May 26, 2022

Altria Corp (NYSE: MO)

1Q22 Earnings Results

CURRENT PRICE:	$54.50
RATING:	BUY
PRICE TARGET:	$56
CURRENT YIELD:	6.6%

EPS Estimates

	DEC 21A	DEC 22E
1Q	$1.07	$1.12A
2Q	$1.23	$1.19
3Q	$1.22	$1.36
4Q	$1.09	$1.22
	$4.61	**$4.89**

Trading Data

52-WEEK PRICE RANGE:	$57.05 - $42.53
SHARES OUTSTANDING:	1,818(M)
MARKET CAP:	$99.1(B)
AVG. DAILY TRADING VOLUME:	9.60(M)
S&P 500:	4,058

Valuation Data

BOOK VALUE:	n/a
PRICE TO BOOK:	n/a
DIVIDEND:	$3.60

Highlights

- 1Q22 adjusted earnings of $1.12/share vs. $1.07/share during 1Q21
- Results improved due to higher OCI, lower interest expense, & fewer shares
- Increased product pricing offset lower shipments
- Share repurchase program bought 11.3 million shares during 1Q22
- Maintain BUY rating & price target to $56

Investment Thesis

Altria Corp (MO-$54.50), 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 & dividend 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, and holding of Anheuser-Busch InBev (BUD-$56.48) stock, its shares may be poised for a rebound. Additionally, MO offers investors a dividend yield of 6.6%. These shares are recommended for moderate-to-aggressive risk-tolerant 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 four segments: domestic cigarettes, smokeless tobacco products, machine made cigars, 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 12/31/21 Philip Morris USA generated approximately 87.9% of overall revenues, or $22.9 billion. After selling its wine business, MO has two primary revenue generating units: Smokeable Products & Oral Tobacco Products.

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 87.9% of MO's revenues, or $22.9 billion during FY21. 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-$56.48). 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-$37.07) and Philip Morris Intl (PM-$108.07). In 2009 MO purchased of US Tobacco (Skoal/Copenhagen brands) currently giving MO 46.9% of the US smokeless tobacco market share. To diversify its revenue stream, MO acquired equity stakes in JUUL Labs and Cronos (CRON-$3.10). During 3Q21, MO completed the sale of Ste. Michele Wines business.

Recent Earnings

MO reported 1Q22 diluted earnings of $1.08/share vs. $0.77/share during 1Q21. Results improved when comparing the two quarters due to the absence of 2021 losses from early debt extinguishment ($649 million), higher reported Operating Company Income (OCI) during 1Q22, lower unrealized losses related to MO’s JUUL investment (decreased $0.05/share), fewer outstanding shares, and a decrease in interest expense. These positives were partly offset by higher Cronos-related special items charges and lower earnings from Anheuser-Busch Inbev (BUD-$56.48), which fell 25.8% to $141 million. Overall net revenues decreased 2.4% to $5.9 billion resulting from the sale of its wine subsidiary during 4Q21.

1Q22 adjusted diluted earnings rose 4.7% to $1.12/share, from $1.07/share during 1Q21, due to higher adjusted OCI, less outstanding shares, and a decrease in interest expense. These were partly offset by lower earnings from Anheuser-Busch Inbev (BUD-$56.48). During 1Q22, MO repurchased 11.3 million shares of its stock and has approximately $1.2 billion left under its current $3.5 billion share repurchase program expected to be completed by 12/31/22.

SEGMENT RESULTS

SMOKEABLE PRODUCTS:

1Q22 reported OCI rose 7.9% to $2.56 billion, from $2.37 billion, due mainly to higher product pricing, lower promotional costs, higher NPM adjustment items (increased $0.01/share), and lower tobacco/health litigation costs. These were partly offset by lower shipment volumes and higher per unit settlement charges. Adjusted OCI increased 5.7%, to $2.51 billion from $2.38 billion, from higher product pricing and lower promotional costs. These were somewhat offset by lower shipment volumes and higher per unit settlement charges. Adjusted OCI margins improved to 59.5%, from 57.5%, and Smokeable's net revenues rose 0.3% to $5.27 billion.

On a quarter-to-quarter comparison, cigarette shipments fell 6.3% to 20,617 million sticks stemming from the industry's rate of decline and retail share loss, while being partially offset by trade inventory movements. When adjusted for trade inventory movements, and other factors, domestic cigarette shipments declined by 8%. The Marlboro, Other Premium, and Discount cigarette shipments decreased 5.8%, 4.5%, and 14.1, respectively. Meanwhile, Cigar shipment volumes were lower by 9.6% as Black & Mild cigar volumes fell 9.6% and Other's was flat.

MO's overall cigarette retail market share decreased to 48.1% from 48.9%. Marlboro's market share fell to 42.6% from 43.0%, Discount's declined to 3.2% from 3.6%, and Other Premium's was flat at 2.3%.

ORAL TOBACCO PRODUCTS:

Reported 1Q22 OCI rose 3.8% to $407 million, from $392 million, when compared to 1Q21 due to higher product pricing and the absence of 2021 acquisition related costs. These were partially offset by higher "on!" promotional investments, lower shipment volumes, product mix shift, and higher costs.

