

Philip Morris International

2023 organic EPS +11%, we see +7-9% in 2024 as achievable

Reiterate Rating: BUY | PO: 109.00 USD | Price: 89.01 USD

Solid underlying finish to 2023; FX was a bigger drag

PM reported 4Q organic net sales of +8.3%, organic op. income of +8% and currency neutral EPS of +12.2% ([see initial thoughts note.](#)) Milestones reached in 4Q included IQOS surpassed Marlboro revenues, smoke-free sales approached 40% of total, ZYN enjoyed strong US volume gains, and >40% of gross profit now from smoke-free. For 2023, organic net sales/profits rose 7.8%/+3.7% and FX neutral EPS increased 11%. For the year, total cigarette/heated tobacco (HTU) volumes rose +1% (or +1.5% at retail), indicating the 3rd year of nicotine volume growth. HTU volumes +15%, oral nicotine +17%. 4Q/2023 EPS missed our estimates by 9c, largely due to a larger than anticipated negative impact from FX (-20c), including a -9c hit related to Argentina.

EU flavor ban and below the line items drive 24 EPS trim

Updated adj guidance was largely positive. After adjusting for an estimated 2bn HTU impact due to the recent EU flavor ban, a higher tax rate (21-22%) due to changes in Russian tax rates, higher interest expense (due to rates), lingering higher leaf costs (due to droughts) and a higher FX drag (-11c) anticipated in 2024, we are trimming our EPS for 2024/2025/2026 by 14c/10c/6c to \$6.41, \$7.00 and \$7.63 respectively. Mgmt's updated guidance calls for adj diluted EPS of \$6.32-6.44 or \$6.43-6.55 ex. -11c in FX. On an organic basis, EPS is guided to grow +7-9% in 2024. FX neutral net sales is forecast to grow +6.5-8%, while op income is guided to rise a faster +8-9.5% and including additional costs to begin to commercialize IQOS in the US market.

Reiterate Buy, PO \$109 (-\$4 from previous)

We believe that PM has one of the strongest growth profiles among its staples peers, with the potential for upside driven by its commitment of shifting smokers to potentially less harmful alternatives. We reiterate our Buy rating given its attractive valuation, smoke-free potential & commitment to shareholder returns. Our \$109 (-\$4) PO values PM at 15.5x (-10bps vs. prior valuation) 2025E EPS of \$7.00 (-10c). We removed our previously added \$2.61/share for its Canada unit given the extended length of litigation*. Our updated valuation values PM in-line with its avg of 15.5x since July 2017 when the FDA updated its regulatory strategy towards nicotine.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	5.98	6.01	6.41	7.00	7.63
GAAP EPS	5.81	6.01	6.41	7.00	7.63
EPS Change (YoY)	-2.4%	0.5%	6.7%	9.2%	9.0%
Consensus EPS (Bloomberg)			6.55	7.14	7.83
DPS	5.04	5.20	5.36	5.56	5.70
Valuation (Dec)					
P/E	14.9x	14.8x	13.9x	12.7x	11.7x
GAAP P/E	15.3x	14.8x	13.9x	12.7x	11.7x
Dividend Yield	5.7%	5.8%	6.0%	6.2%	6.4%
EV / EBITDA*	13.8x	12.9x	11.9x	11.1x	10.3x
Free Cash Flow Yield*	7.0%	5.7%	6.8%	7.7%	8.6%

* For full definitions of *IQmethod*SM measures, see page 6.

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Timestamp: 08 February 2024 06:15PM EST

08 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	113.00	109.00
2024E Rev (m)	37,129.9	37,130.0
2025E Rev (m)	38,858.1	38,746.0
2026E Rev (m)	41,306.8	40,661.9
2024E EPS	6.55	6.41
2025E EPS	7.10	7.00
2026E EPS	7.69	7.63

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Stock Data

Price	89.01 USD
Price Objective	109.00 USD
Date Established	8-Feb-2024
Investment Opinion	B-1-7
52-Week Range	87.23 USD - 103.79 USD
Mkt Val (mn) / Shares Out (mn)	138,322 USD / 1,554.0
Free Float	99.8%
Average Daily Value (mn)	416.76 USD
BofA Ticker / Exchange	PM / NYS
Bloomberg / Reuters	PM US / PM.N
ROE (2024E)	NA
Net Dbt to Eqty (Dec-2023A)	NA
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

PO= price objective; c= cents

*In March 2019 PM's Canadian subsidiary was granted creditor protection given class action litigation. Previously, we had valued its CAD unit at 6.5x earnings.

