December 20, 2021

CURRENT PRICE:	**$48.11**
RATING:	**BUY**
PRICE TARGET:	**$56**
CURRENT YIELD:	**7.5%**

EPS Estimates

	DEC 20A	DEC 21E
1Q	$1.09	$1.07A
2Q	$1.09	$1.23A
3Q	$1.19	$1.22A
4Q	$0.99	$1.20
	$4.36	**$4.60**

Trading Data

52-WEEK PRICE RANGE:	**$52.59 - $40.00**
SHARES OUTSTANDING:	**1,842(M)**
MARKET CAP:	**$88.6(B)**
AVG. DAILY TRADING VOLUME:	**7.81(M)**
S&P 500:	**4,568**

Valuation Data

BOOK VALUE:	**-$0.69**
PRICE TO BOOK:	**n/a**
DIVIDEND:	**$3.80**

Altria Corp (NYSE: MO)

Closing out 2021

Highlights

- 3Q21 adjusted earnings of $1.22/share vs. $1.19/share during 3Q20
- Lower revenues & Budweiser write-down taken during quarter
- Annual dividend increased 4.7%
- Share repurchase program raised to $3.5 billion from $2 billion
- Maintain BUY rating & price target to $56

Investment Thesis

Altria Corp (MO-$48.11), 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, and holding of Anheuser-Busch InBev (BUD-$58.61) stock, its shares may be poised for a rebound. Additionally, MO offers investors a dividend yield of 7.5%. 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-$58.61). 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-$35.27) and Philip Morris Intl (PM-$92.86). In 2009 MO completed its purchase of US Tobacco (Skoal/Copenhagen brands & Ste. Michele Wines) currently giving MO 47.8% of the smokeless tobacco market share. To reduce its dependence on tobacco revenue streams, MO acquired equity stakes in JUUL Labs and Cronos (CRON-$4.10). During 3Q21, MO completed the sale of Ste. Michele Wines.

Recent Earnings

MO reported 3Q21 diluted earnings of ($1.48)/share vs. ($0.51)/share during 3Q20. The decrease came mainly from a $6.2 billion write-down of the company's Anheuser-Busch InBev (BUD-$58.61) holdings, and a 4.7% decrease in revenues, when comparing the two quarters. Additionally, higher marketing/administration/research costs and general corporate expenses decreased earnings. MO's 3Q21 adjusted earnings rose 2.5% to $1.22/share from $1.19/share during 3Q20. The improvement was the result of its equity investment in ABI, higher net periodic benefit income, lower adjusted income tax rate, interest expense decrease, and fewer shares outstanding. These positives were partly offset by lower operating companies income(OCI).

SEGMENT RESULTS

SMOKEABLE PRODUCTS:

3Q21's reported OCI declined 1.3% to $2.75 billion from $2.80 billion due to lower shipment volumes and higher resolution expense . These were partly offset by higher pricing, lower promotional costs, and a decrease in 2021 NPM Adjustment items. Adjusted OCI fell 2.2% to $2.76 billion from $2.82 billion mainly because of lower shipment volumes,higher resolution expense, and were partly offset by higher pricing and lower promotional costs. Adjusted OCI margins rose to 58.0% from 57.5%. Smokeable's overall net revenues fell to $5.98 billion from $6.31 billion mainly due to lower shipment volumes, partly offset by higher pricing and lower promotional costs.

On a quarter-to-quarter comparison, cigarette shipments declined 12.9% to 24.05 million sticks due to the industry-wide rate of decline and trade inventory movements. When adjusted for trade inventory movements and other factors, volume only decreased by an estimated 6.5%.

Marlboro shipments fell 11.9%, Other Premiums decreased 15.4%, and Discounts dropped 23.0%. Cigar shipment volumes decreased 9.8% to 425 million sticks from 471 million, while Black & Mild's declined 9.4% (424 million vs. 468 million) and Others fell 66.7% (1 million vs. 3 million).

