June 2, 2025

CURRENT PRICE:	$60.63
RATING:	BUY
PRICE TARGET:	$65
CURRENT YIELD:	6.7%

EPS Estimates

	DEC 24A	DEC 25E
1Q	$1.16	$1.21A
2Q	$1.31	$1.34
3Q	$1.38	$1.40
4Q	$1.29	$1.35
	$5.12	**$5.30**

Trading Data

52-WEEK PRICE RANGE:	$61.26 - $43.83
SHARES OUTSTANDING:	1,690(M)
MARKET CAP:	$102.5(B)
AVG. DAILY TRADING VOLUME:	10.4(M)
S&P 500:	5,936

Valuation Data

BOOK VALUE:	n/a
PRICE TO BOOK:	n/a
DIVIDEND:	$4.10

Altria Corp (NYSE: MO)

Raising price target to $65/share

Highlights

- 1Q24 adjusted earnings of $1.21/share vs. $1.16 during 1Q24
- OCI increased in Smokeable Products & declined in Oral Tobacco
- “on!” sales partially offset MST declines
- Affirmed FY25 adjusted earnings guidance to $5.30-$5.45/share
- Maintain BUY rating & raising price target to $65/share

Investment Thesis

Altria Corp (MO-$60.63), 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 MO’s shares declined a few years ago, from earnings concerns, the Covid pandemic, and investor disappointment over the company’s JUUL investment, and holding of Anheuser-Busch InBev (BUD-$71.27) stock, its shares have rebounded over recent tariff concerns. MO offers investors a dividend yield of 6.7%. 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, and Philip Morris Capital Corp (PMCC). The company operates two segments: smokeable products and oral tobacco products. The company has 6,000 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 12/31/24 Philip Morris USA generated approximately 88.4% of overall revenues. 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 products unit (includes cigarettes/cigars) generated 88.9% of MO's revenues, or $21.8 billion during FY23. PMCC owns a portfolio of leveraged/direct finance leases and produced lees than 1% of revenues. MO also owns approximately an 8.1% economic equity interest, with voting rights, in Anheuser-Busch InBev (BUD-$71.27). 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-$26.63) and Philip Morris Intl (PM-$182.75). In 2009 MO purchased of US Tobacco (Skoal/Copenhagen brands) currently giving MO 37% of the US smokeless tobacco market share in 2024. To diversify its revenue stream, MO acquired equity stakes in Cronos (CRON-$1.92) and JUUL Labs (recently written off). During 2021, MO completed the sale of Ste. Michele Wines business. Given the industry wide declines in tobacco consumption, MO began offering tobacco alternative products to produce a new revenue stream, such as “NJOY” and “on!”.

Recent Earnings

MO reported 1Q25 operating earnings of $0.63/share vs. $1.21/share during 1Q24. The decrease came from lower reported operating company income (OCI), which included a non-cash impairment ($873 million) of MO’s e-vapor reporting unit goodwill, 2025 costs associated with the NJOY acquisition, unfavorable BUD results (-11.5% due to lower ownership interest), and negative income tax items. These were partly offset by fewer outstanding shares. Net revenues decreased 5.7% to $5.26 billion from $5.58 billion and OCI fell to $1.89 billion from $2.81 billion.1Q25’s adjusted earnings increased to $1.23/share from $1.16/share. The improvement came from fewer outstanding shares, higher adjusted OCI, and lower adjusted tax rate. These were partially offset by lower income from the company’s equity investment in BUD, and lower net periodic benefit income.

SEGMENT RESULTS: 1Q25 vs. 1Q24

SMOKEABLE PRODUCTS: Reported OCI rose 1.2% to $2.47 billion from $2.44 billion due to higher product pricing, lower per unit settlement charges, and decreased manufacturing costs. These were partly offset by lower shipment volume, increased SG&A (including higher tobacco/health/other litigation items), and 2025 Initiative Plan costs. Adjusted OCI rose 2.7% to $2.52 billion from $2.45 billion due to higher product pricing, and lower per unit settlement charges and manufacturing costs. These gains were partly offset by a decrease in shipment volumes. As a result, reported OCI margins rose to 63.2% from 59.9% and adjusted OCI margins increased to 64.4% from 60.2%. Overall revenues declined 5.8%, to $4.62 billion from $4.91 billion, due to lower shipments and was partially offset by higher pricing.

