August 19, 2024

CURRENT PRICE:	$51.32
RATING:	BUY
PRICE TARGET:	$56
CURRENT YIELD:	7.6%

EPS Estimates

	DEC 23A	DEC 24E
1Q	$1.18	$1.15A
2Q	$1.31	$1.31A
3Q	$1.28	$1.34
4Q	$1.18	$1.29
	$4.95	**$5.09**

Trading Data

52-WEEK PRICE RANGE:	$51.56 - $39.07
SHARES OUTSTANDING:	1,718(M)
MARKET CAP:	$88.2(B)
AVG. DAILY TRADING VOLUME:	8.92(M)
S&P 500:	5,612

Valuation Data

BOOK VALUE:	n/a
PRICE TO BOOK:	n/a
DIVIDEND:	$3.92

Altria Corp (NYSE: MO)

Moving into 2H24

Highlights

- 2Q24 adjusted earnings of $1.31/share - flat vs. 2Q23
- OCI declined in both operating units
- Increasing market presence of NJOY & "on!" products
- Narrowed FY24 adjusted earnings guidance to $5.07-$5.15/share
- Maintain BUY rating & price target of $56

Investment Thesis

Altria Corp (MO-$51.32), formerly known as Philip Morris, is the largest US tobacco company. MO is focused on the US domestic tobacco business and has seen year-over-year revenue & dividend growth, on a pro-forma basis. After MO's shares declined a few years ago, from earnings concerns, the Covid pandemic, and investor disappointment over the company's JUUL investment, and holding of Anheuser-Busch InBev (BUD-$60.88) stock, its shares may be poised for a rebound. Additionally, MO offers investors a dividend yield of 7.6%. These shares are recommended for moderate-to-aggressive risk-tolerant income/growth investors.

Company Summary

Altria Group, headquartered in Richmond VA, is the parent company of Philip Morris USA, US Smokeless Tobacco, John Middleton, and Philip Morris Capital Corp (PMCC). The company operates two segments: smokeable products and oral tobacco products. The company has 6,000 employees located throughout the US. Philip Morris USA manufactures and sells cigarettes, and other tobacco products, in the US. This unit's cigarette brands include "Marlboro"(#1 in US market share), "Benson & Hedges", "Parliament", "Basic" and "Virginia Slims". This business gives MO approximately a 50% market share of the US cigarette market. Through 12/31/23 Philip Morris USA generated approximately 88.9% of overall revenues. After selling its wine business, MO has two primary revenue generating units: Smokeable Products & Oral Tobacco Products.

For Important Disclosure information regarding the Firm's rating system, valuation methods and potential conflicts of interest, please refer to the last two pages of this report.

Business Overview

MO is the largest cigarette manufacturer in the US. In 2007 the company purchased the John Middleton Co which sells and manufactures machine-made cigars (Black & Mild)/pipe tobacco. The Smokeable products unit (includes cigarettes/cigars) generated 88.9% of MO's revenues, or $21.8 billion during FY23. PMCC owns a portfolio of leveraged/direct finance leases and produced lees than 1% of revenues. MO also owns approximately an 8.1% economic equity interest, with voting rights, in Anheuser-Busch InBev (BUD-$60.88). Over the past twenty years MO at one time owned, or acquired, Miller Brewing, Nabisco, Kraft, and Jacobs Suchard AG. These businesses were subsequently either sold or spun-off. During the past few years the company spun-off Kraft Foods (KHC-$35.36) and Philip Morris Intl (PM-$118.45). In 2009 MO purchased of US Tobacco (Skoal/Copenhagen brands) currently giving MO 38% of the US smokeless tobacco market share. To diversify its revenue stream, MO acquired equity stakes in Cronos (CRON-$2.41) and JUUL Labs (recently written off). During 2021, MO completed the sale of Ste. Michele Wines business.

Given the industry wide declines in tobacco consumption, MO began offering tobacco alternative products to produce a new revenue stream. To this end, the company purchased NJOY Holdings whose product portfolio is led by NJOY ACE, currently the only pod-based e-vapor product with FDA market authorization. MO also has a majority-owned joint venture with the JT Group, called Horizontal Innovations, for the US marketing/commercialization of heated tobacco stick products. Another recent product introduced into the oral tobacco market by MO was “on!”-an alternative to MST.