MO's overall US cigarette market share was 48.9% vs. 49.3%. Marlboro's, and Other Premium's, market shares were both flat at 43.2% and 2.3%, respectively. Meanwhile, Discounts declined to 3.4% from 3.8%.

ORAL TOBACCO PRODUCTS:

Reported OCI decreased 7.1% to $405 million from $436 million, and adjusted OCI fell 8.0% to $405 million from $440 million, because of lower shipment volumes, higher promotional investments for "on!", and higher costs. These were partially offset by higher pricing. Adjusted OCI margins fell to 68.2% from 72.5% due to shipment volume mix changes between moist smokeless tobacco (MST) and oral nicotine pouch products. Net revenues decreased 2.2% to $626 million from lower shipment volumes, related to shipment volume mix between MST and oral nicotine pouch products, and higher promotional on! investments. These were partly offset by higher product pricing.

Product shipments decreased 3.8% to 198.8 million cans/packs from 206.7 million cans/packs because of retail share losses (due to growth of oral nicotine pouches) and trade inventory movements. These were partly offset by industry growth, calendar differences, and other factors. When adjusted for trade inventory movements/calendar differences, oral products shipment volumes fell by an estimated 2.5%. Copenhagen's shipments fell 7.4% to 121.4 million cans/packs and Skoal's decreased 8.8% to 47.7 million cans/packs. Meanwhile, the Other category, which includes Red Seal and "on!", rose 27.5% to 29.7 million cans/packs.

MO's retail share for oral tobacco products declined to 47.8% from 50.0% due to the growth of oral nicotine pouches. Copenhagen's market share fell to 29.2% from 31.8%, Skoal's decreased to 12.5% from 13.7%, and Other (includes Red Seal an "on!"), rose to 6.1% from 4.5%.

WINE:

Reported OCI fell to ($24 million) from $19 million due to 2021 disposition-related charges associated with the sale of this unit. This was partly offset by higher product pricing and improved sales mix. Adjusted OCI improved to $27 million from $20 million attributable to higher pricing and improved mix. These positives also pushed revenues to $177 million from $157 million. Overall wine shipments declined 2.6% to 1.8 million cases.

3Q21 SPECIAL ITEMS:

MO recorded pre-tax income of $0.02/share reflecting NPM Adjustment Items and related interest.

Implementation, acquisition, and disposition related expenses totaled $0.03/share and were connected to charges stemming from the sale of Ste. Michelle wine business.

During the quarter, $0.04/share pre-tax charge was taken for tobacco/health and certain other litigation items and interest expense.

There was a $1.40/share non-cash pre-tax impairment charge related to MO's investment in JUUL. A full tax valuation allowance was made for this charge which offset the tax benefit associated with the impairment charge. MO estimated its fair value in JUUL, as of 9/30/21, was $1.7 billion.

MO's SMOKE-FREE PRODUCTS BUSINESS PLATFORM

During 3Q21, MO's Marlboro Heatsticks retail volumes rose 20% on a sequential quarterly basis. Management stated this was due to broader retail distribution and increasing demand in the Northern Virginia metropolitan market. In this market, Heatsticks gained a cigarette category retail share of 1.8%.

However, this past September, the International Trade Commission (ITC) imposed an importation ban and issued a cease-and-desist orders on IQOS. MO's appeal to a Federal regulatory agency failed and the company can no longer sell IQOS or Heatstick products in the US.

US oral tobacco category share of "on!" nicotine pouches increased to 3% during 3Q21 and the product is now in US distribution in over 110,000 retail stores.

Premarket tobacco product application (PMTA) for the entire "on!" portfolio is currently pending with US Food & Drug Administration (FDA).

During 3Q21, the FDA authorized the marketing of MO's "Verve Discs" and "Verve Chews" Green Mint and Blue Mint flavors and determined these products are appropriate for the protection of public health.

RECENT DEVELOPMENTS

Because the fair value of Altria's investment in Anheuser-Busch InBev (BUD-$58.61) has been below its carrying value since 3Q19, and was hurt by the recent Covid pandemic, MO took a 3Q21 non-cash pre-tax impairment charge of $6.2 billion. MO owns 185 million shares of BUD and has decided to hold these shares anticipating a potential future rebound of value.

