August 18, 2014

CURRENT PRICE:	$42.50
RATING:	BUY
PRICE TARGET:	$44.00
CURRENT YIELD:	4.5%

EPS Estimates - Non-GAAP

	DEC 13A	DEC 14E
1Q	$0.69 A	$0.59A
2Q	$0.63 A	$0.64A
3Q	$0.70 A	$0.63
4Q	$0.59 A	$0.70
	$2.61	**$2.56**

Trading Data

52-WEEK PRICE RANGE:	$43.70 - $33.12
SHARES OUTSTANDING:	1,980(M)
MARKET CAP:	$84,150(M)
AVG. DAILY TRADING VOLUME:	6.8(M)
S&P 500:	1,972

Valuation Data

BOOK VALUE:	$2.19
PRICE TO BOOK:	20.2x
DIVIDEND:	$1.92

Altria Corp (NYSE: MO)

2Q14 Earnings Results

Highlights

- 2Q14 diluted earnings of $0.64/share vs. $0.63/share during 2Q13
- Results benefit from higher OCI in 3 operating units
- Offers e-cigs in 60,000 retail stores
- Potential dividend increase in August
- Maintain BUY rating & $44/share price target

Investment Thesis

Given the current economic malaise, 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-$42.50), 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. Earnings growth may generate dividend increases in the future. Given MO's attractive dividend yield of 4.5%, and our price target of $44/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, 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 50.7% market share of the US cigarette market. Through 12/31/13 Philip Morris USA generated approximately 89.9% of overall revenues, or $21.9 billion. During 2009 MO completed its purchase of US Tobacco (Skoal/Copenhagen brands & Ste. Michele Wines) and currently gives MO 55.0% 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.

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 89.9% of MO's revenues, or $21.9 billion during FY13. PMCC owns a portfolio of leveraged/direct finance leases and produced lees 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 (KRFT-$59.30) and Philip Morris Intl (PM-$86.49). MO's 2013 diluted earnings increased to $2.61/share vs. $2.06/share during 2012.

Recent Earnings

MO reported 2Q14 diluted earnings of $0.64/share vs $0.63/share during 2Q13. The 1.6% increase was due to higher smokeable and smokeless segment's OCI, lower interest/other debt expense, and fewer outstanding shares. These positives were partly offset by higher product investments, lower OCI results from PMCC, and lower earnings contribution from MO's SAB Miller equity investment. When comparing the two quarters, net revenues declined 0.8% to $6.26 billion from $6.31 billion and overall operating income decreased 1.3% to $1.98 billion from $2.0 billion. SAB Miller's earnings contribution fell to $200 million from $227 million and MO's overall net diluted earnings decreased 0.3% to $1.26 billion. MO's 2Q14's adjusted diluted earnings, which excludes the impact of special items, rose 4.8% to $0.65/share.

NPM ADJUSTMENTS: During 2Q14 MO recorded pre-tax earnings of $26 million resulting from the states of Kentucky and Illinois settling their NPM adjustment disputes for 2003-2012. The benefit to MO comprised of a $43 million reduction of cost of sales, partly offset by a reduction of previously recorded interest income of $17 million.

TOBACCO & HEALTH LITIGATION ITEMS: MO recorded pre-tax charges of $31 million during 2Q14 related to the US Government's lawsuit. These charges were estimated cost implementations of a corrective communications remedy.

SEGMENT RESULTS

SMOKEABLE PRODUCTS: Reported OCI increased 3.7% to $1.79 billion from $1.73 billion mainly due ot higher product pricing which was partly offset by lower shipment volumes. Adjusted OCI grew 3.6% to $1.75 billion from $1.69 billion and adjusted OCI margins improved 1.2 percentage points to 44.2% from 43.0%. Domestic cigarette shipment volumes fell 5% due to overall industry declines and wholesale inventory reductions during 2Q14, following elevated levels in inventory during 1Q14.

