

Altria Group

Higher buyback fuels EPS boost; increasing PO to \$45

Reiterate Rating: NEUTRAL | PO: 45.00 USD | Price: 44.24 USD

Mgmt lifts 2024 guidance for higher buyback program

Altria's management boosted 2024 underlying EPS guidance from "\$5.00-5.15" to "\$5.05-5.17", implying EPS growth of +2 to 4.5% (from +1-4% previously) in 2024. This increase is driven by an enhanced buyback program of \$3.4bn in 2024, up \$2.4bn from its prior guidance of \$1.0bn and aided by the sale of ~2% of its holding in Anheuser-Busch InBev (ABI); partly offset by lower equity income and dividends from ABI following its reduced ownership stake (from ~10% to 8.1% or 7.8% assuming the full exercise of the underwriters option to purchase additional shares.) See our [note: MO to sell some of its beer stake for additional details](#).

Raising EPS but underlying business remains challenging

Given its 50+ year investment in beer, historical tax issues and other regulatory matters we had always thought that a beer divestiture over time was the most likely scenario. We think that this option provides MO optionality to smooth out earnings, especially if regulatory or other issues (i.e. illicit trade) temporarily weigh on EPS. Today's sale of ABI shares is likely seen in a favorable light by investors as it monetizes some of its long term, non-core beer investment to boost shareholder returns. However, the underlying nicotine business remains under pressure due to changing consumer tastes, inflationary pressures, slow FDA regulation and lackluster regulatory oversight which has led to a jump in illicit, flavored disposable vape sales that negatively impact the legal nicotine category overall. Our 2024-26 EPS estimates increase by +4c/+8c/+8c respectively to \$5.09/\$5.33/\$5.57 vs. our prior ests of \$5.05/\$5.25/\$5.49, with lower diluted shares outstanding partly offset by reduced beer equity income.

Maintain Neutral rating; increasing PO by \$1 to \$45

MO has a long history of successfully navigating the US nicotine landscape, however we look for illicit trade & pending regulatory news to weigh on investor sentiment. Given our EPS increase, we lifted our price objective (PO) by \$1 to \$45. Our \$45 PO is based on a P/E of 8.4x (unchanged) our 2025E EPS of \$5.33 (+8c), reflecting a 20-25% discount to its average P/E since July 2017 (10.9x) when the FDA announced a new regulatory plan. We think overall inflation on consumer goods and illegal vapor sales will weigh on combustible volumes this year. MO's near 9% dividend yield is attractive.

| Estimates (Dec) (US\$) | 2022A | 2023A | 2024E | 2025E | 2026E |
|---------------------------|-------|-------|-------|-------|-------|
| EPS | 4.84 | 4.95 | 5.09 | 5.33 | 5.57 |
| GAAP EPS | 3.21 | 4.57 | 5.09 | 5.33 | 5.57 |
| EPS Change (YoY) | 5.0% | 2.3% | 2.8% | 4.7% | 4.5% |
| Consensus EPS (Bloomberg) | | | 5.05 | 5.18 | 5.34 |
| DPS | 3.76 | 3.92 | 3.96 | 4.16 | 4.25 |
| Valuation (Dec) | | | | | |
| P/E | 9.1x | 8.9x | 8.7x | 8.3x | 7.9x |
| GAAP P/E | 13.8x | 9.7x | 8.7x | 8.3x | 7.9x |
| Dividend Yield | 8.5% | 8.9% | 9.0% | 9.4% | 9.6% |
| EV / EBITDA* | 9.1x | 9.2x | 9.2x | 9.0x | 8.8x |
| Free Cash Flow Yield* | 10.3% | 11.6% | 10.6% | 10.7% | 11.1% |

* For full definitions of *IQmethod*SM measures, see page 7.

