



Imperial Brands plc (IMBBY)

Updated May 19th, 2025 by Nathan Parsh

Key Metrics

Current Price:	\$37	5 Year CAGR Estimate:	3.3%	Market Cap:	\$30 B
Fair Value Price:	\$27	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	05/23/25
% Fair Value:	136%	5 Year Valuation Multiple Estimate:	-6.0%	Dividend Payment Date:	07/07/25
Dividend Yield:	5.9%	5 Year Price Target	\$31	Years Of Dividend Growth:	2
Dividend Risk Score:	F	Sector:	Consumer Staples	Rating:	Hold

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 8th, 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 May 14th, 2025, Imperial Brands reported results for the first half of fiscal year 2025, which ended March 31st, 2025. For the period, net revenue declined 3.1% on a reported basis. Revenue for tobacco and next generation products were up 3.2% as pricing and mix added 5.9% to results, offset by a 3.2% decline in volume.

Total tobacco market share improved in three out of five top markets. Improvements in the U.S. (+10 basis points), Germany (+65 basis points), and Australia (+5) was partially offset by the U.K. (-70 basis points) and Spain (-90 basis points).

Imperial Brands reaffirmed its prior guidance for fiscal year 2025, with revenue still projected to grow by low single-digits. We expect the company to earn \$4.18 for the fiscal year, up from \$3.18 previously. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$2.31	\$0.86	\$1.92	\$3.55	\$3.49	\$3.36	\$3.30	\$3.15	\$3.31	\$3.12	\$4.18	\$4.85
DPS	\$2.36	\$1.96	\$2.16	\$2.45	\$2.48	\$1.07	\$1.87	\$1.83	\$1.71	\$1.89	\$2.19	\$2.54
Shares¹	958	959	956	960	953	953	946	953	928	874	835	800

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. We expect that dividend growth will mirror our earnings growth projections of 3%.

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

¹ In millions of shares

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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.

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	8.9	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%	8.1%

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 8.9 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 6.0% 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%	52%	52%

