

Henderson State University

Analysis Report- Philip Morris

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Market Profile	
Philip Morris	
Ticker Symbol	PM
Exchange	NYSE
Industry	Cigarettes
Sector	Consumer Goods
Peer	British American
	Tobacco
Shares Owned	200
Purchase Date	-
Purchase Price	38.69
Current Price	37.41
52-wk Low	33.30
52-wk High	56.26
52-wk Change	N/A
52-wk Relative	
1 Year Target Price	53.18
Market/Book	6.75
Market Cap.	75.16B
Beta	0
EPS (ttm)	3.33
Price/Earnings	10.15
PEG	1.01
Dividend & (Yield)	2.16 (5.4%)
Dividend Payout	1%
Interest Coverage	N/A
ROE	N/A
Recommendation:	
Hold current shares	

Company History:

Philip Morris International, Inc. engages in the manufacture and sale of cigarettes and other tobacco products in markets outside the United States of America. Its portfolio comprises international and local brands. The company's primary international brands include Marlboro, L&M, Philip Morris, Chesterfield, Parliament, Lark, and Virginia Slims. Philip Morris International operates in the European Union, the Middle East and Africa, Asia, and Latin America. Its local brands principally include Bond Street in eastern Europe; Red & White in central Europe; A Hijau, A Mild, and Dji Sam Soe in Indonesia; Diana in Italy; Optima and Apollo-Soyuz in Russia; Morven Gold in Pakistan; Boston in Colombia; Best and Classic in Serbia; f6 in Germany; Delicados in Mexico; Assos in Greece; and Petra in the Czech Republic and Slovakia. The company is based in New York, New York. Philip Morris International, Inc. operates independently of Altria Group, Inc., as of March 28, 2008.

Product Mix

We have the industry's strongest and most diverse brand portfolio, led by *Marlboro*, the world's number one selling brand and *L&M*, the fourth most popular brand. This portfolio includes a variety of blends and styles, across 150 distinct brands and over 1,900 variants. In fact, 7 of the top 15 brands in the world are ours.

Marlboro

Marlboro is the world's leading cigarette brand, outselling the closest competitors by almost three times. In 2007, *Marlboro's* volume outstripped the combined volume of the four major brands belonging to each of our biggest competitors.

L&M

L&M originated in the USA in 1953. It is now the fourth most popular cigarette brand worldwide with a 2007 shipment volume of 92 billion units.

Between 2002 and 2007, *L&M's* volume grew at a compound annual growth rate of 1.7%, capturing a 2.9% share of the total international cigarette market, excluding China and the United States.

Other international brands

Philip Morris, *Chesterfield*, *Parliament*, and *Virginia Slims* are some of our strongest international brands.

The Philip Morris brand is our third largest brand, present in more than 40 markets with over 37 billion units sold in 2007. The *Chesterfield* brand has grown to be PMI's fourth largest brand, and the world's tenth largest selling cigarette brand. *Parliament* is distributed in more than 20 markets worldwide, it is the 14th largest cigarette brand in the world and the 6th largest PMI brand.

Value segment

The combined volume of three of our brands-- *Bond Street*, *Red & White*, and *Next*--more than doubled from 26.3 billion units in 2002 to over 65 billion units in 2007, reinforcing our position in profitable low price segments in Eastern Europe (*Bond Street*), Central Europe (*Red & White*) and worldwide (*Next*).

Local brands

We own a number of important local brands, enabling us to maintain strong market share in sharply differentiated markets across the world. We make *A Hijau*, *A Mild* and *Dji Sam Soe* in Indonesia, *Diana* in Italy, *Optima* and *Apollo-Soyuz* in Russia, *Morven Gold* in Pakistan, *Boston* in Colombia, *Best* and *Classic* in Serbia, *f6* in Germany, *Delicados* in Mexico, *Assos* in Greece and *Petra* in the Czech Republic and Slovakia, to name a few.