14 March 2024

Equity

Key Changes

| (US\$) | Previous | Current |
|---------------|----------|----------|
| Price Obj. | 44.00 | 45.00 |
| 2024E Rev (m) | 20,692.0 | 20,823.0 |
| 2025E Rev (m) | 20,991.5 | 20,923.8 |
| 2026E Rev (m) | 21,242.8 | 21,177.9 |
| 2024E EPS | 5.05 | 5.09 |
| 2025E EPS | 5.25 | 5.33 |
| 2026E EPS | 5.49 | 5.57 |

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Stock Data

| | |
|---------------------------------|-----------------------|
| Price | 44.24 USD |
| Price Objective | 45.00 USD |
| Date Established | 14-Mar-2024 |
| Investment Opinion | B-2-7 |
| 52-Week Range | 39.07 USD - 48.04 USD |
| Mrkt Val (mn) / Shares Out (mn) | 78,438 USD / 1,773.0 |
| Free Float | 99.9% |
| Average Daily Value (mn) | 464.10 USD |
| BofA Ticker / Exchange | MO / NYS |
| Bloomberg / Reuters | MO US / MO.N |
| ROE (2024E) | NA |
| Net Dbt to Eqty (Dec-2023A) | NA |
| ESGMeter TM | 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"](#).

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Timestamp: 14 March 2024 04:14PM EDT

iQprofileSM Altria Group

iQmethodSM – Bus Performance*

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|----------------------------|-------|-------|-------|-------|-------|
| Return on Capital Employed | 30.3% | 30.7% | 32.7% | 33.2% | 32.6% |
| Return on Equity | NM | NM | NM | NM | NM |
| Operating Margin | 58.1% | 58.6% | 58.2% | 58.9% | 59.8% |
| Free Cash Flow | 8,051 | 9,091 | 8,311 | 8,404 | 8,681 |

iQmethodSM – Quality of Earnings*

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|--------------------------|-------|-------|-------|-------|-------|
| Cash Realization Ratio | 0.9x | 1.1x | 1.0x | 1.0x | 1.0x |
| Asset Replacement Ratio | 0.9x | 0.7x | 0.7x | 0.7x | 0.7x |
| Tax Rate | 21.9% | 25.6% | 25.0% | 25.0% | 25.0% |
| Net Debt-to-Equity Ratio | NM | NM | NM | NM | NM |
| Interest Cover | 11.1x | 11.5x | 11.8x | 11.3x | 11.8x |

Income Statement Data (Dec)

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|------------------------------|--------------|--------------|--------------|--------------|--------------|
| Sales | 20,688 | 20,502 | 20,823 | 20,924 | 21,178 |
| % Change | -2.0% | -0.9% | 1.6% | 0.5% | 1.2% |
| Gross Profit | 14,183 | 14,255 | 14,663 | 14,985 | 15,435 |
| % Change | 1.7% | 0.5% | 2.9% | 2.2% | 3.0% |
| EBITDA | 12,242 | 12,109 | 12,121 | 12,319 | 12,658 |
| % Change | -0.5% | -1.1% | 0.1% | 1.6% | 2.8% |
| Net Interest & Other Income | (368) | (306) | (381) | (382) | (308) |
| Net Income (Adjusted) | 8,731 | 8,796 | 8,812 | 8,957 | 9,266 |
| % Change | 2.7% | 0.7% | 0.2% | 1.6% | 3.4% |

Free Cash Flow Data (Dec)

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|--|--------------|--------------|--------------|--------------|--------------|
| Net Income from Cont Operations (GAAP) | 5,785 | 8,130 | 8,805 | 8,952 | 9,263 |
| Depreciation & Amortization | 226 | 272 | 310 | 324 | 337 |
| Change in Working Capital | (586) | (47) | 0 | 0 | 0 |
| Deferred Taxation Charge | NA | NA | NA | NA | NA |
| Other Adjustments, Net | 2,831 | 932 | (595) | (642) | (686) |
| Capital Expenditure | (205) | (196) | (208) | (230) | (233) |
| Free Cash Flow | 8,051 | 9,091 | 8,311 | 8,404 | 8,681 |
| % Change | -2.2% | 12.9% | -8.6% | 1.1% | 3.3% |
| Share / Issue Repurchase | (1,825) | (1,000) | (3,400) | (1,000) | (1,000) |
| Cost of Dividends Paid | (6,599) | (6,779) | (6,830) | (6,831) | (7,070) |
| Change in Debt | (1,105) | (568) | 0 | 0 | 0 |

Balance Sheet Data (Dec)

