Company Update Report

Philip Morris International Inc.

Consumer Staples

Ticker	PM-US
Share price	$173.17
Intrinsic value	$172
Upside/(Downside)	-1%
Recommendation	Hold

As at: 22 June 2026

Analyst thesis

Our recommendation is based on:

- Growing volumes and a rising revenue share from Philip Morris International's (PM) smoke-free product segment — now 43% of net revenues in 1Q26, up from 42% in 1Q25 — are helping to offset risks associated with the global decline in cigarette volumes.
- Re-entry into the US market through Swedish Match, focused primarily on smoke-free products, although exposure remains limited at approximately 6% of net revenues in 1Q26.
- Stable topline growth with expectations of high-single-digit diluted adjusted earnings per share growth after currency impacts in FY26. The company expects a 3% decline in cigarette volumes, in line with changing consumer behaviour and a shift towards more health-conscious nicotine consumption methods, putting pressure on traditional combustibles. Although the contribution from smoke-free products continues to increase and partially mitigates the structural decline in traditional combustible volumes, we anticipate some pressure on earnings and margins.
- Although PM has stable topline growth and anticipates earnings growth while remaining a stable dividend payer and defensive counter, P:E valuations remain elevated, leading us to a hold recommendation.

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Key highlights

In this report we review PM's 1Q26 results released in April 2026 and assess the impact on our outlook:

Financial results at a glance:

- Group net revenue was up 9.1% with organic growth up 2.7%. This was driven by strong growth in the international smoke-free segment, which grew by 24.7% (15.8% organically), and international combustibles which rose by 6.8% (1.0% organically). US revenue declined by 30.9% (down 31.6% organically), driven less by a decline in demand but rather by a higher prior period base and inventory normalisation. The US accounts for approximately 6% of revenue.
- Group volumes declined by 1.9% for the period, driven primarily by a downturn in the volume of cigarettes being sold, which decreased by 5.1%. Smoke-free product volumes were up 9.1%, with a net revenue contribution of 43% for the period, up 1.3 percentage points. Smoke-free products remain a growth driver within PM, and as its contribution increases, the risk around the falling cigarette volumes is partially alleviated.
- Group gross profit increased by 10.1%, and 3.8% organically, driven by strong performance from international smoke-free products, which was up 28.6% (19.4% organically), and international combustibles which grew by 9.8% (3.9% organically). The gross profit for the US segment was down by 44.5%, driven by the volume declines compared to a higher prior period and inventory normalisation, rather than lower consumer demand.
- Group gross profit margin was elevated by 0.6 percentage points to 68.1%, with margin expansion in international smoke-free products of 2.1 percentage points to 70%, and international combustibles up 1.8 percentage points to 67.5%. The US margin decreased by 14.7 percentage points to 61.9%, driven by lower volumes against a higher prior-period base and inventory normalisation.
- Reported diluted earnings per share declined by 9.3%. This was largely due to a non-cash fair value adjustment of a minority shareholding in India. When adjusted for the impairment, diluted earnings per share rose by 16% and when further adjusted for currency, diluted earnings per share was up 5.3%.
- Sales and earnings results beat FactSet consensus expectations, with overall performance showcasing strong operational resilience along with the positive impact of the growing contribution of smoke-free products to revenue and earnings. The growth of the segment alleviates some of the overhang from a downtrend in cigarette volumes.

Management's outlook:

