

November 9, 2009

CURRENT PRICE: \$18.87
RATING: OUTPERFORM
PRICE TARGET: \$21.00
CURRENT YIELD: 7.2%

EPS Estimates - Non-GAAP

	DEC 08A	DEC 09E
1Q	\$0.29 A	\$0.28 A
2Q	\$0.45 A	\$0.49 A
3Q	\$0.42 A	\$0.42 A
4Q	\$0.33 A	\$0.55 e
	\$1.49	\$1.74

Trading Data

52-WEEK PRICE RANGE: **\$18.73-\$14.37**
 SHARES OUTSTANDING: **2,072(M)**
 MARKET CAP: **\$39,099(M)**
 AVG. DAILY TRADING VOLUME: **16.7(M)**
 S&P 500: **1,093**

Valuation Data

BOOK VALUE: **\$1.62**
 PRICE TO BOOK: **11.7**
 DIVIDEND: **\$1.36**

Altria Corp (NYSE:MO)

Earnings update: Maintain Outperform Rating

HIGHLIGHTS

- Quarterly operating earnings of \$0.42/share vs \$0.42/share
- Progression on \$1.5 billion cost-cutting program
- EPS growth potential from cost-cutting & future revenue growth
- 7.2% dividend yield
- \$21/share price target

INVESTMENT THESIS

Given the current economic recession, and debate over the length of its duration, investors should consider high-yielding dividend equities operating in predictable industries. One such company is Altria Corp (MO-\$18.87), formerly known as Philip Morris, the largest US tobacco company. MO is focused on the US domestic tobacco business and has seen year-over-year revenue growth, on a pro-forma basis. Going forward management intends to grow earnings through revenue/cash flow growth and cost reductions. The tobacco industry has historically been viewed by Wall Street as recession resistant. Given MO's attractive dividend yield of 7.2%, and our price target of \$21/share, these shares are recommended for income/growth investors.

COMPANY SUMMARY

Altria Group, headquartered in Richmond VA, is the parent company of Philip Morris USA, US Smokeless Tobacco, John Middleton, and Philip Morris Capital Corp (PMCC). The company operates five segments: domestic cigarettes, smokeless tobacco products, machine made cigars, Ste. Michelle Estate Wineries and financial services/real estate. The company has 10,400 employees located throughout the US. Philip Morris USA manufactures and sells cigarettes, and other tobacco products, in the US. This unit's cigarette brands include "Marlboro" (#1 in US market share), "Benson & Hedges", "Parliament", "Basic" and "Virginia Slims". This business gives MO approximately a 49.5% market share of the US cigarette market. Through 12/31/08 Philip Morris USA generated approximately 97% of overall revenues, or \$19.36 billion. Recently MO completed its purchase of US Tobacco (Skoal/Copenhagen brands & Ste. Michele Wines) giving MO 56% of the smokeless tobacco market share.

For Important Disclosure information regarding the Firm's rating system, valuation methods and potential conflicts of interest, please refer to the last page of this report.



EQUITY RESEARCH

BUSINESS OVERVIEW

MO is the largest cigarette manufacturer in the US. In 2007 the company purchased the John Middleton Co which sells and manufactures machine-made cigars (Black & Mild)/pipe tobacco and has 29% market share. This business generated 2% of MO's revenues, or \$387 million during FY08. PMCC owns a portfolio of leveraged/direct finance leases and produced 1% of revenues, or \$216 million. MO also owns approximately a 26%-27% economic equity interest, with voting rights, in the SABMiller beer company. Over the past twenty years MO at one time owned, or acquired, Miller Brewing, Nabisco, Kraft, and Jacobs Suchard AG. These businesses were subsequently either sold or spun-off. During the past two years the company spun-off Kraft Foods (KFT-\$26.53) and Philip Morris Intl (PM-\$49.87). MO's 2008 earnings from continuing operations totaled \$3.97 billion with \$3.75 billion (94.3%) from Philip Morris USA, \$128 million (3.2%) from John Middleton, and \$97 million (2.5%) from PMCC.