Marlboro shipment volumes declined 4.9% to 27.67 billion, Other Premium cigarettes fell 10.3% to 1.83 billion, and discount cigarettes declined 1.3% to 2.63 billion. MO estimates 2Q14 shipment volumes, after being adjusted for trade inventory changes/other factors, fell 4% while total industry cigarette volumes decreased 4.5%. Marlboro retail market share increased 0.3 percentage points to 44.0% from 43.7%, Other Premium decreased 0.2 percentage points to 2.9% from 3.1%, and Discount rose 0.2 percentage points to 4.1% from 3.9%. MO's overall US market share improved 0.3 percentage points to 51.0% from 50.7%.

MO's cigar business experienced 11.1% shipment volume increases during the quarter from "Black & Mild's" strong performance in the tipped-cigar area and expanding "Royal Comfort" untipped cigarillos into selected market areas. "Black & Mild" shipments grew 8.8% to 320 million from 294 million and "Other" cigars increased over 100% to 11 million from 4 million. Total overall cigar shipments improved 11.1% to 331 million from 298 million. Market share for "Black & Mild" decreased 0.4 percentage points to 29.0% from 29.4% and "Other" cigars rose 0.2 percentage points to 0.4% from 0.2%. MO's total cigar market share decreased 0.2 percentage points to 29.4% from 29.6%.

SMOKELESS PRODUCTS: Reported and adjusted OCI improved 5.6% to $285 million from $270 million due to higher pricing and volumes. These were partly offset by higher promotional spending. OCI margins increased 3.1 percentage points to 66.6% from 63.5% when comparing the two quarters. Net revenues for this segment grew 1.3% to $464 million, from $458 million, due to higher pricing and volumes. These were partly offset by higher promotional spending.

Overall domestic smokeless product shipment volumes grew 1.6% to 203.8 million cans/packs from 200.5 million cans/packs because of volume growth in Copenhagen. This was partly offset by lower Skoal and "Other" brand shipments. Copenhagen's shipments increased 7.8% to 115.0 million cans/packs, Skoal's fell 6.1% to 69.3 million cans/packs, and "Other's" decreased 2.5% to 19.5 million cans/packs from 20.0 million cans/packs. Copenhagen's retail market share grew 1.5 percentage points to 30.5% from 29.0% due to growth of its Copenhagen Long Cut Wintergreen product. Skoal's market share decreased 1.1% percentage points to 20.6% from 21.7%, while "Other" brands fell 0.3 percentage points to 4.0% from 4.3%. MO's overall domestic smokeless market share improved slightly, by 0.1 percentage points, to 55.1% from 55.0%.

WINE SEGMENT: Reported and adjusted OCI increased 12.0% to $28 million, from $25 million, due to higher prices and shipped volumes. These were partly offset by higher segment costs. OCI margins improved 1.0% percentage points to 19.9% from 18.9%. Overall wine shipments grew 1.9% to 1.89 million cases from 1.85 million cases. The rise in shipment volumes were due to higher shipments of Chateau Ste. Michelle (+11.8%) and 14 Hands (+10.4%) which more than offset declines in Columbia Crest (-17.3%) and "Other" brands (-5.8%).

EXPANSION OF E-CIG BUSINESS: MO continues to move further into the e-cigarette business in order to diversify its revenue streams. During 2Q14 MO's subsidiary, NuMark LLC, started the national expansion of its MarkTen e-vapor products, which are now distributed in over 60,000 retail stores in the Western US. MO anticipates expanding its e-cig products marketing into the eastern US during the fall of 2014. NuMark also finished its purchase of the e-vapor business of Green Smoke, Inc., and its affiliates and commenced the integration of its activities into those of MO.

Our Thoughts

OUR THOUGHTS: A good quarterly report for MO as reported diluted earnings rose 1.6% to $0.64/share from $0.63/share. The company's three primary units all produced higher OCI when comparing 2Q14 vs. 2Q13. Also contributing to the improvement were lower interest/debt expense and fewer outstanding shares. These were partly offset by lower earnings contribution from SAB Miller ($200 million vs. $227 million) and PMCC. Going forward, however, MO will need to deal with declining US cigarette consumption. To wit, the company is moving into the e-cigarette business in hopes of growing its revenue stream.

In the meantime, management announced it would initiate another $1 billion share repurchase program and expects this to be completed by year end 2015. This will compliment an existing $1 billion share repurchase program which has $53 million remaining in this repurchase program and is expected to be completed by the end of 3Q14.

