WEALTH PRESERVATION EQUITY RESEARCH

Scandinavian Tobacco Group A/S

CPH: STG

Recommendation	Current Price	Fair Value (Base)
HOLD / WATCHLIST	**DKK 77.00 (EUR 10.31)**	**DKK 106 (EUR 14.19)**
WP Score	Dividend Yield	
61 / 100	**5.8%**	

"A defensible niche cigar & pipe tobacco franchise trading at trough valuation following a dividend reset, offering high yield and capital appreciation potential with moderate risk."

Report Date: 5 March 2026
Analyst: Moschovakis Capital Research

Currency: DKK (Danish Krone). EUR conversions at DKK/EUR = 7.47.

. EXECUTIVE SUMMARY

Metric	Value
Recommendation	HOLD / WATCHLIST
Current Price	DKK 77.00 (EUR 10.31)
Fair Value (Base Case)	DKK 106 (EUR 14.19)
Margin of Safety	37.6%
Target Entry Price	DKK 65-70 (EUR 8.70-9.37)

Return Profile	Value
Dividend Yield (New Policy)	5.8% (DKK 4.50/share)
Expected Dividend Growth	3-5% CAGR (from new base)
Expected Price Appreciation	3-4% CAGR
Total Expected Return (Base)	9.5% CAGR
Bear Case Total Return	2.5% CAGR
Bull Case Total Return	14.5% CAGR
Probability-Weighted Return	9.0% CAGR

Risk Assessment	Value
Wealth Preservation Score	61 / 100
Downside Protection Score	55 / 100
Quality Score	62 / 100
Risk Level	MODERATE-ELEVATED
Probability of >50% Loss	< 8%
Recession Profile	RESILIENT

One-Line Thesis:

A niche, defensible cigar and pipe tobacco franchise with 270+ years of heritage, trading at trough valuation following a dividend policy reset, offering a 5.8% yield and meaningful capital appreciation potential if Focus2030 execution delivers on margin and ROIC targets. The dividend cut from DKK 8.50 to DKK 4.50 creates near-term uncertainty but establishes a more sustainable base for future growth.

. INVESTMENT THESIS

Scandinavian Tobacco Group (STG) is the world's second-largest cigar company and global leader in pipe tobacco, operating in a niche segment of the tobacco industry that enjoys structural advantages over the broader cigarette market. Founded in 1750 and headquartered in Denmark, STG owns a portfolio of over 200 brands including Macanudo, CAO, Cafe Creme, Captain Black, and the recently acquired Mac Baren. The company operates 14 manufacturing facilities worldwide and distributes to over 100 countries.

The investment case centers on three pillars. First, **valuation compression**: STG trades at approximately 7.1x trailing earnings and 0.72x book value, representing multi-year lows driven by the 47% dividend cut announced on 4 March 2026 (from DKK 8.50 to DKK 4.50 per share). This creates a potential contrarian entry point as the market over-penalizes a structural dividend policy change that is actually more sustainable at a 42% payout ratio. Second, **niche defensibility**: premium cigars and pipe tobacco face significantly less regulatory pressure than cigarettes, enjoy strong brand loyalty, and benefit from an artisanal consumer culture that supports pricing power. Third, **strategic optionality**: the Focus2030 strategy targets ROIC improvement to 11%+ (from 7.9% currently), nicotine pouch expansion (XQS brand growing 89% in Q4 2024), and DKK 200M in cost savings, providing multiple catalysts for re-rating.

The key risks are clear: declining volumes in core machine-rolled cigars and smoking tobacco in Europe, U.S. tariff headwinds, currency exposure (approximately 50% of revenue in USD), and execution risk on the Focus2030 turnaround. The dividend cut itself, while establishing a more sustainable payout, signals management acknowledgment that 2025 was a challenging year with declining earnings. ROIC at 7.9% is below the cost of capital, indicating current value destruction that must be reversed. For these reasons, we rate STG as HOLD/WATCHLIST at DKK 77, with a preferred entry zone of DKK 65-70 where the margin of safety would be more compelling and the yield on cost would approach 6.5-7.0%.

