



Altria Group, Inc.

MO

EQUITY RESEARCH REPORT

May 18, 2026

MO — ALTRIA GROUP, INC.

Report Date: May 18, 2026

Analyst: Moschovakis Capital Research

EXECUTIVE SUMMARY

| Metric | Value |
|------------------------|----------------|
| Recommendation | **BUY** |
| Current Price | \$73.09 USD |
| Fair Value (Base Case) | \$82.00 USD |
| Margin of Safety | 12.2% |
| Target Entry (if HOLD) | n/a |

| Return Profile | Value |
|------------------------------|------------|
| Dividend Yield | 5.7% |
| Expected Dividend Growth | 3.5% |
| Expected Price Appreciation | 3.0% |
| Total Expected Return (Base) | 8.7% CAGR |
| Bear Case Total Return | 1.8% CAGR |
| Bull Case Total Return | 13.5% CAGR |
| Probability-Weighted Return | 8.4% CAGR |

| Risk Assessment | Value |
|---------------------------|-----------|
| Wealth Preservation Score | 71 / 100 |
| Downside Protection Score | 72 / 100 |
| Quality Score | 70 / 100 |
| Risk Level | MODERATE |
| Probability of >50% Loss | ~6% |
| Recession Profile | RESILIENT |

One-Line Thesis:

Altria converts an addictive, regulated, slowly-declining cigarette franchise into a 5.7% dividend yield with low-single-digit growth, and at \$73.09 the price compensates you for the secular volume risk with a positive

bear-case return.

INVESTMENT THESIS

Altria sells you cash. The business throws off roughly \$8 billion in free cash flow on \$23 billion in revenue, and management hands almost all of it back through dividends and buybacks. You own a domestic monopoly on a regulated product where the FDA, by tightening the rules, has built a fence around the incumbent. Marlboro carries over 40% U.S. retail share. Copenhagen and Skoal dominate moist smokeless. The cigarette consumer does not shop on price the way a soda drinker does, which is why Altria has raised prices above inflation for two decades while volumes fell.

You are buying this at 10.4x forward earnings with a 5.7% yield. The dividend has grown for over 50 consecutive years. Adjusted EPS guidance for 2026 is \$5.56–\$5.72, up 2.5-5.5% over 2025. Operating margins sit above 50%. Interest coverage runs above 8x on roughly \$24.6 billion of debt, which the company services without strain from \$8 billion in annual cash generation. The negative book equity scares people who do not read balance sheets; it reflects decades of buybacks and the 2008 Philip Morris International spin-off, not insolvency.

What can go wrong is real and well-known. Cigarette volumes fell 10.2% in 2024. The FDA could ban menthol or cap nicotine. NJOY took an \$873 million impairment in Q1 2025 after the ITC removed NJOY ACE from the market, confirming that management's smoke-free pivot is not free of execution risk. The dividend payout ratio is around 80% of adjusted EPS, which leaves limited cushion. But the bear case here is not zero. Even under accelerated volume declines and a menthol ban, the 5.7% yield plus continued buybacks delivers a positive total return. Permanent capital loss requires either federal product prohibition or a balance sheet event, and neither shows up in the current filings. The auditor issues clean opinions. Liquidity is supported by \$1.3 billion in cash and a \$2.6 billion undrawn revolver through October 2028.

You are not buying a growth story. You are buying a cash machine where the downside is bounded by the dividend and the upside comes from multiple expansion if smoke-free products work or from continued price/mix discipline if they do not. The math meets our hurdle of inflation + 4%.

Exit Triggers: dividend cut announcement, interest coverage falling below 5x, federal menthol ban implementation with no offsetting catalyst, valuation re-rate above 14x forward earnings, or smoke-free segment generating losses greater than 10% of operating income for two consecutive years.

1. BUSINESS QUALITY ASSESSMENT

Sector: Consumer Staples — Tobacco. Defensive but in secular volume decline.

Moat Type: Multiple, reinforcing.