Shareholders may receive another dividend increase this year if the Board of Directors continues to maintain its goal of paying out 80% of adjusted diluted earnings to shareholders. Given, the company confirmed 2014 adjusted earnings guidance of $2.54-$2.59/share, MO's dividend could potentially be increased to $2.03/share ($2.54/share in adjusted eps multiplied by 80% = $2.03) during this year's August Board meeting. We continue to rate MO a BUY and is recommended for income/growth investors given the stock's current dividend yield of 4.5%. Our price target is $44/share, equating to 17.2x our 2014 earnings estimate of $2.56/share.

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.

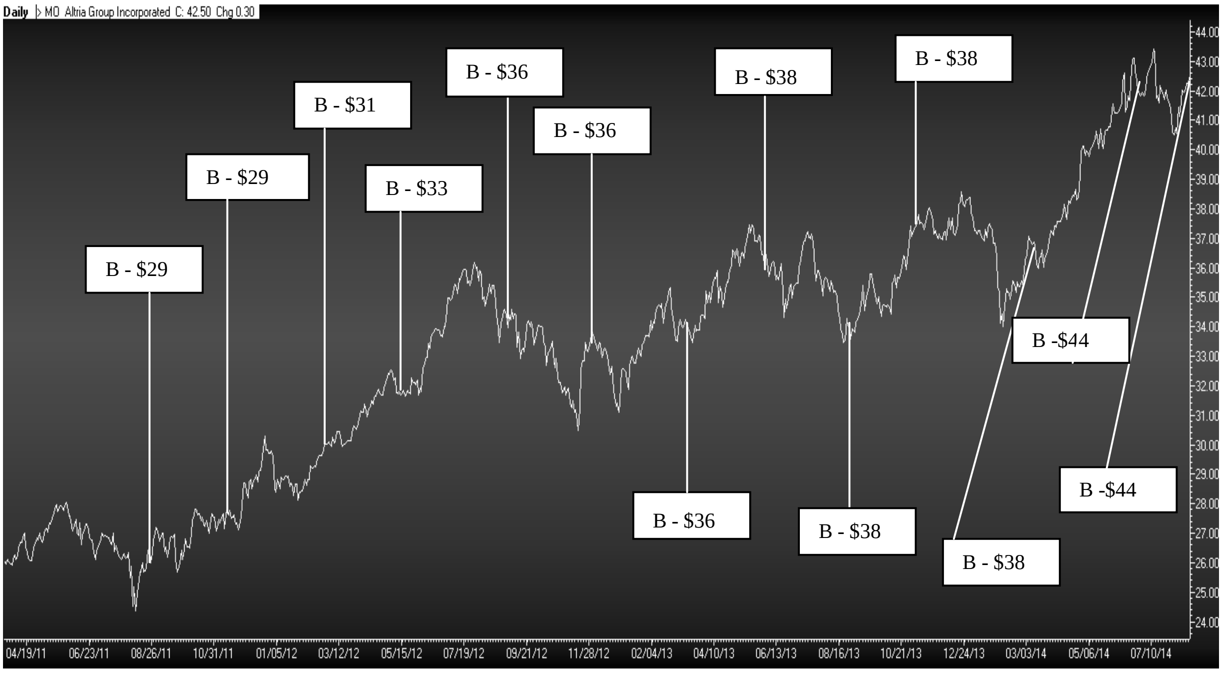
Steven F. Marascia
Director of Research
Capitol Securities Management
804-612-9715

CAPITOL SECURITIES MANAGEMENT, INC.