RECENT EARNINGS

Altria Corp (MO-\$18.87) reported diluted 3Q09 EPS of \$0.42/share vs. \$0.42/share during 3Q08. These figures reflect results from ongoing operations & factors out special charges/gains. Adding those back in, MO reported adjusted diluted EPS of \$0.48/share vs. \$0.46/share. During 3Q09, MO achieved cost savings of \$76 million & \$241 million through the first nine months of 2009, working towards its' goal of \$1.5 billion in overall total expense reductions by 2011. The Cigarette business generated revenues of \$5.6 billion vs. \$5.1 billion due to higher Federal Excise Taxes (FET). Absent the FET, revenues on a quarterly basis would have declined 11.3%. Operating profit for this unit declined 2.6% due to the costs associated with the closing of the Cabarrus manufacturing plant. Absent this cost profit would have improved by 2.6%. MO's smokeless products unit (Skoal/Copenhagen) generated revenues of \$352 million &, when factoring out FET, \$326 million. Adjusted operating income for this unit totaled \$156 million and included \$1 million in UST acquisition related costs and \$28 million in exit/integration costs. The Cigar business saw operating profits increase to \$49 million from \$37 million and net revenues rose 56.1% to \$153 million due to higher FET and improved sales volumes. Middleton's cigar volume rose 3.9% during the quarter. The Wine business revenues totaled \$102 million and operating income, when excluding integration/exit/acquisition related costs, was \$19 million. Shipment volumes rose 1.5 million cases & was 2% higher than last years' quarter. Financial Services reported operating income of \$57 million compared to a \$7 million loss during last years' comparable quarter. The improvement came primarily from higher gains on asset sales during 3Q09 and increased loss allowances during 3Q08.

OUR THOUGHTS

MO appears to be progressing towards its goals of overall revenue growth and realizing \$1.5 billion in total cost reductions by 2011. The decline in cigarette revenues was expected as higher FET caused a decline in the public's cigarette purchasing pattern. Additionally, 3Q08 revenues were inflated as many retail stores stocked up on cigarette purchases in light of the FET increases put into effect in 2009. MO believes this caused as much as a 2 billion unit swing in the cigarette business. Marlboro's retail market share rose to 41.9 from 41.8 and the company plans to emphasize growth in this product line going forward. Overall, MO anticipates the cigarette business will stabilize at these levels and offer growth opportunities in the future while emphasizing Marlboro products. Meanwhile, management anticipates the Smokeless Tobacco business could



grow 7% annually, while the wine/cigar and the Financial Service units should improve profitability going forward. During the earnings conference call MO affirmed the upper end of 2009 guidance for continuing operations of \$1.74-\$1.77 share. These shares look attractive given the 7.2% dividend yield and potential for future increases of the dividend given MO's plan to payout 75% of future earnings to shareholders. We anticipate cash flow for MO could increase as revenues from its operating units rise and the company reduces costs going into 2011. These shares are recommended for income/growth investors. Our price target is \$21/share, or 12.1x our 2009 earnings estimate. MO is rated OUTPERFORM.

RISKS

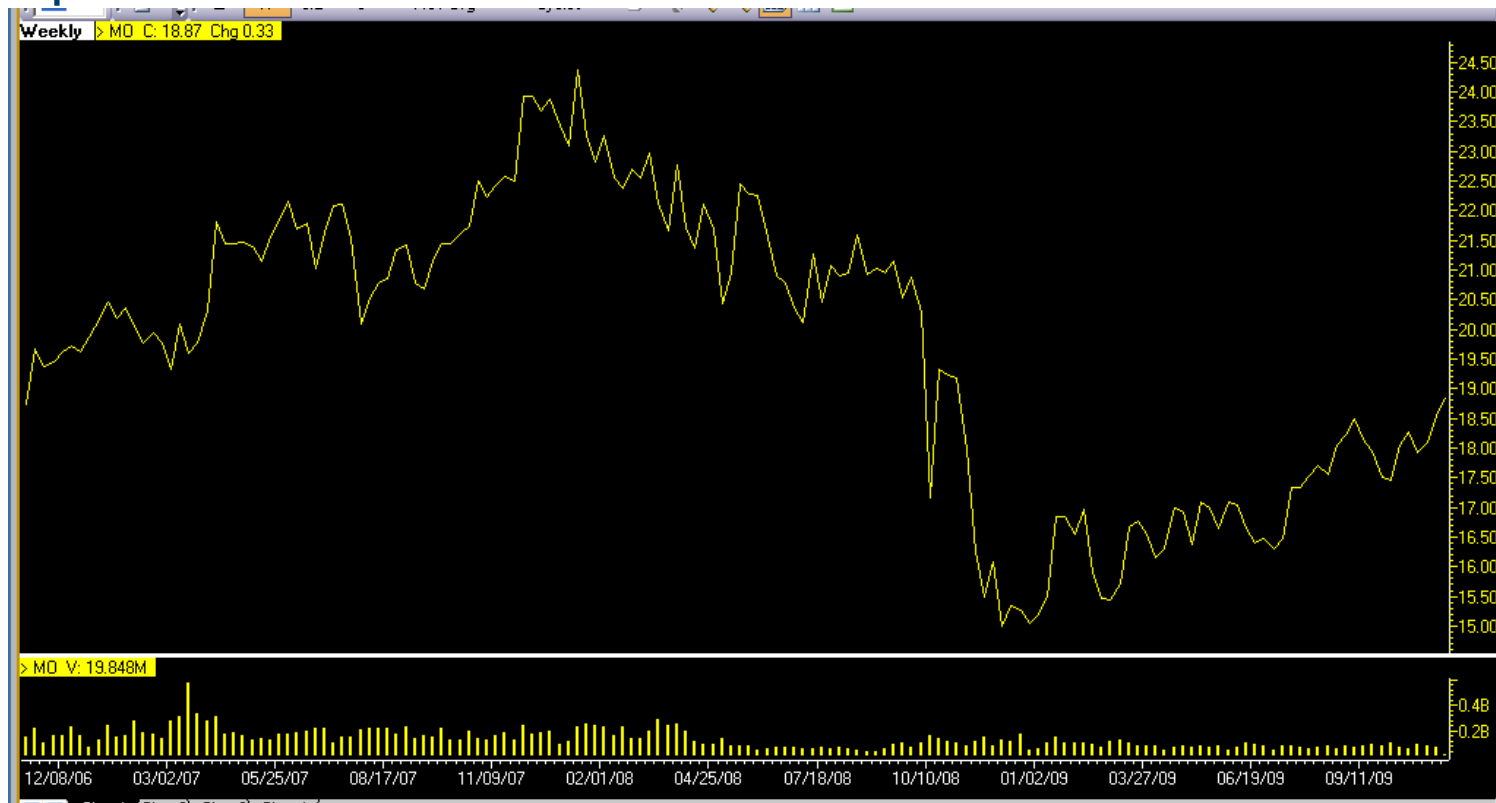
There is no guarantee MO will improve earnings/cash flow. Declining US cigarette sales volumes may hurt the company's revenues and profits. Litigation risks surround US cigarette manufacturers. Rising interest rates, higher fuel prices, negative rate case decisions, tax issues, or rising operating costs could negatively impact MO's earnings. MO's stock may be adversely impacted by negative equity/credit markets, terrorist attacks, and failure to comply with Sarbanes Oxley guidelines.

