June 3, 2021

CURRENT PRICE:	$49.78
RATING:	BUY
PRICE TARGET:	$56
CURRENT YIELD:	6.9%

EPS Estimates

	DEC 20A	DEC 21E
1Q	$1.09	$1.07A
2Q	$1.09	$1.07
3Q	$1.19	$1.22
4Q	$0.99	$1.20
	$4.36	**$4.56**

Trading Data

52-WEEK PRICE RANGE:	$52.59 - $30.95
SHARES OUTSTANDING:	1,857(M)
MARKET CAP:	$92.4(B)
AVG. DAILY TRADING VOLUME:	10.1(M)
S&P 500:	4,193

Valuation Data

BOOK VALUE:	$1.57
PRICE TO BOOK:	31.7x
DIVIDEND:	$3.44

Altria Corp (NYSE: MO)

Maintain BUY rating

Highlights

- 1Q21 adjusted earnings of $1.07/share vs. $1.09/share during 1Q20
- Lower results due to interest expense timing & higher tax rate
- Increased sales of non-combustible products
- Management reaffirms 2021 earnings guidance of $4.49-$4.62
- Maintain BUY rating & price target to $56

Investment Thesis

Altria Corp (MO-$49.78), 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. After a recent drop in MO's shares, from the recent stock market declined sparked by the US spread of Covid pandemic, and investor disappointment over the company's JUUL investment, its shares may be poised for a rebound, in addition to offering investors a dividend yield of 6.9%. These shares are recommended for moderate-to-aggressive risk-tolerant 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% market share of the US cigarette market. Through 12/31/20 Philip Morris USA generated approximately 88.3% of overall revenues, or $23.1 billion.

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. The Smokeable business unit (includes cigarettes/cigars) generated 87.5% of MO's revenues, or $22.0 billion during FY19. PMCC owns a portfolio of leveraged/direct finance leases and produced lees than 1% of revenues. MO also owns approximately a 10.2% economic equity interest, with voting rights, in Anheuser-Busch InBev (BUD-$76.34). 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 few years the company spun-off Kraft Foods (KHC-$43.99) and Philip Morris Intl (PM-$97.37). In 2009 MO completed its purchase of US Tobacco (Skoal/Copenhagen brands & Ste. Michele Wines) currently giving MO 48.1% of the smokeless tobacco market share. To reduce its dependence on tobacco revenue streams, MO acquired equity stakes in JUUL Labs and Cronos (CRON-$8.56).

Recent Earnings

MO reported 1Q21 diluted earnings of $0.77/share vs. $0.83/share during 1Q20. The decrease came from a $649 million charge related to the early retirement of debt, a decline in the fair value of MO's JUUL investment, and higher acquisition costs. These were partly offset by higher operating income from the Wine segment and favorable Cronos-related and ABI (BUD-$76.34)-related special items. 1Q21's adjusted earnings fell to $1.07/share from $1.09/share because of unfavorable timing of interest expense and a higher adjusted income tax rate. Net operating revenues fell 5.1% to $6.04 billion from $6.36 billion, as gross profits improved 13.9% to $3.27 billion, and operating income rose 15.2% to $2.69 billion from $2.34 billion.

SEGMENT RESULTS

SMOKEABLE PRODUCTS: 1Q21's reported OCI was flat at $2.37 billion when compared to 1Q20's results. There was higher product pricing, lower costs and NPM adjustment items, but these were offset by lower shipment volumes, higher promotional investments, & increased per unit settlement charges. Adjusted OCI declined 0.7% to $2.37 billion due to lower shipment volumes, increased promotional investments, and higher per unit settlement charges. These were partly offset by higher pricing and lower costs. Adjusted OCI margins rose to 57.5% from 55.3%. Overall net revenues fell 6.4% to $5.25 billion because of lower shipment volumes and higher promotional investments while being partially offset by increased pricing of products.

On a quarter-to-quarter comparison, cigarette shipment volumes decreased 12.0% to 22.0 million sticks due to trade inventory movements, the industry's rate of decline, one less shipping day, and other factors. If adjusted for trade inventory movements, one less shipping day, and other factors, then shipment volumes decreased by an estimated 3.5%

Marlboro shipments declined 11.1%, Other Premiums' fell 13.7%, and Discount decreased 20.9%. Cigar shipments improved 11.1% with Black & Mild's rising 11.4% (479 million vs. 430 million) and more than offset a 50% decrease in Other (1 million vs. 2 million).