iQprofileSM Philip Morris International

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	29.9%	24.4%	25.1%	25.8%	26.5%
Return on Equity	NM	NM	NM	NM	NM
Operating Margin	40.6%	37.8%	39.1%	40.5%	41.6%
Free Cash Flow	9,726	7,883	9,427	10,612	11,859

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.2x	1.0x	1.1x	1.1x	1.1x
Asset Replacement Ratio	1.1x	0.9x	0.8x	0.8x	0.8x
Tax Rate	21.6%	19.4%	19.4%	19.7%	19.8%
Net Debt-to-Equity Ratio	NM	NM	NM	NM	NM
Interest Cover	22.0x	12.6x	10.8x	12.1x	13.6x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	31,762	35,254	37,130	38,746	40,662
% Change	0.4%	11.0%	5.3%	4.4%	4.9%
Gross Profit	20,659	22,451	23,887	25,312	26,766
% Change	-4.4%	8.7%	6.4%	6.0%	5.7%
EBITDA	13,802	14,735	15,979	17,194	18,481
% Change	-4.0%	6.8%	8.4%	7.6%	7.5%
Net Interest & Other Income	(588)	(1,061)	(1,350)	(1,296)	(1,244)
Net Income (Adjusted)	9,280	9,339	9,969	10,894	11,881
% Change	-2.9%	0.6%	6.8%	9.3%	9.1%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	9,527	10,598	11,532	12,414	13,352
Depreciation & Amortization	1,189	1,398	1,458	1,518	1,578
Change in Working Capital	162	(1,300)	(800)	(600)	(400)
Deferred Taxation Charge	(234)	(330)	0	0	0
Other Adjustments, Net	159	(1,162)	(1,562)	(1,520)	(1,472)
Capital Expenditure	(1,077)	(1,321)	(1,200)	(1,200)	(1,200)
Free Cash Flow	9,726	7,883	9,427	10,612	11,859
% Change	-13.3%	-18.9%	19.6%	12.6%	11.7%
Share / Issue Repurchase	(209)	0	0	0	0
Cost of Dividends Paid	(7,812)	(7,964)	(8,210)	(8,496)	(8,875)
Change in Debt	14,176	3,702	0	(400)	(600)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	3,207	3,060	2,398	3,514	4,897
Trade Receivables	4,756	4,391	5,013	5,231	5,489
Other Current Assets	11,656	12,304	11,926	12,379	12,915
Property, Plant & Equipment	6,710	7,516	8,216	8,916	9,616
Other Non-Current Assets	35,352	38,033	38,999	39,408	39,967
Total Assets	61,681	65,304	66,551	69,448	72,885
Short-Term Debt	8,248	6,666	4,698	4,698	4,698
Other Current Liabilities	19,088	19,717	18,933	19,587	20,363
Long-Term Debt	34,875	41,243	43,211	42,811	42,211
Other Non-Current Liabilities	5,781	7,124	7,397	7,640	7,896
Total Liabilities	67,992	74,750	74,238	74,737	75,168
Total Equity	(6,311)	(9,446)	(7,687)	(5,289)	(2,283)
Total Equity & Liabilities	61,681	65,304	66,551	69,448	72,885

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Tobacco

Company Description

Philip Morris International was spun off from Altria Group on March 28, 2008. It is one of the largest international cigarette producers with a share of 28% of the int'l cigarette/heated tobacco market. Key combustible brands include Marlboro, Parliament, L&M, amongst others. It also is commercializing IQOS, a heat not burn product, in over 70 markets. Most of its sales are outside of the US.

Investment Rationale

PMI is one of the largest nicotine companies with leading int'l brand Marlboro, heat-not burn product IQOS and oral pouch brand Zyn. PM offers a strong smokeless platform to transition smokers to less harmful nicotine alternatives and expand into "beyond nicotine" products. Innovation and investments in future growth funding comes from its combustible business. It acquired Swedish Match in late 2022. Further, we like PM's commitment to shareholders via both dividends and occasional buybacks.

Stock Data

Average Daily Volume 4,682,176

Quarterly Earnings Estimates

	2023	2024
Q1	1.38A	1.40E
Q2	1.60A	1.62E
Q3	1.67A	1.84E
Q4	1.36A	1.55E

Updated management guidance

Today PM management unveiled its 2024 guidance and outlook.

