



Altria Group, Inc. (MO)

Updated November 8th, 2024 by Samuel Smith

Key Metrics

Current Price:	\$54.1	5 Year CAGR Estimate:	6.3%	Market Cap:	\$91.6 B
Fair Value Price:	\$45.9	5 Year Growth Estimate:	2.2%	Ex-Dividend Date:	12/16/24 ¹
% Fair Value:	118%	5 Year Valuation Multiple Estimate:	-3.2%	Dividend Payment Date:	1/10/25 ²
Dividend Yield:	7.5%	5 Year Price Target	\$51	Years Of Dividend Growth:	54
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	Hold

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. 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 \$91.6 billion.

Altria Group, Inc. (MO) reported solid third-quarter results, driven by the resilience of its smokeable products and the continued market momentum of the on! nicotine pouch brand. The company's Q3 revenue was \$5.34 billion, a 1.3% year-over-year increase, with adjusted earnings per share (EPS) reaching \$1.38, exceeding expectations by \$0.03. Altria also reaffirmed its full-year EPS guidance range of \$5.07 to \$5.15, indicating growth of 2.5% to 4% over 2023. In the NJOY segment, consumables shipments rose by 15.6% and devices by 100% year-over-year. The NJOY brand captured a 6.2% share in the U.S. convenience market. Altria announced its Optimize & Accelerate initiative aimed at modernizing processes, with projected cumulative savings of \$600 million over the next five years. This initiative, which involves centralizing operations and integrating AI, aims to enhance organizational efficiency. The initial investment for this project includes expected pre-tax charges of \$100 to \$125 million through 2025. During the quarter, Altria repurchased 13.5 million shares, spending \$680 million, and declared dividends of \$1.7 billion. The company has \$310 million remaining under its repurchase program, anticipated to complete by year-end. This quarter also marked a 4.1% dividend increase, continuing Altria's goal of mid-single-digit annual dividend growth through 2028.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$2.56	\$2.67	\$3.03	\$3.39	\$3.99	\$4.22	\$4.36	\$4.61	\$4.84	\$4.95	\$5.10	\$5.70
DPS	\$2.08	\$2.17	\$2.35	\$2.54	\$3.00	\$3.28	\$3.44	\$3.52	\$3.76	\$3.84	\$4.08	\$4.65
Shares³	1964.8	1954.0	1936.2	1898.1	1874.4	1858.4	1858.7	1817.3	1785.6	1763.5	1694.8	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 its 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	16.4	15.4	15.8	17.7	19.3	19	20.2	12.9	13.2	8.1	10.6	9.0
Avg. Yld.	5.0%	5.0%	4.7%	4.2%	4.0%	4.2%	3.8%	6.0%	5.9%	9.8%	7.5%	9.1%

We expect that Altria will generate earnings-per-share of approximately \$5.10 in 2024. As a result, Altria stock trades for a price-to-earnings ratio of 10.6. 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 slightly overvalued at present. In addition, the yield is very attractive at 7.5%, which is high both on an absolute basis and against Altria's own historical yields.

