

Philip Morris Inc. (PM)

STOCK PITCH BY LAURIN KOPP AND IAN MADARIC

94.16

Key information

Ticker	PM
Price	\$94,30
Market cap	\$148.391 B
52week Hi/Lo	\$70,13-\$106,52
EPS	\$5,74
Beta	0,86
EV/EBITDA	12,46

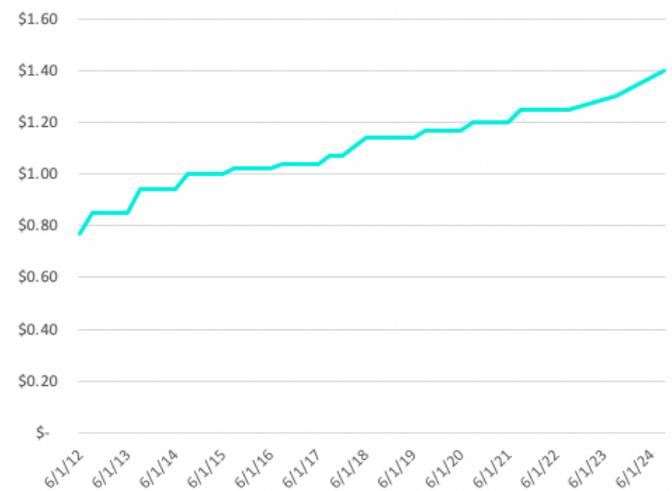
COMPANY OVERVIEW

Philip Morris International Inc., through its subsidiaries, manufactures and sells cigarettes, other nicotine-containing products, smoke-free products, and related electronic devices and accessories. In addition, the company owns various local cigarette brands (e.g. in Indonesia and the Philippines). It markets and sells its products in the European Union, Eastern Europe, the Middle East, Africa, South and Southeast Asia, East Asia, Australia, Latin America, and Canada. Philip Morris International Inc. was incorporated in 1987 and is headquartered in NYC. The company went public in 2008.

INDUSTRY

In 2021 revenues of the industry were 7.93 billion USD. The industry is expected to have stable growth in the next 5 years, despite being one of the most heavily regulated and taxed industries. **Heat-not-burn products are bringing tectonic shifts in the tobacco industry**, with the market size valuing 7.3 billion in 2019, and has an expected growth of 32.8% from 2020 to 2027. The biggest tobacco producer, China Tobacco announced in 2015 that it will start moving towards global markets- it already has a factory in Romania. This is a potential threat to PM, considering that so far CT has been the biggest tobacco producer in the world, yet it only operated in the domestic market. Nonetheless, PM has **the biggest market cap in the industry** while China Tobacco doesn't fall even in the top 5.

DIVIDEND DEVELOPMENT 2012-2024



- Assumed three year growth of 3.96%
- Constant increase of dividend payouts
- Always paid dividends over the past years
- The industry as a whole pays high dividends in comparison to other industries

BLOOMBERG MARKET OVERVIEW

	MO	PM	BTI
Current price	44,61	94,24	34,54
Consensus price target (12m)	52,88	111,63	/
DCF estimated value	49,92	122,45	63,21
Undervalued (%)	89%	77%	55%

Company	Phillip Morris	Altria	British American Tobacco	Imperial Brands	Japan Tobacco
Flagship brands					
Total amount of brands	130	7+	25+	48+	100+
worldwide presence	180 countries	-	180 countries	160 countries	130 countries
Global market share	14%	-	12%	3.5%	9%
Sales Volume	700+ billion cigarettes in 2020	101.43 billion cigarettes in 2020	672 billion cigarettes per year	320+ billion cigarettes in 2020	504 billion cigarettes per year

COMPETITIVE ADVANTAGE

The main competitive advantage of PMI is its presence in the tobacco market with the most recognized brands in the world. However, also a huge product diversification adds to its competitive advantage, since no other company can present such a vast network of cigarette brands owned across the world. Furthermore, the company is taking steps toward portfolio diversification away from tobacco products with its highly successful Iqos brand.

Market cap	146.031.000,00 €
Beta	0,88
Risk-free (US10)	1,56%
Risk premium	5,50%
Ke	6,40%
Book value of debt	32.169.750,00 €
Interest cost	756.000,00 €
Kd	2,35%
Tax rate	22,10%
W/E	0,82
W/D	0,18
WACC	5,34%

Free Cash Flow

TTM (75%)	\$	7.873.500
2020	\$	9.210.000
2019	\$	9.238.000
Average	\$	8.773.833

DCF model

2021	\$	9.343.683
2022	\$	9.950.544
2023	\$	10.596.820
2024	\$	11.285.070
2025	\$	12.018.022
2026	\$	12.798.578