1. BUSINESS QUALITY ASSESSMENT

Business Model

STG operates as a vertically integrated manufacturer, marketer, and distributor of cigars (handmade and machine-rolled), pipe tobacco, fine-cut tobacco, and increasingly, nicotine pouches. Revenue is generated through three segments: (1) North America Online & Retail (direct-to-consumer via 13+ Cigars International retail superstores and online channels), (2) North America Branded & Rest of World (wholesale/distributor channel for handmade and machine-rolled cigars), and (3) Europe Branded (wholesale distribution across key European markets). The company also operates contract manufacturing for third parties.

Competitive Moat

Moat Type	Evidence	Durability	Preservation Value
Brand Portfolio	200+ brands, heritage dating to 1750	8/10	Excellent
Vertical Integration	Own manufacturing in DOM, HND, NIC, EU	7/10	Good
Distribution Network	D2C retail + online + wholesale globally	7/10	Good
Regulatory Barrier	FDA/PACT Act compliance barriers to entry	8/10	Excellent
Scale Advantages	#2 global cigar company by volume	7/10	Good

Primary Moat: Brand Portfolio and Heritage — Durability: 8/10. **Moat Erosion Risk:** LOW-MODERATE. The premium cigar market is inherently fragmented and artisanal, but STG's scale in machine-rolled cigars and distribution reach provide durable advantages. The main risk is continued volume decline in European machine-rolled cigars.

Market Position

STG holds approximately 28% volume share in machine-rolled cigars in key European markets (down 1.8pp in 2024) and is the #2 global cigar company. In handmade cigars, it holds an estimated 6% volume share outside North America, making it the third-largest internationally. The company's pricing power is MODERATE — demonstrated by ability to pass through tariff-related price increases, though promotional spending has intensified in North American online channels.

2. FINANCIAL FORTRESS ANALYSIS

Balance Sheet Strength

Metric	Value	Threshold	Assessment
Debt/Equity	0.65x	< 1.0x	PASS
Interest Coverage	5.0x	> 5.0x	PASS (marginal)
Current Ratio	1.98x	> 1.5x	PASS
Cash / Total Debt	1.8%	> 20%	FAIL
FCF Positive (5Y)	5 / 5	5 / 5	PASS
Debt / EBITDA	2.96x	< 3.0x	PASS (marginal)

Solvency Verdict: ADEQUATE — Balance sheet is serviceable but not a fortress. Low cash reserves and borderline interest coverage require monitoring.

Profitability Metrics

Metric	FY2025	FY2024	5Y Avg	Trend
Gross Margin	45.3%	46.5%	47%	Declining
EBITDA Margin	19.8%	22.6%	22%	Declining
Operating Margin	15.6%	16.0%	17%	Declining
Net Margin	7.9%	10.2%	10%	Declining
FCF Margin	6.6%	10.1%	10%	Declining
ROIC	7.9%	9.4%	10%	Declining

ROIC Analysis: ROIC of 7.9% is below estimated WACC of approximately 8-9%, indicating marginal value destruction at current levels. This is a key concern for the wealth preservation mandate. However, management targets ROIC of 11%+ by 2030 through cost improvements (DKK 200M), Mac Baren synergies (DKK 150M annually), and portfolio optimization. If achieved, this would transform STG from a value destroyer into a value creator.

Earnings Quality: HIGH. Operating cash flow has consistently tracked net income. The 2025 FCF shortfall (DKK 595M vs. DKK 931M in 2024) was driven by ERP-related receivables delays, which management states have been resolved. 2026 FCF guidance of DKK 950M-1,200M implies significant recovery.

3. DIVIDEND ANALYSIS

Critical Development: On 4 March 2026, STG announced a dividend cut from DKK 8.50 to DKK 4.50 per share, a 47% reduction. This represents a fundamental shift from a fixed progressive dividend policy to a flexible 40-60% payout ratio against adjusted EPS. While the cut is significant, the new policy is structurally more sustainable.

