

## Philip Morris International

# 4Q smoke-free approached 40% of sales; IQOS surpasses Marlboro in sales terms

Reiterate Rating: BUY | PO: 113.00 USD | Price: 91.44 USD

## 4Q adjusted EPS of \$1.36, +12.2% ex. FX

Underlying EPS w/FX of \$1.36 missed our/Visible Alpha (VA) consensus EPS (\$1.45) estimates. Versus BofA estimates, the miss was driven by higher than forecast marketing, administrative and research costs (incl amortization and inflationary pressures), partly offset by better than expected revenue growth. Net sales expanded +8.3% (FX/acq neutral basis) or +11.9% (ex. FX only), including combined cigarette/heated tobacco unit (HTU) shipment growth of -0.5% (-1.9% combustibles, +6.1% HTUs) vs. our estimates of -0.9% (cigs)/+6.8% (HTUs). Notably, IQOS revenue surpassed Marlboro in revenue terms for the first time. Smokefree revenue accounted for 39.3% of total net sales. Total IQOS users grew 1.2mn vs. 3Q23. PM's total 4Q cigarette/ HTU share increased +50bps in 4Q to 28.6%, led by +60bps for HTUs. Swedish Match oral nicotine pouch volumes totaled 219.6mn cans, +23.4%. Combustible price/mix was +9.9% vs. our estimate of +9.0%. Adjusted operating income increased +2.6% or +8% excluding FX.

## 2024 outlook unveiled

Mgmt anticipates adjusted diluted 2024 EPS of \$6.32-6.44 vs. \$6.01 in 2023 and includes an 11c hit from adverse currency. On an organic basis, mgmt looks for EPS of \$6.43-6.55, or +7% to +9%. This is below current consensus EPS of \$6.55 (including FX). PM's guidance assumes: 1) international industry volume decline (cigs + HTUs) of -2% to flat; 2) PM's shipments of flat to +1% for cigarettes, HTUs and smoke-free, 3) HTU volumes of +14% to +16%, including ~2bn units lost from the EU flavor ban and no growth in Russia. HTU volumes are estimated to be >140bn. 4) Nicotine pouch shipments of 520mn cans, 5) organic net sales of +6.5-8%, organic op income growth of +8-9.5% and including an acceleration of net sales and gross profit growth from organic smokefree sales, 6) flattish sales/profits for wellness, 7) no buybacks, 8) the potential positive impact related to the legality of a supplemental tax surcharge on HTUs in Germany is not included in guidance, 9) amortization of 42c/share, 10) net interest of \$1.3-1.4bn, and 11) tax rate of 21-22%, operating cash flow of \$10-11bn, cap ex of \$1.2bn and an improvement in net debt to adj EBITDA of +30-50bps to end 2026 at ~2.0x. 1Q24 EPS is guided to \$1.37-1.42m including -10c from FX. Management also announced a new regional structure to integrate Swedish Match into the four existing geographical regions. Restatements expected in the "coming weeks".

## Maintain Buy

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 maintain our Buy rating given its attractive valuation, smoke-free potential & commitment to shareholder returns.

08 February 2024

### Equity

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### Stock Data

Price	91.44 USD
Price Objective	113.00 USD
Date Established	15-Dec-2023
Investment Opinion	B-1-7
52-Week Range	87.23 USD - 103.79 USD
Mkt Val (mn) / Shares Out (mn)	142,098 USD / 1,554.0
Free Float	99.8%
Average Daily Value (mn)	421.69 USD
BofA Ticker / Exchange	PM / NYS
Bloomberg / Reuters	PM US / PM.N
ROE (2023E)	NA
Net Dbt to Eqty (Dec-2022A)	NA
ESGMeter™	High

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Timestamp: 08 February 2024 09:00AM EST

