

Friday Favorites- Altria

Altria (MO)

When markets reach extreme levels of volatility, as we have been witnessing, investors clamor for safety. Cash and U.S. Treasury securities are the ultimate safety assets. Following them are stocks that tend to be value-oriented and have low betas to the market.

Altria is one such company. As shown below, the S&P 500 has fallen about 8% since mid-July. MO is up a few percent over the same period. In this instance, MO and other conservative stocks have done their jobs for investors with diversified portfolios.

Given the heightened interest in safety, we highlight MO this week.

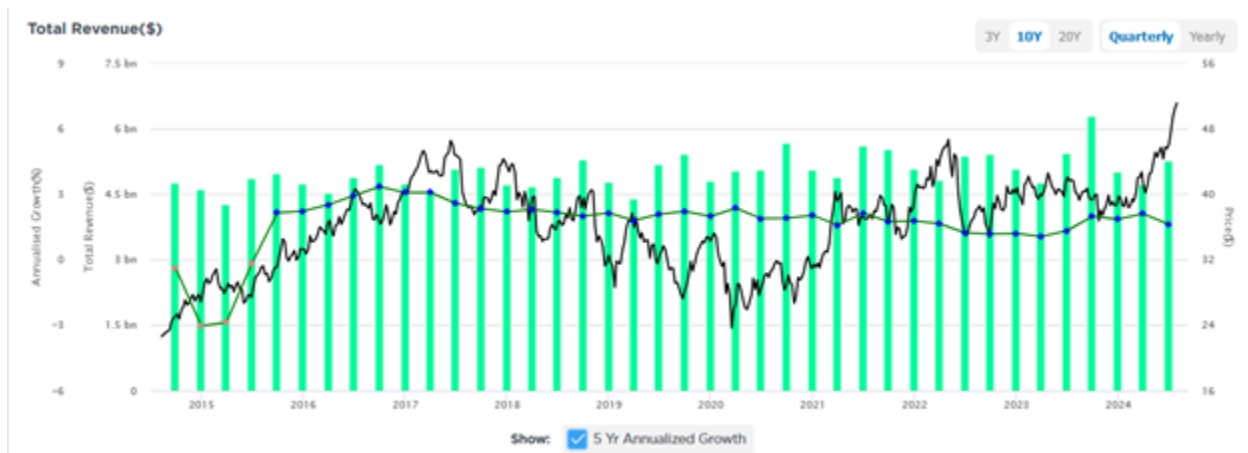


Fundamentals

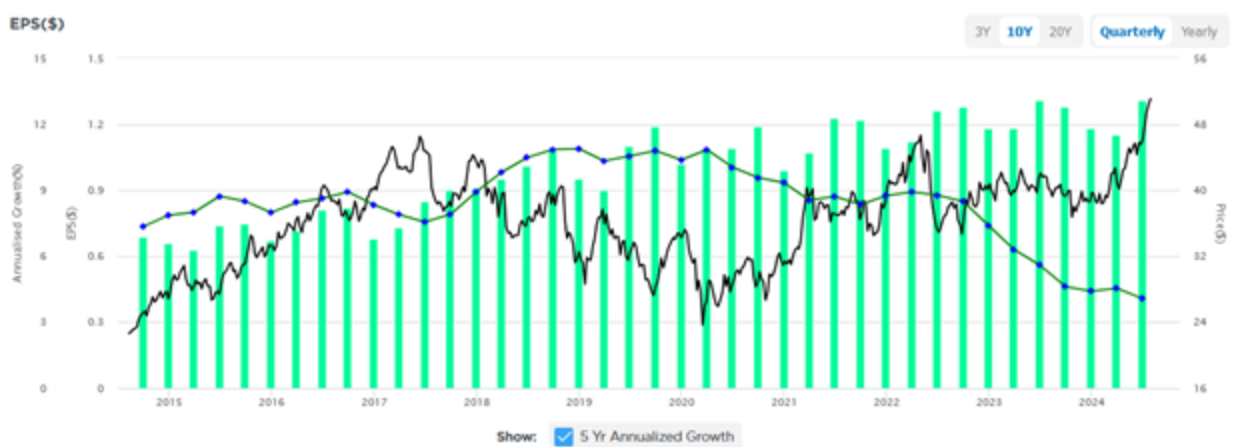
MO is a cash cow. In other words, it spits out steady income and exhibits little growth. Simply, they have little else to do with profits other than to give them back to shareholders. To invest in growth where there is little to be gained would be counterproductive, destroying shareholder value. Given that they are in the tobacco industry, their macro fundamental situation should not be surprising, nor is it likely to change.

With that in mind, consider MO pays an 8% dividend yield. Even if the stock doesn't move, investors will be compensated well.

The graph below shows its revenues have been growing at a minimal rate over the last ten years.



EPS has grown at a slightly faster rate. That is primarily a function of share buybacks, an alternative way to pay back profits to shareholders. We suspect both trends are sustainable; thus, the dividend should be safe.



MO is a good candidate for our average fair value model tool due to its steady cash flow. As shown below, despite the recent run-up in the stock price, the model still thinks MO is decently undervalued.



Lastly, its valuations are cheap, but again, given its minimal growth potential, such is to be expected. Its trailing P/E is 10.38, in line with its five-year average but below its pre-pandemic run rate.

ALTRIA (MO): PE Price to Earnings Ratio Chart



Technicals

The long-term weekly graph below shows that MO has broken out of a long-standing wedge pattern and is trading near record highs. While that is very bullish, its MACD and RSI are extremely overbought. Odds are the price will return to the old resistance line (\$47) and test it. If the resistance line holds and becomes support, i.e., the stock doesn't fall too far below the horizontal support line, a longer-term bullish trend is probable.



The short-term graph below affirms our comments above. The MACD and RSI are rolling over from extremely overbought conditions. Furthermore, MO is trading at about 20% of its 200-day moving average. The 50-day moving average (\$47) should act as the first line of support. If that fails, look to the 200-day moving average (\$42) for support.



Disclosure

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