Metric	Value	Assessment
Current Yield (DKK 4.50 / DKK 77)	5.8%	Attractive
Payout Ratio (vs. Adj. EPS DKK 10.8)	42%	Well covered
FCF Payout (DKK 354M / DKK 595M)	60%	Sustainable
New Policy Range	40-60% of Adj. EPS	Flexible & prudent
Dividend Growth (5Y CAGR, old policy)	6.99%	Was strong
Consecutive Years Paid	10 years (since IPO)	Decent track record
Maintained Through 2020?	Yes (DKK 6.10)	Positive signal
Buyback Yield (share reduction)	6.88% YoY	Very aggressive

Dividend History

Year	Dividend/Share (DKK)	Change	Yield at Ex-Date
2025 (proposed)	4.50	-47.1%	~5.8%
2024	8.50	+1.2%	7.3%
2023	8.25	+10.0%	6.3%
2022	7.50	+15.4%	5.5%
2021	6.50	+6.6%	5.4%
2020	6.10	+1.7%	8.8%
2019	6.00	+4.3%	7.8%
2018	5.75		5.6%

Dividend Sustainability: SUSTAINABLE (New Policy) — The 42% payout ratio provides ample coverage. However, the CUT from 8.50 to 4.50 is a significant negative signal that weighs heavily in our framework scoring.

Total Shareholder Return Context: Despite the dividend cut, STG's total shareholder return policy remains aggressive. The company reduced shares outstanding by 6.88% in the trailing twelve months through buybacks. Combined with the 5.8% dividend yield, the total shareholder yield is approximately 12.7%. Since its 2016 IPO, STG has returned more than DKK 9 billion to shareholders.

Stress Test: If adjusted EPS dropped 40% to DKK 6.48, the dividend at 42% payout would be DKK 2.72. At the current price, this would still yield 3.5%, confirming the new policy's resilience in a stress scenario. Coverage under the new policy is ADEQUATE even in severe downside.

4. VALUATION ANALYSIS

Metric	Current	5Y Avg	10Y Avg	Percentile	vs. History
P/E	7.1x	~9.5x	~9.0x	< 10th	Deeply Discounted
EV/EBITDA	6.9x	~8.5x	~8.0x	< 15th	Discounted
P/FCF	7.1x	~10x	~9.5x	< 15th	Discounted
P/Book	0.72x	~1.3x	~1.2x	< 5th	Historic Low
Dividend Yield	5.8%	~6.5%	~6.0%	~40th	Near Average (new div)

Fair Value Calculation

Normalized EPS: DKK 11.50 (5Y average adjusted EPS, excluding 2025 trough). Fair P/E Multiple: 9.0x (based on quality, growth trajectory, and historical median). Fair Value: DKK 11.50 x 9.0 = DKK 103.50. Current Price: DKK 77.00. **Margin of Safety: 34.4%.**

On an EV/EBITDA basis, applying the 5Y average of 8.5x to 2025 EBITDA of DKK 1,782M yields an enterprise value of DKK 15.1B. Subtracting net debt of DKK 5.36B gives equity value of DKK 9.74B, or DKK 124 per share — suggesting 61% upside. However, this assumes earnings stabilize, which is not guaranteed.

Valuation Verdict: ATTRACTIVE — Trading at or near historic lows on multiple metrics. Significant margin of safety exists IF earnings stabilize.

5. SCENARIO ANALYSIS

10-Year Total Return Model

Scenario	Rev CAGR	EPS CAGR	Terminal P/E	10Y Price	Div Return	Total CAGR	Weight
Bear	-2%	-3%	6.0x	DKK 48	~4.5%	2.5%	25%
Base	+1%	+2%	8.0x	DKK 106	~5.5%	9.5%	50%
Bull	+3%	+5%	10.0x	DKK 176	~5.5%	14.5%	25%

Probability-Weighted Expected Total Return: 9.0% CAGR

Bear Case Assumptions (25% probability)

