



# Philip Morris International Inc. (PM)

Updated October 23<sup>rd</sup>, 2024, by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$131	<b>5 Year CAGR Estimate:</b>	5.9%	<b>Market Cap:</b>	\$203.9 B
<b>Fair Value Price:</b>	\$114	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date<sup>1</sup>:</b>	12/20/24
<b>% Fair Value:</b>	116%	<b>5 Year Valuation Multiple Estimate:</b>	-2.8%	<b>Dividend Payment Date<sup>1</sup>:</b>	01/10/25
<b>Dividend Yield:</b>	4.1%	<b>5 Year Price Target</b>	\$145	<b>Years Of Dividend Growth:</b>	17
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Hold

## Overview & Current Events

Philip Morris International is a tobacco company that came into being when its parent company Altria (MO) spun off its international operations. Philip Morris sells cigarettes under the Marlboro brand, among others, internationally. Its sister company Altria sells the Marlboro brand (among others) in the U.S. Philip Morris has a \$203.9 billion market cap. On September 12<sup>th</sup>, 2024, Philip Morris increased its dividend by 3.8% to a quarterly rate of \$1.35.

On October 22<sup>nd</sup>, 2024, Philip Morris reported its Q3 results for the period ending September 30<sup>th</sup>, 2024. For the quarter, the company posted net revenues of \$9.91 billion, up 8.4% year-over-year. Adjusted EPS was \$1.91, up 14.4% compared to Q3 2023. In constant currency, adjusted EPS grew by an even greater 18.0%.

Total shipment volumes were up 2.9% collectively, driven by growth across the board. It was also encouraging to see that combustibles experienced a rise in volume, effectively sustaining their positive trajectory after years of declines. Specifically, shipment volumes in cigarettes, heated tobacco, and oral products rose 2.9%, 8.9%, and 22.2%, respectively. The Swedish Match buyout significantly contributed to the increase in oral products' shipment volumes.

Management boosted its fiscal 2024 guidance upward, both on a GAAP basis and on an adjusted basis. They now expect GAAP EPS to be between \$6.20 and \$6.26 (up from the previous range of \$5.89 to \$6.01). Nevertheless, note that this outlook includes \$0.42 per share in amortization of intangibles. Therefore, we use the midpoint of management's ex-currency adjusted EPS target, which was raised to \$6.85 to \$6.91 (up from \$6.67 to \$6.79 previously). This midpoint implies a year-over-year growth of 14.5% and represents a new record for adjusted EPS (compared to FY 2023's \$6.01). All past EPS figures are in GAAP.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$4.76	\$4.42	\$4.48	\$3.88	\$5.08	\$4.61	\$5.16	\$5.83	\$5.81	\$5.02	<b>\$6.88</b>	<b>\$8.78</b>
<b>DPS</b>	\$3.88	\$4.04	\$4.12	\$4.22	\$4.49	\$4.62	\$4.74	\$4.90	\$5.04	\$5.14	<b>\$5.40</b>	<b>\$6.26</b>
<b>Shares<sup>2</sup></b>	1,547	1,549	1,551	1,553	1,554	1,555	1,558	1,559	1,552	1,553	<b>1,556</b>	<b>1,500</b>

When the spin-off of Philip Morris was announced, the market assumed that Altria, the U.S. business, would be the low-growth company, and that Philip Morris International, the non-U.S. business, would be the high-growth company. It looked like this would come true through 2013, as Philip Morris recorded near double-digit earnings-per-share growth through the first five years of its existence. This changed in the following years, as Philip Morris' profits declined and stagnated. Even during 2019, prior to the pandemic, EPS remained below the peak set in 2013. Currency rates are a major factor for Philip Morris' profitability, as all the company's revenues are generated outside of the U.S.

