



November 27, 2015

CURRENT PRICE: \$57.75
RATING: HOLD
PRICE TARGET: N/A
CURRENT YIELD: 3.9%

EPS Estimates - Non-GAAP

	DEC 14A	DEC 15E
1Q	\$0.59 A	\$0.52A
2Q	\$0.64 A	\$0.74A
3Q	\$0.71 A	\$0.78A
4Q	\$0.63 A	\$0.69
	\$2.58	\$2.73

Trading Data

52-WEEK PRICE RANGE: **\$61.74 - \$47.31**
SHARES OUTSTANDING: **1,958(M)**
MARKET CAP: **\$113.1(B)**
AVG. DAILY TRADING VOLUME: **6.0(M)**
S&P 500: **2,090**

Valuation Data

BOOK VALUE: **\$1.47**
PRICE TO BOOK: **39.2x**
DIVIDEND: **\$2.26**

Altria Corp (NYSE: MO)

3Q15 Earnings Results

Highlights

- 3Q15 diluted earnings of \$0.78/share vs. \$0.71/share during 3Q14
- Higher OCI in all 3 operating units
- Announces new \$1 billion share repurchase program
- Dividend increased 8.6%
- Maintain HOLD rating

Investment Thesis

Altria Corp (MO-\$57.75), formerly known as Philip Morris, is 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, share repurchases, and cost reductions. Earnings growth may generate dividend increases in the future. MO's stock pays a current dividend yield of 3.9%.

Company Summary

Altria Group, headquartered in Richmond VA, is the parent company of Philip Morris USA, US Smokeless Tobacco, John Middleton, Ste. Michelle Estate Wineries, and Philip Morris Capital Corp (PMCC). The company operates five segments: domestic cigarettes, smokeless tobacco products, machine made cigars, wineries, and financial services/real estate. The company has 9,900 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 50.9% market share of the US cigarette market. Through 12/31/14 Philip Morris USA generated approximately 89.4% of overall revenues, or \$21.9 billion. During 2009 MO completed its purchase of US Tobacco (Skool/Copenhagen brands & Ste. Michele Wines) and currently gives MO 54.8% 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 two pages 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 29.4% current market share. The Smokeable business unit (includes cigarettes/cigars) generated 89.4% of MO's revenues, or \$21.9 billion during FY14. PMCC owns a portfolio of leveraged/direct finance leases and produced less than 1% of revenues. 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 three years the company spun-off Kraft Foods (KHC-\$74.78) and Philip Morris Intl (PM-\$83.74).

Recent Earnings

MO reported 3Q15 diluted earnings of \$0.78/share vs. \$0.71/share during 3Q14. The improved results came mainly from smokeable products' higher OCI, lower investment spending in the tobacco area, and a decrease in 3Q15's tax rate. These were partially offset by the lower earnings contribution from SABMiller (\$187 million vs. \$328 million). When comparing the two quarters, overall revenues rose to \$6.70 billion from \$6.49 billion, cost of sales decreased to \$1.93 billion from \$2.08 billion, and product excise taxes fell to \$1.72 billion from \$1.74 billion, causing gross profits to increase to \$3.05 billion from \$2.67 billion. NPM Adjustment items penalized earnings by \$0.04/share as PM USA settled NPM adjustment disputes with NY State (for 2004-2014) and recorded a pre-tax earnings reduction of \$126 million for its cost of sales. Tobacco/Health litigation items decreased MO's earnings by \$0.02/share as MO recorded pre-tax charges of \$54 million related to the "Engle" progeny lawsuits and \$13 million for interest costs related to those cases. MO's adjusted diluted reported earnings improved to \$0.75/share from \$0.69/share.

SEGMENT RESULTS

SMOKEABLE PRODUCTS: OCI increased 15.3% to \$2.12 billion from \$1.84 billion due to higher pricing, NPM Adjustment items in 2015, and lower resolution expenses (ending of federal tobacco quota buy-out payments). These were partly offset by higher tobacco/health litigation items, increased costs (mainly pension/benefit costs), and more promotional investment spending. Adjusted OCI rises 11.1% to \$2.05 billion and adjusted OCI margin increased to 47.0% from 44.3%.

Total domestic cigarette shipment volumes grew 0.1% to 33.18 billion sticks from 33.17 billion sticks. Marlboro and Other Premium cigarette shipments decreased 0.7% and 4.3%, respectively, and Discount's rose 10.4%. After adjusting for inventory, domestic cigarette volumes during 3Q15 was unchanged when compared to 3Q14.



MO's overall retail market share improved 0.4 percentage points to 51.3% from 50.9%. This was driven by higher market share from Marlboro (43.9% vs. 43.8%) and Discount (4.6% vs. 4.2%). These gains were partly offset by a decrease in Other Premiums market share (2.8% vs. 2.9%).

