



Philip Morris International Inc. (PM)

Updated February 7th, 2025, by Nikolaos Sismanis

Key Metrics

Current Price:	\$145	5 Year CAGR Estimate:	9.2%	Market Cap:	\$225.9 B
Fair Value Price:	\$128	5 Year Growth Estimate:	9.0%	Ex-Dividend Date¹:	03/20/25
% Fair Value:	114%	5 Year Valuation Multiple Estimate:	-2.6%	Dividend Payment Date¹:	04/09/25
Dividend Yield:	3.7%	5 Year Price Target	\$196	Years Of Dividend Growth:	17
Dividend Risk Score:	C	Retirement Suitability Score:	B	Rating:	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 \$225.9 billion market cap. On February 6th, 2025, Philip Morris reported its Q4 and full-year results for the period ending December 31st, 2024. For the quarter, the company posted net revenues of \$9.7 billion, up 7.3% year-over-year. Adjusted EPS was \$1.55, up 14.0% compared to Q4 2023. In constant currency, adjusted EPS grew by 9.6%.

Total shipment volumes were up 2.3% collectively, driven by growth across the board. It was also encouraging to see that combustibles once again posted a rise in volume, effectively sustaining their positive trajectory after years of declines. Specifically, shipment volumes in cigarettes, heated tobacco, and oral products rose 1.1%, 5.1%, and 22.0%, respectively. Price increases across all categories also contributed to revenue growth.

Management introduced its fiscal 2025 targets. They now expect GAAP EPS to be between \$6.55 and \$6.68, a notable increase from last year's \$4.52. Note that the GAAP figure includes \$0.49 per share in amortization of intangibles. Thus, we use the midpoint of management's adjusted EPS target range of \$7.04 to \$7.17. This midpoint implies a year-over-year growth of 7.9% and represents a new record for adjusted EPS (compared to FY 2024's \$6.57). All past EPS figures are in GAAP.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$4.42	\$4.48	\$3.88	\$5.08	\$4.61	\$5.16	\$5.83	\$5.81	\$5.02	\$4.52	\$7.09	\$10.91
DPS	\$4.04	\$4.12	\$4.22	\$4.49	\$4.62	\$4.74	\$4.90	\$5.04	\$5.14	\$5.30	\$5.40	\$6.26
Shares²	1,549	1,551	1,553	1,554	1,555	1,558	1,559	1,552	1,553	1,561	1,561	1,500

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 due to large investments in IQOS/Heatsticks technology. The high costs of developing the device and scaling production impacted short-term profitability, but the company is now seeing strong returns. The global expansion of IQOS, including the ILUMA model, has improved net income and enhanced margin mix. Also, the acquisition of Swedish Match in 2022 has been accretive to EPS, with Zyn nicotine pouches driving exceptional revenue growth and accelerating PMI's transition to smoke-free products. We now anticipate growth of 9% per annum coming off a baseline of \$7.09 in EPS moving forward.

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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	18.8	21.5	23.4	17.3	15.7	15	16.4	17	18.2	22.96	20.5	18.0
Avg. Yld.	4.9%	4.3%	3.8%	5.1%	5.7%	6.1%	4.9%	5.2%	5.6%	5.1%	3.7%	3.2%

Shares of Philip Morris traded at an elevated valuation in the 2015 through 2017 period, but otherwise, a mid-teens P/E has been typical. At a P/E of 20.5 times management's target adjusted EPS, today, the stock seems overvalued. Our fair P/E estimate is set at 18.0, 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. This trend may be on a reversal path given the company's renewed growth lately. Still, we remain prudent.

Safety, Quality, Competitive Advantage, & Recession Resiliency

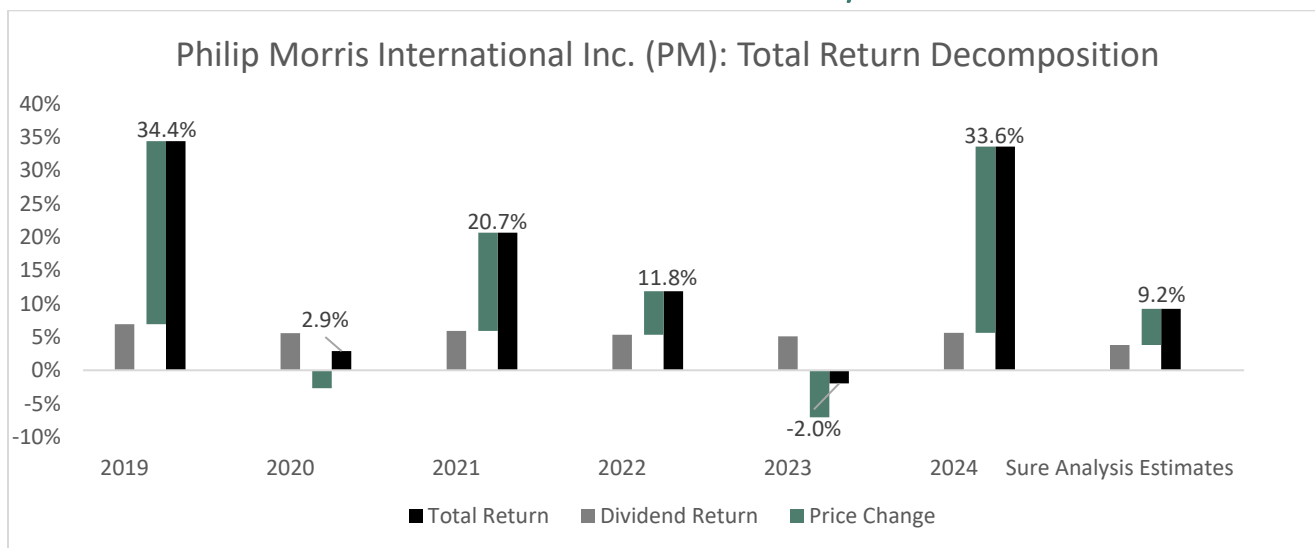
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	91%	92%	109%	88%	100%	92%	84%	87%	102%	117%	76%	57%

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 in Ukraine 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 entered the second half of FY2024 on a high note. The company posted excellent 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 3.7% yield, and the possibility of a modest valuation headwind, the stock's return potential comes in at 9.2% 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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