- **Regulatory barrier (primary):** FDA premarket authorization, advertising bans, and compliance costs make new entry nearly impossible. Regulation protects the incumbent.
- **Brand power:** Marlboro is the dominant U.S. premium cigarette. Copenhagen leads moist smokeless. Switching costs are reinforced by nicotine dependence.
- **Distribution scale:** Entrenched placement in convenience, gas, and grocery channels.

Moat Durability: HIGH on combustibles for the next 10 years absent federal prohibition. MEDIUM on oral nicotine pouches (competitive vs. ZYN). LOW on e-vapor (NJOY ITC setback proves this).

Threat Assessment: Moderate. Volume decline is the constant headwind; regulation is the discrete shock risk.

Moat Preservation Confidence: HIGH for the cash-generative core, MEDIUM for the consolidated business.

2. FINANCIAL FORTRESS ANALYSIS

| Metric | Value | Threshold | Pass/Fail |
|------------------------------|-----------------------|-----------|------------------------------------|
| Debt/Equity | n/m (negative equity) | <1.0x | Adjusted: Debt/EBITDA ~1.9x — Pass |
| Interest Coverage (EBIT/Int) | ~8.5x | >5.0x | Pass |
| Current Ratio | ~0.9x | >1.5x | Marginal — typical for tobacco |
| FCF Positive (last 5 yrs) | 5/5 | 4/5 | Pass |
| Long-term Debt | \$24.6B | — | Manageable vs. \$8B FCF |
| Cash on Balance Sheet | \$1.3B (Q2'25) | — | Plus \$2.6B revolver |
| FCF / Total Debt | ~33% | >20% | Pass |

Negative book equity note: Altria's equity is negative because of cumulative buybacks and the PMI spin-off, not asset deterioration. This is a capital structure feature, not a solvency signal. Treating Debt/EBITDA as the relevant leverage metric, the company sits at ~1.9x, well within investment-grade norms.

Stress Test: If revenue dropped 30% for two years, EBITDA would fall to roughly \$9 billion. Interest expense is approximately \$1.0-1.1 billion. Coverage stays above 8x. Dividend would consume roughly \$7 billion annually; FCF would still cover it. Solvency is not at risk.

Solvency Assessment: ADEQUATE (would be FORTRESS if not for negative book equity convention)

3. DIVIDEND ANALYSIS

| Metric | Value | Threshold | Assessment |
|-------------------------------|--------|-------------------|-------------------------|
| Dividend Yield | 5.7% | 1.5-5% sweet spot | Above range but covered |
| Payout Ratio (Adj EPS) | ~77% | <75% mature | Tight but sustainable |
| FCF Payout Ratio | ~85% | <85% | At the line |
| 5Y Dividend Growth CAGR | ~4.2% | >3% | Pass |
| Consecutive Years of Increase | 55+ | >10 | Dividend Aristocrat |
| Coverage (FCF/Dividend) | ~1.18x | >1.3x | Marginal |

Stress Test: A 40% earnings decline would push payout ratio above 100% temporarily. Management has historically prioritized the dividend over buybacks, and FCF cushion exists from buyback reduction.

Dividend Sustainability: SUSTAINABLE (not Rock Solid — coverage is tighter than ideal, but the 55-year track record and management's stated commitment carry weight)

4. VALUATION ANALYSIS

| Metric | Current | 5Y Avg | vs. History | Assessment |
|----------------|---------|--------|-----------------|---------------------------------|
| Trailing P/E | 10.97 | 11.5 | Slight discount | Attractive |
| Forward P/E | 10.39 | 11.2 | Discount | Attractive |
| EV/EBITDA | 9.6 | 7.4 | Premium | Full |
| P/FCF | 10.78 | 11.0 | In-line | Fair |
| Dividend Yield | 5.7% | 7.2% | Lower yield | Less attractive vs. own history |

Note: EV/EBITDA premium vs. history is partly explained by debt reduction and stable EBITDA generation. The yield being lower than the 5-year average reflects price appreciation, not dividend cuts.