Recent Earnings

MO reported 2Q24 operating earnings of $2.21/share vs. $1.19/share during 2Q23. The improvement was due to the pre-tax gain ($2.7 billion) on the sale of IQOS’s commercialization rights, lower tobacco/health/other litigation items, and fewer outstanding shares. Operating revenues declined 4.6% to $6.21 billion from $6.51 billion. The decrease came from lower sales in smokeable products segment and was partly offset by higher revenues from the oral tobacco products segment. OCI fell 15.0% due to lower gross profit, a $354 million asset impairment charge for the “Skoal” chewing tobacco product, and a change in the fair value of contingent payments associated with the NJOY purchase. Adjusted earnings for 2Q24, when compared to 2Q23, were flat at $1.31/share. Management recently narrowed 2024 adjusted earnings guidance, originally $5.05-$5.17/share, to $5.07-$5.15/share with higher results expected during the 2H24 from lower SG&A expense and the impact of two additional shipping days in 2024.

SEGMENT RESULTS

SMOKEABLE PRODUCTS: Reported OCI fell 1.4% to $2.81 billion, from $2.85 billion. This occurred due to lower shipment volumes, higher promotional expenses, increased per unit settlement charges, and rising manufacturing costs. These were partly offset by higher product pricing and lower SG&A-which included lower tobacco, health, and certain other litigation items. Reported OCI margin increased to 61.2% from 59.6%. Adjusted OCI fell 2% to $2.83 billion, from $2.89 billion and adjusted OCI margins rose to 61.6% from 60.4%. Net revenues declined 5.6% to $5.5 billion because of lower shipments and higher promotional expenses which were partly offset by increased product pricing.

On a quarter-to-quarter comparison, overall cigarette shipments fell 13.0%, to 17.9 billion sticks, from 20.6 billion sticks, because of the industry's overall rate of decline, prompted by consumer's economic pressures and inflation, growth of illegal vap products, trade inventory movements, and loss of retail share. Marlboro's shipments dropped 11.8% to 16.3 million sticks, Other Premiums' fell 13.4% to 826 million sticks, and Discounts declined 31.3% to 756 million sticks.

MO's total cigar shipments fell 0.9% to 462 million sticks from 466 million sticks. "Black & Mild" shipments declined 1.1% to 460 million sticks from 465 million sticks while Others increased to 2 million sticks from 1 million sticks.

MO's total cigarette total market share dropped to 46.2% from 46.9% as decreases were seen in Marlboro (42.0% vs. 42.1%), Other Premiums (2.2% vs. 2.3%), and Discount (2.0% vs. 2.5%). Management noted the cigarette industry discount retail share rose to 29.3% from 28.3% which was attributed to increased macroeconomic pressures on consumer spending during the past year.

ORAL TOBACCO PRODUCTS: Reported OCI decreased 78.1% to $97 million from $443 million due to the $354 million charge taken against Skoal during the just completed quarter, in addition to product mix changes, higher costs, and lower MST shipments. These were partially offset by increased product pricing and lower promotional expenses. Adjusted OCI improved 1.8% to $451 million from $443 million due to higher product pricing and lower promotional expenses. These were partly offset by product mix changes, higher costs, and lower MST shipments.

Reported OCI margins declined to 14.1% from 68.0% while adjusted OCI margins decreased to 65.6% from 68.0%. Net revenues rose 4.6% to $711 million from $680 million. The improvement came from higher pricing and lower promotional expenses. These positives were partly offset by rising "on!" shipments relative to MST shipments from the prior year and lower MST shipment volumes.

Total shipment volumes fell 1.8% to 200.7 million cans/packs from 204.4 million cans packs. The decline was the result of retail share losses and was partly offset by the industry's growth rate, trade inventory movements, and other factors. When adjusted for trade inventory movements, and calendar differences, oral tobacco shipment volumes decreased by 3%. Copenhagen shipments fell 9.6% to 103.9 million cans/packs while Skoals dropped

12.0% to 37.5 million cans/packs. Meanwhile, “on!” shipments rose 37.3 % to 41.2 million cans/packs while Others rose 7.1% to 18.1 million.

Oral products’ total market share decreased 5.8 percentage points to 37.9% from 43.7% due to declining market shares in Copenhagen, Skoal, and Other. This decrease was partly offset by an increase in “on!” market share. Copenhagen’s declined to 19.5% from 24.2%, Skoal’s fell to 7.7% from 9.6%, and Other decreased to 2.6% from 3.0%. “on!” market share rose to 8.1% from 6.9%.