Tobacco volumes continue declining at 2-3% annually. Machine-rolled cigar market share erodes further. US handmade cigar demand normalizes lower. Nicotine pouch business fails to achieve scale. ROIC remains below WACC. Multiple compresses to historic trough. Dividend maintained at reduced level but with minimal growth. Entry price of DKK 77 yields a bear case 10Y price of DKK 48 (EPS DKK 8.0 x 6x P/E). Including cumulative dividends of approximately DKK 42, total return CAGR is approximately 2.5%. **Capital is preserved in the bear case.**

Base Case Assumptions (50% probability)

Focus2030 delivers partial results: ROIC improves to 9-10%, cost savings of DKK 150M realized, Mac Baren synergies add DKK 100M annually. Machine-rolled cigar decline stabilizes. Handmade cigar business grows low single digits driven by international expansion and retail stores. Nicotine pouches contribute 5-7% of revenue. Multiple recovers to historical average. Dividend grows 3-5% annually from new base. 10Y price target: DKK 106 (EPS DKK 13.2 x 8x P/E). Total return CAGR: 9.5%.

Bull Case Assumptions (25% probability)

Focus2030 fully delivers: ROIC reaches 11%+, nicotine pouches become a meaningful growth engine (10%+ of revenue), handmade cigar business re-accelerates, and cost savings exceed DKK 200M target. Strategic M&A; adds complementary brands. Multiple re-rates to premium end of historical range. 10Y price target: DKK 176 (EPS DKK 17.6 x 10x P/E). Total return CAGR: 14.5%.

Critical Downside Check

Metric	Value	Assessment
Bear Case Total Return	2.5% CAGR	POSITIVE (capital preserved)
Bear Case Price Decline	-37.7% over 10Y	Offset by dividends
Max Estimated Drawdown	-25 to -35%	Based on historical
Probability of >50% Loss	< 8%	ACCEPTABLE

6. RISK ASSESSMENT

Risk Category	Score (1-10)	Key Concern	Mitigation
Balance Sheet	4	Moderate leverage, low cash	Consistent FCF generation
Earnings Volatility	5	Margin compression in 2025	Defensive product demand
Competitive Threat	4	MRC share losses in Europe	Brand loyalty, vertical integration
Regulatory Risk	3	Tobacco regulation tightening	Cigars face less scrutiny than cigarettes
Management Risk	4	Execution of Focus2030	Experienced team, clear strategy
Valuation Risk	2	Already at historical lows	Limited further downside from multiples
Currency Risk	5	~50% revenue in USD	Natural hedge via US manufacturing
Dividend Risk	7	Just cut 47%	New policy more sustainable at 42% payout

Aggregate Risk Score: 4.3 / 10 (MODERATE)

Recession Stress Test

STG demonstrated resilience during the 2020 pandemic: revenue was relatively stable, handmade cigar demand actually surged (consumers shifted spending to premium at-home experiences), and the dividend was maintained at DKK 6.10. The stock price dropped to approximately DKK 62 (March 2020 low) but recovered to DKK 120+ within 18 months. The company did not need to raise equity capital or cut the dividend. STG's products are addictive consumer staples with inelastic demand, providing natural recession resistance.

Recession Profile: RESILIENT — Tobacco demand is largely recession-proof. Balance sheet adequate to weather severe downturn without equity raise.

7. MANAGEMENT & GOVERNANCE

CEO: Niels Frederiksen — Joined STG in 1999; appointed CEO in 2020. Deep institutional knowledge spanning 25+ years. Has overseen the company's transformation through multiple acquisitions (Agio, Alec Bradley, Mac Baren) and the launch of the nicotine pouch strategy.

CFO: Marianne Rorsslev Bock — Joined 2018. Has managed the balance sheet through an active acquisition period while maintaining leverage within targets.

Capital Allocation (5Y Assessment)

Dimension	Assessment	Detail
Dividend Policy	MIXED	Progressive policy maintained 2016-2024; reset in 2025. New flexible policy is prudent.
Share Buybacks	STRONG	Reduced shares 6.88% YoY. Aggressive buybacks at depressed prices = value accretive.
Acquisitions	GOOD	Mac Baren (DKK 535M), Alec Bradley, XQS — strategic, bolt-on, manageable sizes.
Debt Management	ADEQUATE	Leverage manageable but elevated. Target to reduce toward policy ratio in 2026.
CapEx Discipline	GOOD	CapEx ~DKK 155-175M annually (1.7-1.9% of revenue). Focused on maintenance + ERP.

