September 28, 2022

CURRENT PRICE:	$41.41
RATING:	BUY
PRICE TARGET:	$56
CURRENT YIELD:	9.1%

EPS Estimates

	DEC 21A	DEC 22E
1Q	$1.07	$1.12A
2Q	$1.23	$1.26A
3Q	$1.22	$1.29
4Q	$1.09	$1.22
	$4.61	**$4.89**

Trading Data

52-WEEK PRICE RANGE:	$57.05 - $40.61
SHARES OUTSTANDING:	1,809(M)
MARKET CAP:	$74.9(B)
AVG. DAILY TRADING VOLUME:	8.51(M)
S&P 500:	3,719

Valuation Data

BOOK VALUE:	n/a
PRICE TO BOOK:	n/a
DIVIDEND:	$3.76

Altria Corp (NYSE: MO)

2Q22 Earnings Results

Highlights

- 2Q22 adjusted earnings of $1.26/share vs. $1.23/share during 2Q21
- Results improved due to fewer outstanding shares
- Continued writedown of JUUL investment
- Annual dividend increased 4%
- Maintain BUY rating & price target to $56

Investment Thesis

Altria Corp (MO-$41.41), 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-$45.73) stock, its shares may be poised for a rebound. Additionally, MO offers investors a dividend yield of 9.1%. 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-$45.73). 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-$33.62) and Philip Morris Intl (PM-$87.35). In 2009 MO purchased of US Tobacco (Skoal/Copenhagen brands) currently giving MO 46.7% of the US smokeless tobacco market share. To diversify its revenue stream, MO acquired equity stakes in JUUL Labs and Cronos (CRON-$3.09). During 3Q21, MO completed the sale of Ste. Michele Wines business.

Recent Earnings

MO reported 2Q22 diluted earnings of $0.49/share vs.$1.16/share during 2Q21. The decline was due to charges related to MO’s equity investments in JUUL ($0.64/share), Cronos ($0.06/share), Anheuser-Busch InBev ($0.05/share), and tobacco/health/litigation items ($0.02/share), and lower OCI. The decline was partly offset by lower outstanding shares. Revenues decreased to $6.54 billion from $6.94 billion because of industry declines in consumption of cigarettes and consumer’s shifting spending habits attributable to rising fuel and food costs. Operating Company Income (OCI) declined 2.6% to $3.18 billion from $3.26 billion while operating income fell 2.5% to $3.11 billion from $3.19 billion.

When comparing the two quarters, adjusted earnings rose 2.4% to $1.26/share from $1.23/share. The improvement was mainly due to fewer outstanding shares from MO’s ongoing share repurchase program. MO’s $3.5 billion share repurchase program has approximately $750 million left and is expected to be completed by 12/31/22.

SEGMENT RESULTS

SMOKEABLE PRODUCTS:

OCI decreased 0.5% to $4.74 billion, from $4.77 billion, due to lower shipment volumes, higher costs, increased settlement charges, and higher tobacco/health/litigation items. These were partly offset by higher pricing and lower promotional expenses. Revenues declined to $5.87 billion from $6.05 billion as consumers opted for lower priced brands, because of higher fuel/food prices, and was because of the cigarette industry's rate of decline.

Adjusted OCI rose 0.6% to $2.80 billion, from $2.78 billion, from higher product pricing and lower promotional expense. The improvement was partly offset by lower shipment volumes, higher costs, and increased per unit settlement charges. Meanwhile, adjusted OCI margins increased to 59.1% from 58.4%.

On a quarter-to-quarter comparison, overall cigarette shipments fell 11.1% to 22,509 million sticks because of the industry's rate of decline, trade inventory movements, and retail share loss-impacted by shifting consumer spending patterns. When adjusted for trade inventory movements and other factors, cigarette shipments decreased 10%.

Marlboro shipments fell 10.3% to 20,035 million sticks, Other Premium's declined 12.1% to 1,017 million sticks, and Discount's dropped 19.5% to 1,457 million sticks. Marlboro's market share decreased to 42.7% from 43.1%, Discount's fell to 3.2% from 3.5%, and Other Premium's were flat at 2.3%.

Cigar shipment volumes declined 5% to 433 million sticks as consumers shifted spending habits, due to rising fuel/food prices, trade inventory movements, and other factors. "Black & Mild" shipments decreased 4.6% to 432 million sticks and Other's fell to 1 million from 3 million.

ORAL TOBACCO PRODUCTS:

Reported and adjusted 2Q22 OCI decreased 8.9% to $430 million, from $472 million, during 2Q21. The decrease was attributable to lower shipment volumes, higher "on!" promotional expense, and increased "on!" shipment volumes relative to MO's MST (chew) products. These decreases were partly offset by higher product pricing. As a result, revenues dropped 4.0% to $665 million, from $693 million, and adjusted OCI margins decreased to 67.9% from 71.7%.

Total oral tobacco product shipments declined 4.4% to 208 million cans/packs, from 217.6 million cans/packs, due to retail share loss (from consumers' spending shift), trade inventory movements, and the industry's rate of decline. When adjusted for trade inventory movements, oral tobacco shipments fell an estimated 2.5%.