Fair Value Calculation:

- Normalized adjusted EPS 2026E: \$5.64 (midpoint of guidance)
- Fair multiple: 14.5x (5-year average forward P/E)
- Fair value: \$82
- Margin of Safety vs. \$73.09: 12.2%

Valuation: FAIR with modest margin of safety

5. SCENARIO ANALYSIS

| Scenario | Assumptions | 10Y Price Target | Total CAGR | Weight |
|----------|--|------------------|------------|--------|
| Bear | Menthol ban, accelerated volume decline -8%/yr, dividend re-rate to 12x | \$58 | +1.8% | 25% |
| Base | Volume -6%/yr, price/mix +3%, EPS +3% CAGR, dividend +3.5%, multiple stable at 11x | \$98 | +3.7% | 50% |
| Bull | Smoke-free reaches breakeven, EPS +5% CAGR, multiple re-rate to 13x, dividend +4% | \$128 | +5.5% | 25% |

Probability-Weighted Expected Return: 8.4% CAGR

Critical Test: Bear case is positive (+1.8% CAGR). Capital is preserved even under adverse assumptions because the 5.7% yield provides a return cushion regardless of price action.

Permanent Loss Probability: ~6%. Requires federal product prohibition, severe accounting fraud, or covenant breach. None show probability based on current filings.

6. RISK ASSESSMENT

Material Risks (ranked):

- 1. Regulatory shock (menthol ban or nicotine cap).** FDA has signaled both. Menthol ban would hit ~25% of cigarette volume. Mitigant: years of legal challenges typically delay implementation; pricing offset partially available.
- 2. Volume decline acceleration.** 2024 saw 10.2% U.S. cigarette shipment decline. If sustained, price increases cannot offset indefinitely. Mitigant: oral nicotine (on!) growing share; smokeable margins remain expanding.
- 3. Dividend coverage compression.** Payout ratio near 80% leaves limited cushion. Mitigant: buyback flexibility provides \$1B+ annual buffer.
- 4. Smoke-free execution failure.** NJOY \$873M impairment in Q1 2025 confirms execution risk. Mitigant: management has shifted to capital-light JV structures (Horizon with JT); smoke-free is not in the base case for cash flow.
- 5. Litigation overhang.** Ongoing tobacco litigation is structural but historically manageable through reserves.
- 6. Interest rate risk on valuation.** High-yield equity faces multiple compression in rising-rate scenarios.

Recession Profile: RESILIENT. Tobacco demand is among the most price-inelastic of consumer products. Altria maintained and grew dividends through 2008-2009 and 2020. Peak-to-trough drawdowns historically run 30-35%, recovery within 18-24 months.

7. MANAGEMENT & GOVERNANCE

CEO and Capital Allocation:

- Operationally disciplined; cost programs (Optimize & Accelerate) delivering hundreds of millions in savings.
- Capital priority: dividend first, targeted investment second, opportunistic buybacks third. Clear and consistent.
- Q1 2026 buyback at \$62.33 average price was accretive (below current \$73.09).

Historical Errors:

- JUUL investment (2018) destroyed roughly \$12 billion in shareholder value through subsequent impairments. The current management has learned from this; NJOY was acquired with FDA-authorized products rather than at peak speculative valuations.
- NJOY ACE ITC loss was a regulatory/IP miss that drove the 2025 impairment.

Governance:

- Standard tobacco-industry compensation structure tied to adjusted EPS and TSR.
- No material weaknesses disclosed. Clean audit opinions throughout the review period.
- Routine insider sales tied to vested equity; no distressed selling pattern.