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ALTRIA GROUP, INC.
(in millions, except per share data)

	1Q08	2Q08	3Q08	4Q08	2008	1Q09	2Q09	3Q09	4Q09e	2009e
Net revenues	\$4,410	\$5,054	\$5,238	\$4,654	\$19,356	\$4,523	\$6,719	\$6,300	\$6,788	\$24,330
Cost of sales	1,887	2,168	2,230	1,985	8,270	1,770	2,138	2,033	2,055	7,996
Excise taxes on products	806	875	897	821	3,399	711	2,125	1,982	1,979	6,797
Gross profit	1,717	2,011	2,111	1,848	7,687	2,042	2,456	2,295	2,754	9,547
Marketing, administration, & research costs	551	576	697	663	2,487	604	688	628	673	2,593
Exit cost/asset impairment	11	18	15	55	99	122	37	79	15	253
Operating companies income	1,155	1,417	1,399	1,130	5,101	1,316	1,731	1,578	2,066	6,691
Amortization of intangibles	-2	-1	-2	-2	-7	-6	-3	-7	-2	-18
General corporate expenses	-97	-73	-66	-40	-276	-53	-50	-35	-50	-188
Acquisition related transaction costs						-60				-60
Adjustment to 3rd party guarantee accrual				10	10					
Gain on sale of Corp headquarters	404				404					
Corporate exit cost	-247	-1	-2	-100	-350	-6	-1	-54	-3	-64
Operating income	1,213	1,342	1,329	998	4,882	1,191	1,677	1,394	2,011	6,273
Interest & other debt expense, net	16	-18	-25	-140	-167	-336	-287	-279	-281	1,183
Loss on early debt extinguishment	-393				-393					
Earnings from SABMiller equity investment	143	147	54	123	467	106	217	-119	138	342
Earnings before income taxes	979	1,471	1,358	981	4,789	961	1,607	1,234	1,868	5,670
Income taxes	365	541	491	302	1,699	372	596	352	729	2,049
Net earnings (continuing ops.)	614	930	867	679	3,090	589	1,011	882	1,139	3,621
Earnings from discontinued ops.	1,901				1,901					
Net earnings attributable to noncontrolling interests	-61				-61		-1			-1
Net earnings attributable to Altria	2,454	\$930	\$867	\$679	4,930	\$589	\$1,010	\$882	\$1,139	3,573
Earnings per share	\$1.16	\$0.45	\$0.42	\$0.33	\$2.36	\$0.28	\$0.49	\$0.42	\$0.55	\$1.74
Continuing operations earnings per share	\$0.29	\$0.45	\$0.42	\$0.33	\$1.49	\$0.28	\$0.49	\$0.42	\$0.55	\$1.74
Discontinued operations earnings per share	\$0.87				\$0.87					

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Capitol Securities and employees of Capitol Securities may own shares of Altria Corp.

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- (2) Neutral – The stock's total return including dividends is expected to be in line with the industry or market average of +/- 10% over the next twelve months.
- (3) Underperform – The Stock's total return including dividends is expected to be below the industry or market average by 10% or more over the next twelve months.

The distribution of investment ratings for all companies in our coverage universe are as follows: (1) 100%, (2) 0%, (3) 0%

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