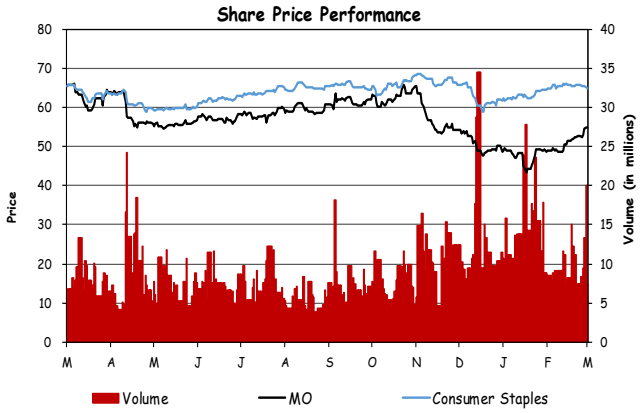
Altria Group, Inc.	Symbol: MO
Analyst	TS
Buy below	$53.30
Sell above	$72.52
Probability of Price Increase	100%
Last Price	$54.85
Intrinsic Value	$61.31
Target Dividends	$3.29
Target Price	$63.33



Description

Altria Group, Inc., through its subsidiaries, manufactures and sells cigarettes, smokeless products, and wine in the United States.

Sector	Consumer Staples
Industry	Tobacco
Last Guidance	December 11, 2018
Next earnings date	April 25, 2019

People

Willard, Howard, Chairman & CEO

Gifford, William, Vice Chairman & CFO

Garnick, Murray, Executive VP & General Counsel

Whitaker, Charles, Senior VP of Human Resources, Compliance & Info

Marshall, William, Vice President of Investor Relations

Mancuso, Salvatore, Senior Vice President of Finance & Procurement

Top Competitors

Philip Morris International Inc.	--
British American Tobacco p.l.c.	--
Vector Group Ltd.	--
Turning Point Brands, Inc.	--
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Market Statistics

Market Capitalization (mil)	$102,489.77
Last Price per share	$54.85
52 week high	$66.53
52-week low	$42.40
Volatility	19.74%
Daily volume (mil)	7.38
Short interest	0.82%
Days to cover short interest	1.18
Beta	0.19

Investment Thesis

UNIQUE LONG-TERM GROWTH PROSPECTS

I am iniating a long position on Altria Group Inc (NYSE:MO) at a price of $54. Altria Group is the holding company of PM USA, Middelton, Sherman Group holding as well as many of other companies specialized in the tobbacco industry. Nonetheless, the company does not stick to the cigars and cigarettes segment, but also acquire companies from other segment like wine with the Ste Michelle Wine Estate Ltd. Being also stakehodler at 35% of JUUL since December 2018, Altria has attained a big step over its comptitors since the company is aquirering high growth on companies at an embroynic stage with high dividend yield. Altria presents a great underlying financial strengh with an Altman Z score above 3 meaning that the company is not likely to go bankrupt.

For the long:

1. Suject to a great internal efficiency

Altria generates most of its revenues from tobacco and wine. However most of the companies sales rely mostly on both smoketable products that represented 90 % of their total revenues and smokeless products (2.8%).
Although their revenues were down by 0.8% LTM because of a global decline of smoketable products in the US, the company has been able to offset some of their losses by an increase of 4.9% in their smokeless products segment. Despite this decrease in revenues, their gross margin increased due to a lower cost of sales because of lower shipments in the smoketable products. In fact, being under the spot for the unhealthic repercutions of the tobacco and all the related products in the cigarettes, insintives like taxations impact Altria financial performances. Besides, their NI was 31.9% down, due to a high taxation rate Howevrr, the company performs well with an EBITDA Margin of 47.60 or 12% on average above to its main competitors like BTI and PM. The company is not overvalued but would tend to be undervalued; in fact, in refering to their EV/EBITDA which is 11.3, their are not superior to their competitors which are, for the most important, in between 9.8 to 12.3 for British American Tobacco and Philip Morris respectively. Moreover, their P/E as largely significantly decreased since 2016, so it means that investors would more interested to invest in a P/E close to 13 rather than 22.90 as it was in 2016. Given the huge global market downturn, and the upward stock price, Altria is part of the defensive stocks that react negatively to the market.