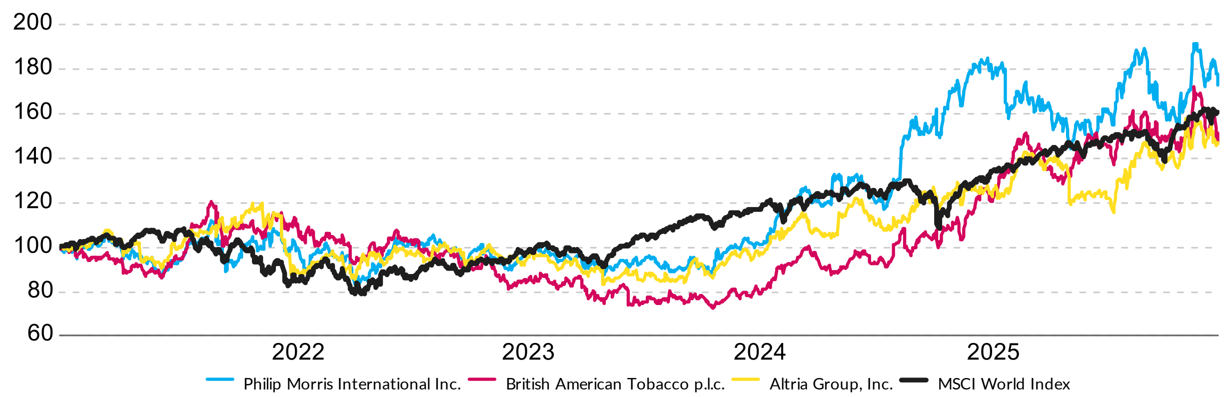
FY26 net revenue is guided to grow between 5% to 7% on an organic basis. Management guided for operating income growth of 7% to 9%. Adjusted diluted earnings per share is expected to be between $8.36 to $8.51, representing growth of 10.9% to 12.9% growth. Excluding currency movements, adjusted diluted earnings per share is forecast at $8.11 to $8.26, representing growth of 7.5% to 9.5%. This guidance assumes stable total volume growth, high-single-digit growth in smoke-free products, and a decline of around 3% in cigarette volumes. The 3% is more conservative than British American Tobacco's recently updated expectation of a 2.5% decline in cigarette volumes.

Table 1: Qualitative summary

Factor	Rating	Description
Growth	★★★☆☆	Expected three-year revenue CAGR is 6.8% and expected three-year EPS CAGR is 11.2%. We expect earnings growth over the next three years to be driven by: Growth in smokeless products against the backdrop of pressure on sector-wide cigarette volume declines.
Valuation	★★☆☆☆	The share price is trading at a 1% premium to the intrinsic value. Current NTM P:E of 20.5x is trading at a 20% premium to the five-year average P:E of 17.1x.
Dividend	★★★★☆	LTM dividend yield 3.2%. NTM dividend yield 3.4%.
Issuance	★★★☆☆	Share issuance has been flat over the past five years.
Catalyst	Continued growth in smoke-free products. Expansion into the US, albeit still a small contributor to revenue.	
Quality of earnings	★★★☆☆	Five-year average ROA 16.6%. Five-year average operating margin 39.6%. The group has recorded positive earnings growth in five of the past 10 years. Earnings declines have been largely related to a once-off impairment charge, a spike in amortisation, marketing expense growth in low demand periods, along with a one-off impact on increased tax expense related to elements of the Tax Cuts and Jobs Act of 2016-17 in the US.
Moat	★★★☆☆	Brand equity in combustibles remains strong as one of the leading global tobacco companies across combustible and next-generation products. Industry structure increases barriers to entry due to a highly regulated environment. Global scale through operating in approximately 170 markets globally. Extensive intellectual property in the development of regulation-compliant next-generation products.
Management and governance	★★★☆☆	The group has seen some changes in the C-suite over the past five years. Jacek Olczak was appointed group CEO in May 2021, after having previously served as CFO and COO and has been with PM for over three decades. Massimo Andolina, who has spent just under two decades with the company, will take over the CFO role from Emmanuel Babeau, effective from 1 August 2026. This demonstrates strong succession planning using in-house talent as PM strategically transitions to new generation products and adapts to declining cigarette volumes.
Balance sheet	★★★★☆	Net debt/EBITDA ratio was at 2.3x, with the interest coverage ratio at 7.3x. Debt/assets ratio 71.3%.
Risks	Illicit vapes pose a threat to the new generation smokeless product market share. Shifting consumer health preferences continue to pressure combustible product volumes, with an expected 3% decline in cigarette volumes in FY26. Regulation: Nicotine continues to be a highly regulated product, with tobacco laws progressively tightening along with increases in sin taxes impacting pricing and volumes, alongside ongoing health concerns surrounding these products.	