Free Cash Flow to Equity

TTM (75%)	\$	7.554.750
2020	\$	8.854.000
2019	\$	8.695.000
Average	\$	8.367.917

DCF model

2021	\$	8.911.267
2022	\$	9.489.899
2023	\$	10.106.103
2024	\$	10.762.318
2025	\$	11.461.144
2026	\$	12.205.345

COMPARABLE MULTIPLES ANALYSIS

	Phillip Morris	Altria	BAT
P/E	15,6	9,9	9,3
P/Sales	4,8	3,9	2,2
P/Cash Flow	13,2	10,0	8,3
P/Free Cash Flow	14,0	10,2	9,0
EV/Sales	5,6	5,1	3,9
EV/EBITDA	12,5	9,2	9,0
EV/EBIT	13,4	9,4	10,2
Price/Share	\$ 94,35	\$ 44,68	\$ 34,00
Enterprise Value	\$ 173.419	\$ 107.287	\$ 135.893

RISKS



Regulatory risk



Reputation

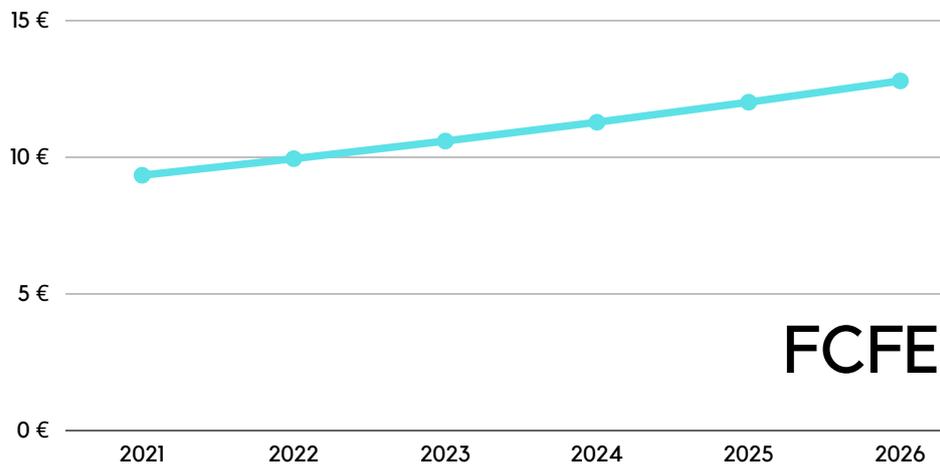


Distribution

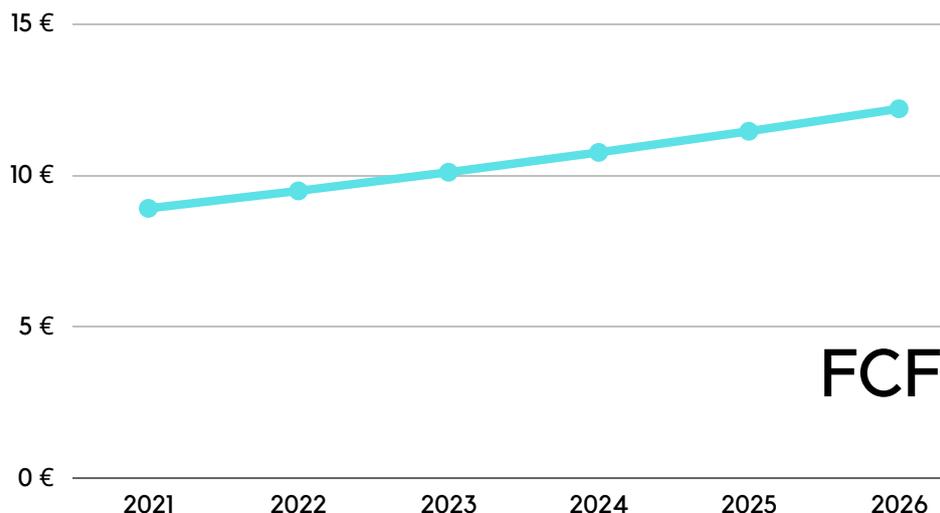


Substitutes

- Improving its reputation through several initiatives and commitments, such as becoming a **smoke-free company** in the future and investing in health services.
- Data suggests that a 10% increase in tax would reduce the number of tobacco sales by 3-5%, highlighting the risk posed by regulation. **Lobbying as an option**
- PMI has a D/E ratio of -335% due to high debt and negative equity. However, the company has A credit trading (Fitch), 38.2% CF debt coverage, and 22x EBIT coverage of interest expense. **If the company continues to lower debt this should be no issue.**

