

Altria Group

PMUSA announces 1st cigarette price hike of year

Maintain Rating: NEUTRAL | PO: 44.00 USD | Price: 41.06 USD

New cigarette pricing strategy implemented

On November 15, MO's PMUSA (Philip Morris USA) division announced to the trade its "Marlboro Differential List Price Initiative" in order to alter Marlboro per pack prices based on Specific groupings. Today PMUSA announced its first varying list prices for Marlboro SKUs. In Marlboro List price group A, which includes mainline non-menthol, 72s non menthol, Special Select, Black non menthol/menthol, received a \$7.50/1000 sticks or 15c per pack price increase. Marlboro List price group B, which includes mainline menthol and 72s menthol subvariants, are receiving a larger \$10/1000 stick or 20c/pack price boost. Value brands, Basic, L&M and L&M Simple Tobacco, are seeing prices rise by \$7.50/1000 sticks, while premium brands Benson & Hedges, Merit, Nat's, Parliament and Virginia Slims are scheduled to receive a \$10/1000 increase. Given management commentary about Menthol trends in California and surrounding states (post a menthol ban in CA in late 2022), along with the anticipated FDA Menthol ban and illicit product concerns nationally, we see these different Marlboro pricing tiers as a way for Altria to try to maintain its profitability goals despite an acceleration in cigarette volume softness in certain brands/variants.

Maintain Neutral rating and PO\$44

While MO has a long history of adapting to changes in US nicotine landscape, and we expect this to continue, recent challenges include an influx of Chinese illicit trade, category switching and pending FDA news on menthol and maximum nicotine levels in cigarettes. We remain Neutral. Our \$44 PO is based on 8.4x our 2025E EPS of \$5.25, reflecting a discount to its average P/E since July 2017 (11x) when the FDA announced a new regulatory plan.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	4.61	4.84	4.95	5.05	5.25
GAAP EPS	1.34	3.21	4.60	5.05	5.25
EPS Change (YoY)	5.7%	5.0%	2.3%	2.0%	4.0%
Consensus EPS (Bloomberg)			4.96	5.05	5.22
DPS	3.60	3.76	3.92	3.96	4.08
Valuation (Dec)					
P/E	8.9x	8.5x	8.3x	8.1x	7.8x
GAAP P/E	30.6x	12.8x	8.9x	8.1x	7.8x
Dividend Yield	8.8%	9.2%	9.5%	9.6%	9.9%
EV / EBITDA*	8.6x	8.7x	8.8x	8.7x	8.5x
Free Cash Flow Yield*	11.3%	11.1%	10.9%	11.3%	11.6%

* For full definitions of *IQmethod*SM measures, see page 4.

10 January 2024

Equity

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Stock Data

Price	41.06 USD
Price Objective	44.00 USD
Date Established	26-Oct-2023
Investment Opinion	B-2-7
52-Week Range	39.07 USD - 48.11 USD
Mrkt Val (mn) / Shares Out (mn)	72,799 USD / 1,773.0
Free Float	99.9%
Average Daily Value (mn)	391.86 USD
BofA Ticker / Exchange	MO / NYS
Bloomberg / Reuters	MO US / MO.N
ROE (2023E)	NA
Net Dbt to Eqty (Dec-2022A)	NA
ESGMeter™	High

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iQprofileSM Altria Group

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	21.2%	30.3%	31.5%	33.1%	32.4%
Return on Equity	1,289.7%	NM	NM	NM	NM
Operating Margin	55.9%	58.1%	58.9%	58.7%	59.2%
Free Cash Flow	8,236	8,051	7,949	8,251	8,449