Safety, Quality, Competitive Advantage, & Recession Resiliency

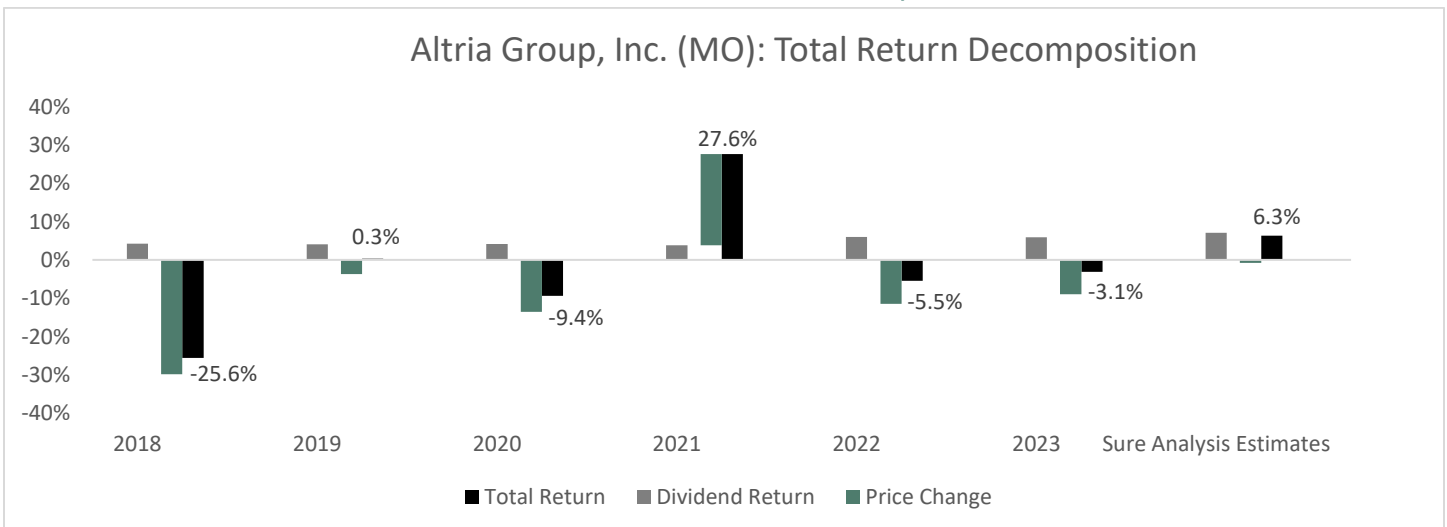
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	81.3%	81.3%	77.6%	74.9%	75.2%	77.7%	78.9%	76.4%	77.7%	77.6%	80.0%	81.6%

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 a 6.3% annualized total return potential along with an attractive 7.5% 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, we rate it 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	17945	18854	19337	19494	19627	19796	20841	21111	20688	20502
Gross Profit	10160	11114	11572	11963	12254	12711	13023	13992	14246	14284
Gross Margin	56.6%	58.9%	59.8%	61.4%	62.4%	64.2%	62.5%	66.3%	68.9%	69.7%
SG&A Exp.	2539	2708	2662	2338	2756	2226	2150	2432	2327	2482
D&A Exp.	208	225	204	209	227	226	257	244	226	272
Operating Profit	7619	8365	8910	9625	9498	10485	10873	11560	11919	11674
Op. Margin	42.5%	44.4%	46.1%	49.4%	48.4%	53.0%	52.2%	54.8%	57.6%	56.9%
Net Profit	5070	5241	14239	10222	6963	(1293)	4467	2475	5764	8130
Net Margin	28.3%	27.8%	73.6%	52.4%	35.5%	-6.5%	21.4%	11.7%	27.9%	39.7%
Free Cash Flow	4500	5614	3637	4702	8153	7591	8154	8236	8051	9091
Income Tax	2704	2835	7608	(399)	2374	2064	2436	1349	1625	2798

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	34475	31459	45932	43202	55459	49271	47414	39523	36954	38570
Cash & Equivalents	3321	2369	4569	1253	1333	2117	4945	4544	4030	3686
Acc. Receivable	124	124	151	142	142	152	137	---	1721	---
Inventories	2040	2031	2051	2225	2331	2293	1966	1194	1180	1215
Goodwill & Int.	17334	17313	17321	17707	17475	17864	17792	17483	17561	20477
Total Liabilities	31465	28586	33159	27822	40670	42952	44449	41129	40877	42060
Accounts Payable	416	400	425	374	399	325	380	449	552	582
Long-Term Debt	14693	12847	13881	13894	25746	28042	29471	28044	26680	26233
Total Equity	3014	2880	12770	15377	14787	6222	2839	(1606)	(3973)	(3540)
LTD/E Ratio	4.87	4.46	1.09	0.90	1.74	4.51	10.38	(17.46)	(6.72)	(7.41)

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	14.6%	15.9%	36.8%	22.9%	14.1%	-2.5%	9.2%	5.7%	15.1%	21.5%
Return on Equity	142.3%	178.2%	182.0%	72.6%	46.2%	-12.3%	96.2%	---	---	---
ROIC	27.9%	31.4%	67.2%	36.6%	19.9%	-3.5%	13.4%	8.4%	23.4%	35.7%
Shares Out.	1964.8	1954.0	1936.2	1898.1	1874.4	1858.4	1858.7	1817.3	1785.6	1767.0
Revenue/Share	9.07	9.61	9.91	10.15	10.40	10.59	11.21	11.44	11.47	11.54
FCF/Share	2.28	2.86	1.86	2.45	4.32	4.06	4.39	4.46	4.46	5.12

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

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