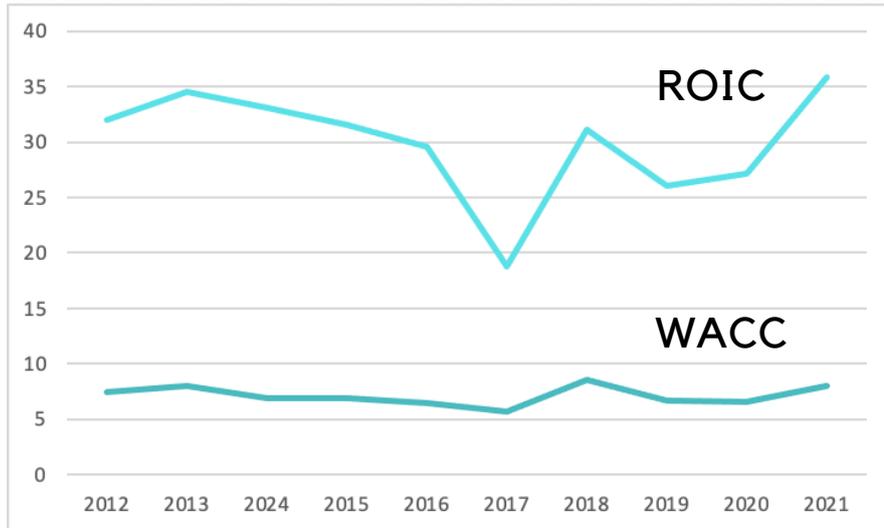
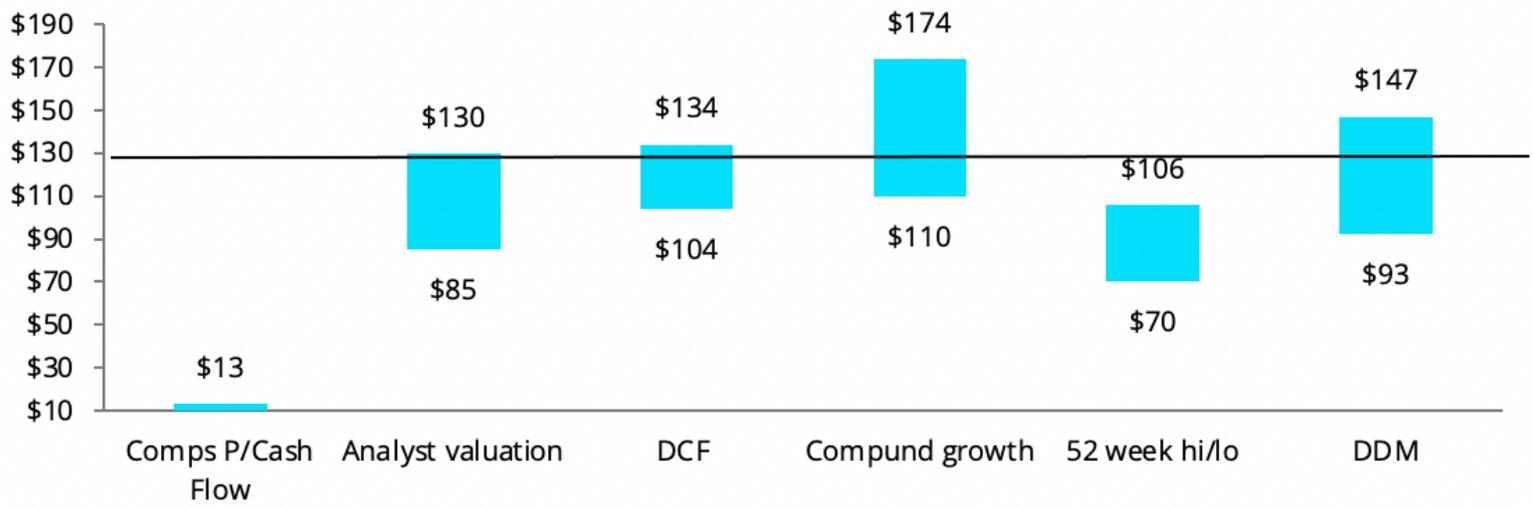


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VALUATION SUMMARY



FINAL CONCLUSION

The tobacco market is an old and mature market that is about to experience tectonic shifts carried by new smoking technologies. However, there is evidence of the lack of awareness of the future growth in the tobacco market by the investors. First and foremost, the main stocks in the market are significantly undervalued, indicating that the market as a whole is too. Furthermore, the market has some of the highest dividend yields, indicating that the heads of the companies are aware of undervaluation and are attracting investors through dividends.

All being said, we recommend PM stock due to:

- Future growth of the market due to new technologies
- Having the highest comparables, indicating a potential for accelerated growth once the investments tobacco industry kicks in
- High dividend yield and DCF model projections predict that the cash flows will be able to sustain such dividend yield
- Low risks
- A higher value of ROIC than WACC, indicating that the company's investments are creating value for its shareholders

Target price: **\$128**

Recommendation: **STRONG BUY**