MO's overall US cigarette market share remained flat at 49.0%. Marlboro's share rose to 43.1% from 42.7%, Other Premiums was flat at 2.3%, and Discount fell to 3.6% from 4.0%.

ORAL TOBACCO PRODUCTS

During 1Q21, OCI decreased 5.3% to $392 million from $414 million mainly from higher costs and promotional investments which were partly offset by higher product pricing. Adjusted OCI increased 3.1% to $429 million from $416 million because of higher pricing partially offset by increased promotional investments/costs. Adjusted OCI margins decreased to 72.1% from 73.0%. Net revenues rose 4.2% to $626 million due to higher pricing while being partly offset by increased promotional investing in "on!"

Product shipments rose 0.6% to 197.9 million cans/packs from 196.7 million cans/packs because of "on!" oral nicotine pouche sales and trade inventory movements. These were partly countered by retail share losses of Copenhagen/Skoal (from nicotine pouch growth), calendar differences, and other factors. Copenhagen shipments fell 1.7% to 122.9 million cans/packs, Skoal's decreased 6.0% to 48.2 million cans/packs, and Other (includes Red Seal & "on!") rose 31.4% to 26.8 million cans/packs. If adjusted for calendar differences, trade industry movements, and other factors, then shipment volumes would have increased 0.5%.

MO's retail share of the oral tobacco products market declined to 48.1% from 50.4% due to the growth of oral nicotine pouches. Copenhagen and Skoal's market share decreased to 30.2% from 32.4%, and, to 12.9% from 14.4%, respectively. Other (including Red Seal & "on!") increased to 5.0% from 3.6%.

WINE: Reported OCI improved to $18 million from a loss of $379 million due to the absence of 2020 inventory-related charges caused by the covid pandemic. Adjusted OCI rose 46.2% to $19 million mainly attributable to higher pricing and lower costs. Net revenues increased to $150 million from $146 million because of higher pricing and wine shipments growing 1.7% to 1.7 million cases.

MO'S NON-COMBUSTIBLE PRODUCTS BUSINESS PLATFORM

During 1Q21, MO introduced the new IQOS 3 devices into its current retail markets. The IQOS 3 has a longer battery life and faster recharging time then the IQOS 2.4 product. During 2Q21, MO intends to open an IQOS boutique in the Tysons Corner Mall in Tysons Corner Virginia.

During 2Q21, MO expanded the retail store marketing of "Heatsticks" across the entire states of GA, NC, SC, & VA. "Heatsticks" achieved a cigarette category retail store share with distribution of 1.1% in Atlanta and 1% in Charlotte NC during 1Q21. Both of these increases were on a sequential quarterly basis.

MO's future marketing plans for its non-combustible products include expanding IQOS and "Heatsticks" into three additional metro territories during 2021 and anticipates "Heatsticks" will be sold in geographic regions covering about 25% of the US cigarette consumption market.

RECENT DEVELOPMENTS

At the end of 1Q21, MO had $1.7 billion remaining in its previously announced $2 billion share repurchase program expected to be completed by mid-year 2022. During 1Q21 6.9 million shares were purchased at a cost of $325 million.

During 4Q20 and April 2021, MO completed its acquisition of the "on!" business for approximately $250 million.

Helix's distribution of "on!" expanded to an additional 15,000 stores, and at the end of 1Q21, is offered in approximately 93,000 stores. During 1Q21 "on!'s" retail share of oral tobacco category was 1.7% vs 0.6% during 4Q20. It is anticipated the manufacturing capacity of "on!" will be unlimited by mid-2021 with expectations of it being offered in stores covering 90% of the total oral tobacco category.

MO estimated total 1Q21 e-vapor category volumes grew 24%, compared to 1Q20, and 7% versus 4Q20. JUUL's retail share of the e-vape category was 33% during 1Q21, versus 39% during 1Q20 and 35% in 4Q20.

The company recorded a non-cash pre-tax unrealized loss of $200 million due to the decrease in the fair value of JUUL. As of 3/31/21 the fair value of Altria's investment in JUUL was $1.5 billion.

A Federal judge has signaled MO & JUUL could face an antitrust class action lawsuit. MO owns a 35% stake in JUUL. Additionally, consumer and local governments may file RICO charges against JUUL, which would include MO, regarding JUUL product sales.