Management noted, during 2Q24, the US nicotine pouch category increased to 41.6% of the total US oral tobacco category-rising from 39.3% during 2Q23. When comparing the two quarters, “on!” market share of the nicotine pouch category was 19.4% compared to 23.6%. “on!’’ market share , on a sequential quarterly basis, rose 1.8% from 1Q24.

RECENT DEVELOPMENTS:

Management recently narrowed 2024 adjusted earnings guidance, originally $5.05-$5.17/share, to $5.07-$5.15/share with higher results expected during the 2H24 from lower SG&A expense. This guidance includes the impact of two additional shipping days in 2024 while assuming limited impact on combustible/e-vapor volumes from enforcement efforts against the illegal vapor products market.

MO sold 35 million shares of Anheuser-Busch (ABI-$60.88) during 1Q24 through a secondary offering and ABI purchased approximately 3.3 million of its ordinary shares. Following this transaction, MO still owns 8.1% of ABI.

During 1H24 approximately $1.1 billion of debt of maturing debt was retired.

MO completed the $2.4 billion accelerated share repurchase program started during 1Q24. There is another $900 million allocated for further share repurchases and is expected to be completed by YE24.

MO expanded NJOY’s market footprint to approximately 100,000 US retail outlets. NJOY’s retail share of consumables has grown for each of the past 6 months and stood at 5.5% at the conclusion of 2Q24 and grew from 4.3% at the end of 1Q24.

The oral tobacco market continues to change as oral nicotine pouches grew market share to now represent 40% of the oral tobacco category. In this area “on!” had a 8.1% market share at end of 2Q24 rising from 7.1% at the end of 1Q24.

This past June, NJOY received FDA marketing authorization for four menthol e-vapor products-NJOY ACE Pod Menthol 2.4%, NJOY ACE Pod Menthol 5%, NJOY Daily Menthol 4.5%, and NJOY Daily Extra Menthol 6%. These are the first and only menthol e-vap products authorized by the FDA.

Under the merger agreement MO paid $250 million to the prior owners of NJOY in July 2024 and recorded a 2Q24 pre-tax charge of $140 million related to the change in the fair value of the contingent payments as part of the agreement.

NJOY submitted a supplemental PTMA to the FDA to commercialize and market NJOY ACE 2.0 device which employs access restriction technology to prevent underage useage. Under terms of the above mentioned merger agreement, MO would pay $250 million if the products are approved by the FDA.

MO recently filed a PTMA with the FDA for its "on! Plus" product. The filing was for three products-tobacco, mint, and wintergreen. Management believes approval of this product could accelerate product sales.

Our Thoughts

In our opinion, MO generated a decent earnings report with 2Q24 operating earnings of $2.21/share vs. $1.19/share during 2Q23. The improvement was due to the pre-tax gain ($2.7 billion) on the sale of IQOS's commercialization rights, lower tobacco/health/other litigation items, and fewer outstanding shares. OCI fell 15.0% due to lower gross profit, a $354 million asset impairment charge for the "Skoal" chewing tobacco product, and a change in the fair value of contingent payments associated with the NJOY purchase. Adjusted earnings for 2Q24, when compared to 2Q23, were flat at $1.31/share.

While overall US cigarette consumption continues to decline, it appears cash flow at MO is alive and well, evidenced by the continuation of its share repurchase program, which has $900 million remaining in the existing program, and the recent retirement of $1.1 billion of maturing debt. Furthermore, should 2024 adjusted earnings guidance of $5.07-$5.15/share materialize, investors could see another dividend increase later this fall, and the announcement of another share repurchase program. We continue to rate MO a BUY with a $56 price target, equating to 11.1x our 2024 earnings estimate of $5.09/share.

RISKS TO OUR $56/SHARE PRICE TARGET

Decreasing earnings/cash flow at MO. Decreasing US cigarette consumption, lower oral tobacco product sales, or falling consumption volumes may also hurt the company's revenues/profits. Declining earnings for MO's two operating units poses a risk to the company. Ownership stakes in Cronos may not be profitable or produce profits to pay higher interest payments on subsequent debt incurred for these investments. Additionally, there is no guarantee non-combustible product sales will be profitable, or offset declining sales of traditional tobacco revenues. This stock could decline in value if MO reduces/eliminates the common stock dividend or is unable to pay its debt. Litigation/regulation risks and excise taxes are a threat to MO. Rising interest rates/inflation, corporate taxes, economic recessions, higher tobacco prices, increased gasoline prices, rising operating costs/debt expense, or tax issues could negatively impact MO's future earnings. This stock may be adversely impacted by negative equity/credit markets, credit ratings agencies downgrading MO's debt, regulatory oversight, geopolitical events, wars, cyber hacking, supply chain issues, black swan events, terrorist attacks, and failure to comply with Sarbanes Oxley and generally accepted accounting guidelines. All factors mentioned above could cause a decline in MO's stock price or its ability to maintain its common stock dividend.