2. Targeting embroyinc companies and diversify its segments

Altria does not rely any longer on chewing tobacco nor smoketable products, but started to target less harmeful type of devices. In fact, JUUL acquired 68% of the US market shares thanks to the new design they released and the technology associated the their pods. Relatively recent and according to Nielsen data, the company reached $1.5B in revenues for 2018 while their 2017 revenues where $245M, in other wrods, the company has gown by 512% in revenue YoY. By beneficating of 35% of the stake of Juul, Altria relies on the Juul's dividend yield to receive high dividend considering their growth.
Also, Altria is focusing on a cannabinoid company is Canada (Cronos Group Inc) since Canada depenalised the use of cannabis. By acquring 45% of this private company for $2.4B, while entering into the derivatives market to hedge the currency CAD to USD fluctuations (forward price of CAD$2.4B to be pqid on Feb 22, 2019) Altria ensures to be present on every emerging segments.

For the short:

1. Ethics and Tobacco issues

JUUL is currently under critisism. In fact, after having released a panel of flavours for their pods like Mango, Virgina Tobacco, Creme Brulee, Cucumber and Mint, underage people got addicted. In fact, while smoking Jull pods is the same as smoking a pack of cigarettes in terms of nicotine quantity, the added flavours to the pods make smoking even more a greed than a tools to quite this habit. So by restricting the sales of certain flavours in store, Juul is not securing its sales.
Secondly, the tobacco company are subject to higher taxes. Since the past 10 years' researches about the cigarettes' impacts on health are, many institutions encourage people to quite or at lease to shift from smoketable products to less harmaful products/concept like vaping. As a results, many companies, including, Altria are suffering from such actions resulting, mairly, in a decrease in revenues and/or COGS and finally in NI.

Key Catalysts for price change

- Suject to a great financial efficiency
- Targeting embroyinc companies and diversify its segments
- Defensive stock given the current global downturn on the markets

Valuation

My $54 price target is derived from 25% DCF, 50% EV/EBITDA, and 25 % P/E.

Ownership		Change in Ownership ("Input"month)	
Shares outstanding (mil)	1872.30		
Diluted shares outstanding (mil)	1888.00		
Options and Warrants (Shares equivalent)	0.00		
% shares held by institutions	70%	$	(0.29)
% shares held by investments Managers	62%	$	(0.07)
% shares held by hedge funds	1.13%	$	-
% shares held by VC/PE firms	0.024%	$	-
% shares held by insiders	0.10%	0.57%	
Poison Pill Type	FALSE		

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Quarterly Earning Surprises (Actual Vs. Median Estimates)

Revenue	
12/31/2017	-2.14%
3/31/2018	1.02%
6/30/2018	-3.39%
9/30/2018	1.43%
12/31/2018	-0.50%
Mean (Standard Error)	-0.72% (0.99%)
EBITDA	
12/31/2017	-15.04%
3/31/2018	-25.62%
6/30/2018	-13.10%
9/30/2018	-30.10%
12/31/2018	-35.97%
Mean (Standard Error)	-0.72% (17.46%)