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Cash & Equivalents | 4,030 | 3,686 | 4,202 | 4,775 | 5,387 |
| Trade Receivables | 1,769 | 71 | 104 | 105 | 106 |
| Other Current Assets | 1,421 | 1,828 | 2,127 | 2,421 | 2,634 |
| Property, Plant & Equipment | 1,608 | 1,652 | 1,550 | 1,457 | 1,431 |
| Other Non-Current Assets | 28,126 | 31,333 | 29,343 | 29,817 | 30,254 |
| Total Assets | 36,954 | 38,570 | 37,327 | 38,574 | 39,811 |
| Short-Term Debt | 1,556 | 1,121 | 0 | 0 | 0 |
| Other Current Liabilities | 7,060 | 10,198 | 10,135 | 10,112 | 10,110 |
| Long-Term Debt | 25,124 | 25,112 | 26,233 | 26,233 | 26,233 |
| Other Non-Current Liabilities | 7,137 | 5,629 | 5,673 | 5,823 | 5,868 |
| Total Liabilities | 40,877 | 42,060 | 42,041 | 42,167 | 42,211 |
| Total Equity | (3,923) | (3,490) | (4,715) | (3,593) | (2,400) |
| Total Equity & Liabilities | 36,954 | 38,570 | 37,327 | 38,574 | 39,811 |

* For full definitions of iQmethodSM measures, see page 7.

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 8% 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 10,490,512

Quarterly Earnings Estimates

| | 2023 | 2024 |
|----|-------|-------|
| Q1 | 1.18A | 1.17E |
| Q2 | 1.31A | 1.31E |
| Q3 | 1.28A | 1.35E |
| Q4 | 1.18A | 1.26E |

Updated management guidance

Exhibit 1: 2024 management guidance

Higher buybacks, partially offset by lower equity income, is anticipated to boost EPS growth vs. prior guidance

| AS OF | 2/1/24 | 3/14/24 |
|-------------------------------------|--|---|
| EPS range | \$5.00-\$5.15, 2H weighted | \$5.05-\$5.17, 2H weighted |
| EPS growth objective | +1% to +4% | +2% to +4.5% |
| Dividend payout | | |
| Tax rate | 24.5-25.5% | Unchanged |
| Buybacks | \$1mn | \$2.4bn increase to \$3.4bn to be completed by YE2024 due to ABI partial stake sale |
| Cap Ex. | \$175-225mn | |
| Depr & amort | \$310mn | |
| Investments/other comments | 2 extra shipping days in 2024, 1 in 3Q, 1 in 4Q; limited illicit enforcement | Lower equity earnings from beer investment; limited illicit enforcement |
| IQOS investment/ABI equity interest | FY excludes \$1.14 gain related to IQOS termination of rights | Also excludes 12c gain related to ABI partial sale in 1Q24 |

Source: Company reports

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Divisional summary

Exhibit 2: Divisional summary (\$mns)