Ownership Structure: Insider ownership is 0.74%. The company is ultimately controlled by two Danish foundations — the Augustinus Foundation and Det Obelske Familiefond — providing long-term, patient capital stewardship. Institutional ownership is 30.56%. Capital Group recently reduced its stake below 5%.

Management Quality: GOOD | Capital Allocation: ACCEPTABLE

8. PEER COMPARISON

STG is a unique pure-play cigar and pipe tobacco company. Direct peers are limited; we compare against larger tobacco companies and the closest niche competitor, Turning Point Brands.

Metric	STG	British American (BATS)	Philip Morris (PM)	Imperial Brands (IMB)
P/E	7.1x	~7.5x	~17x	~6.5x
EV/EBITDA	6.9x	~7.0x	~14x	~5.5x
Dividend Yield	5.8%	~8.0%	~4.5%	~7.5%
Debt/Equity	0.65x	~0.75x	~2.5x	~2.0x
Gross Margin	45.3%	~65%	~65%	~45%
ROIC	7.9%	~8.5%	~20%	~10%
Beta	0.67	~0.55	~0.75	~0.50
Shares Buyback (YoY)	-6.88%	~-2%	~-1%	~-3%

Why STG vs. Peers for Wealth Preservation: STG offers a differentiated niche exposure to premium cigars — a category with less regulatory risk and more resilient demand than cigarettes. Its balance sheet is significantly stronger than Imperial Brands or Philip Morris on a D/E basis. However, STG's lower ROIC and smaller scale are disadvantages. The aggressive buyback program (6.88% share reduction) is the most shareholder-friendly in the peer group. For European-based investors, STG's DKK-denominated listing on Copenhagen avoids the currency mismatch of London-listed peers.

9. KEY METRICS SUMMARY & WP SCORING

Wealth Preservation Quality Score Breakdown (62 / 100)

Component	Max Points	Score	Detail
Balance Sheet Fortress	40	30	D/E 0.65x (10), Interest Cover 5.0x (10), FCF 5/5 (10)
Income Reliability	30	13	Yield 5.8% with 42% payout (10), Div Growth NEGATIVE (0), History 10Y (3)
Capital Efficiency	15	4	ROIC 7.9% in 6-10% range (4), Trend declining (0)
Valuation	15	15	Trading below 10th percentile of 5Y range (15)
TOTAL	100	62	

Composite Wealth Preservation Score

Input	Score	Weight	Contribution
Downside Protection	55 / 100	45%	24.75
Return Adequacy (Base ~9.5% CAGR)	70 / 100	30%	21.00
Quality Score	62 / 100	25%	15.50
WP SCORE	61 / 100		

WP Score: 61 / 100 — Acceptable but not compelling. Below the 65 threshold for a BUY recommendation. Reduced position or wait for better entry.

Absolute Requirements Check

Requirement	Result	Status
Bear case total return >= 0%	2.5% CAGR	PASS
Base case total return >= 7%	9.5% CAGR	PASS
Solvency: FORTRESS or ADEQUATE	ADEQUATE	PASS
Dividend sustainability	SUSTAINABLE (new policy)	PASS
Probability of >50% permanent loss < 10%	< 8%	PASS

All five absolute requirements are met. The stock qualifies under the wealth preservation mandate but at a reduced conviction level due to the WP Score of 61 falling below the 65 BUY threshold.

10. MONITORING CHECKLIST & EXIT TRIGGERS

Quarterly Review Items

Monitor earnings vs. expectations (adjusted EPS guidance DKK 9-11 for 2026). Track dividend policy adherence (40-60% payout ratio). Verify balance sheet metrics remain stable (D/E < 1.0x, interest coverage > 5.0x). Assess competitive position: European MRC market share (target: stabilize at ~28%), handmade cigar trends in US, XQS nicotine pouch growth rate. Monitor management guidance and Focus2030 execution milestones including ROIC trajectory toward 11% target.