Cigar shipment volumes rose 1.2% to 351 million from 347 million due to higher Other cigar shipments of 11 million vs. 6 million, and was partly offset by a decline in Black & Mild to 340 million from 341 million. Total cigar retail market share declined to 28.6% from 29.3% as Black&Mild's decline to 28.1% from 28.9% was partly offset by a rise in Other cigars from 0.5% to 0.4%.

SMOKELESS PRODUCTS: OCI improved 2.1%, to \$286 million from \$280 million, mainly from higher product pricing and increased Copenhagen retail share. These were partly offset by higher promotional investments and SG&A expenses. Adjusted OCI rose to \$286 million from \$279 million and adjusted OCI margins decreased to 63.8% from 64.9%. Net revenues grew 3.4% to \$482 million from \$466 million and driven primarily by higher product pricing and partly offset by higher promotional investments.

Overall domestic shipment volumes grew 0.9% to 204.9 million cans/packs as increased Copenhagen volumes (+3.8%) were offset by volume declines in Skoal (-1.8%) and Other (-6.9%) brands. When adjusting for trade inventory movements, and other factors, management estimates domestic smokeless shipment volumes increased 1.5% and the overall smokeless product category volume grew over the past six months.

MO's total smokeless market share decreased 0.2 percentage points to 55.0% from 55.2%. This occurred as Copenhagen's market share increase to 31.7% from 31.0% but was not enough to offset market share declines of Skoal, to 19.7% from 20.2%, and Others, to 3.6% from 4.0%.

WINE: Reported and adjusted OCI grew 12.9% to \$35 million from \$31 million. Improved OCI results were due to increased wine shipments and improved premium mix from sales. Net revenues increased 8.5% to \$166 million and net revenues, net of excise taxes, rose 8.8% to \$161 million. Total wine shipments improved 8.8% to 2.12 million cases from 1.95 million cases. The higher shipments came from sales increases in all Ste. Michelle's brands: Chateau Ste. Michelle (+7.2%), Columbia Crest (+8.3%), 14 Hands (+12.5%), and Other (+8.6%).



EQUITY RESEARCH

Our Thoughts

A good earnings report from MO and the company affirmed its commitment to returning cash to shareholders through dividends and share repurchase programs. MO reported 3Q15 diluted earnings of \$0.78/share vs. \$0.71/share during 3Q14. The improved results came mainly from smokeable products' higher OCI, lower investment spending in the tobacco area, and a decrease in 3Q15's tax rate. These were partially offset by a lower earnings contribution from SABMiller (\$187 million vs. \$328 million). MO's adjusted diluted reported earnings improved to \$0.75/share from \$0.69/share.

During the 3Q15 earnings conference call MO reaffirmed 2015 adjusted EPS guidance of \$2.76-\$2.81/share. Additionally, management reiterated its commitment to a dividend payout ratio of approximately 80% of adjusted diluted EPS. The dividend was raised 8.6% to \$2.26/share from \$2.08/share during 3Q15. After completing a share repurchase program during 3Q15, the Board of Directors announced a new \$1 billion share repurchase program with expectations of completion by year-end 2016. We believe these actions will potentially lead to improved earnings in 2016 through revenue growth, cost controls, and fewer shares outstanding. Currently MO's stock pays a 3.9% dividend yield and trades at 21.2x our 2015 earnings estimate of \$2.73/share. Based on the current valuation we rate MO a HOLD.

Risks

There is no guarantee MO will improve earnings/cash flow. Declining US cigarette volumes may hurt the company's revenues and profits. Litigation risks surround cigarette manufacturers. Rising interest rates, higher tobacco prices, 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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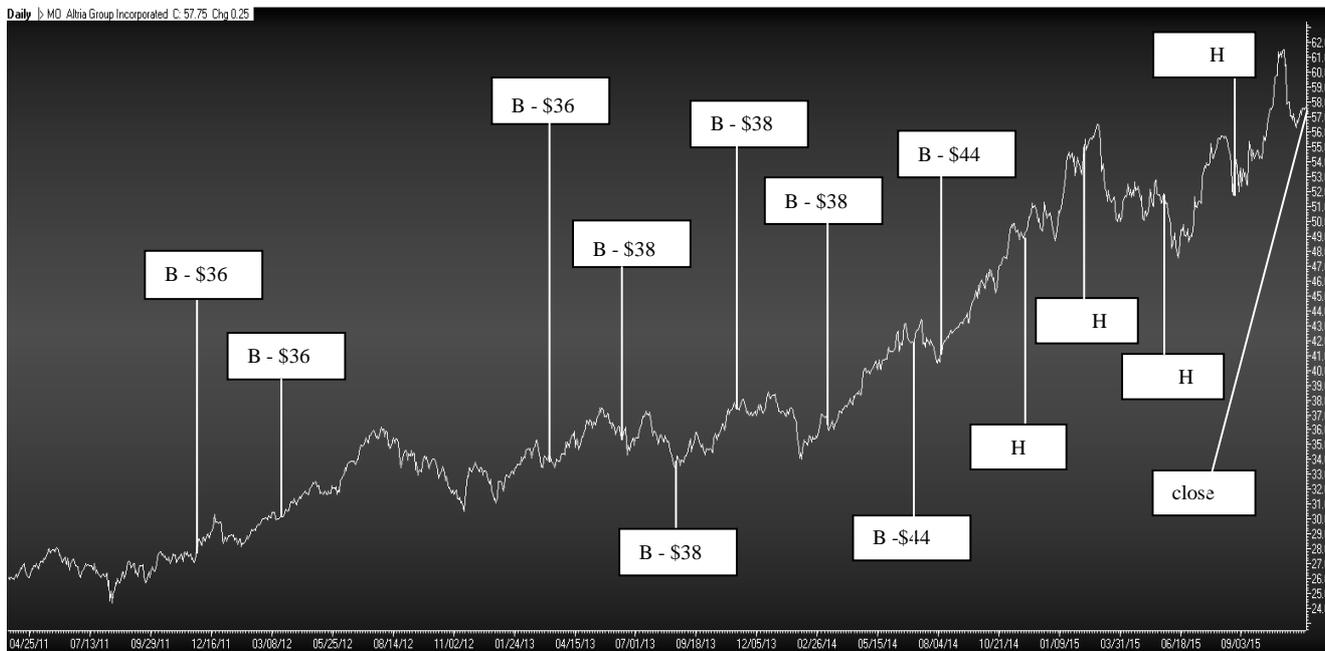
EQUITY RESEARCH