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.0x	0.9x	0.9x	1.0x	1.0x
Asset Replacement Ratio	0.7x	0.9x	0.7x	0.8x	0.8x
Tax Rate	35.3%	21.9%	25.8%	25.0%	25.0%
Net Debt-to-Equity Ratio	NM	NM	NM	NM	NM
Interest Cover	10.0x	11.1x	11.3x	11.2x	11.1x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	21,111	20,688	20,529	20,709	21,005
% Change	1.3%	-2.0%	-0.8%	0.9%	1.4%
Gross Profit	13,940	14,183	14,283	14,610	15,103
% Change	3.4%	1.7%	0.7%	2.3%	3.4%
EBITDA	12,306	12,242	12,084	12,154	12,440
% Change	8.7%	-0.5%	-1.3%	0.6%	2.4%
Net Interest & Other Income	(449)	(368)	(356)	(334)	(298)
Net Income (Adjusted)	8,505	8,731	8,797	8,859	9,107
% Change	4.9%	2.7%	0.8%	0.7%	2.8%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	2,475	5,785	8,171	8,865	9,106
Depreciation & Amortization	244	226	280	280	294
Change in Working Capital	3	(586)	(650)	0	0
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	5,683	2,831	348	(666)	(720)
Capital Expenditure	(169)	(205)	(200)	(228)	(231)
Free Cash Flow	8,236	8,051	7,949	8,251	8,449
% Change	1.0%	-2.2%	-1.3%	3.8%	2.4%
Share / Issue Repurchase	(1,675)	(1,825)	(1,000)	(1,000)	(1,000)
Cost of Dividends Paid	(6,446)	(6,599)	(6,772)	(6,894)	(6,965)
Change in Debt	(1,070)	(1,105)	(1,566)	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	4,544	4,030	1,612	1,969	2,454
Trade Receivables	47	1,769	0	104	105
Other Current Assets	1,492	1,421	2,083	2,176	3,036
Property, Plant & Equipment	1,553	1,608	1,629	1,577	1,514
Other Non-Current Assets	31,887	28,126	31,450	31,830	32,024
Total Assets	39,523	36,954	36,774	37,655	39,132
Short-Term Debt	1,105	1,556	1,121	0	0
Other Current Liabilities	7,474	7,060	9,716	9,582	9,668
Long-Term Debt	26,939	25,124	23,993	25,114	25,114
Other Non-Current Liabilities	5,611	7,137	5,468	5,512	5,762
Total Liabilities	41,129	40,877	40,298	40,209	40,544
Total Equity	(1,606)	(3,923)	(3,524)	(2,553)	(1,412)
Total Equity & Liabilities	39,523	36,954	36,774	37,655	39,132

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Tobacco

Company Description

Altria Group is the parent company of Philip Morris USA (cigarettes), UST/Helix (oral tobacco), John Middleton (cigars), and NJOY, Inc (vapor). PMUSA enjoys a 48% share of the US cigarette market, led by its top cigarette brand Marlboro. MO also owns 10% of Anheuser-Busch InBev, the world's largest brewer. It has an ownership interest in Cronos Group (cannabis). In 2008 it spun off its international tobacco business to shareholders.

Investment Rationale

While MO will likely continue to be a steady earnings performer, with pricing growth, limited input inflation and margin expansion, we are more cautious on prospects for its share price performance in 2024 as we anticipate regulatory news flow, inflationary pressures and PM's entry into the US may be an overhang. We are Neutral.

Stock Data

Average Daily Volume 9,543,473

Quarterly Earnings Estimates

	2022	2023
Q1	1.12A	1.18A
Q2	1.26A	1.31A
Q3	1.28A	1.28A
Q4	1.18A	1.17E

Price objective basis & risk

Altria Group (MO)

Our \$44 PO is based on 8.4x our 2025E EPS of \$5.25, reflecting a discount to its average P/E since July 2017 (11x) when the FDA announced a new regulatory plan. We think overall inflation on consumer goods and illegal vapor sales may weigh on combustible volumes over the near term.

Downside risks to our PO are more unfavorable FDA regulation than currently envisioned, higher taxation, and deeper secular declines than estimated given inflationary pressures. Upside risks: a faster shift to non-combustible tobacco products than current commercialization suggests and better than expected cost cutting or net pricing.