Exit Triggers

Condition	Action
Second consecutive dividend cut	SELL — signals structural deterioration
Debt/Equity rises above 1.5x	SELL — balance sheet breach
ROIC falls below 6% for 2+ consecutive years	SELL — persistent value destruction
Bear case return turns materially negative	REDUCE or SELL
European MRC share drops below 25%	REASSESS — competitive moat eroding
Better opportunity with 10+ point higher WP Score	REPLACE

Upgrade Triggers (HOLD to BUY)

Condition	Action
Price drops to DKK 65-70 range	UPGRADE to BUY — WP Score would rise above 65
ROIC improves to 9%+ for 2 consecutive quarters	UPGRADE — value creation confirmed
Dividend increased from new DKK 4.50 base	POSITIVE — confirms earnings recovery
Focus2030 cost savings materially exceeding targets	UPGRADE — thesis strengthening
Multiple re-rates toward 5Y average	REDUCE position size if target reached

. FINAL RECOMMENDATION

RECOMMENDATION: HOLD / WATCHLIST

WP Score: 61/100 | Below 65 BUY threshold

Position Size: No new position at current price

Entry Strategy: Limit order at DKK 65-70 (EUR 8.70-9.37)

Expected Outcome (10 years, Base Case):

Metric	Value
Total Return CAGR	9.5%
Cumulative Return	~150%
DKK 100 becomes	~DKK 250
vs. HYSA (4%): DKK 100 becomes	DKK 148
vs. This Position: Outperformance	~DKK 102

Downside Protection Summary:

Bear case preserves capital: YES (2.5% CAGR including dividends). Dividend provides income floor: YES (5.8% yield at 42% payout ratio). Balance sheet provides safety: YES (D/E 0.65x, adequate interest coverage). Low beta (0.67) provides portfolio stability.

Why HOLD and Not BUY:

Despite attractive valuation and high yield, three factors prevent a BUY recommendation at current levels. (1) The 47% dividend cut announced today signals management concern about near-term earnings trajectory — cuts of this magnitude warrant a cautious approach until the new policy proves stable. (2) ROIC at 7.9% is below estimated WACC, indicating the company is currently destroying value in economic terms. The Focus2030 target of 11% is ambitious and unproven. (3) The WP Score of 61 falls below our 65 threshold, primarily due to declining capital efficiency and the dividend cut. A price decline to DKK 65-70 would improve the margin of safety sufficiently to push the WP Score above 65, at which point we would upgrade to BUY.

ANALYST NOTES

Key Assumptions:

(1) European machine-rolled cigar volumes decline 2-3% annually (historical trend continues). Sensitivity: Each additional 1% decline reduces base case EPS CAGR by approximately 0.5%. (2) USD/DKK exchange rate remains broadly stable (a 10% USD weakening impacts reported sales by ~5%). (3) Mac Baren integration delivers at least DKK 100M of the targeted DKK 150M annual synergies. (4) No material adverse regulatory action against cigars or pipe tobacco in key markets.

Limitations:

Annual report data for 2025 was released within 24 hours of this analysis. Detailed balance sheet breakdowns and cash flow statement details may not be fully reflected. The Focus2030 strategy is new and its financial targets have not yet been tested against actual results. Goodwill-adjusted ROIC was not calculated due to data availability constraints;

reported ROIC of 7.9% may overstate economic returns if significant goodwill exists from acquisitions.

Confidence Level: MEDIUM — The business quality is solid and the valuation is attractive, but the earnings decline trajectory, dividend cut, and strategy execution uncertainty warrant caution. Confidence would increase with evidence of ROIC improvement and earnings stabilization.

Data sources: Company filings (GlobeNewswire), StockAnalysis.com, Yahoo Finance, Investing.com, Tobacco Reporter, Seeking Alpha. Currency conversions at DKK/EUR = 7.47 (4 March 2026).

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