Exhibit 1: Mgmt's 2024 initial guidance

Our updated EPS estimate is \$6.41, within mgmt's \$6.32-6.44 range and including -11c of FX

Key 2024 assumptions	Feb 24
Industry decline	flat to -2%
PM shipment vol %	flat to +1%
Net revenue %	+6 to +8%
HTU shipment vol (bn)	+14-16% to >140bn and incl -2bn (inventory) from EU flavor ban
Cigarette shipment decline	
Nicotine pouch volume	520mn cans
Reported EPS	
Amortization	42c /share
FX impact	-11c
Adjusted EPS with FX	\$6.32-6.44
Adjusted EPS ex. FX	\$6.43-6.55 (+7-9%)
Adj OI mgn change	+8% to +9.5%
Impacting OI includes	Spending to support IQOS rollout in the US and other markets
Wellness	broadly unchanged
Interest costs	\$1.3-1.4bn
Tax rate	
Operating cash flow	\$10-11bn
Cap ex	\$1.2bn
Share buybacks	no

Source: Company reports

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Exhibit 2: EPS guidance for 2024

FX Adjusted diluted EPS (ex. currency) is anticipated to rise +7-9%

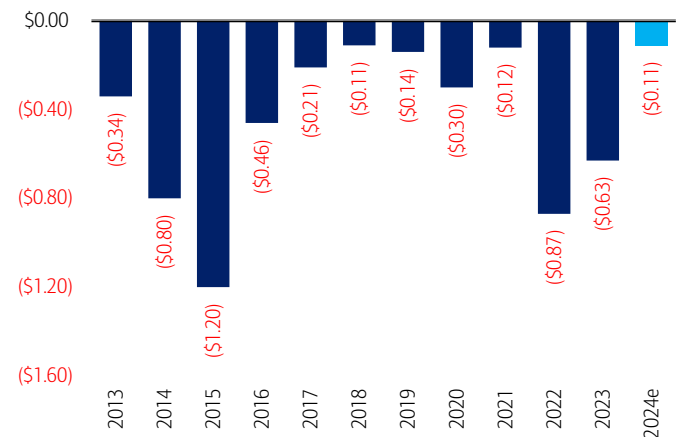
	2024 forecast range		2023A
Reported diluted EPS	5.90	6.02	5.02
Charges related to war in Ukraine	-	-	0.03
Fair value adj for equity sec inv.	-	-	(0.02)
Amortization of intangibles	0.42	0.42	0.25
Asset impairment/exit costs	-	-	0.06
Mid East distribution termination	-	-	0.04
Swedish Match costs/acct item	-	-	0.01
Tax benefit assoc w/SM financing	-	-	(0.11)
Goodwill/other impairment	-	-	0.44
Tax items	-	-	0.11
Ending agreement w/Foundation for a SF world	-	-	0.07
South Korea indirect tax chg	-	-	0.11
Total adjustments	0.42	0.42	0.99
Adj. diluted EPS	6.32	6.44	6.01
Currency	(0.11)	(0.11)	-
Adj EPS ex. FX	6.43	6.55	6.01
Adj. diluted EPS (w/FX)	5.2%	7.2%	
Adj. diluted EPS (ex. FX)	7.0%	9.0%	

Source: Company reports

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Exhibit 3: EPS drag from FX translation (per share)

The drag on EPS from FX is estimated to be -11c in 2024

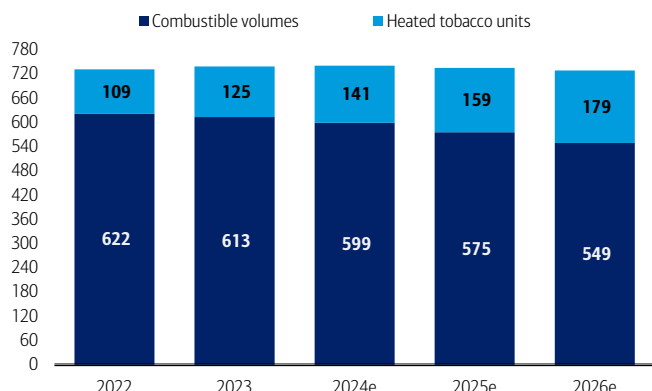


Source: Company reports

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Exhibit 4: Refreshed cigarette and heated tobacco volume forecast (mns of units)

We look for 2024 HTU volumes of 141bn vs. mgmt updated guidance of >140bn units

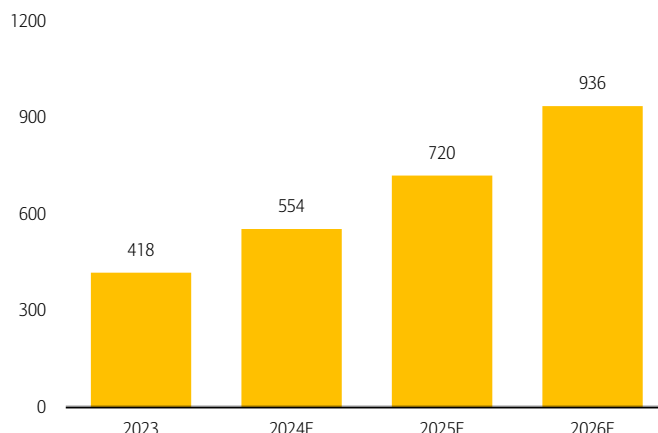


Source: Company reports, BofA Global Research

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Exhibit 5: Refreshed oral nicotine volume forecasts (mns of sticks)