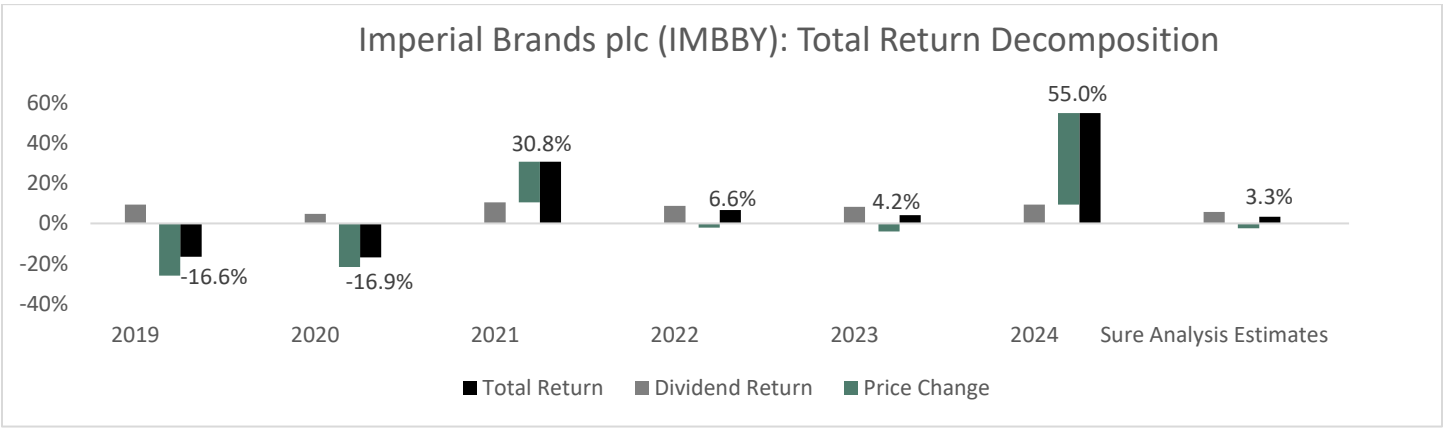
Imperial Brands has a fairly high level of debt, which has eroded its interest coverage ratio. At the end of the first half of fiscal year 2025, Imperial Brands had net debt of almost \$12 billion. This is especially concerning in a high interest rate environment, as higher finance costs would reduce 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 16% since the time of our last report. Following first half results, the stock is expected to offer a total annual return of 3.3% through fiscal 2030, up from our prior estimate of 0.9%. Our projected return stems from a 3% earnings growth rate and a starting yield of 5.9%, that are partially offset by a mid-single-digit headwind from multiple reversion. As with prior periods, Imperial Brands’ 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 hold due to projected returns and a middling dividend risk score.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	39,349	38,307	40,448	40,342	41,538	44,868	41,706	39,870	41,099	41,099
Gross Profit	8,481	8,140	8,085	7,968	7,884	8,247	7,736	8,201	8,596	8,596
Gross Margin	21.6%	21.2%	20.0%	19.8%	19.0%	18.4%	18.5%	20.6%	20.9%	20.9%
SG&A Exp.	3,439	3,376	3,167	3,185	3,384	3,358	3,003	3,429	4,090	4,090
D&A Exp.	1,771	1,727	1,703	1,680	1,161	1,115	846	776	820	820
Operating Profit	3,611	3,380	3,502	3,178	3,858	4,275	4,297	4,242	4,507	4,507
Op. Margin	9.2%	8.8%	8.7%	7.9%	9.3%	9.5%	10.3%	10.6%	11.0%	11.0%
Net Profit	898	1,784	1,840	1,290	1,907	3,878	2,012	2,858	3,313	3,313
Net Margin	2.3%	4.7%	4.5%	3.2%	4.6%	8.6%	4.8%	7.2%	8.1%	8.1%
Free Cash Flow	4,166	3,526	4,063	4,110	4,955	2,965	4,065	3,617	4,140	4,140
Income Tax	339	524	533	778	776	453	1,135	804	358	358

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	42,427	41,617	40,192	40,655	41,563	39,059	34,571	35,982	37,237	37,237
Cash & Equivalents	1,497	838	1,010	2,810	2,092	1,728	2,066	1,641	1,443	1,443
Acc. Receivable	3,134	3,099	3,008	3,106	2,956	3,173	2,441	2,621	3,119	3,119
Inventories	4,534	4,840	4,810	5,018	5,229	5,148	4,623	5,517	5,460	5,460
Goodwill & Int.	26,839	26,540	24,908	22,858	23,361	22,388	19,852	20,673	21,328	21,328
Total Liabilities	34,984	33,256	31,795	33,791	34,465	31,084	26,226	27,878	29,169	29,169
Accounts Payable	1,226	1,672	1,561	2,182	1,532	1,367	1,502	1,839	2,006	2,006
Long-Term Debt	18,068	16,852	15,628	16,759	14,989	13,188	11,175	11,446	11,638	11,638
Total Equity	6,885	7,633	7,518	6,069	6,266	7,186	7,661	7,346	7,283	7,283
LTD/E Ratio	2.62	2.21	2.08	2.76	2.39	1.84	1.46	1.56	1.60	1.60

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	2.0%	4.2%	4.5%	3.2%	4.6%	9.6%	5.5%	8.1%	9.1%	9.1%
Return on Equity	11.2%	22.6%	22.0%	16.9%	27.3%	51.5%	24.7%	34.8%	41.0%	41.0%
ROIC	3.2%	7.0%	7.5%	5.4%	8.3%	17.9%	9.9%	14.6%	16.9%	16.9%
Shares Out.	958	959	956	960	953	953	946	953	928	874
Revenue/Share	41.13	40.03	42.34	42.25	43.92	47.35	43.76	42.95	47.03	47.03
FCF/Share	4.36	3.68	4.25	4.30	5.24	3.13	4.27	3.90	4.74	4.74

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

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