**Exhibit 1: PM variance table (\$mns)**

Reported net sales +11% or +8.3% ex. FX and acquisitions

Consolidated income statement	4Q22	4Q23E	4Q23	Var vs. e	YoY % change		Margins		
					4Q23E	4Q23	4Q22	4Q23E	4Q23
<b>Net sales</b>	<b>8,152</b>	<b>8,898</b>	<b>9,047</b>	<b>149</b>	<b>9.2%</b>	<b>11.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
Cost of sales	3,070	3,440	3,444	4	12.1%	12.2%	37.7%	38.7%	38.1%
Gross profit	5,082	5,458	5,603	145	7.4%	10.3%	62.3%	61.3%	61.9%
Mktg, admin & rsch costs (incl amort)	2,106	2,234	2,551	317	6.1%	21.1%	25.8%	25.1%	28.2%
<b>Adj operating income</b>	<b>2,976</b>	<b>3,224</b>	<b>3,052</b>	<b>(172)</b>	<b>8.3%</b>	<b>2.6%</b>	<b>36.5%</b>	<b>36.2%</b>	<b>33.7%</b>
Interest expense, net	170	312	273	(39)	83.5%	60.6%	2.1%	3.5%	3.0%
Pension & other	8	8	9	1	0.0%	12.5%	0.1%	0.1%	0.1%
Pretax income	2,798	2,904	2,770	(134)	3.8%	-1.0%	34.3%	32.6%	30.6%
Income taxes	700	616	570	(46)	-12.1%	-18.6%	8.6%	6.9%	6.3%
Equity inv and securities (inc)/loss	(157)	(50)	(26)	24	-68.2%	-83.4%	-1.9%	-0.6%	-0.3%
Net income	2,255	2,338	2,226	(112)	3.7%	-1.3%	27.7%	26.3%	24.6%
Non controlling int net income	97	85	117	32	-12.4%	20.6%	1.2%	1.0%	1.3%
Share-based adjustment	5	6	-	(6)	20.0%	-100.0%	0.1%	0.1%	0.0%
UNDERLYING NET INCOME for dil EPS	2,153	2,247	2,109	(138)	4.4%	-2.0%	26.4%	25.3%	23.3%
Charges	(244)	(93)	87				-3.0%	-1.0%	1.0%
Reported net income to PM	2,397	2,154	2,196		-10.1%	-8.4%	29.4%	24.2%	24.3%
Diluted shares outstanding	1,552	1,554	1,554						
% chg in shares outstanding	-0.3%	-0.4%	-0.4%						
<b>Underlying EPS</b>	<b>1.39</b>	<b>1.45</b>	<b>1.36</b>	<b>(0.09)</b>					
Addback charges	(0.16)	(0.06)	0.06						
<b>GAAP EPS</b>	<b>1.54</b>	<b>1.39</b>	<b>1.41</b>						

Source: Company reports, BofA Global Research

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## Price objective basis & risk

### Philip Morris International (PM)

Our \$113 price objective (PO) values PM at 15.6x 2025E EPS of \$7.10 plus \$2.61/share for its Canada unit. This values PM inline with its average of 15.6x since July 2017 when the FDA updated its regulatory strategy towards nicotine. This year and next are expected to be transition and investment years, 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 pandemic and/or the invasion of Ukraine, underwhelming acceptance of RRPs into new markets, unfavorable taxation, ongoing litigation in Canada, increased regulatory action, such as smoking bans, health warnings, packaging or display restrictions, as well as a stronger US dollar.

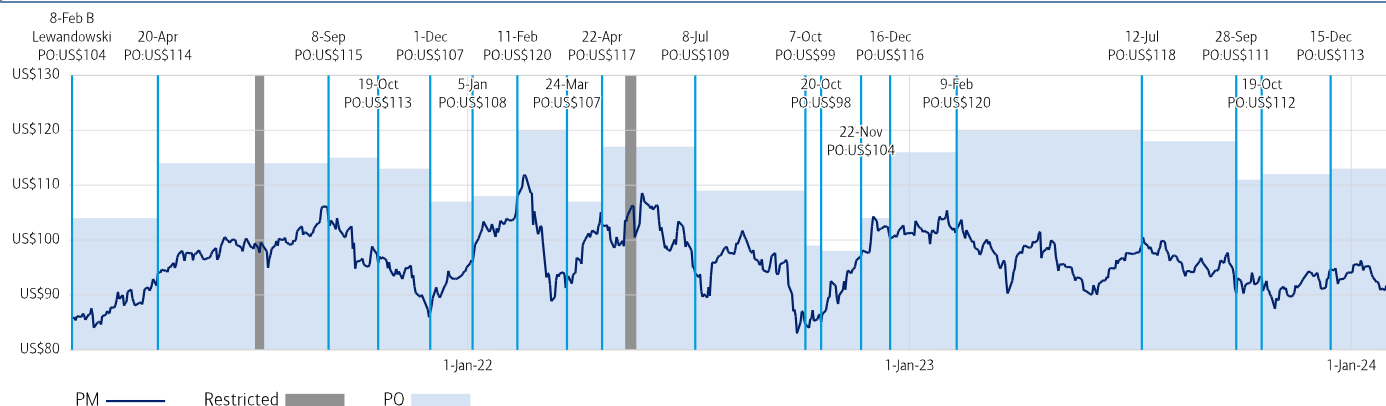
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PM — Restricted — PO

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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%

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Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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