Altria Group, Inc.
(dollars in millions, except per share data)

	1Q14	2Q14	3Q14	4Q14	FY14	1Q15	2Q15	3Q15	4Q15e	FY15e
Net revenues	\$5,517	\$6,256	\$6,491	\$6,258	\$24,522	\$5,804	\$6,613	\$6,699	\$6,598	\$25,714
Cost of sales	1,752	1,968	2,079	1,986	7,785	1,797	2,004	1,932	2,091	7,824
Excise taxes on products	1,509	1,685	1,738	1,645	6,577	1,532	1,738	1,721	1,782	6,773
Gross profit	2,256	2,603	2,674	2,627	10,160	2,475	2,871	3,046	2,725	11,117
Marketing, administration, & research costs	463	564	605	646	2,278	552	578	619	632	2,381
Exit cost/asset impairment	2	10	7		1		4			
Operating companies income	1,791	2,049	2,062	1,981	7,883	1,923	2,289	2,407	2,093	8,712
Amortization of intangibles	-5	-5	-5	-5	-20	-5	-5	-6	-5	-21
General corporate expenses	-52	-69	-53	-67	-241	-53	-60	-53	-62	-228
Changes to MDLZ/PM tax-related receivables			-5	3	-2			-41		-41
Reduction of Kraft & PMI receivables										
Corporate asset impairment/exit costs										
Corporate exit cost										
Operating income	1,734	1,975	1,999	1,912	7,620	1,865	2,224	2,307	2,026	8,422
Restructuring charge										
Interest & other debt expense, net	153	230	213	212	808	209	195	205	223	832
Loss on early debt extinguishment				-44	-44	-228				-228
Earnings from SABMiller equity investment	225	200	328	253	1,006	134	225	187	273	819
Earnings before income taxes	1,806	1,945	2,114	1,909	7,774	1,562	2,254	2,289	2,076	8,181
Income taxes	631	683	717	673	2,704	544	805	761	726	2,836
Net earnings (continuing ops.)	1,175	1,262	1,397	1,236	5,070	1,018	1,449	1,528	1,350	5,345
Earnings from discontinued ops.										
Earnings attributable to non-controlling interests							1			1
Net earnings	\$1,175	\$1,262	\$1,397	\$1,236	\$5,070	\$1,018	\$1,448	\$1,528	\$1,350.00	\$5,344
Net earnings attributable to Altria	\$0.59	\$0.64	\$0.71	\$0.63	\$2.56	\$0.52	\$0.74	\$0.78	\$0.69	\$2.73
Earnings per share	\$0.57	\$0.65	\$0.69	\$0.66	\$2.57	\$0.63	\$0.74	\$0.75	\$0.69	\$2.81
Continuing operations earnings per share	\$0.59	\$0.64	\$0.71	\$0.63	\$2.56	\$0.52	\$0.74	\$0.78	\$0.69	\$2.73

Important Disclosures

Daily | MD Altria Group Incorporated C: 57.75 Chg 0.25



9/14/09 \$17.99 Initiate BUY
 5/18/10 Raised price target to \$23/share
 8/17/10 Raised price target to \$24/share
 11/16/10 Raised price target to \$26/share
 5/10/11 Raised price target to \$29/share
 2/28/12 Raised price target to \$31/share
 5/16/12 Raised price target to \$33/share
 8/31/12 Raised price target to \$36/share
 6/07/13 Raised price target to \$38/share
 6/24/14 Raised price target to \$44/share
 11/26/14 Reduced rating to HOLD
 Ratings:
 Buy: B
 Hold: H
 Sell: S

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