Adjusted OCI fell 5.1%, to $407 million, from $429 million, resulting from higher promotional investments for "on!", lower shipment volumes, a product mix shift, and higher costs which were partly offset by higher pricing. Seen as a safer alternative product to various tobacco chew products (MST), MO's "on!" s and oral nicotine pouch sale volumes have increased as consumers shifted to this product and away from its chew products.

Adjusted OCI margins decreased to 69.7%, from 72.1%, because of the absence of a $27 million benefit during 1Q21 related to asset impairment/exit, implementation/acquisition/disposition-related costs.

Overall oral tobacco revenues fell 2.1% to $626 million, due to higher "on!" promotional investments, lower shipped volumes, and a shift benefit between MST and "on!' shipment volumes creating higher "on!" shipments when compared to 1Q21. These were partly offset by higher pricing.

Shipment volumes decreased 1.9%, to 194.1 million cans/packs from 197.9 million cans/packs, because of trade inventory movements and loss of retail share. These were partially offset by the industry's growth rate, calendar differences, and other factors. If adjusted for trade inventory movements and calendar differences, then shipping volumes were flat when comparing the two quarters.

Copenhagen's shipping volumes decreased 6.3% to 115.2 million cans/packs, Skoal's fell 8.9% to 43.9 million cans/packs, and Other's dropped 5.1% to 16.7 million can/packs. Meanwhile, "on!" volumes rose 98.9% to 18.3 million can/packs. This product is now offered in more than 115,000 US retail outlets.

MO's retail market share of oral tobacco products declined to 46.9% from 48.0%. This occurred due to market share decreases of Copenhagen (28.0% vs. 30.2%), Skoal (11.7% vs. 12.9%), and Other (3.1% vs. 3.3%). These decreases were partly countered by a rise in "on!" market share (4.1% vs. 1.6%).

SPECIAL ITEMS & ADJUSTMENTS

MO recorded pre-tax income of $0.02/share, during 1Q22, reflecting NPM Adjustment Items and related interest. This compares to $0.01/share recorded during 1Q21.

During 1Q22 MO recorded a non-cash pre-tax unrealized loss of $0.05/share due to an estimated fair value decrease of its investment in JUUL. The estimated fair value of its JUUL investment currently stands at $1.6 billion. This compares to a 1Q21 similar non-cash pre-tax loss of $0.10/share.

1Q22'a pre-tax equity earnings from Anheuser-Bush InBev (Bud-$56.48) totaled $0.02/share and was related to BUD's mark-to-market gains on certain BUD instruments related to its share commitments. 1Q21's equity earnings from BUD came in at $0.05/share. Additionally, MO expects BUD to record a non-cash impairment charge of $1.1 billion which will impact MO's 2Q22 earnings results.

MO had $0.03/share expense, in 1Q22, from financial instruments related to the investment in Cronos (CRON-$3.10), versus income of $0.04/share during 1Q21.

Our Thoughts

We continue to recommend MO stock for investors seeking income/growth given the stock's current dividend yield of 6.7% and appreciation potential. Given management's stated goal of paying 80% of adjusted earnings to shareholders in dividends, and higher earnings guidance for 2022, the possibility exists of another dividend increase later this year. Several catalysts could potentially increase investor demand for this stock, such as earnings growth and higher earnings contributions from MO's equity investment in Anheuser-Busch InBev (BUD-$56.48). Additionally, if MO's introduction of new tobacco alternative products (e.g., "on!", pouches, & possible US marketing of IQOS) increases profitability, then this development could be viewed favorably by Wall Street and reward the stock with a higher P/E multiple. We rate this stock a BUY with a $56/share price target, equating to 11.45x our 2022 adjusted earnings estimate of $4.89/share.

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.