Risks

There is no guarantee MO will improve earnings/cash flow. Declining US cigarette consumption/volumes may hurt the company's revenues and profits. Declining earnings from MO's two operating units pose a risk to the company. Additonally, there is no guarantee non-combustible product sales growth will occur and offset declining traditional tobacco product revenues. Ownership stakes in Cronos may not be profitable or produce profits to pay higher interest payments on subsequent debt incurred for these investments. This stock could decline in value if MO reduces/eliminates the common stock dividend. Litigation/regulation risks and excise taxes are a threat to MO. Rising interest rates/inflation, corporate tax rates, economic recessions, higher tobacco prices, increased gasoline prices, rising operating costs/debt expense, or tax issues could negatively impact MO's future earnings. This stock may be adversely impacted by negative equity/credit markets, credit ratings agencies downgrades of MO's debt, regulatory oversights, geopolitical events, wars, cyber hacking, supply chain issues, black swan events, terrorist attacks, and failure to comply with Sarbanes Oxley and generally accepted accounting guidelines. All factors mentioned above could cause a decrease or elimination of MO's common stock dividend.

Steven F. Marascia
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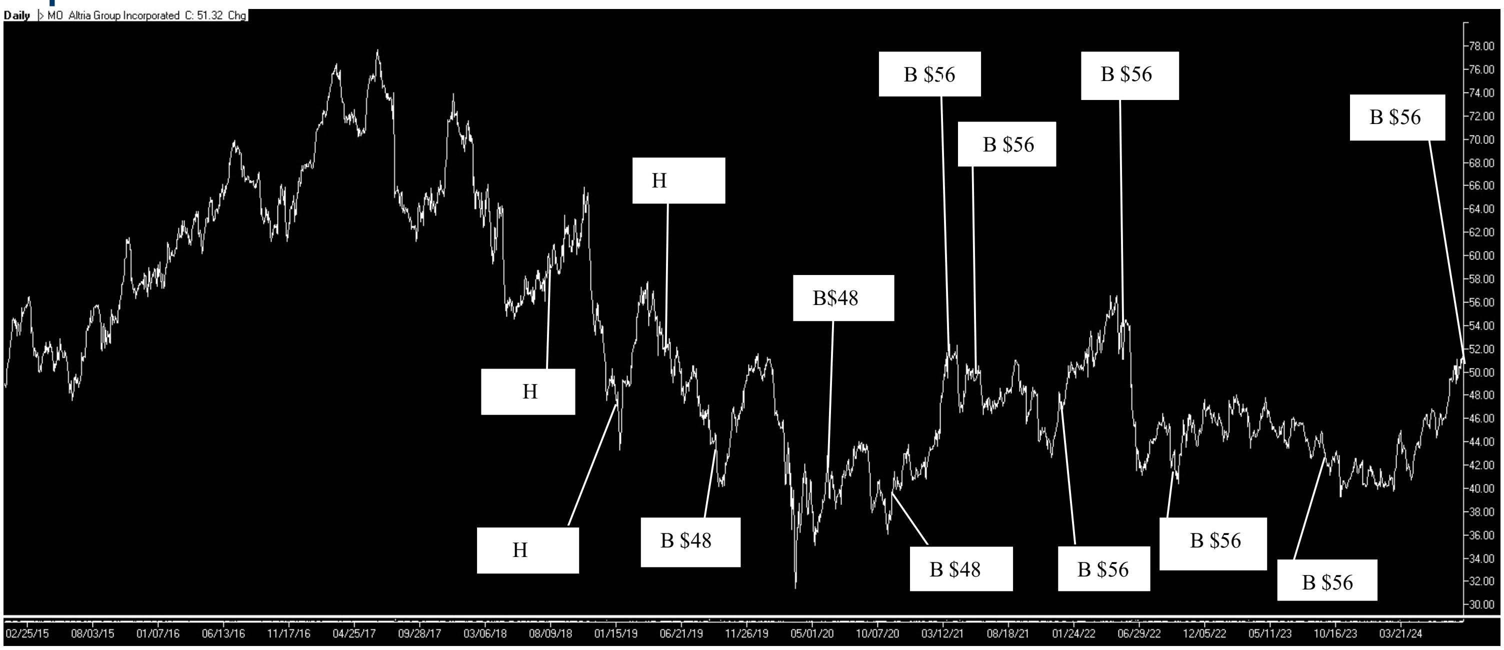
Altria Group, Inc.
(dollars in millions, except per share data