We look for oral nicotine volumes rise to 554mn cans, including 520mn in the US market



Source: Company reports, BofA Global Research

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Exhibit 6: Consolidated income statement forecast (\$mns)

Our refreshed EPS for 2024 is \$6.41 and includes 11c of negative FX headwinds.

Consolidated income statement	1Q23	2Q23	3Q23	4Q23	2023	1Q24E	2Q24E	3Q24E	4Q24E	2024E	2025E	2026E
Net sales	8,099	8,967	9,141	9,047	35,254	8,570	9,412	9,584	9,563	37,130	38,746	40,662
Cost of sales	2,998	3,206	3,155	3,444	12,803	3,215	3,271	3,212	3,545	13,243	13,434	13,896
Gross profit	5,101	5,761	5,986	5,603	22,451	5,355	6,141	6,372	6,018	23,887	25,312	26,766
Mktg, admin & rsch costs (incl amort)	2,082	2,229	2,252	2,551	9,114	2,153	2,411	2,343	2,459	9,366	9,636	9,863
Adj operating income	3,019	3,532	3,734	3,052	13,337	3,203	3,730	4,029	3,560	14,521	15,676	16,903
Interest expense, net	230	297	261	273	1,061	325	325	350	350	1,350	1,296	1,244
Pension & other	22	6	8	9	45	24	7	9	10	50	52	55
Pretax income	2,767	3,229	3,465	2,770	12,231	2,853	3,398	3,670	3,200	13,121	14,328	15,604
Income taxes	558	604	850	570	2,582	613	731	789	688	2,821	3,081	3,355
Equity inv and securities (inc)/loss	(51)	21	(101)	(26)	(157)	(55)	22	(108)	(28)	(168)	(181)	(196)
Net income	2,260	2,604	2,716	2,226	9,806	2,294	2,645	2,989	2,540	10,468	11,429	12,445
Non controlling int net income	107	114	117	117	455	114	122	125	125	487	511	537
Share-based adjustment	6	-	6	-	12	6	-	6	-	12	24	28
UNDERLYING NET INCOME for dil EPS	2,147	2,490	2,593	2,109	9,339	2,174	2,523	2,858	2,414	9,969	10,894	11,881
Charges	(152)	(922)	(539)	87	(1,526)	-	-	-	-	-	-	-
Reported net income to PM	1,995	1,568	2,054	2,196	7,813	2,174	2,523	2,858	2,414	9,969	10,894	11,881
Diluted shares outstanding	1,553	1,553	1,554	1,554	1,553	1,555	1,555	1,555	1,555	1,555	1,556	1,557
% chg in shares outstanding	-0.5%	-0.5%	-0.3%	-0.4%	-1.8%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Underlying EPS	1.38	1.60	1.67	1.36	6.01	1.40	1.62	1.84	1.55	6.41	7.00	7.63
Addback charges	(0.10)	(0.59)	(0.35)	0.06	(0.99)	-	-	-	-	-	-	-
GAAP EPS	1.28	1.01	1.32	1.41	5.02	1.40	1.62	1.84	1.55	6.41	7.00	7.63
Underlying EPS	-12.6%	8.5%	9.0%	-2.2%	0.5%	1.1%	1.2%	10.2%	14.4%	6.6%	9.2%	9.0%
GAAP EPS	-14.5%	-29.6%	-1.7%	-8.4%	-13.6%	8.8%	60.7%	39.1%	9.9%	27.7%	9.2%	9.0%
GAAP EPS	1.28	1.01	1.32	1.41	5.02	1.40	1.62	1.84	1.55	6.41	7.00	7.63
Currency	(0.13)	(0.13)	(0.17)	(0.20)	(0.63)	(0.10)	(0.02)	(0.01)	0.01	(0.11)	-	-
GAAP EPS, FX neutral	1.41	1.14	1.49	1.61	5.65	1.49	1.64	1.85	1.55	6.53	7.00	7.63
EPS neutral GAAP EPS	-5.8%	-20.6%	10.9%	4.5%	-2.8%	16.3%	62.2%	39.7%	9.5%	30.0%	9.2%	9.0%
UNDERLYING EPS	1.38	1.60	1.67	1.36	6.01	1.40	1.62	1.84	1.55	6.41	7.00	7.63
Currency	(0.13)	(0.13)	(0.17)	(0.20)	(0.63)	(0.10)	(0.02)	(0.01)	0.01	(0.11)	-	-
Underlying EPS, FX neutral	1.51	1.73	1.84	1.56	6.64	1.49	1.64	1.85	1.55	6.53	7.00	7.63
EPS FX neutral underlying EPS	-4.4%	17.2%	20.1%	12.2%	11.0%	8.1%	2.2%	10.6%	14.0%	8.5%	9.2%	9.0%

