

## Altria Group

# A below the line beat vs. estimates; modest +1-4% EPS growth est for 2024

Maintain Rating: NEUTRAL | PO: 44.00 USD | Price: 40.12 USD

## 4Q23 EPS of \$1.18, +2c/+1c vs. BofAe/Visible Alpha

MO reported 4Q23 adjusted EPS of \$1.18, flat YoY and compared to BofAe \$1.16/Visible Alpha (consensus) EPS of \$1.17. Versus our estimates, net sales missed by \$22mn (-1c), operating companies income (OCI) fell short by \$51mn (-2c), with the beat driven by lower interest expense (+1c), higher equity income (+1c) and a lower tax rate (+2c). Cigarette volumes were better on both a reported (-7.6%) and adjusted basis (-9%) vs. our forecast (-10%); however price/mix (+5.5%) was lighter than our est (+9.2%), leading to an overall smokeable sales miss of \$40mn. Oral tobacco sales beat our est by \$20mn, with in line volume declines (-2% vs. -1.8%e) more than offset by better price/mix (+9.3% vs. +5.7e). All other sales (NJOY + international on! sales) were \$27mn (vs. \$29mn est). Consolidated OCI missed by \$51mn, driven by a miss in smokeables (-\$58mn vs. e) and all other (-\$17 vs. e) partly offset by better oral profits (+\$24mn e). Gross/Operating companies income (OCI) margins were +40bps/-20bps to 69.4%/58.1% respectively. This compares to our Gross Margin estimate of 69.5% and Visible Alpha consensus of 68.8%. For OCI margins, our/consensus estimates were 58.9%/58.7%. MO completed its \$1bn buyback program and announced a new \$1bn program for 2024.

## Management introduces 2024 guidance

MO's EPS guidance for 2024 is \$5.00-\$5.15, representing growth of +1% to +4% vs. 2023 EPS of \$4.95. This range includes our current 2024 EPS is \$5.05 and Bloomberg consensus (\$5.03). Our forecasts includes a buyback program of \$1bn. Remain Neutral. We think illegal vapor sales may weigh on combustible volumes over the near term. In addition, investors are waiting for FDA commentary regarding reducing nicotine levels and banning menthol in cigarettes.

## Marlboro's share holds steady YoY, -10bps QoQ

MO lost 60bps/100bps of cigarette share in 4Q23/2023 to 46.8%/46.9%, including a --40bp full year decline for Marlboro. (Marlboro's 4Q share was flat YoY) The discount category expanded +110bps YoY to 28.6% as consumers down traded and competitive activity increased. Oral tobacco share tumbled 5.8bps/3.7% YoY in 4Q/2023, with losses in moist smokeless (-6.8/-5.5xpts) only partly offset by share gains for oral nicotine pouches (+1.0/+1.8pts). Oral nicotine accounted for 15.7% of MO's total 4Q oral volumes, +4.1pts YoY and +1pt flat QoQ. The price gap (Marlboro prices vs. the lowest price in store) rose to 44% vs. 43.1% in 3Q23 and 41.2% in 4Q22. This widening gap is likely fueling the downtrading.

01 February 2024

### Equity

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### Stock Data

Price	40.12 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
Mkt Val (mn) / Shares Out (mn)	71,133 USD / 1,773.0
Free Float	99.9%
Average Daily Value (mn)	376.17 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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e= estimate

YoY = year-over-year

QoQ = quarter-over-quarter

VA= Visible Alpha

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Timestamp: 01 February 2024 08:16AM EST