Stock Chart- Six Months



Recent Headlines

- Analysis released in November by Merrill Lynch showed that, during the six recessions since 1970, alcohol, tobacco and casino stocks have, on average, returned 11%, compared with a 1.5% loss for the Standard & Poor's 500. However, this recession appears to be different. Shares linked to booze, cigarettes and gambling are looking vulnerable while, on the other side of the spectrum, socially responsible funds and ethical investments are doing relatively well.
- Do it for Fido: smokers may quit to help a pet
- Philip Morris Tanks 2009
- Philip Morris fourth-quarter profit falls
- Philip Morris Int'l profit falls nearly 8 percent
- Philip Morris profit dips on dollar's strength
- [\$\$] Philip Morris International's Profit Falls
- Philip Morris Int'l to enter smokeless market
- Swedish Match and Philip Morris International Announce Global Joint Venture to Commercialize Smokefree Tobacco Products

Industry Overview

Current Rank: 7

Portfolio Percentage Rank:

Monetary Policy Indicator: expansive bottom 3

Industry Opinion:

From a sector rotation standpoint, this industry is poised to move to the bottom of the industry rankings.

Key Issues Affecting the Industry:

- Increasing awareness of health issues.
- New taxes
- Government regulation

Porter's Five Forces

1. Rivalry

Philip Morris International (PMI) is the leading international tobacco company, with products sold in approximately 160 countries. In 2007, we held an estimated 15.6% share of the international cigarette market outside of the USA and reported revenues net of excise taxes of \$22.8 billion and operating income of \$8.9 billion. We own 7 of the top 15 brands in the world and have a strong mix of international and local products that seek to appeal to a wide array of adult smokers. We are committed to providing our consumers with the highest-quality tobacco products.

2. Threats of Substitutes

Smokeless Tobacco

3. Buying Power

The buying power of consumers is moderate because there are many other leading brands with whom PM competes.

4. Supplier Power

Since PM does not grow tobacco, it must find tobacco suppliers. PM has a good relationship with its suppliers. The supplier power is moderate because PM is so big that suppliers would lose a lot of business if PM ended their relationship.

5. Barriers to Enter

There is a high level of government regulation. There are many lawsuits involved with the use of tobacco.

Financial Ratios

Valuation Ratios

	Company	Industry	Sector	S&P 500
P/E Ratio (TTM)	11.16	1.47	0.04	14.16
P/E High - Last 5 Yrs.	NA	1.63	0.03	28.84
P/E Low - Last 5 Yrs.	NA	0.36	0.01	6.97
Beta	--	0.65	0.01	0.90
Price to Sales (TTM)	1.19	0.21	0.00	1.58
Price to Book (MRQ)	6.71	2.23	0.03	2.58
Price to Tangible Book (MRQ)	--	0.05	0.03	5.15
Price to Cash Flow (TTM)	8.86	1.15	0.02	7.06
Price to Free Cash Flow (TTM)	--	0.27	0.68	14.36
% Owned Institutions	--	--	--	--

Dividends

	Company	Industry	Sector	S&P 500
Dividend Yield	5.81	0.37	0.00	3.55
Dividend Yield - 5 Year Avg.	--	1.20	0.02	1.95
Dividend 5 Year Growth Rate	--	17.84	0.17	11.51
Payout Ratio(TTM)	166.22	10.12	0.11	50.16

Growth Rates

	Company	Industry	Sector	S&P 500
Sales (MRQ) vs Qtr. 1 Yr. Ago	22.01	6.59	0.11	2.52
Sales (TTM) vs TTM 1 Yr. Ago	--	1.10	0.03	10.05
Sales - 5 Yr. Growth Rate	--	5.86	0.09	14.16

EPS (MRQ) vs Qtr. 1 Yr. Ago	23.21	-21.10	0.49	-73.65
EPS (TTM) vs TTM 1 Yr. Ago	--	--	--	--
EPS - 5 Yr. Growth Rate	--	0.50	0.12	16.69
Capital Spending - 5 Yr. Growth Rate	--	3.47	0.06	10.32

Financial Strength

	Company	Industry	Sector	S&P 500
Quick Ratio (MRQ)	0.57	0.59	3.24	0.90
Current Ratio (MRQ)	1.34	0.91	3.25	1.10
LT Debt to Equity (MRQ)	79.07	63.75	0.62	89.72
Total Debt to Equity (MRQ)	95.83	90.51	1.00	114.53
Interest Coverage (TTM)	--	0.05	0.01	51.97