Source: FactSet

Graph 1: Five-year price (Indexed to 100)



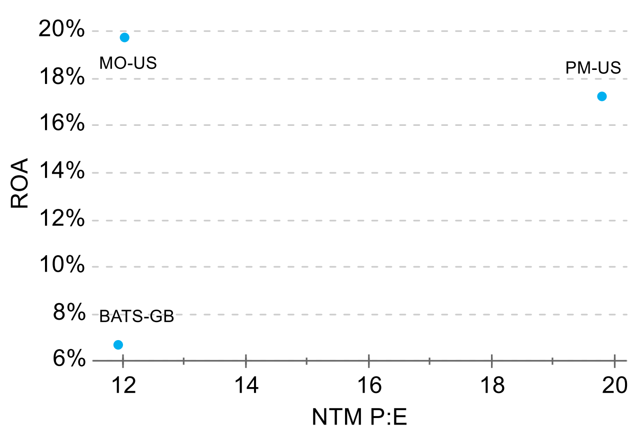
Source: FactSet

Table 2: Price performance versus benchmark and peers

Period	YTD	MTD	3M	6M	1Y	2Y	3Y	5Y	10Y
PM-US	8.0%	-2.4%	6.2%	8.4%	-5.5%	73.3%	81.0%	73.2%	71.4%
BATS-GB	5.5%	-3.2%	3.1%	5.4%	22.1%	78.7%	71.7%	59.1%	4.5%
MO-US	20.6%	-0.1%	7.8%	18.6%	16.3%	52.0%	58.8%	47.1%	5.1%
MSCI world	9.4%	-0.4%	13.1%	9.1%	24.1%	35.9%	64.4%	66.0%	199.6%

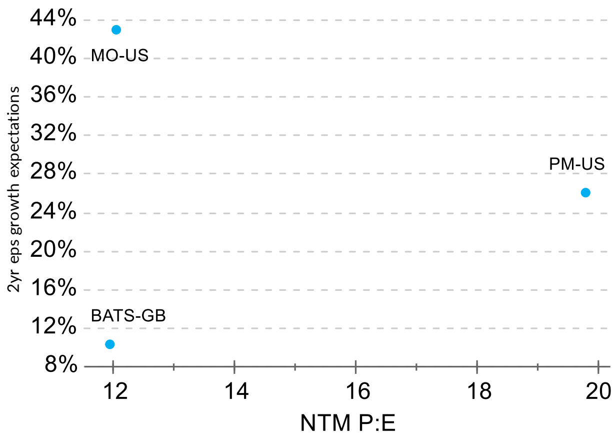
Source: FactSet

Graph 2: P:E vs 2Y average ROA



Source: FactSet

Graph 3: P:E vs EPS 2Y CAGR forecast



Source: FactSet

Valuation

We value PM using a rolling 12-month P:E applied to a rolling 12-month earnings-per-share estimate. We take into consideration guidance, the cigarette volume outlook, the trajectory of smoke-free products along with their contribution to revenue. We arrive at an intrinsic value of $172 per share with a 1% downside.

This is lower than consensus as we use more conservative estimates on P:E multiples applied due to currently elevated valuation multiples, along with anticipating pressure on earnings from a decline in cigarette volume perspective, as cigarettes remain the largest contributor to net revenues. PM has made meaningful progress in increasing the contribution of smoke-free products to net revenues and earnings and we continue to view the company as a stable dividend payer and defensive investment.

However, taking into consideration our expectation that valuations will remain elevated during the current volatile period, together with the ongoing overhang from declining volumes in the group's primary revenue contributor, we maintain a hold recommendation.