When comparing the two quarters, total cigarette shipments fell 13.7% to 14.2 million sticks from 16.5 million sticks due to the overall industry's rate of decline, retail share losses, inflation's economic impact on consumers, growth of illegal vape products, and calendar differences. When adjusting for trade inventory movements, and calendar differences, total cigarette shipments decreased approximately 12%. Marlboro shipments declined 13.3% to 12.98 billion sticks, Other Premium's fell 9.2% to 678 million sticks, and Discount decreased 24.9% to 548 million sticks.

MO's total cigarette market share declined to 45.0% from 46.4%. This occurred from decreases in Marlboro (41.0% vs. 42.0%), Other Premium (2.2% vs. 2.3%), and Discount (1.8% vs. 2.1%).

MO's total cigar shipments dropped 2.9% to 405 million from 417 million as volumes fell for its "Black & Mild" product.

ORAL TOBACCO PRODUCTS: Reported OCI decreased 0.5% to $433 million from $435 million due to lower shipments, mix change and higher promotional expenses. These were partly offset by higher product pricing. Adjusted OCI was flat at $435 million as higher pricing which was offset by lower shipments, mix change, and increased promotional costs. Total revenues rose to $654 million from $651 million.

Reported OCI margins declined, to 68.8% from 69.5%, and adjusted OCI margins, declined to 69.2% from 69.5, from lower shipments, mix change, increased promotional costs, while being partly offset by higher pricing.

Total oral tobacco product shipments fell 5.0% because of retail share losses, calendar differences, trade inventory movements, and other factors. These were partly offset by the industry's growth rate. When adjusted for trade inventory movements and calendar differences MO's shipments decreased approximately 1%.

Declines in the MST market continued to hurt MO's total oral tobacco shipments. Copenhagen's shipments decreased to 89.7 million cans from 99.1 million cans, Skoal's fell to 31.4 million cans from 36.7 million, and Other's decreased to 15.0 million cans from 15.5 million cans. These were partly offset by higher shipments of "on!" rising to 39.3 million from 33.3 million.

MO’s market share declined to 34.7% from 37.8% as decreases in MST products were partly countered by oral nicotine pouch product sales. This segment saw market share decreases in Copenhagen (16.9% vs.20.1%), Skoal (6.6% vs 8.0%), and Other (2.4% vs. 2.7%). The decreases were partly offset by “on!’s” market share increase to 8.8% from 7.0%.

RECENT DEVELOPMENTS:

During the 1Q25 earnings call, MO reaffirmed 2025 adjusted earnings guidance of $5.30-$5.45/share, equating to a 2%-5% improvement over 2024’s results. Also, management said the company repurchased 5.7 million shares during 1Q25. As of 3/31/25 MO has $674 million repurchases remaining under its current $1 billion share repurchase program.

MO noted the US e-vapor market share held by illegal e-vapor products (lacking government approval) is now around 60% due to lack of government regulatory enforcement. MO noted regulatory enforcement could be of benefit to the company potentially increasing sales of products to this market.

The ITC’s exclusion and cease/desist orders took effect on 3/31/25 forcing MO to discontinue the importation of the NJOY ACE products, which slows the company’s efforts to increase it’s e-vapor market share. NJOY plans to appeal the ITC order to the US Court of Appeals and MO is working to develop a product solution addressing NJOY’s four product lines. This developing ongoing situation created the $873 million non-cash charge for MO during 1Q25.

During the 1Q25 earnings call, management said cigarette industry volume declines remained elevated partly due to the growth of the illegal e-vapor market and inflationary pressures currently being placed on consumer’s discretionary income.