Soft volumes are anticipated to be largely offset by price/mix this year

| | 1Q23 | 2Q23 | 3Q23 | 4Q23 | 2023 | 1Q24E | 2Q24E | 3Q24E | 4Q24E | 2024e | 2025e | 2026E |
|------------------------------|--------|-------|--------|--------|---------|---------|--------|-------|--------|---------|---------|---------|
| VOLUMES | | | | | | | | | | | | |
| Cigarettes (bns of sticks) | 18.3 | 20.6 | 19.3 | 18.2 | 76.3 | 16.8 | 18.6 | 18.2 | 17.2 | 70.8 | 65.8 | 61.2 |
| Cigars (mns of cigars) | 444.0 | 466.0 | 451.0 | 419.0 | 1,780.0 | 430.6 | 419.4 | 433.0 | 410.5 | 1,693.5 | 1,642.5 | 1,593.1 |
| Total smokeable vols (bns) | 18.7 | 21.0 | 19.8 | 18.6 | 78.1 | 17.3 | 19.0 | 18.6 | 17.6 | 72.4 | 67.4 | 62.8 |
| Oral Tobacco (mns of cans) | 190.6 | 204.4 | 194.8 | 193.1 | 782.9 | 186.5 | 200.8 | 191.4 | 190.3 | 769.1 | 758.5 | 752.6 |
| % chg in volumes | | | | | | | | | | | | |
| Cigarettes | -11.4% | -8.7% | -11.6% | -7.6% | -9.9% | -7.9% | -9.6% | -5.8% | -5.8% | -7.3% | -7.0% | -7.0% |
| Cigars | 2.3% | 7.6% | 2.7% | -1.4% | 2.8% | -3.0% | -10.0% | -4.0% | -2.0% | -4.9% | -3.0% | -3.0% |
| Total smokeable | -11.1% | -8.3% | -11.4% | -7.5% | -9.6% | -7.8% | -9.6% | -5.7% | -5.7% | -7.3% | -6.9% | -6.9% |
| Oral Tobacco | -1.8% | -1.7% | -3.3% | -2.0% | -2.2% | -2.1% | -1.7% | -1.7% | -1.5% | -1.8% | -1.4% | -0.8% |
| NET SALES (EX. FET) | | | | | | | | | | | | |
| Smokeable | 4,162 | 4,779 | 4,596 | 4,350 | 17,887 | 4,120 | 4,686 | 4,700 | 4,452 | 17,959 | 17,921 | 18,071 |
| Oral Tobacco | 600 | 651 | 657 | 647 | 2,555 | 634 | 689 | 696 | 674 | 2,693 | 2,823 | 2,918 |
| All other | 1 | 8 | 24 | 27 | 60 | 32 | 38 | 46 | 55 | 171 | 180 | 189 |
| Total | 4,763 | 5,438 | 5,277 | 5,024 | 20,502 | 4,786 | 5,414 | 5,442 | 5,180 | 20,823 | 20,924 | 21,178 |
| % change in NET sales | | | | | | | | | | | | |
| Smokeable | -1.4% | 0.9% | -3.7% | -2.4% | -1.6% | -1.0% | -1.9% | 2.3% | 2.3% | 0.4% | -0.2% | 0.8% |
| Oral Tobacco | 2.7% | 2.8% | 2.7% | 7.1% | 3.8% | 5.6% | 5.9% | 6.0% | 4.1% | 5.4% | 4.8% | 3.4% |