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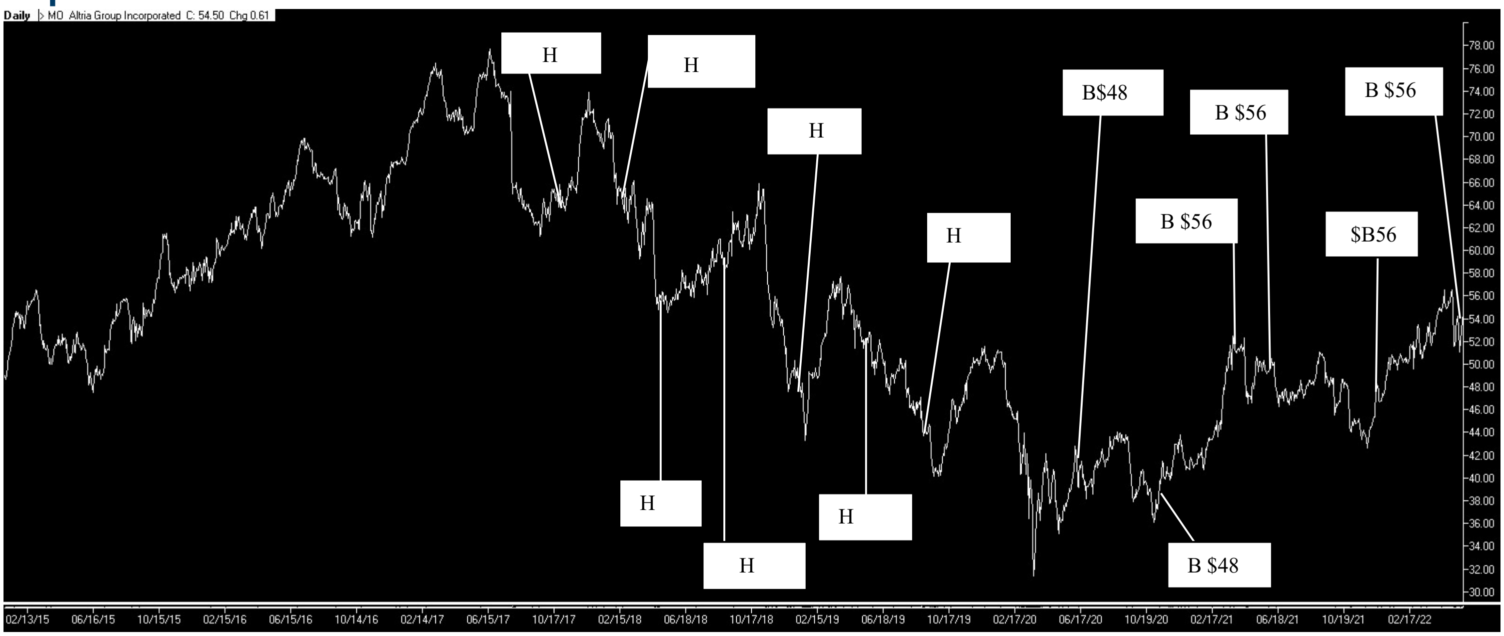
Capitol Securities Management, Inc.

Equity Research

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

	1Q21	2Q21	3Q21	4Q21	FY21	1Q22	2Q22e	3Q22e	4Q22e	FY22e
Net revenues	$6,036	$6,936	$6,786	$6,255	$26,013	$5,892	$6,394	$6,815	$6,477	$25,578
Cost of sales	1,608	1,882	1,858	1,771	7,119	1,446	1,732	1,841	1,723	6,742
Excise taxes on products	1,156	1,322	1,255	1,169	4,902	1,073	1,221	1,302	1,198	4,794
Gross profit	3,272	3,732	3,673	3,315	13,992	3,373	3,441	3,672	3,556	14,042
Marketing, administration, & research costs	504	469	569	473	2,015	412	482	476	424	1,794
Exit cost/asset impairment										
Operating companies income	2,768	3,263	3,104	2,842	11,977	2,961	2,959	3,196	3,132	12,248
Amortization of intangibles	17	18	18	19	72	17	18	19	18	72
General corporate expenses	61	59	135	90	345	60	84	77	72	293
Changes to MDLZ/PM tax-related receivables										
Adjustment to 3rd party guarantee accrual										
Corporate asset impairment/exit costs										
Corporate exit cost										
Operating income	2,690	3,186	2,951	2,733	11,560	2,884	2,857	3,100	3,042	11,883
Restructuring charege										
Interest & other debt expense,net	308	295	266	293	1,162	281	282	286	285	1,134
Loss on early extinguishment of debt	649				649					
Net periodic benefit income, excluding svc cost	43	46	63	50	202	46				46
Earnings from equity investments	51	75	-5,915	190	5,979	34	149	156	188	527
Other Income										
Loss on AB InBev/SAB Miller business combination										
Gain/loss on Cronos-related financial instruments	110	103	-135	20	148	10	27	19	4	61
Impairment on JUUL investment										
Earnings before income taxes	1,937	2,909	-3,302	2,280	3,824	2,673	2,747	3,237	2,949	11,606
Income taxes	516	759	582	656	1,349	714	719	842	767	3,042
Net earnings (continuing ops.)	1,421	2,150	-2,720	1,624	2,475	1,959	2,028	2,395	2,182	8,564
Earningns from discontinued ops.										
Earnings attributable to non-controlling interests	3	-1	-2				-2	-3	-2	-7
Net earnings	$1,424	$2,149	($2,722)	$1,624	$2,475	$1,959	$2,026	$2,392	$2,180	$8,557
Net earnings attributable to Altria	$0.77	$1.16	($1.48)	$0.88	$1.34	$1.08	$1.11	$1.32	$1.20	$4.71
Earnings per share	$1.07	$1.23	$1.22	$1.09	$4.61	$1.12	$1.19	$1.36	$1.22	$4.89
Continuing operations earnings per share	$0.77	$1.16	($1.48)	$0.88	$1.34	$1.08	$1.11	$1.32	$1.20	$4.71

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 11.45x our 2022 adjusted earnings estimate of $4.89/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) 33.3%, (2) 66.7%, (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%

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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