The Board of Directors recently increased the authorized common stock repurchase program from $2 billion to $3.5 billion with plans of completion by 12/31/22. As of 9/30/21, 20.2 million shares of MO's stock had been repurchased through the existing share repurchase program equating to approximately $1 billion worth of shares.

MO recently increased its annual dividend 4.7% to $3.60/share.

On 10/1/21 MO completed the sale of Ste. Michelle Wines Estates businesses and received net proceeds of approximately $1.2 billion and recorded a pre-tax charge of $51 million related to the sale. The Board of Directors decided to use some of these proceeds to expand the share repurchase program.

During the 3Q21 earning release, MO narrowed its guidance for full year 2021 adjusted diluted earnings to $4.58-$4.62/share, equating to a 5%-6% improvement over 2020 adjusted diluted earnings results of $4.36/share.

Our Thoughts

MO's share price sold off recently following the 3Q21 earnings call when management stated they would continue to hold shares of Anheuser-Busch InBev (BUD-$58.61) and the ITC ruling halting sales of IQOS in the US. Thus, in our opinion, short-term traders sold MO shares given what they considered to be disappointing news.

We continue to rate MO a BUY for long term income/growth investors given the high dividend yield of 7.5%. Our price target is $56/share, equating to 12.2x our 2021 adjusted earnings estimate of $4.60/share. The company's intent is to grow cash flow to support future dividend increases for shareholders. We are encouraged MO recently raised recently the dividend 4.7%, during 3Q21, to $3.80/share. Potentially, several future triggers could push MO's stock price higher such as achieving 2021 adjusted earnings guidance of $4.58-$4.62/share, earnings growth in 2022, growing non-combustable product sales, an increase in the value of its Anheuser-Busch InBev (BUD-$58.61) shares, and improving investor sentiment towards the stock.

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
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Capitol Securities Management
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EQUITY RESEARCH

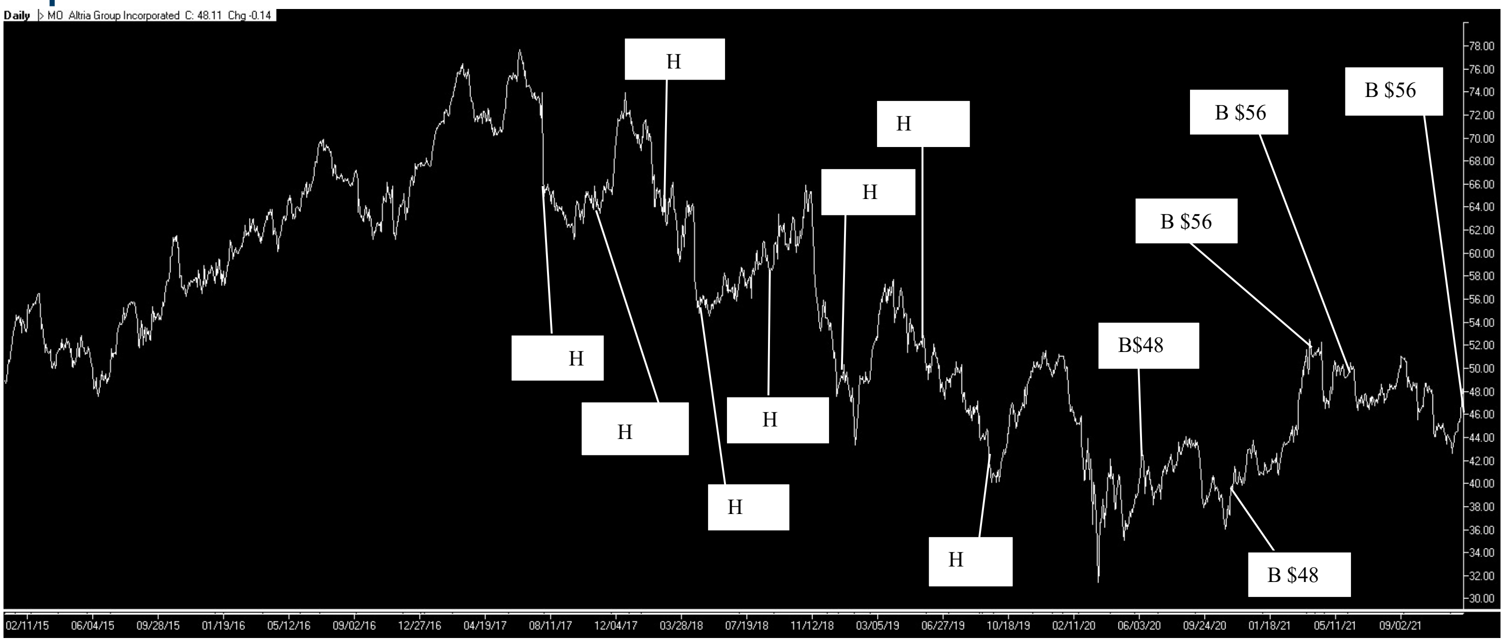
Altria Group, Inc.
(dollars in millions, except per share data