| All other | - | - | - | - | 50.0% | 3086.0% | 377.9% | 91.2% | 103.9% | 185.0% | 5.0% | 5.0% |
| Total | -1.2% | 1.2% | -2.5% | -1.2% | -0.9% | 0.5% | -0.4% | 3.1% | 3.1% | 1.6% | 0.5% | 1.2% |
| UNDERLYING OCI | | | | | | | | | | | | |
| Smokeable | 2,515 | 2,886 | 2,741 | 2,568 | 10,710 | 2,502 | 2,844 | 2,817 | 2,641 | 10,805 | 10,836 | 10,981 |
| Oral Tobacco | 416 | 443 | 455 | 408 | 1,722 | 447 | 475 | 485 | 430 | 1,836 | 1,936 | 2,018 |
| All other | (9) | (4) | (4) | (57) | (74) | (45) | (40) | (25) | (25) | (135) | (60) | 60 |
| Total OCI | 2,922 | 3,325 | 3,192 | 2,919 | 12,358 | 2,904 | 3,279 | 3,277 | 3,046 | 12,506 | 12,712 | 13,060 |
| Amortization | 18 | 27 | 42 | 41 | 128 | 42 | 42 | 42 | 42 | 168 | 172 | 176 |
| Corporate expense | 34 | 72 | 38 | 69 | 213 | 35 | 73 | 39 | 70 | 217 | 222 | 226 |
| Underlying operating income | 2,870 | 3,226 | 3,112 | 2,809 | 12,017 | 2,828 | 3,163 | 3,197 | 2,934 | 12,121 | 12,319 | 12,658 |
| | - | - | - | - | - | - | - | - | - | - | - | - |
| % change in OCI | | | | | | | | | | | | |
| Smokeable | 0.2% | 3.1% | -2.5% | -1.3% | -0.1% | -0.5% | -1.5% | 2.8% | 2.9% | 0.9% | 0.3% | 1.3% |
| Oral Tobacco | 2.2% | 3.0% | 7.1% | 10.3% | 5.5% | 7.5% | 7.2% | 6.6% | 5.3% | 6.6% | 5.4% | 4.3% |
| Total OCI | 0.3% | 3.4% | -1.2% | -1.5% | 0.3% | -0.6% | -1.4% | 2.7% | 4.3% | 1.2% | 1.6% | 2.7% |
| Amortization | 5.9% | 50.0% | 121.1% | 115.8% | 75.3% | 133.3% | 55.6% | 0.0% | 2.4% | 31.3% | 2.4% | 2.3% |
| Corporate expense | -35.8% | 60.0% | -33.3% | -11.5% | -8.6% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% |
| Underlying operating income | 0.9% | 2.3% | -1.3% | -2.0% | 0.0% | -1.5% | -1.9% | 2.7% | 4.4% | 0.9% | 1.6% | 2.8% |
| Adjusted OCI margin | | | | | | | | | | | | |
| Smokeable | 60.4% | 60.4% | 59.6% | 59.0% | 59.9% | 60.7% | 60.7% | 59.9% | 59.3% | 60.2% | 60.5% | 60.8% |
| Oral Tobacco | 69.3% | 68.0% | 69.3% | 63.1% | 67.4% | 70.5% | 68.8% | 69.7% | 63.8% | 68.2% | 68.6% | 69.2% |
| Consolidated | 61.3% | 61.1% | 60.5% | 58.1% | 60.3% | 60.7% | 60.6% | 60.2% | 58.8% | 60.1% | 60.8% | 61.7% |