Profitability Ratios

	Company	Industry	Sector	S&P 500
Gross Margin (TTM)	25.46	4.68	0.08	39.08
Gross Margin - 5 Yr. Avg.	--	20.78	0.58	40.23
EBITD Margin (TTM)	18.23	--	--	--
EBITD - 5 Yr. Avg.	--	7.71	0.15	18.89
Operating Margin (TTM)	16.34	2.26	0.03	--
Operating Margin - 5 Yr. Avg.	--	4.91	0.10	17.66
Pre-Tax Margin (TTM)	15.99	2.26	0.03	14.53
Pre-Tax Margin - 5 Yr. Avg.	--	5.25	0.10	17.35
Net Profit Margin (TTM)	11.51	1.62	0.02	10.40
Net Profit Margin - 5 Yr. Avg.	--	3.54	0.06	12.18

Effective Tax Rate (TTM)	28.01	2.79	0.07	1.17
Effective Tax Rate – 5 Yr. Avg.	--	32.46	0.62	30.66

Management Effectiveness

	Company	Industry	Sector	S&P 500
Return on Assets (TTM)	--	0.32	0.02	6.08
Return on Assets - 5 Yr. Avg.	--	4.67	0.07	6.22
Return on Investment (TTM)	--	0.44	0.03	8.43
Return on Investment - 5 Yr. Avg.	--	6.31	0.11	8.47
Return on Equity (TTM)	--	6.47	0.06	17.26
Return on Equity – 5 Yr. Avg.	--	9.80	0.15	17.15

Efficiency

	Company	Industry	Sector	S&P 500
Revenue/Employee (TTM)	838,609	70,324	20,111	413,410
Net Income/Employee (TTM)	96,543	10,598	579	50,567
Receivable Turnover (TTM)	--	0.33	0.03	10.12
Inventory Turnover (TTM)	--	0.08	0.02	6.15
Asset Turnover (TTM)	--	0.03	0.00	0.66

DCF Model	
Beta	0
Valueline Safety Rating	3
Expected Growth (EPS)	4.6%
Projected Growth & Dividend Yield	16.5%
Required Rate Return	4%
Projected Future P/E	15
Annualized HPR	18.69%
PV of Future Price	\$52.05
Recommendation	Undervalued

P/E Sensitivity					
Present Value	Price 2014	P/E 20014	EPS 2014	HPR 2014	Annual Return
31.23	39.24	9.0	4.36	1.66	9.11%
38.17	47.96	11.0	4.36	1.89	11.60%
45.11	56.68	13.0	4.36	2.13	13.84%
52.05	65.40	15.0	4.36	2.36	15.90%
58.99	74.12	17.0	4.36	2.59	17.79%
65.93	82.84	19.0	4.36	2.83	19.54%
72.87	91.56	21.0	4.36	3.06	21.18%
Earnings Sensitivity					
Present Value	Price 2014	P/E 20014	EPS 2014	HPR 2014	Annual Return
44.89	56.40	15.0	3.76	2.12	13.78%
47.28	59.40	15.0	3.96	2.20	14.50%
49.67	62.40	15.0	4.16	2.28	15.21%
52.05	65.40	15.0	4.36	2.36	15.90%
54.44	68.40	15.0	4.56	2.44	16.56%
56.83	71.40	15.0	4.76	2.52	17.21%
59.22	74.40	15.0	4.96	2.60	17.85%
44.89	56.40	15.0	3.76	2.12	13.78%

Momentum

PM (Philip Morris Intl Inc.) NYSE

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2-Feb-2009 O 36.68 H 37.73 L 36.65 C 37.41 V 12.0M Chg +0.26 (+0.70%) ▲

▲ RSI(14) 27.68



Momentum Indicator: -1

Analyst's Opinion

Why Buy PM?

It is near its 52 week low

Why not buy PM?

From a sector rotation standpoint, this industry is poised to move to the bottom of the industry rankings.

Final Discussion:

Hold