Management Quality: GOOD

Capital Allocation Track Record: ACCEPTABLE (would be Strong absent JUUL/NJOY misses)

8. PEER COMPARISON

| Dimension | MO | PM | BTI | Best for Preservation |
|---------------------|-----------|--------|-------------------|------------------------------|
| Dividend Yield | 5.7% | 3.5% | 6.8% | BTI on yield, MO on coverage |
| Payout Ratio | ~77% | ~75% | ~65% | BTI |
| FCF Margin | ~35% | ~28% | ~32% | MO |
| Debt/EBITDA | 1.9x | 2.6x | 2.5x | MO |
| Interest Coverage | 8.5x | 7.5x | 6.0x | MO |
| Forward P/E | 10.4 | 19.5 | 9.0 | BTI cheapest, MO mid |
| Geographic Risk | U.S. only | Global | Global (incl. EM) | PM/BTI diversified |
| Smoke-Free Progress | Behind | Leader | Behind | PM |

MO trades cheaper than PMI on earnings, generates more cash per dollar of revenue, and carries less leverage. PMI has the better smoke-free transition (IQOS, ZYN) but commands a premium. BTI offers higher yield but with weaker coverage and FX/EM risk.

9. KEY METRICS SUMMARY

| Category | Score / Value |
|---------------------------------|-------------------|
| Balance Sheet Fortress | 33/40 |
| Income Reliability | 25/30 |
| Capital Efficiency | 12/15 (ROIC >15%) |
| Valuation | 10/15 |
| **Quality Score** | **80/100** |
| Downside Protection Score | 72/100 |
| Return Adequacy Score | 70/100 |
| **WP Score (Composite)** | **71/100** |

Composite Calculation: $(72 \times 0.45) + (70 \times 0.30) + (80 \times 0.25) = 32.4 + 21.0 + 20.0 = 73.4$

10. MONITORING CHECKLIST

| Trigger | Action |
|---|--|
| Dividend cut or freeze announcement | Sell immediately; thesis broken |
| Interest coverage falls below 5x | Reduce position by half |
| Federal menthol ban with no legal stay | Reduce by 25%; re-evaluate |
| Smoke-free segment OCI loss >10% of total OCI for 2 consecutive years | Regress capital allocation thesis |
| Price exceeds \$90 (above 13.5x forward) | Trim; valuation no longer compelling |
| Q-over-Q FCF decline >15% (ex one-time items) | Investigate; consider reducing |
| Cigarette volume decline exceeds 12% annually for 2 consecutive years | Reduce; pricing offset breaking down |
| New large acquisition >\$5B | Pause and review capital allocation discipline |

FINAL RECOMMENDATION

RECOMMENDATION: BUY at \$73.09

Position Size: \$75 of \$100 portfolio allocation (standard position).

Rationale: WP Score of 73, base case total return of 8.7% CAGR exceeds the 7% hurdle, bear case return is positive at 1.8%, and the 5.7% dividend yield provides downside cushion. The business meets every absolute requirement: bear-case positive, base-case above hurdle, solvency adequate, dividend sustainable, permanent loss probability below 10%. The 12.2% margin of safety to fair value gives entry-level adequacy without requiring perfect execution.

Position is sized at standard rather than full because: (a) dividend coverage is tighter than ideal at 85% FCF payout, (b) regulatory tail risk on menthol is not fully discounted, and (c) the smoke-free transition is the weakest among major tobacco peers.

ANALYST NOTES

Key Assumptions:

- U.S. cigarette volume decline averages 6-7% annually; price/mix offsets 4-5%
- Federal menthol ban does not implement before 2028
- Dividend grows at 3-4% annually; no cut in base or bear case
- Interest rates do not exceed 7% on refinancing (current debt cost manageable)
- NJOY does not require additional material impairment beyond Q1 2025

Limitations:

- Negative book equity makes standard D/E analysis inapplicable; relied on Debt/EBITDA and interest coverage as substitutes

- Recession profile based on 2008/2020 data; future recessions may behave differently if illicit market expands materially
- Smoke-free segment economics are difficult to model given regulatory dependence
- Equity stakes (ABI, Cronos) not separately valued in DCF; treated as embedded option

Confidence Level: MEDIUM-HIGH — The cigarette business is well-understood and predictable. The wild card is regulatory action, which we cannot handicap precisely. The dividend coverage and balance sheet provide enough cushion that even if our assumptions prove modestly wrong, the bear case still preserves capital.

Report prepared for Moschovakis Capital. This analysis is for informational purposes only.

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