EQUITY RESEARCH

	1Q13	2Q13	3Q13	4Q13	FY13	1Q14	2Q14	3Q14e	4Q14e	FY14e
Net revenues	$5,528	$6,305	$6,553	$6,080	$24,466	$5,517	$6,256	$6,212	$6,106	$24,093
Cost of sales	1,299	1,972	1,939	1,996	7,206	1,752	1,968	1,881	1,726	7,048
Excise taxes on products	1,555	1,779	1,793	1,676	6,803	1,509	1,685	1,795	1,658	5,714
Gross profit	2,674	2,554	2,821	2,408	10,457	2,256	2,603	2,536	2,722	10,331
Marketing, administration, & research costs	462	489	599	535	2,085	463	564	569	562	2,248
Exit cost/asset impairment		1		10	11	2	10	7	4	13
Operating companies i income	2,212	2,064	2,222	1,863	8,361	1,791	2,049	1,960	2,156	8,170
Amortization of intangibles	-5	-5	-5	-5	-20	-5	-5	-5	-5	-19
General corporate expenses	-55	-58	-60	-62	-235	-52	-69	-69	-69	-253
Changes to MDLZ/PM tax-related receivables			25	-3	22					
Adjustment to 3rd party guarantee accrual										
Reduction of Kraft & PMI receivables										
Corporate asset impairment/exit costs								-1	-1	-5
Corporate exit cost										
Operating income	2,152	2,001	2,132	1,799	8,084	1,734	1,975	1,885	2,081	7,893
Interest & other debt expense,net	-261	-264	-269	-255	-1,049	153	230	222	235	840
Loss on early debt extinguishment				1,080	1,080					
Earnings from SABMiller equity investment	256	227	255	253	991	225	200	235	215	875
Earnings before income taxes	2,147	1,964	2,118	713	6,942	1,806	1,945	1,898	2,061	7,710
Income taxes	762	698	722	255	2,407	631	683	645	680	2,639
Net earnings (continuing ops.)	1,385	1,266	1,396	488	4,535	1,175	1,262	1,253	1,381	5,071
Earningns from discontinued ops.										
Net earnings	$1,385	$1,266	$1,396	$488	$4,535	$1,175	$1,262	$1,253	$1,381	$5,071
Net earnin(s attributable to Altria	$0.69	$0.63	$0.70	$0.24	$2.26	$0.59	$0.64	$0.63	$0.70	$2.56
Earnings per share	$0.54	$0.62	$0.65	$0.57	$2.38	$0.57	$0.65	$0.63	$0.73	$2.58
Continuing operations earnings per share	$0.69	$0.63	$0.70	$0.24	$2.26	$0.59	$0.64	$0.63	$0.70	$2.56

Important Disclosures



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
Ratings:
Buy: B
Hold: H
Sell: S

Steven Marascia certifies, with respect to the companies or securities that he analyzes, that (1) the views expressed in this report accurately reflect his personal views about all of the subject companies and securities and (2) no part of his compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Stock ratings used in this report are defined as follows:

(1) Buy – The stock's total return including dividends is expected to exceed the industry or market average by at least 10% over the next twelve months.
(2) Hold – 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) Sell – 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) 57%, (2) 43%, (3) 0%

The distribution of investment ratings used for companies whom we have performed banking services in the last 12 months are (1) 0%, (2) 0%, (3) 0%

Capitol Securities Management's Investment Banking/Public Finance unit has not received compensation for investment banking services from the subject company in the past 12 months. Nor does it expect to receive, or intend to seek compensation for, investment banking services from the subject company in the next 3 months.

No affiliate of Capitol Securities Management, or Capitol Securities Management, received compensation from the subject company for products or services during the past 12 months.

The subject company is not, or during the past 12 months, was not, a client of Capitol Securities Management's Investment Banking/Public Finance unit.

Other Disclosures

This report is not directed to, or intended for distribution to or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Capitol Securities or its affiliates to any registration or licensing requirement within such jurisdiction. The information presented in this report is provided to you for information purposes only and is not to be used or considered as an offer or the solicitation of an offer to sell or buy or subscribe for securities or other financial instruments. Capitol Securities may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. Capitol Securities will not treat recipients of this report as its customers by virtue of their receiving this report. The investments and services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. Capitol Securities does not advise on the tax consequences of investments and you are advised to contact an independent tax advisor. Information and opinions presented in this report have been obtained or derived from sources believed by Capitol Securities to be reliable, but Capitol Securities

makes no representation as to their accuracy or completeness. This report is not to be relied upon in substitution for the exercise of independent judgment. Capitol Securities may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the informationpresented in this report. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication by Capitol Securities and are subject to change without notice. The price,value of and income from any of the securities mentioned in this report can fall as well as rise.

For more information on this report, please contact us at 800.612.1484 or write to Capitol Securities, 100 Concourse Boulevard, Suite 101, Glen Allen, Virginia 23059