To take advantage of favorable interest rate conditions, MO did a series of transactions to adjust its debt maturities and extended the weighted average maturity of its debt. This was done by issuing new long-term senior unsecured notes of $5.5 billion and repurchased over $5 billion in outstanding long-term senior unsecured notes through cash tender offers and redemptions. As a result of these transactions, MO's weighted average coupon rate declined to 4.0% from 4.1%. Management anticipates retiring $1.5 billion of debt with available balance sheet cash.

Following this past April's passing of MO's Chairman of the Board, Thomas F. Farrell II, Katheryn B. McQuade was named Chairman of the Board.

EARNINGS CALL TAKEAWAYS: Following the 1Q21 earnings release, MO held an earnings conference call. Below are some of the key points made during the presentation.

-MO reaffirmed 2021 adjusted earnings guidance of $4.49-$4.62/share, representing a 3%-6% increase over 2020 adjusted earnings results.

-The Board of Directors intends to payout 80% of adjusted earnings to shareholders as dividends.

-Management believes 1Q21's tobacco business performed well as the company continues to advance non-combustible product portfolio.

-MO believes overall industry domestic cigarette volume decreased 2%.

-During 1Q21, there were fewer consumer trips to retailers for tobacco products however management said more money was spent per visit. Going forward, spending on its products will depend on stimulus checks, increased US corona virus vaccinations, and consumer mobility.

-MO estimates "on!" retail share of the oral tobacco category was 13% during 1Q21- double the level of 1Q20. Additional market share growth is anticipated with an expected annual growth rate of 25% in the US. Plans are to expand this product offering into Europe (currently offered in Sweden).

-Due to US Government regulatory efforts, MO's sales of the e-vape products offered by JUUL has decreased. A FTC trial, regarding JUUL product sales will start in June and management plans to defend this product.

-The company has seen many customers upgrade from the IQOS 2.4 to the IQOS 3 product. The IQOS products are now available throughout the US through MO's digital platform. IQOS will be introduced into three new metro-retail markets and will expand the retail presence of Marlboro Heatsticks to 25% of the US markets.

-Management's goal is to generate significant cash flow to be invested in non-combustible products and returned to shareholders.

-Given its equity investment in Cronos (CRON-$8.56), MO recorded an adjusted loss of $27 million reflecting CRON's 4Q20 operating results.

The morning of this conference call, the FDA announced its proposal to end the use of menthol in tobacco products. MO's response was they did not have time to review the proposal but noted this was not the first time this idea had been proposed by the FDA and would likely be a multi-year process. However, MO noted they had a common goal with the FDA of transitioning "the adult cigarette consumer to a non-combustible future." MO said they do not believe in prohibition of menthol fearing unintended consequences which could occur under such a product ban. Management would like to assist in transitioning adult smokers to non-combustible products.

Our Thoughts

It appears investors are growing more optimistic about this stock, given MO's rise from its 52-week trading low this past fall. This has probably happened for several reasons such as Wall Street growing more comfortable with MO's business plan to develop/market alternative tobacco products, approval of the new $2 billion share repurchase program, management's forward earnings guidance, and the prospects of a future dividend increases. Should MO continue to grow its adjusted earnings during 2021, then the dividend could be increased given the company's goal of paying 80% of adjusted earnings to shareholders as dividends.

We continue to rate MO a BUY for income/growth investors given the high dividend yield of 6.9%. Our price target is $56/share, equating to 12.3x our 2021 adjusted earnings estimate of $4.56/share. Potentially, several triggers could push MO's stock price higher which includes achieving 2021 adjusted earnings guidance of $4.49-$4.62/share, growing non-combustable product sales, a successful resolution of the JUUL situation, the potential of a dividend increase in 2021, and improving investor sentiment towards the stock. Additionally, given the company's 44% equity stake in Cronos (CRON-$8.56), legalization of marijuana by the US Congress, may increase investor demand for MO's shares.