Source: Company reports, BofA Global Research

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Price objective basis & risk

Philip Morris International (PM)

Our \$109 price objective (PO) values PM at 15.5x 2025E EPS of \$7.00. This values PM inline with its average of 15.5x since July 2017 when the FDA updated its regulatory strategy towards nicotine. This year is expected to be an investment year in the US, however we think that PM is positioning itself favorably for the long term. We like its attractive yield and strategy to shift smokers to higher-margin, less-harmful alternatives.

Upside risks to our price objective are greater consumer acceptance and conversion of smokers to reduced risk products (RRPs), an improved public health stance towards these reduced risk products, and better-than-anticipated combustible cigarette sales trends.

Downside risks to our price objective are longer-than-anticipated disruption due to the invasion of Ukraine, underwhelming acceptance of RRP into new markets, unfavorable taxation, increased regulatory action, such as smoking bans, health warnings, packaging or display restrictions, as well as a stronger US dollar.

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
	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
	Celsius Holdings Inc	CELH	CELH US	Jonathan Keypour
	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



US - Consumables Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Tyson Foods, Inc.	TSN	TSN US	Peter T. Galbo, CFA
	Utz Brands	UTZ	UTZ US	Peter T. Galbo, CFA
	WK Kellogg Co	KLK	KLK US	Peter T. Galbo, CFA
UNDERPERFORM				
	Brown-Forman Corporation	BFB	BF/B US	Bryan D. Spillane
	Campbell Soup Company	CPB	CPB US	Peter T. Galbo, CFA
	Canopy Growth	YWEED	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				
	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

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

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

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

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

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

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

Basic EBIT + Depreciation + Amortization

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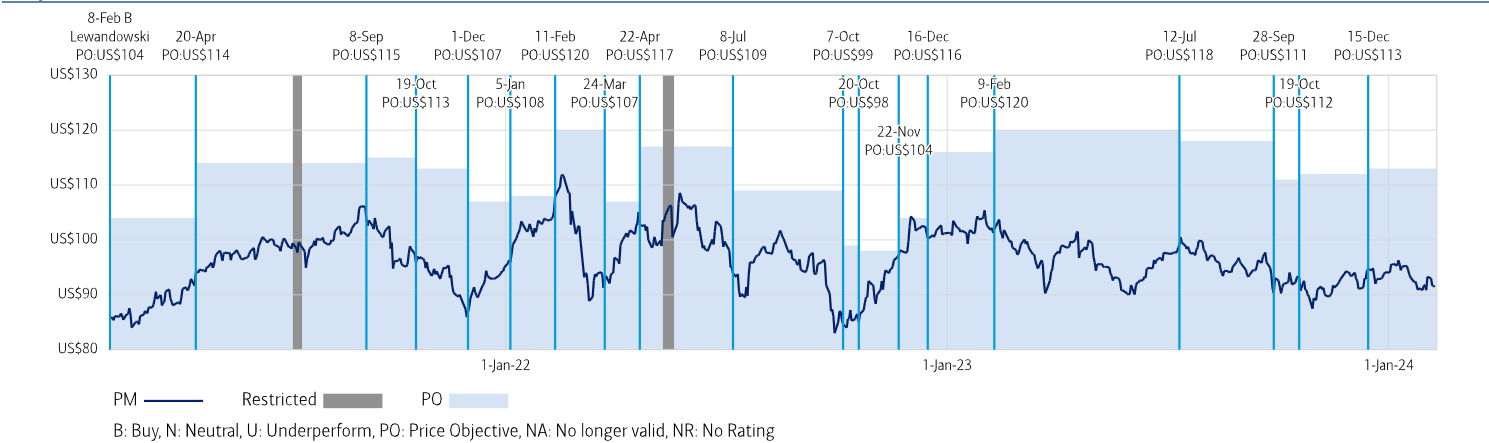
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Philip Morris Intl (PM) Price Chart



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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%

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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%

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