Last fall, MO unveiled its 2025 Initiative Plan. This plan is designed to streamline corporate functions and improve overall profitability. Management believes the initial phases of the program could deliver approximately $600 million in cumulative savings over the next four years. These savings will be reinvested back into MO’s businesses.

The “on!” and “on! Plus” products are now offered internationally via e-commerce and certain retail locations is Sweden and the UK. MO also launched a heated tobacco capsule product , via e-commerce in the UK in a small scale test.

Last fall, the Board of Directors raised the annual dividend from $3.92/share to $4.08/share, equating to an increase of 4.1%.

Our Thoughts

In our opinion, MO had a decent quarter reporting adjusting earnings of $1.23/share vs. $1.16/share and operating earnings of $0.63/share vs. $1.21/share, when comparing 1Q25 to 1Q24. Reported and adjusted OCI improved in the Smokeable Products segment and were flat in the Oral Tobacco Products segment. MO's shares have rallied since January given investors seeking stocks who have little or no exposure to the recent White House tariff announcements.

We continue to rate MO a BUY based on its current dividend yield of 6.7% and the potential for further future dividend increases if the company continues to grow forward earnings. Since splitting from Philip Morris (PM-$182.75) in 2008, MO has raised its dividend annually due to earnings growth. Additionally, we are raising our target price to $65/share, equating to 12.26x our 2025 earnings estimate of $5.30/share.

RISKS TO OUR $65/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 two operating units poses a risk to the company. Ownership stakes in Cronos 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, regulatory oversight, 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 price 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 two 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 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, regulatory oversights, 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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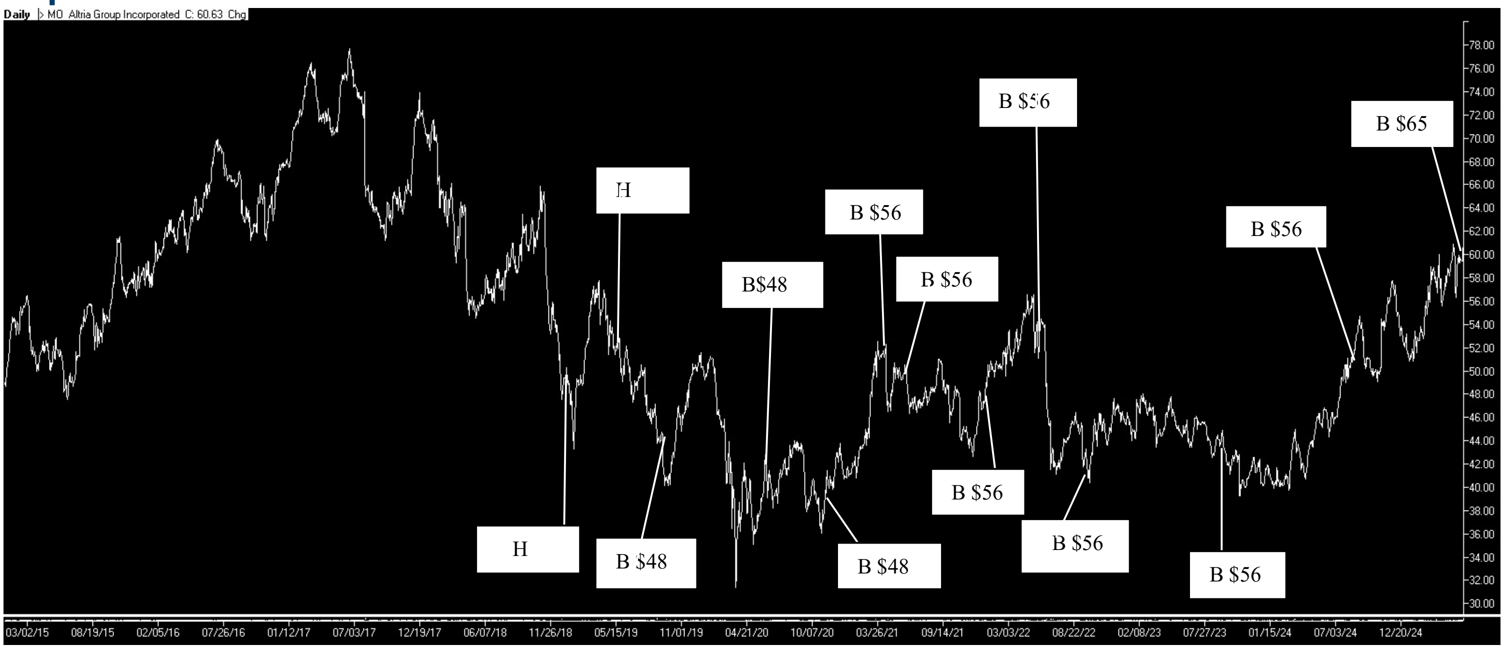
CAPITOL SECURITIES MANAGEMENT, INC.