Financials

Profitability	MO (LTM)	MO Historical	Peers' Median (LTM)
Return on Capital	15.7%	23.43%	15.18%
Adjusted EBITDA Margin	37.3%	27.37%	21.27%
Return on Equity	36.5%	151.7%	-2.9%
Adjusted Net margin	26.2%	34.4%	16.4%
Invested Funds	**MO (LTM)**	**MO Historical**	**Peers' Median (LTM)**
Cash/Capital	3.3%	16.5%	14.7%
NWC/Capital	-9.3%	-25.3%	-0.5%
Operating Assets/Capital	93.7%	83.2%	36.8%
Goodwill/Capital	12.4%	27.5%	35.7%
Capital Structure	**MO (LTM)**	**MO Historical**	**Peers' Median (LTM)**
Total Debt/Market Cap.	0.28	0.13	0.64
Reported Cost of Borrowing	3.5%		6.3%
Cash Interest/Total Debt	2.7%		4.4%
CGFS Credit Rating	BB		CCC
Credit Model Rating	a		bbb-
Probability of Default	0.73%		0.58%

Cost of Capital

	CGFS Credit Rating	Credit Model Rating	Probability of Default
Implied Cost of Borrowing (MO)	5.6%	5.1%	6.5%
Implied Cost of Borrowing (Peers)	6.5%	6.2%	6.8%
Cost of New Debt Estimate	3.5%		
Market Risk Premium Estimate	5.5%		
Cost of Equity Estimate	9.0%		
WACC Estimate	9.0%		

Valuation

DCF Valuation

	Revenues	EBITDA Margin	UFCF	WACC	ROIC	Price Per Share
Base Year (Actual)	$566.34	39%	$268.20	8.12%	35.33%	$129.14
year 1	$711.74	41%	$158.32	8.93%	40.08%	$139.94
year 2	$869.28	42%	$213.29	8.92%	35.83%	$151.51
year 3	$1,049.52	42%	$265.88	8.91%	31.49%	$163.82
year 4	$1,252.44	42%	$324.88	8.91%	28.19%	$176.85
year 5	$1,477.08	42%	$390.33	8.90%	25.57%	$190.58
year 6	$1,721.34	42%	$461.80	8.89%	23.39%	$204.97
year 7	$1,981.91	42%	$538.58	8.88%	21.53%	$219.98
year 8	$2,254.19	42%	$619.72	8.88%	19.90%	$235.55
year 9	$2,532.34	41%	$703.59	8.87%	18.45%	$251.62
year 10	$2,809.38	41%	$788.22	8.87%	17.11%	$268.11
year 11	$3,077.42	41%	$871.48	8.86%	15.86%	$284.95
year 12	$3,327.98	41%	$951.04	8.86%	14.69%	$302.05
year 13	$3,552.36	41%	$1,024.59	8.86%	13.57%	$319.33
year 14	$3,742.18	41%	$1,089.59	8.86%	12.50%	$336.72
year 15	$3,889.77	41%	$1,141.58	8.86%	11.46%	$367.02
Continuing Period	$3,988.76	41%	$743.65	8.87%	8.87%	

Relative Valuation

RELATIVE	EV/Rev (FW)	EV/EBITDA (FW)	P/BV (TTM)	P/E (FW)
Median (Peers)	8.2x	54.0x	19.7x	98.2x
	Revenue (NTM)	EBITDA (NTM)	Book Value (LTM)	Net Income (NTM)
Base	$729.87	$297.87	$463.10	$222.24
Implied EV	$6,020.88	$16,088.95		
Total Net Claims	-$90.33	-$90.33		
Implied EQ	$6,111.21	$16,179.28	$9,110.77	$21,819.43

Asset Based Valuation

Recovery Rate	100%
Capital	$7,395.45
Intangibles	$52.63
Claims	$70.35

Valuation Summary

Model	Intrinsic Value	Target Price	Weight
DCF Valuation	$129.14	$139.94	40.00%
EV/Rev (FW)	$104.32	$112.79	0.00%
EV/EBITDA (FW)	$276.18	$298.60	30.00%
P/BV (TTM)	$155.52	$168.15	30.00%
P/E (FW)	$372.46	$402.69	0.00%
Asset Based Valuation	$124.14	$134.22	0.00%
Price per Share	$181.16	$196.00	100%