Copenhagen's shipments decreased 8.2% to 123.1 million, from 134.1 million, Skoal's fell 10.3% to 46.9 million, from 52.3 million, and Other's declined 3.3% to 17.7 million from 18.3 million. Partly offsetting these were increased shipments of "on!" rising 57.4% to 20.3 million from 12.9 million.

Oral tobacco products overall market share declined to 46.7% from 47.7% due to consumer's shifting spending habits. This decline was partly offset by an increase of "on!" market share, rising to 4.9% from 2.0%. Meanwhile, Copenhagen's market share fell to 27.2% from 29.8%, Skoal's decreased to 11.5% from 12.7%, and Other's dropped to 3.1% from 3.2%.

RECENT DEVELOPMENTS:

During its 2Q22 earnings call, MO said its share repurchase program had purchased 10.1 million additional outstanding shares during 2Q22 at a total cost of $507 million. As of 6/30/22, there was $750 million remaining under the existing $3.5 billion repurchase program and is expected to be completed by YE22.

The Board of Directors recently increased the annual dividend 4% to $3.76/share.

An Administrative Law Judge recently dismissed the Federal Trade Commission's (FTC) claims against MO and JUUL arising out of MO's 2018 minority investment in JUUL. In April 2020, the FTC issued a complaint against MO and JUUL arguing the 35% investment, by MO into JUUL, constituted an unreasonable restraint of trade per the Sherman Antitrust Act of 1890 and Section 5 of the FTC act of 1914. The FTC may appeal the decision to the US Appeals Court.

During 2Q22, MO took a noncash pretax unrealized $1.2 loss resulting from a decrease in the estimated fair value of its JUUL investment. The original investment in JUUL was $12.8 billion & MO estimates its current remaining value is approximately $450 million.

A jury of the US District Court in NC found that Reynolds (BTI-$) Vapor Company's "Vuse Alto" e-vapor product infringed upon three of MO's patents. The jury awarded MO $95.2 million.

The FDA proposed rules to ban menthol in cigarettes and characterizing flavors for cigars. The FDA took public comments on this proposal until 8/2/22. The agency will answer all submitted comments before advancing to the next phase of the potential rule-making process. The Biden Administration announced plans to give the FDA guidelines to develop product standards designed to set nicotine levels in cigarettes.

In June 2022, the FDA issued marketing denial orders (MDOs) to JUUL ordering its products, marketed in the US, be taken off the markets. However, the following month, the FDA stayed these MDOs, on a temporary basis, deeming scientific issues unique to JUUL's pre-market tobacco product applications needed additional agency review. Thus, JUUL's products will remain on the market.

Our Thoughts

MO reported 2Q22 adjusted earnings of $1.26/share vs. $1.23/share during 2Q21 as the increase came mainly from fewer outstanding common shares. Diluted earnings decreased to $0.49/share from $1.16/share due to charges taken in MO's equity investments such as JUUL ($0.64/share), Cronos ($0.06/share), Anheuser-Busch InBev ($0.05/share), and tobacco/health/litigation items ($0.02/share), and lower OCI. This decline was partly offset by lower shares outstanding.

The larger issue was the recent shift in consumer spending habits to either reduce consumption of tobacco-related products or switching to lower-cost products. This was seen in MO's 2Q22 revenue/shipment declines in the Smokeable and Oral. However, with the recent decline in US fuel prices there is a chance that 2H22 revenues/volumes could rise if consumers return to, or increase consumption, of higher priced tobacco-oriented products.

MO's cash flow appears healthy at this time given the Board of Directors recently raised the dividend 4% to $3.76/share and the potential of another share repurchase program being initiated after completion of the current program. We continue to rate MO a BUY, for income/growth investors, given its high dividend yield of XX%, and the potential of the stock rising towards our price target of $56/share, assuming continued earnings growth produces further dividend increases, during the next 1-3 years. Our price target of $56/share equates 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 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 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
804-612-9715