EQUITY RESEARCH

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

	1Q24	2Q24	3Q24	4Q24	FY24	1Q25e	2Q25e	3Q25e	4Q25e	FY25e
Net revenues	$5,576	$6,209	$6,259	$5,974	$24,018	$5,259	$6,176	$6,198	$5,904	$23,837
Cost of sales	1,437	1,602	1,536	1,502	6,077	1,270	1,544	1,549	1,476	5,839
Excise taxes on products	859	932	915	868	3,574	740	896	929	856	3,421
Gross profit	3,280	3,675	3,808	3,604	14,367	3,249	3,736	3,720	3,572	14,277
Marketing, administration, & research costs	467	528	526	601	2,122	488	517	517	467	1,989
Exit cost/asset impairment		354		35	389	873				873
Operating companies income	2,813	2,793	3,282	2,968	11,856	1,888	3,219	3,203	3,105	11,415
Amortization of intangibles	27	37	38	37	139	37	31	35	24	127
General corporate expenses	112	233	92	49	476	63	225	88	47	423
Changes to MDLZ/PM tax-related receivables										
Adjustment to 3rd party guarantee accrual										
Corporate asset impairment/exit costs										
Corporate exit cost										
Operating income	2,674	2,533	3,152	2,882	11,241	1,788	2,963	3,080	3,034	10,865
Restructuring charege										
Interest & other debt expense,net	254	261	267	255	1,037	262	261	252	242	1,017
Loss on early extinguishment of debt										
Net periodic benefit income, excluding svc cost	24	25	25	28	102	14	19	23	21	77
Earnings from equity investments	295	119	116	122	652	143	122	113	119	497
Other Income										
Loss on AB InBev/SAB Miller business combination										
Gain on sale of IQOS rights		2,700			2,700					
Impairment on JUUL investment										
Earnings before income taxes	2,739	5,116	3,026	2,777	13,658	1,683	2,843	2,959	2,932	10,417
Income taxes	610	1,313	733	262	2,394	606	668	695	674	2,643
Net earnings (continuing ops.)	$2,129	$3,003	$2,293	3,039	11,264	1,077	2,175	2,264	2,258	7,774
Earningns from discontinued ops.										
Earnings attributable to non-controlling interests										
Net earnings	$2,129	$3,003	$2,293	$3,039	$11,264	$1,077	$2,175	$2,264	$2,258	$7,774
Net earnings attributable to Altria	$1.21	$2.21	$1.34	$1.79	$6.54	$0.63	$1.26	$1.32	$1.31	$4.25
Earnings per share	$1.15	$1.31	$1.38	$1.29	$5.12	$1.21	$1.34	$1.40	$1.35	$5.30
Continuing operations earnings per share	$1.21	$2.21	$1.34	$1.79	$6.54	$0.63	$1.26	$1.32	$1.31	$4.25

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
6/2/25 Raised price target to $65/share
Ratings:
Buy: B
Hold: H
Sell: S

$65 price target equates to 12.26x our 2025 adjusted earnings estimate of $5.30/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%

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.

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Other Disclosures

For more information on this report, please contact us at 800.612.1484 or write to Capitol Securities, 4050 Innslake Dr., Suite 250, Glen Allen, Virginia 23060