Table 3: Valuation table

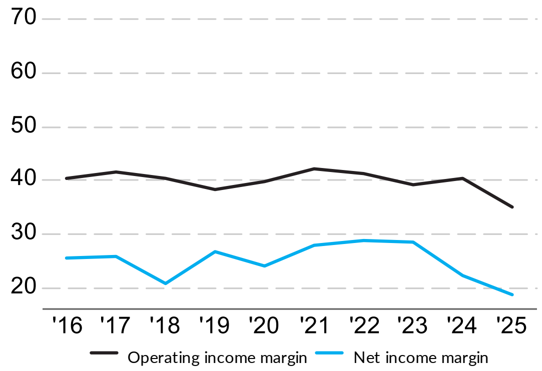
	Bear	Base	Bull	Weighted	Consensus
Scenario weight	30%	50%	20%	100%	-
FY26 est EPS	7.95	7.95	7.95	7.95	8.38
12-month rolling EPS	8.13	8.13	8.13	8.13	8.75
P:E	20	21	23	21	22
Intrinsic value	**163**	**171**	**187**	**172**	**194**
Share price	173	173	173	173	173
Upside/(downside)	**-6%**	**-1%**	**8%**	**-1%**	**12%**

Sources: PSG Wealth Research, FactSet

Graph 4: NTM P:E relative to benchmark

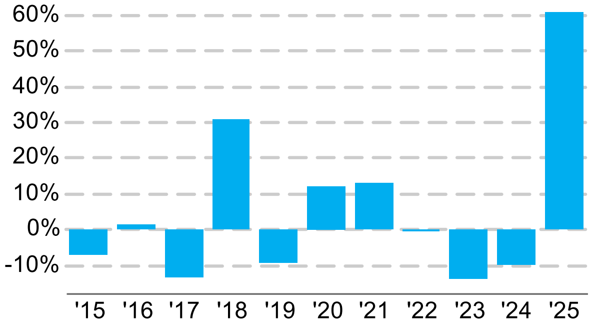
Source: FactSet

Graph 5: Profit margins (%)



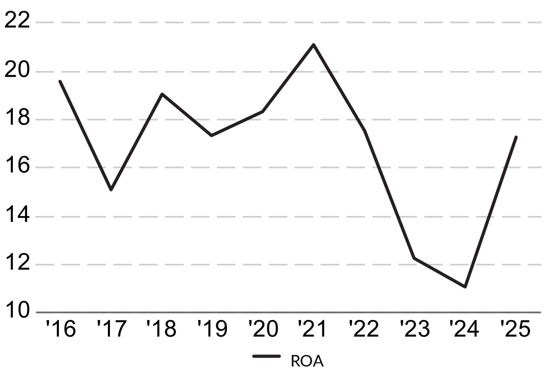
Source: FactSet

Graph 6: 10Y EPS year-on-year change



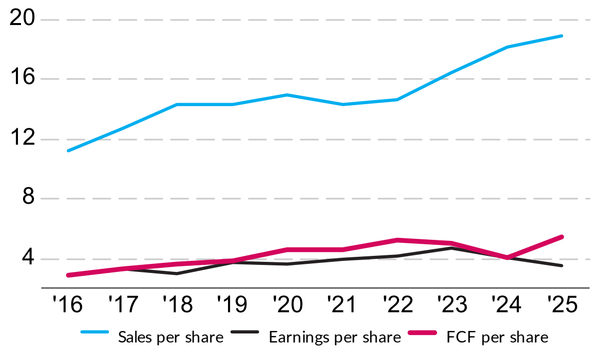
Source: FactSet

Graph 7: ROA (%)



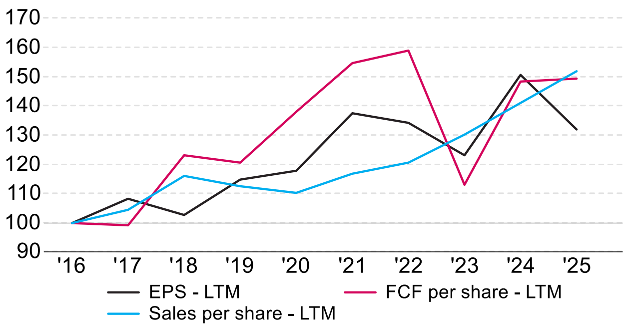
Source: FactSet

Graph 8: Sales, earnings and FCF per share ($)