Exhibit 2: Divisional summary (\$mns)

Soft volumes are anticipated to be largely offset by price/mix this year

| | 1Q23 | 2Q23 | 3Q23 | 4Q23 | 2023 | 1Q24E | 2Q24E | 3Q24E | 4Q24E | 2024e | 2025e | 2026E |
|--------------------------|--------|--------|--------|--------|--------|--------|--------|--------|-------|--------|-------|-------|
| OCI margin change | | | | | | | | | | | | |
| Smokeable | 90bps | 130bps | 70bps | 60bps | 90bps | 30bps | 30bps | 30bps | 30bps | 30bps | 30bps | 30bps |
| Oral Tobacco | -40bps | 10bps | 280bps | 180bps | 110bps | 120bps | 80bps | 40bps | 70bps | 80bps | 40bps | 60bps |
| Consolidated | 90bps | 130bps | 80bps | -20bps | 70bps | -70bps | -60bps | -30bps | 70bps | -20bps | 70bps | 90bps |

Source: Company reports, BofA Global Research

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Income statement**Exhibit 3: MO income statement (\$mns)**

We look for EPS of \$5.09 in 2024, +2.6% YoY

| \$ in millions | 1Q23 | 2Q23 | 3Q23 | 4Q23 | 2023 | 1Q24E | 2Q24E | 3Q24E | 4Q24E | 2024e | 2025e | 2026E |
|---|--------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|
| Reported net revenue | 5,719 | 6,508 | 6,281 | 5,975 | 24,483 | 5,672 | 6,387 | 6,393 | 6,083 | 24,534 | 24,386 | 24,408 |
| Excise taxes | 956 | 1,070 | 1,004 | 951 | 3,981 | 886 | 973 | 951 | 902 | 3,711 | 3,462 | 3,230 |
| Net sales | 4,763 | 5,438 | 5,277 | 5,024 | 20,502 | 4,786 | 5,414 | 5,442 | 5,180 | 20,823 | 20,924 | 21,178 |
| MSA & other fees | 961 | 1,085 | 986 | 947 | 3,979 | 930 | 1,030 | 976 | 937 | 3,873 | 3,683 | 3,502 |
| Base COGS (ex. FET & fees) | 473 | 596 | 607 | 592 | 2,268 | 490 | 583 | 615 | 600 | 2,287 | 2,257 | 2,242 |
| Gross profit | 3,329 | 3,757 | 3,684 | 3,485 | 14,255 | 3,366 | 3,802 | 3,852 | 3,643 | 14,663 | 14,985 | 15,435 |
| Mktg, admin & research costs | 407 | 432 | 492 | 566 | 1,897 | 462 | 523 | 574 | 597 | 2,156 | 2,272 | 2,375 |
| Underlying OCI | 2,922 | 3,325 | 3,192 | 2,919 | 12,358 | 2,904 | 3,279 | 3,277 | 3,046 | 12,506 | 12,712 | 13,060 |
| Amortization | 18 | 27 | 42 | 41 | 128 | 42 | 42 | 42 | 42 | 168 | 172 | 176 |
| General corporate expenses | 34 | 72 | 38 | 69 | 213 | 35 | 73 | 39 | 70 | 217 | 222 | 226 |
| Underlying operating income | 2,870 | 3,226 | 3,112 | 2,809 | 12,017 | 2,828 | 3,163 | 3,197 | 2,934 | 12,121 | 12,319 | 12,658 |
| Interest expense, net | 248 | 270 | 274 | 252 | 1,044 | 258 | 258 | 258 | 258 | 1,030 | 1,088 | 1,069 |
| Net periodic benefit income, ex. svc cost | (31) | (31) | (33) | (32) | (127) | (33) | (33) | (35) | (34) | (133) | (144) | (156) |
| Equity inc (ABI, Cronos) | (171) | (128) | (140) | (172) | (611) | (152) | (107) | (116) | (140) | (516) | (562) | (606) |
| Pretax income | 2,824 | 3,115 | 3,011 | 2,761 | 11,711 | 2,755 | 3,045 | 3,090 | 2,850 | 11,740 | 11,937 | 12,350 |
| Income taxes | 706 | 769 | 736 | 678 | 2,889 | 689 | 761 | 773 | 712 | 2,935 | 2,984 | 3,088 |
| Underlying net income | 2,118 | 2,346 | 2,275 | 2,083 | 8,822 | 2,066 | 2,284 | 2,318 | 2,137 | 8,805 | 8,952 | 9,263 |
| Net earnings attrib to noncontrolling int | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net income attrib to Altria | 2,118 | 2,346 | 2,275 | 2,083 | 8,822 | 2,066 | 2,284 | 2,318 | 2,137 | 8,805 | 8,952 | 9,263 |
| Fully diluted shares outstanding | 1,786 | 1,782 | 1,773 | 1,767 | 1,777 | 1,759 | 1,744 | 1,722 | 1,701 | 1,731 | 1,681 | 1,664 |
| YoY % change in FD shares outstanding | -1.8% | -1.5% | -1.4% | -1.3% | -1.5% | -1.5% | -2.2% | -2.9% | -3.8% | -2.6% | -2.9% | -1.0% |