	1Q20	2Q20	3Q20	4Q20	FY20	1Q21	2Q21	3Q21	4Q21e	FY21e
Net revenues	$6,359	$6,367	$7,123	$6,304	$26,153	$6,036	$6,936	$6,786	$6,594	$26,352
Cost of sales	2,173	1,775	1,961	1,909	7,818	1,608	1,882	1,858	1,846	7,194
Excise taxes on products	1,313	1,305	1,445	1,249	5,312	1,156	1,322	1,255	1,358	5,091
Gross profit	2,873	3,287	3,717	3,146	13,023	3,272	3,732	3,673	3,390	14,067
Marketing, administration, & research costs	473	428	480	473	1,855	504	469	569	492	2,024
Exit cost/asset impairment				3	3					
Operating companies income	2,400	2,859	3,237	2,675	11,171	2,768	3,263	3,104	2,898	12,033
Amortization of intangibles	19	18	17	18	72	17	18	18	16	69
General corporate expenses	45	45	60	77	227	61	59	135	72	327
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	3,186	2,951	2,810	11,637
Restructuring charege										
Interest & other debt expense,net	275	308	310	316	1,209	308	295	266	319	1,188
Loss on early extinguishment of debt						649				649
Net periodic benefit income, excluding svc cost	-27	-28	-3			-43	-46	-63		-152
Earnings from equity investments	157	9	-472	195	111	51	75	-5,915	132	-5,657
Other Income	27	28	3	19	77	43	15	14	18	90
Loss on AB InBev/SAB Miller business combination										
Gain/loss on Cronos-related financial instruments	137	40	105	62	140	110	103	-135	39	117
Impairment on JUUL investment			2,600		2,600					
Earnings before income taxes	2,108	2,565	-324	2,541	6,890	1,937	2,909	-3,302	2,968	4,512
Income taxes	558	627	632	619	2,436	516	759	582	757	1,450
Net earnings (continuing ops.)	1,550	1,938	-956	1,922	4,454	1,421	2,150	-2,720	2,211	3,062
Earningns from discontinued ops.										
Earnings attributable to non-controlling interests	2	5	4	2	13	3	1	2	4	10
Net earnings	$1,552	$1,943	($952)	$1,924	$4,467	$1,424	$2,149	($2,722)	$2,215	$3,066
Net earnings attributable to Altria	$0.83	$1.04	($0.51)	$1.03	$2.40	$0.77	$1.16	($1.48)	$1.19	$1.64
Earnings per share	$1.09	$1.09	$1.19	$0.99	$4.36	$1.07	$1.23	$1.22	$1.08	$4.60
Continuing operations earnings per share	$0.83	$1.04	($0.51)	$1.03	$2.40	$0.77	$1.16	($1.48)	$1.19	$1.64

CAPITOL SECURITIES MANAGEMENT, INC.

EQUITY RESEARCH

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 12.2x our 2021 adjusted earnings estimate of $4.60/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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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