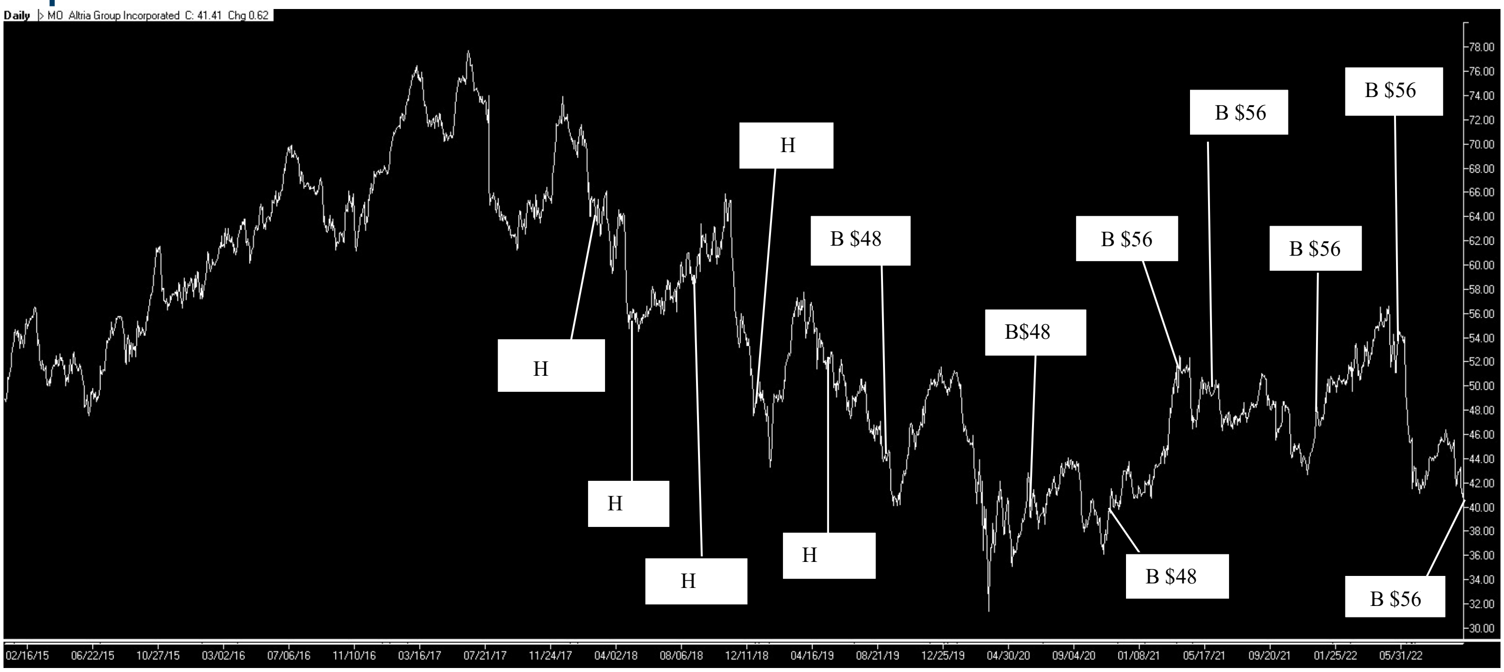
CAPITOL SECURITIES MANAGEMENT, INC.

EQUITY RESEARCH

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

	1Q21	2Q21	3Q21	4Q21	FY21	1Q22	2Q22	3Q22e	4Q22e	FY22e
Net revenues	$6,036	$6,936	$6,786	$6,255	$26,013	$5,892	$6,543	$6,615	$6,477	$25,527
Cost of sales	1,608	1,882	1,858	1,771	7,119	1,446	1,708	1,786	1,723	6,663
Excise taxes on products	1,156	1,322	1,255	1,169	4,902	1,073	1,169	1,256	1,198	4,696
Gross profit	3,272	3,732	3,673	3,315	13,992	3,373	3,666	3,573	3,556	14,168
Marketing, administration, & research costs	504	469	569	473	2,015	412	489	476	424	1,801
Exit cost/asset impairment										
Operating companies income	2,768	3,263	3,104	2,842	11,977	2,961	3,177	3,097	3,132	12,367
Amortization of intangibles	17	18	18	19	72	17	18	19	18	72
General corporate expenses	61	59	135	90	345	60	54	77	72	263
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	3,105	3,001	3,042	12,032
Restructuring charege										
Interest & other debt expense,net	308	295	266	293	1,162	281	280	286	285	1,132
Loss on early extinguishment of debt	649				649					
Net periodic benefit income, excluding svc cost	43	46	63	50	202	46	47			93
Earnings from equity investments	51	75	-5,915	190	5,979	34	-1,263	156	188	-885
Other Income										
Loss on AB InBev/SAB Miller business combination										
Gain/loss on Cronos-related financial instruments	110	103	-135	20	148	10	4	19	4	37
Impairment on JUUL investment										
Earnings before income taxes	1,937	2,909	-3,302	2,280	3,824	2,673	1,605	2,890	2,949	10,117
Income taxes	516	759	582	656	1,349	714	714	751	767	2,946
Net earnings (continuing ops.)	1,421	2,150	-2,720	1,624	2,475	1,959	891	2,139	2,182	7,171
Earningns from discontinued ops.										
Earnings attributable to non-controlling interests	3	-1	-2					-3	-2	-5
Net earnings	$1,424	$2,149	($2,722)	$1,624	$2,475	$1,959	$891	$2,136	$2,180	$7,166
Net earnings attributable to Altria	$0.77	$1.16	($1.48)	$0.88	$1.34	$1.08	$0.49	$1.18	$1.21	$3.96
Earnings per share	$1.07	$1.23	$1.22	$1.09	$4.61	$1.12	$1.26	$1.29	$1.22	$4.89
Continuing operations earnings per share	$0.77	$1.16	($1.48)	$0.88	$1.34	$1.08	$0.49	$1.18	$1.21	$3.96

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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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%

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