RISKS TO OUR $56/SHARE PRICE TARGET

Decreasing earnings/cash flow at MO. Decreasing US cigarette consumption, lower oral tobacco product sales, or falling consumption volumes may also hurt the company's revenues/profits. Declining earnings for MO's three operating units poses a risk to the company. Ownership stakes in Cronos & JUUL may not be profitable or produce profits to pay higher interest payments on subsequent debt incurred for these investments. Additionally, there is no guarantee non-combustible product sales will be profitable, or offset declining sales of traditional tobacco revenues. This stock could decline in value if MO reduces/eliminates the common stock dividend or is unable to pay its debt. Litigation/regulation risks and excise taxes are a threat to MO. Rising interest rates/inflation, corporate taxes, economic recessions, higher tobacco prices, increased gasoline prices, rising operating costs/debt expense, or tax issues could negatively impact MO's future earnings. This stock may be adversely impacted by negative equity/credit markets, credit ratings agencies downgrading MO's debt, geopolitical events, wars, cyber hacking, supply chain issues, black swan events, terrorist attacks, and failure to comply with Sarbanes Oxley and generally accepted accounting guidelines. All factors mentioned above could cause a decline in MO's stock or its ability to maintain its common stock dividend.

Risks

There is no guarantee MO will improve earnings/cash flow. Declining US cigarette consumption/volumes may hurt the company's revenues and profits. Declining earnings from MO's three operating units pose a risk to the company. Additonally, there is no guarantee non-combustible product sales growth will occur and offset declining traditional tobacco product revenues. Ownership stakes in Cronos and JUUL may not be profitable or produce profits to pay higher interest payments on subsequent debt incurred for these investments. This stock could decline in value if MO reduces/eliminates the common stock dividend. Litigation/regulation risks and excise taxes are a threat to MO. Rising interest rates/inflation, corporate tax rates, economic recessions, higher tobacco prices, increased gasoline prices, rising operating costs/debt expense, or tax issues could negatively impact MO's future earnings. This stock may be adversely impacted by negative equity/credit markets, credit ratings agencies downgrades of MO's debt, geopolitical events, wars, cyber hacking, supply chain issues, black swan events, terrorist attacks, and failure to comply with Sarbanes Oxley and generally accepted accounting guidelines. All factors mentioned above could cause a decrease or elimination of MO's common stock dividend.

Steven F. Marascia
Director of Research
Capitol Securities Management
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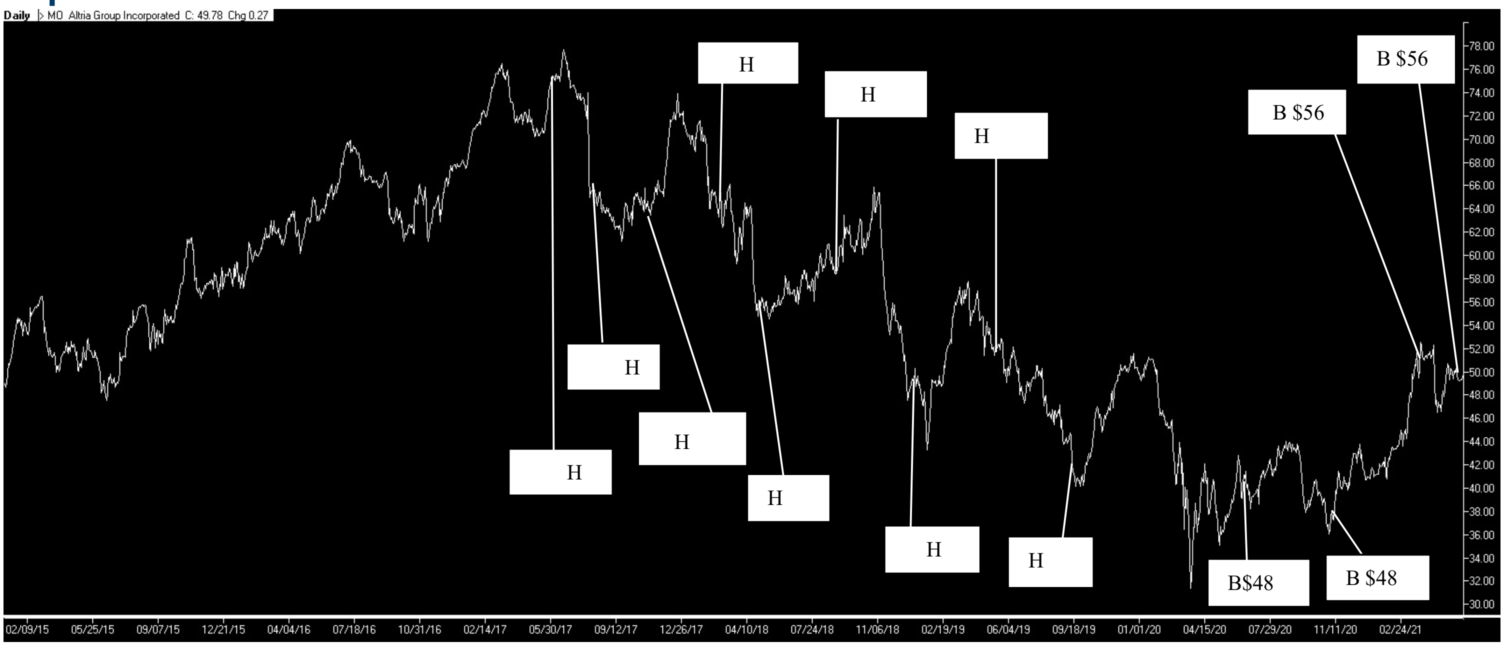
Altria Group, Inc.
(dollars in millions, except per share data

