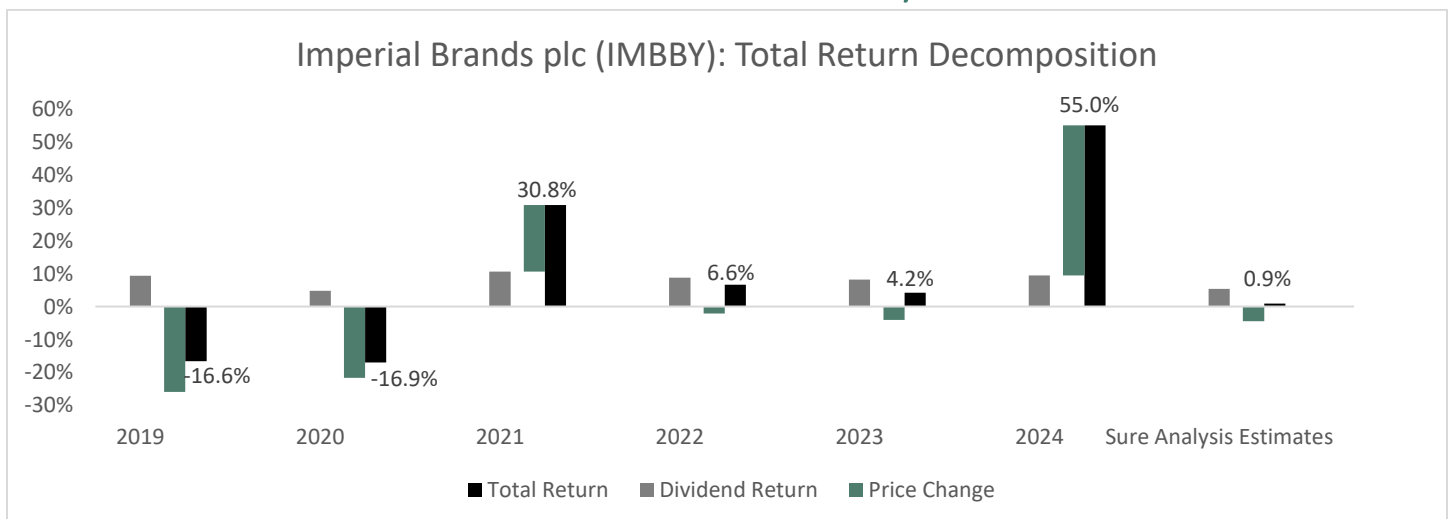
Imperial Brands has a fairly high level of debt, which has eroded its interest coverage ratio. At the end of fiscal year 2024, Imperial Brands had net debt of ~\$8.3 billion. This is especially concerning in a high interest rate environment, as higher finance costs would reduce earnings growth.

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 almost 29% since the time of our last report. Following fiscal year results, the stock is expected to offer a total annual return of 0.9% through fiscal 2030, down from our prior estimate of 6.9%. Our projected return stems from a 3% earnings growth rate and a starting yield of 5.9%, that are nearly offset by a high single-digit headwind from multiple reversion. As with prior periods, Imperial Brands' fiscal year results were slightly mixed results within its top markets. We note that the 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 now rate shares of the company as a sell 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
<b>Revenue</b>	39,068	39,349	38,307	40,448	40,342	41,538	44,868	41,706	39,870	41,099
<b>Gross Profit</b>	7,989	8,481	8,140	8,085	7,968	7,884	8,247	7,736	8,201	8,596
<b>Gross Margin</b>	20.4%	21.6%	21.2%	20.0%	19.8%	19.0%	18.4%	18.5%	20.6%	20.9%
<b>SG&amp;A Exp.</b>	3,272	3,439	3,376	3,167	3,185	3,384	3,358	3,003	3,429	4,090
<b>D&amp;A Exp.</b>	1,452	1,771	1,727	1,703	1,680	1,161	1,115	846	776	820
<b>Operating Profit</b>	3,640	3,611	3,380	3,502	3,178	3,858	4,275	4,297	4,242	4,507
<b>Op. Margin</b>	9.3%	9.2%	8.8%	8.7%	7.9%	9.3%	9.5%	10.3%	10.6%	11.0%
<b>Net Profit</b>	2,612	898	1,784	1,840	1,290	1,907	3,878	2,012	2,858	3,313
<b>Net Margin</b>	6.7%	2.3%	4.7%	4.5%	3.2%	4.6%	8.6%	4.8%	7.2%	8.1%
<b>Free Cash Flow</b>	(3,275)	4,166	3,526	4,063	4,110	4,955	2,965	4,065	3,617	4,140
<b>Income Tax</b>	51	339	524	533	778	776	453	1,135	804	358

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	45,665	42,427	41,617	40,192	40,655	41,563	39,059	34,571	35,982	37,237
<b>Cash &amp; Equivalents</b>	3,094	1,497	838	1,010	2,810	2,092	1,728	2,066	1,641	1,443
<b>Acc. Receivable</b>	3,370	3,134	3,099	3,008	3,106	2,956	3,173	2,441	2,621	3,119
<b>Inventories</b>	4,307	4,534	4,840	4,810	5,018	5,229	5,148	4,623	5,517	5,460
<b>Goodwill &amp; Int.</b>	28,323	26,839	26,540	24,908	22,858	23,361	22,388	19,852	20,673	21,328
<b>Total Liabilities</b>	37,033	34,984	33,256	31,795	33,791	34,465	31,084	26,226	27,878	29,169
<b>Accounts Payable</b>	1,496	1,226	1,672	1,561	2,182	1,532	1,367	1,502	1,839	2,006
<b>Long-Term Debt</b>	21,529	18,068	16,852	15,628	16,759	14,989	13,188	11,175	11,446	11,638
<b>Total Equity</b>	8,073	6,885	7,633	7,518	6,069	6,266	7,186	7,661	7,346	7,283
<b>LTD/E Ratio</b>	2.67	2.62	2.21	2.08	2.76	2.39	1.84	1.46	1.56	1.60

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	6.0%	2.0%	4.2%	4.5%	3.2%	4.6%	9.6%	5.5%	8.1%	9.1%
<b>Return on Equity</b>	29.8%	11.2%	22.6%	22.0%	16.9%	27.3%	51.5%	24.7%	34.8%	41.0%
<b>ROIC</b>	9.5%	3.2%	7.0%	7.5%	5.4%	8.3%	17.9%	9.9%	14.6%	16.9%
<b>Shares Out.</b>	958	959	956	960	953	953	946	953	928	874
<b>Revenue/Share</b>	40.87	41.13	40.03	42.34	42.25	43.92	47.35	43.76	42.95	47.03
<b>FCF/Share</b>	(3.43)	4.36	3.68	4.25	4.30	5.24	3.13	4.27	3.90	4.74

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

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