Analyst Certification

I, Lisa K. Lewandowski, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Consumables Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	BellRing Brands Inc	BRBR	BRBR US	Bryan D. Spillane
	Celsius Holdings Inc	CELH	CELH US	Jonathan Keypour
	Coca-Cola Europacific Partners plc	CCEP	CCEP US	Bryan D. Spillane
	Colgate-Palmolive Company	CL	CL US	Bryan D. Spillane
	Constellation Brands	STZ	STZ US	Bryan D. Spillane
	Coty Inc.	COTY	COTY US	Anna Lizzul
	e.l.f. Beauty	ELF	ELF US	Anna Lizzul
	Freshpet, Inc.	FRPT	FRPT US	Bryan D. Spillane
	Kenvue Inc.	KVUE	KVUE US	Anna Lizzul
	Keurig Dr Pepper	KDP	KDP US	Bryan D. Spillane
	Kraft Heinz Company	KHC	KHC US	Bryan D. Spillane
	Lamb Weston Holdings Inc	LW	LW US	Peter T. Galbo, CFA
	McCormick & Co.	MKC	MKC US	Peter T. Galbo, CFA
	Mondelez International	MDLZ	MDLZ US	Bryan D. Spillane
	Monster Beverage Corporation	MNST	MNST US	Peter T. Galbo, CFA
	PepsiCo	PEP	PEP US	Bryan D. Spillane
	Philip Morris International	PM	PM US	Lisa K. Lewandowski
	Pilgrim's Pride Corp.	PPC	PPC US	Peter T. Galbo, CFA
	The Coca Cola Company	KO	KO US	Bryan D. Spillane
	The Procter & Gamble Company	PG	PG US	Bryan D. Spillane
NEUTRAL				
	Altria Group	MO	MO US	Lisa K. Lewandowski
	Church & Dwight	CHD	CHD US	Anna Lizzul
	Clorox	CLX	CLX US	Anna Lizzul
	Conagra Brands, Inc.	CAG	CAG US	Peter T. Galbo, CFA
	Estee Lauder Companies Inc.	EL	EL US	Bryan D. Spillane
	General Mills	GIS	GIS US	Bryan D. Spillane
	JM Smucker Company	SJM	SJM US	Peter T. Galbo, CFA
	Kellanova	K	K US	Peter T. Galbo, CFA
	Molson Coors Beverage Company	TAP	TAP US	Bryan D. Spillane
	The Duckhorn Portfolio, Inc.	NAPA	NAPA US	Peter T. Galbo, CFA
	The Hershey Company	HSY	HSY US	Bryan D. Spillane
	Utz Brands	UTZ	UTZ US	Peter T. Galbo, CFA
	WK Kellogg Co	KLG	KLG US	Peter T. Galbo, CFA



US - Consumables Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
UNDERPERFORM	Brown-Forman Corporation	BFB	BF/B US	Bryan D. Spillane
	Campbell Soup Company	CPB	CPB US	Peter T. Galbo, CFA
	Canopy Growth	YWEE	WEED CN	Lisa K. Lewandowski
	Canopy Growth	CGC	CGC US	Lisa K. Lewandowski
	Cronos Group	YCRON	CRON CN	Lisa K. Lewandowski
	Cronos Group	CRON	CRON US	Lisa K. Lewandowski
	Dole plc	DOLE	DOLE US	Bryan D. Spillane
	Herbalife Nutrition Ltd	HLF	HLF US	Anna Lizzul
	Hormel Foods Corp.	HRL	HRL US	Peter T. Galbo, CFA
	Kimberly-Clark	KMB	KMB US	Anna Lizzul
RSTR	Tyson Foods, Inc.	TSN	TSN US	Peter T. Galbo, CFA
	The Vita Coco Company, Inc.	COCO	COCO US	Bryan D. Spillane

IQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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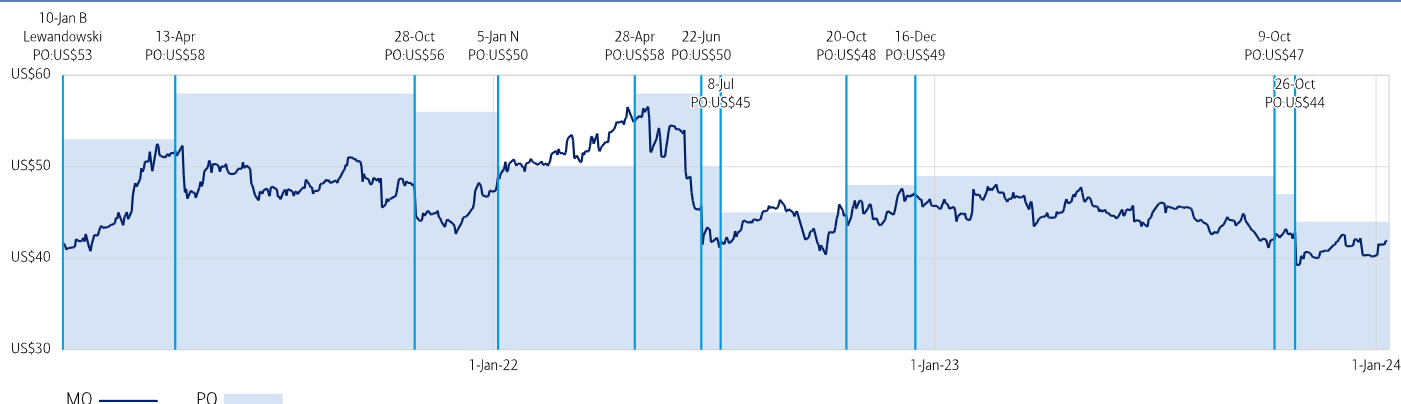
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Altria Group (MO) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Tobacco Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	3	60.00%	Buy	1	33.33%
Hold	1	20.00%	Hold	0	0.00%
Sell	1	20.00%	Sell	0	0.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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