Philip Morris' weak profit growth between 2018 and 2020 was partially due to the company's investments into the IQOS/Heatsticks technology. The investment in the development of this device and the manufacturing equipment

<sup>1</sup> Estimate

<sup>2</sup> In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



# Philip Morris International Inc. (PM)

Updated October 23<sup>rd</sup>, 2024, by Nikolaos Sismanis

needed to produce this reduced-risk product on a massive scale were costly, but Philip Morris has already begun reaping the fruits. Ramp-up of IQOS/Illumina in international markets has boosted net income and expanded the margin mix.

We now anticipate growth of 5% per annum coming off a baseline of \$6.88 in EPS moving forward. The most recent Swedish Match acquisition has already proven to be accretive to EPS.

## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	17.7	18.8	21.5	23.4	17.3	15.7	15	16.4	17.0	18.2	19.1	16.5
Avg. Yld.	4.6%	4.9%	4.3%	3.8%	5.1%	5.7%	6.1%	4.9%	5.2%	5.6%	4.1%	4.3%

Shares of Philip Morris traded at an elevated valuation in the 2015 through 2017 period, but otherwise, a mid-teens P/E has been typical. At a P/E of 19.1 times management's target adjusted EPS, today, the stock seems overvalued. Our fair P/E estimate is set at 16.5, taking into account our optimistic outlook for sustained growth. It also considers a discount applied to the stock due to its controversial nature, which has led institutional investors to divert from ownership. This trend may be on a reversal path given the company's renewed growth lately. Still, we remain prudent.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

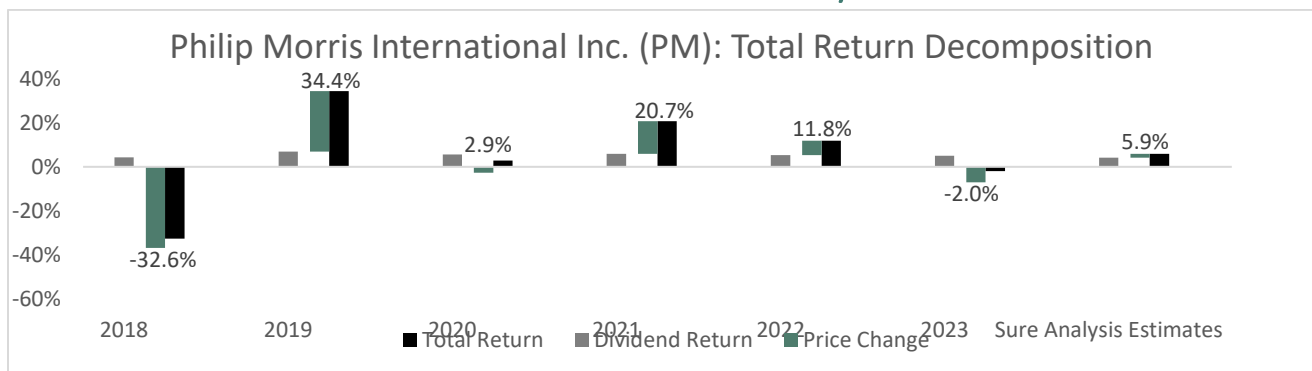
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	82%	91%	92%	109%	88%	100%	92%	84%	87%	102%	78%	71%

Philip Morris' dividend payout ratio has never been especially low, and the ratio increased further during the last decade. At the peak, Philip Morris has paid out more than 100% of its net profits to its owners. Due to strong cash generation, low capex requirements and the stability of Philip Morris' business model during recessions the dividend remains relatively well-covered. Despite the ongoing war in Ukraine and overall tough trading environment, improved earnings have relaxed the payout ratio lately. In terms of a competitive advantage, Philip Morris has one of the most valuable cigarette brands in the world, Marlboro, and is a leader in the reduced-risk product segment with IQOS. At the same time, the company's massive scale allows for tremendous cost advantages. This means that Philip Morris is generally a low-risk business, with regulation being the exception. Smoking bans can affect the company's results, although Philip Morris is safer in this regard than many other tobacco companies due to its geographic diversification.