| Underlying EPS | 1.18 | 1.31 | 1.28 | 1.18 | 4.95 | 1.17 | 1.31 | 1.35 | 1.26 | 5.09 | 5.33 | 5.57 |
| % change | 5.4% | 4.0% | 0.4% | -0.1% | 2.3% | -0.5% | -0.1% | 4.9% | 6.6% | 2.6% | 4.7% | 4.5% |
| Margins & tax rate | | | | | | | | | | | | |
| Underlying tax rate | 21.0% | 24.7% | 24.4% | 24.6% | 24.7% | 25.0% | 25.0% | 25.0% | 25.0% | 25.0% | 25.0% | 25.0% |
| Base COGS margin | 9.9% | 11.0% | 11.5% | 11.8% | 11.1% | 10.2% | 10.8% | 11.3% | 11.6% | 11.0% | 10.8% | 10.6% |
| Base COGS mgn chg | -160bps | 10bps | 60bps | 30bps | -10bps | 30bps | -20bps | -20bps | -20bps | -10bps | -20bps | -20bps |
| Gross profit margin | 69.9% | 69.1% | 69.8% | 69.4% | 69.5% | 70.3% | 70.2% | 70.8% | 70.3% | 70.4% | 71.6% | 72.9% |
| GP mgn chg | 110bps | 90bps | 150bps | 40bps | 100bps | 40bps | 110bps | 100bps | 100bps | 90bps | 120bps | 130bps |
| OCI margin | 61.3% | 61.1% | 60.5% | 58.1% | 60.3% | 60.7% | 60.6% | 60.2% | 58.8% | 60.1% | 60.8% | 61.7% |
| OCI mgn chg | 90bps | 130bps | 80bps | -20bps | 70bps | -70bps | -60bps | -30bps | 70bps | -20bps | 70bps | 90bps |
| Operating margin | 60.3% | 59.3% | 59.0% | 55.9% | 58.6% | 59.1% | 58.4% | 58.7% | 56.6% | 58.2% | 58.9% | 59.8% |
| OI mgn chg | 130bps | 70bps | 70bps | -50bps | 50bps | -120bps | -90bps | -20bps | 70bps | -40bps | 70bps | 90bps |
| Pretax margin | 59.3% | 57.3% | 57.1% | 55.0% | 57.1% | 57.6% | 56.2% | 56.8% | 55.0% | 56.4% | 57.0% | 58.3% |
| Pretax mgn chg | 260bps | 80bps | 50bps | -50bps | 80bps | -170bps | -100bps | -30bps | 10bps | -70bps | 70bps | 130bps |
| Net margin | 44.5% | 43.1% | 43.1% | 41.5% | 43.0% | 43.2% | 42.2% | 42.6% | 41.3% | 42.3% | 42.8% | 43.7% |
| Net mgn chg | 200bps | 70bps | 60bps | -10bps | 80bps | -130bps | -100bps | -50bps | -20bps | -70bps | 50bps | 100bps |
| YoY % change | | | | | | | | | | | | |
| Reported net revenue | -2.9% | -0.5% | -4.1% | -2.2% | -2.4% | -0.8% | -1.9% | 1.8% | 1.8% | 0.2% | -0.6% | 0.1% |
| Excise taxes | -10.9% | -8.5% | -11.8% | -7.5% | -9.7% | -7.3% | -9.1% | -5.3% | -5.1% | -6.8% | -6.7% | -6.7% |
| Net sales | -1.2% | 1.2% | -2.5% | -1.2% | -0.9% | 0.5% | -0.4% | 3.1% | 3.1% | 1.6% | 0.5% | 1.2% |
| MSA & other fees | 1.2% | -3.7% | -12.3% | -4.5% | -5.1% | -3.2% | -5.1% | -1.0% | -1.0% | -2.7% | -4.9% | -4.9% |
| Base COGS (ex. FET & fees) | -14.9% | 2.6% | 2.7% | 1.4% | -1.9% | 3.5% | -2.3% | 1.3% | 1.4% | 0.9% | -1.3% | -0.7% |
| Gross profit | 0.5% | 2.5% | -0.4% | -0.6% | 0.5% | 1.1% | 1.2% | 4.5% | 4.5% | 2.9% | 2.2% | 3.0% |
| Mktg, admin & research costs | 1.8% | -4.2% | 5.4% | 4.2% | 1.9% | 13.5% | 21.1% | 16.7% | 5.5% | 13.7% | 5.4% | 4.5% |
| Underlying OCI | 0.3% | 3.4% | -1.2% | -1.5% | 0.3% | -0.6% | -1.4% | 2.7% | 4.3% | 1.2% | 1.6% | 2.7% |
| Amortization | 5.9% | 50.0% | 121.1% | 115.8% | 75.3% | 133.3% | 55.6% | 0.0% | 2.4% | 31.3% | 2.4% | 2.3% |
| General corporate expenses | -35.8% | 60.0% | -33.3% | -11.5% | -8.6% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% |
| Underlying operating income | 0.9% | 2.3% | -1.3% | -2.0% | 0.0% | -1.5% | -1.9% | 2.7% | 4.4% | 0.9% | 1.6% | 2.8% |
| Interest expense, net | -11.7% | -3.2% | 1.9% | 0.0% | -3.4% | 3.9% | -4.6% | -6.0% | 2.2% | -1.3% | 5.6% | -1.7% |
| Equity inc (ABI, Cronos) | 35.7% | 12.3% | 4.5% | 11.0% | 15.5% | -11.2% | -16.4% | -16.9% | -18.4% | -15.6% | 9.0% | 7.9% |
| Pretax income | 3.3% | 2.7% | -1.7% | -2.0% | 0.5% | -2.5% | -2.2% | 2.6% | 3.2% | 0.2% | 1.7% | 3.5% |