**Exhibit 1: MO variance table vs. BofA estimates (\$mns)**

Net sales and profits missed vs. our forecasts

Altria Group	ACTUAL	Actual	BofA est	4Q23e	4Q23
	4Q22	4Q23e	4Q23	YoY % chg	YoY % chg
<b>Cigarette volume (bns of sticks)</b>					
Marlboro	17.60	16.01	16.46	-9.0%	-6.4%
Other cigarettes	2.11	1.73	1.74	-18.2%	-17.4%
Total PMUSA (cigarettes)	19.71	17.74	18.20	-10.0%	-7.6%
John Middleton (cigars)	0.43	0.43	0.42	0.8%	-1.4%
Total smokeables	20.13	18.17	18.62	-9.8%	-7.5%
<b>Oral tobacco volumes (cans bns)</b>					
Oral tobacco	197.10	193.54	193.10	-1.8%	-2.0%
<b>Smokeable revenue build</b>					
	4Q22	4Q23	4Q23		
Volume	-9.0%	-9.8%	-7.5%		
Price/mix	10.2%	9.2%	5.5%		
Net sales (ex FET)	0.4%	-1.5%	-2.4%		
<b>Oral tobacco revenue build</b>					
Volume	-4.3%	-1.8%	-2.0%		
Price/mix	0.4%	5.7%	9.3%		
Net sales (ex FET)	-4.0%	3.9%	7.3%		
				BofAe	BofA est
				4Q23e	4Q23
					Actual
					4Q22
					4Q23e
					BofA est
					4Q23
<b>Net revenue (\$mns)</b>					
				% chg est	YoY % chg
Smokeable	4,456	4,390	4,350	-1.5%	-2.4%
Oral tobacco	604	627	647	3.8%	7.1%
All other	23	29	27	NM	NM
<b>total net sales</b>	<b>5,083</b>	<b>5,046</b>	<b>5,024</b>	<b>-0.7%</b>	<b>-1.2%</b>
					% of sales
					4Q22
					4Q23e
					BofA est
					4Q23
<b>Underlying OCI</b>					
				% chg est	YoY % chg
Smokeable	2,603	2,626	2,568	0.9%	-1.3%
Oral tobacco	370	384	408	3.8%	10.3%
All other	(9)	(40)	(57)	--	NM
<b>total OCI</b>	<b>2,964</b>	<b>2,970</b>	<b>2,919</b>	<b>0.2%</b>	<b>-1.5%</b>
					OCI mgn
					4Q22
					4Q23e
					BofA est
					4Q23
<b>Underlying Income Statement</b>					
	4Q22	4Q23	4Q23	% chg est	YoY % chg
<b>Net sales (ex. FET)</b>	<b>5,083</b>	<b>5,046</b>	<b>5,024</b>	<b>-0.7%</b>	<b>-1.2%</b>
					% of sales
					4Q22
					4Q23e
					BofA est
					4Q23
MSA & other fees	(992)	(937)	(947)	-5.5%	-4.5%
Base COGS (ex. FET & fees)	(584)	(600)	(592)	2.7%	1.4%
<b>Gross profit</b>	<b>3,507</b>	<b>3,508</b>	<b>3,485</b>	<b>0.0%</b>	<b>-0.6%</b>
					% of sales
					4Q22
					4Q23e
					BofA est
					4Q23
SG&A	(543)	(538)	(566)	-0.9%	4.2%
<b>OCI</b>	<b>2,964</b>	<b>2,970</b>	<b>2,919</b>	<b>0.2%</b>	<b>-1.5%</b>
					% of sales
					4Q22
					4Q23e
					BofA est
					4Q23
Amortization	(19)	(42)	(41)	121.1%	115.8%
Corporate costs	(78)	(55)	(69)	-29.5%	-11.5%
Operating income	2,867	2,873	2,809	0.2%	-2.0%
Interest expense	(252)	(275)	(252)	9.1%	0.0%
Pension income	47	35	32	-25.5%	-31.9%
Equity income	155	142	172	-8.4%	11.0%
<b>Pretax income</b>	<b>2,817</b>	<b>2,775</b>	<b>2,761</b>	<b>-1.5%</b>	<b>-2.0%</b>
					% of sales
					4Q22
					4Q23e
					BofA est
					4Q23
Income taxes	(704)	(716)	(678)	1.7%	-3.7%
<b>Net income</b>	<b>2,113</b>	<b>2,059</b>	<b>2,083</b>	<b>-2.6%</b>	<b>-1.4%</b>
					% of sales
					4Q22
					4Q23e
					BofA est
					4Q23
Non-controlling interest	--	--	--	--	--
<b>Net income attrib to Altria</b>	<b>2,113</b>	<b>2,059</b>	<b>2,083</b>	<b>-2.6%</b>	<b>-1.4%</b>
					% of sales
					4Q22
					4Q23e
					BofA est
					4Q23
Underlying tax rate	25.0%	25.8%	24.6%	80bps	-40bps
<b>EPS - Comparable</b>	<b>1.18</b>	<b>1.16</b>	<b>1.18</b>	<b>-1.3%</b>	<b>0.0%</b>
<b>Shares Outstanding</b>	<b>1,790</b>	<b>1,768</b>	<b>1,767</b>	<b>-1.2%</b>	<b>-1.3%</b>
Gross margin	69.0%	69.5%	69.4%	50bps	40bps
OCI margin	58.3%	58.9%	58.1%	60bps	-20bps

Source: Company reports, BofA Global Research

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**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.

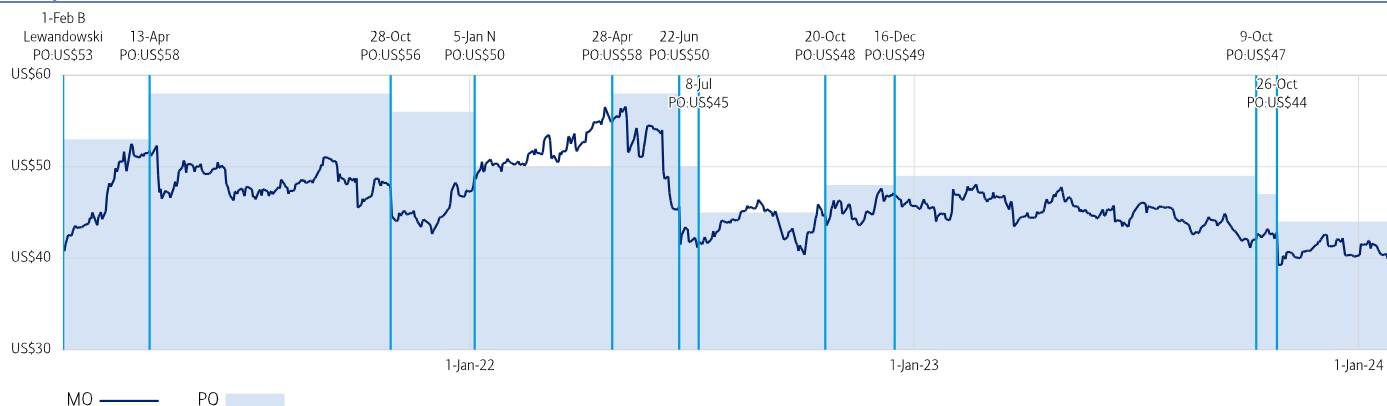
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### Altria Group (MO) Price Chart



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.

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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%

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

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

<sup>R1</sup> 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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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> 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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