## Final Thoughts & Recommendation

Philip Morris entered the second half of FY2024 on a high note. The company posted excellent growth in revenues and earnings, while management's outlook points toward sustained momentum moving forward. The addition of Swedish Match and heated tobacco seeing increased adoption should continue to be favorable catalysts to earnings growth moving forward. Based on our growth estimates, the 4.1% yield, and the possibility of a modest valuation headwind, the stock's return potential comes in at 5.9% per annum. We rate Philip Morris as a hold.

## Total Return Breakdown by Year



Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



# Philip Morris International Inc. (PM)

Updated October 23<sup>rd</sup>, 2024, by Nikolaos Sismanis

## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	29767	26794	26685	28748	29625	29805	28690	31400	31760	35170
<b>Gross Profit</b>	19331	17429	17294	18316	18867	19292	19120	21380	20360	22280
<b>Gross Margin</b>	64.9%	65.0%	64.8%	63.7%	63.7%	64.7%	66.6%	68.1%	64.1%	63.3%
<b>SG&amp;A Exp.</b>	7001	6656	6405	6725	7449	8784	7481	8419	8138	10100
<b>D&amp;A Exp.</b>	889	754	743	875	989	964	981	998	1189	1398
<b>Operating Profit</b>	12237	10691	10815	11503	11336	10442	11570	12860	12220	12180
<b>Op. Margin</b>	41.1%	39.9%	40.5%	40.0%	38.3%	35.0%	40.3%	41.0%	38.5%	34.6%
<b>Net Profit</b>	7493	6873	6967	6035	7911	7185	8056	9109	9048	7813
<b>Net Margin</b>	25.2%	25.7%	26.1%	21.0%	26.7%	24.1%	28.1%	29%	28.5%	22.2%
<b>Free Cash Flow</b>	6586	6905	6905	7364	8042	9238	9210	11220	9726	7883
<b>Income Tax</b>	3097	2688	2768	4307	2445	2293	2377	2671	2244	2339

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	35187	33956	36851	42968	39801	42875	44820	41290	61680	65300
<b>Cash &amp; Equivalents</b>	1682	3417	4239	8447	6593	6861	7280	4496	3207	3060
<b>Acc. Receivable</b>	4004	2778	3499	3194	2950	3080	2905	3123	3850	3461
<b>Inventories</b>	8592	8473	9017	8806	8804	9235	9591	8720	9886	10770
<b>Goodwill &amp; Int.</b>	11373	10038	9794	10098	9467	7971	7983	9498	26390	26640
<b>Total Liabilities</b>	46390	45432	47751	53198	50540	52474	55450	49500	67990	74750
<b>Accounts Payable</b>	1242	1289	1666	2242	2068	2299	2780	3331	4076	4143
<b>Long-Term Debt</b>	29455	28480	29067	34339	31759	31045	31540	27810	43120	47910
<b>Total Equity</b>	-12.6B	-13.2B	-12.7B	-12.1B	-12.5B	-11.6B	-12.6B	-10110	-8957	-11220
<b>LTD/E Ratio</b>	-2.33	-2.15	-2.29	-2.84	-2.55	-2.68	-2.51	-2.75	-4.81	-4.37

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	20.4%	19.9%	19.7%	15.1%	19.1%	17.4%	18.4%	21.2%	17.6%	12.3%
<b>Return on Equity</b>	-73.5%	-53.1%	-53.7%	-48.7%	-64.5%	---	---	---	---	---
<b>ROIC</b>	37.8%	39.0%	39.6%	28.6%	35.1%	33.8%	38.0%	45.0%	32.1%	20.8%
<b>Shares Out.</b>	1566	1549	1551	1553	1555	1555	1558	1559	1552	1553
<b>Revenue/Share</b>	19.01	17.30	17.21	18.51	19.05	19.15	18.42	20.14	20.47	22.65
<b>FCF/Share</b>	4.21	4.46	4.45	4.74	5.17	5.94	5.91	7.20	6.27	5.08

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.