	1Q22	2Q22	3Q22	4Q22	FY22	1Q23	2Q23	3Q23e	4Q23e	FY23e
Net revenues	$5,892	$6,543	$6,550	$6,111	$25,096	$5,719	$6,508	$6,583	$6,492	$24,762
Cost of sales	1,446	1,708	1,715	1,573	6,442	1,434	1,681	1,698	1,674	6,487
Excise taxes on products	1,073	1,169	1,138	1,028	4,408	956	1,070	1,078	1,064	4,168
Gross profit	3,373	3,666	3,697	3,510	14,246	3,329	3,757	3,807	3,754	14,647
Marketing, administration, & research costs	412	489	488	573	1,962	419	472	482	448	1,821
Exit cost/asset impairment										
Operating companies income	2,961	3,177	3,209	2,937	12,284	2,910	3,285	3,325	3,306	12,826
Amortization of intangibles	17	18	19	19	73	18	27	18	19	82
General corporate expenses	60	54	78	100	292	135	353	337	324	1,149
Changes to MDLZ/PM tax-related receivables										
Adjustment to 3rd party guarantee accrual										
Corporate asset impairment/exit costs										
Corporate exit cost										
Operating income	2,884	3,105	3,112	2,818	11,919	2,757	2,905	2,970	2,963	11,695
Restructuring charege										
Interest & other debt expense,net	281	280	271	226	1,058	229	257	262	274	1,022
Loss on early extinguishment of debt										
Net periodic benefit income, excluding svc cost	46	47	-44	-47	-184	31	31	32	39	133
Earnings from equity investments	34	-1,263	-2,478	-66	-3,641	80	127	133	148	488
Other Income										
Loss on AB InBev/SAB Miller business combination										
Gain/loss on Cronos-related financial instruments	10	4		1	15					
Impairment on JUUL investment										
Earnings before income taxes	2,673	1,605	407	2,704	7,389	2,479	2,806	2,873	2,876	11,034
Income taxes	714	714	183	14	1,625	692	689	706	708	2,795
Net earnings (continuing ops.)	1,959	891	224	2,690	5,764	1,787	$2,117	$2,167	$2,168	$8,239
Earningns from discontinued ops.										
Earnings attributable to non-controlling interests										
Net earnings	$1,959	$891	$224	$2,690	$5,764	1,787	$2,117	$2,167	$2,168	$8,239
Net earnings attributable to Altria	$1.08	$0.49	$0.12	$1.50	$3.19	$1.00	$1.19	$1.22	$1.22	$4.63
Earnings per share	$1.12	$1.26	$1.28	$1.18	$4.84	$1.18	$1.31	$1.30	$1.23	$5.02
Continuing operations earnings per share	$1.08	$0.49	$0.12	$1.50	$3.19	$1.00	$1.19	$1.22	$1.22	$4.63

CAPITOL SECURITIES MANAGEMENT, INC. EQUITY RESEARCH

Important Disclosures



9/14/09 $17.99 Initiate BUY
5/18/10 Raised price target to $23/share
8/17/10 Raised price target to $24/share
11/16/10 Raised price target to $26/share
5/10/11 Raised price target to $29/share
2/28/12 Raised price target to $31/share
5/16/12 Raised price target to $33/share
8/31/12 Raised price target to $36/share
6/07/13 Raised price target to $38/share
6/24/14 Raised price target to $44/share
11/26/14 Reduced rating to HOLD
6/12/20 Raise rating to BUY with a $48 price target
3/29/21 Raised price target to $56/share
Ratings:
Buy: B
Hold: H
Sell: S

$56 price target equates to 11.1x our 2024 adjusted earnings estimate of $5.09/share

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Analyst Steven Marascia owns shares of Altria Corp.

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(2) Hold – The stock's total return including dividends is expected to be in line with the industry or market average of +/- 10% over the next twelve months.
(3) Sell – The Stock's total return including dividends is expected to be below the industry or market average by 10% or more over the next twelve months.

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The distribution of investment ratings used for companies whom we have performed banking services in the last 12 months are (1)0%, (2) 0%, (3) 0%

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