Exhibit 3: MO income statement (\$mns)
We look for EPS of \$5.09 in 2024, +2.6% YoY

| \$ in millions | 1Q23 | 2Q23 | 3Q23 | 4Q23 | 2023 | 1Q24E | 2Q24E | 3Q24E | 4Q24E | 2024e | 2025e | 2026E |
|------------------------------|-------------|-------------|--------------|--------------|-------------|--------------|--------------|-------------|-------------|--------------|-------------|-------------|
| Income taxes | 2.8% | 2.3% | -3.5% | -3.7% | -0.6% | -2.5% | -1.0% | 5.0% | 5.1% | 1.6% | 1.7% | 3.5% |
| Underlying net income | 3.5% | 2.8% | -1.1% | -1.4% | 0.9% | -2.5% | -2.6% | 1.9% | 2.6% | -0.2% | 1.7% | 3.5% |
| Shares outstanding | -1.8% | -1.5% | -1.4% | -1.3% | -1.5% | -1.5% | -2.2% | -2.9% | -3.8% | -2.6% | -2.9% | -1.0% |

Source: Company reports, BofA Global Research

BofA GLOBAL RESEARCH



Price objective basis & risk

Altria Group (MO)

Our \$45 PO is based on 8.4x our 2025E EPS of \$5.33, reflecting a discount to its average P/E since July 2017 (10.9x) 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 |
| | 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 |
| | Utz Brands | UTZ | UTZ US | Peter T. Galbo, CFA |
| 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 Hershey Company | HSY | HSY US | Bryan D. Spillane |
| | The Vita Coco Company, Inc. | COCO | COCO US | Bryan D. Spillane |
| | Tyson Foods, Inc. | TSN | TSN US | Peter T. Galbo, CFA |
| | WK Kellogg Co | KLG | KLG US | Peter T. Galbo, CFA |
| UNDERPERFORM | | | | |
| | Brown-Forman Corporation | BFB | BF/B US | Bryan D. Spillane |

US - Consumables Coverage Cluster

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|-------------------|------------------------------|-------------|------------------|---------------------|
| | 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 Ltd | HLF | HLF US | Anna Lizzul |
| | Hormel Foods Corp. | HRL | HRL US | Peter T. Galbo, CFA |
| | Kimberly-Clark | KMB | KMB US | Anna Lizzul |
| | The Duckhorn Portfolio, Inc. | NAPA | NAPA US | Peter T. Galbo, CFA |

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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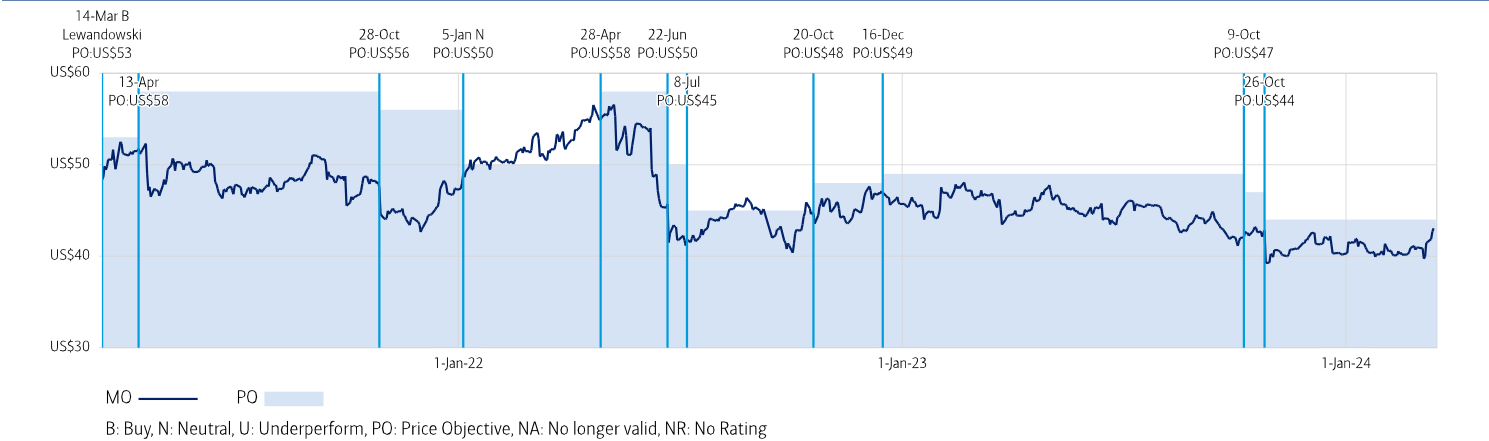
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Disclosures

Important Disclosures

Altria Group (MO) 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% |

^{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% |

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