	1Q20	2Q20	3Q20	4Q20	FY20	1Q21	2Q21e	3Q21e	4Q21e	FY21e
Net revenues	$6,359	$6,367	$7,123	$6,304	$26,153	$6,036	$6,423	$6,745	$6,594	$26,144
Cost of sales	2,173	1,775	1,961	1,909	7,818	1,608	1,805	1,884	1,846	7,328
Excise taxes on products	1,313	1,305	1,445	1,249	5,312	1,156	1,317	1,366	1,358	5,336
Gross profit	2,873	3,287	3,717	3,146	13,023	3,272	3,301	3,495	3,390	13,480
Marketing, administration, & research costs	473	428	480	473	1,855	504	494	491	492	1,969
Exit cost/asset impairment				3	3					
Operating companies income	2,400	2,859	3,237	2,675	11,171	2,768	2,807	3,004	2,898	11,511
Amortization of intangibles	19	18	17	18	72	17	19	18	16	71
General corporate expenses	45	45	60	77	227	61	65	65	72	256
Changes to MDLZ/PM tax-related receivables										
Adjustment to 3rd party guarantee accrual										
Corporate asset impairment/exit costs				1	1					
Corporate exit cost										
Operating income	2,336	2,796	3,160	2,581	10,873	2,690	2,723	2,921	2,810	11,184
Restructuring charege										
Interest & other debt expense,net	275	308	310	316	1,209	308	319	319	319	1,275
Loss on early debt extinguishment						649				
Earnings from equity investments	157	9	-472	195	111	51	111	122	132	479
Other Income	27	28	3	19	77	43	15	14	18	49
Loss on AB InBev/SAB Miller business combination										
Gain/loss on Cronos-related financial instruments	137	40	105	62	140	110	28	36	39	138
Impairment on JUUL investment			2,600		2,600					
Earnings before income taxes	2,108	2,565	-324	2,541	6,890	1,937	2,239	2,774	2,968	10,554
Income taxes	558	627	632	619	2,436	516	571	707	757	2,691
Net earnings (continuing ops.)	1,550	1,938	-956	1,922	4,454	1,421	1,668	2,067	2,211	7,863
Earningns from discontinued ops.										
Earnings attributable to non-controlling interests	2	5	4	2	13	3	6	2	4	14
Net earnings	$1,552	$1,943	($952)	$1,924	$4,467	$1,424	$1,674	$2,069	$2,215	$7,877
Net earnings attributable to Altria	$0.83	$1.04	($0.51)	$1.03	$2.40	$0.77	$0.90	$1.11	$1.19	$3.23
Earnings per share	$1.09	$1.09	$1.19	$0.99	$4.36	$1.07	$1.07	$1.22	$1.20	$4.56
Continuing operations earnings per share	$0.83	$1.04	($0.51)	$1.03	$2.40	$0.77	$0.90	$1.11	$1.19	$3.23

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
11/26/14 Reduced rating to HOLD
6/12/20 Raise rating to BUY with a $48 price target
3/29/21 Raised price target to $56/share
Ratings:
Buy: B
Hold: H
Sell: S

$56 price target equates to 12.3x our 2021 adjusted earnings estimate of $4.56/share

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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.

Analyst Steven Marascia owns shares of Altria Corp.

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) 50%, (2) 50%, (3) 0%

The distribution of investment ratings used for companies whom we have performed banking services in the last 12 months are (1)100%, (2) 0%, (3) 0%

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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

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