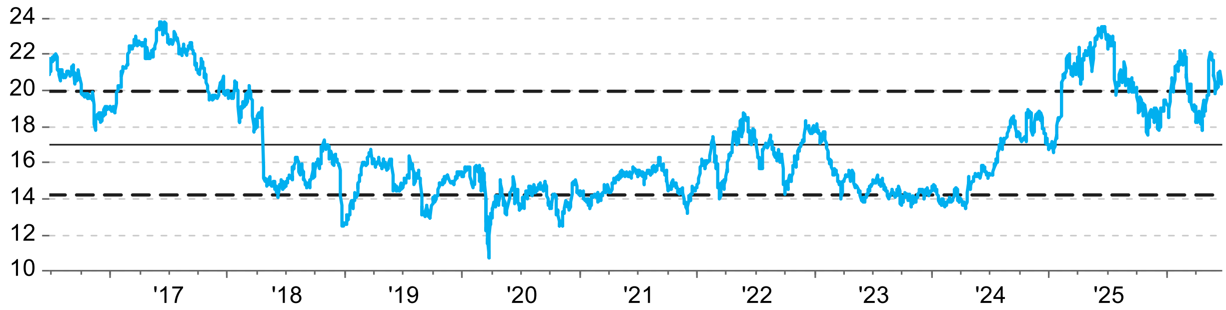
Source: FactSet

Graph 9: Sales, earnings and FCF per share indexed



Source: FactSet

Graph 10: NTM P:E



Source: FactSet

Table 4: Financials and ratios

Income statement ($Mn)	Dec 21	Dec 22	Dec 23	Dec 24	Dec 25	1Y Growth	3Y CAGR	5Y CAGR
Revenue	31 405	31 762	35 174	37 878	40 648	7%	9%	7%
Cost of sales	10 030	11 402	12 893	13 329	13 366	0%	5%	7%
Gross income	21 375	20 360	22 281	24 549	27 282	11%	10%	7%
EBIT	12 975	12 246	11 556	13 402	14 892	11%	7%	5%
EBITDA	13 963	13 435	12 954	15 189	16 888	11%	8%	6%
Net income	9 710	9 527	8 268	7 503	11 848	58%	8%	7%
EPS ($)	5.83	5.82	5.02	4.53	7.27	60%	8%	7%
Balance sheet ($Mn)	**Dec 21**	**Dec 22**	**Dec 23**	**Dec 24**	**Dec 25**	**1Y Growth**	**3Y CAGR**	**5Y CAGR**
Total assets	41 290	61 681	65 304	61 784	69 185	12%	4%	9%
Total shareholders' equity	-8 208	-6 311	-9 446	-9 870	-8 028	-19%	8%	-5%
Total liabilities	49 498	67 992	74 750	71 654	77 213	8%	4%	7%
Ratios	**Dec 21**	**Dec 22**	**Dec 23**	**Dec 24**	**Dec 25**	**5Y Avg**		
Net debt/EBITDA	1.7	2.9	2.9	2.8	2.3	2.5		
Interest coverage	13.9	12.7	6.9	5.9	7.3	9.3		
Debt/assets	68.6	70.6	74.1	74.7	71.3	71.9		

Source: FactSet

Table 5: Standard finance and investment abbreviations

Abbreviation	Definition
BATS	British American Tobacco plc
CAGR	Compound annual growth rate
EBITDA	Earnings before interest, tax, depreciation, and amortisation
EPS	Earnings per share
FCF	Free cash flow
FY	Financial year
GP	Gross profit
LTM	Last 12 months (also known as trailing)
M	Month
MO	Altria Group, Inc.
MTD	Month-to-date
NTM	Next 12 months (also known as forward)
P:E	Price to earnings
ROA	Return on assets
ROE	Return on equity
US	United States of America
Y/y	Year(s)
YTD	Year-to-date

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