

Equity Research

Philip Morris International Inc.

PM: Asia Remains A Land Of Opportunity For PM

Outperform / 

Sector: Tobacco

Market Weight

Company Note

- **Asia Remains PM's Key Growth Driver In 2012 And Beyond** - Based on an in-depth, bottom up analysis that we performed late last year, we continue to believe PM's business in Asia is the company's most valuable asset and is potentially worth \$75B or \$42 per share. We continue to expect PM's profits in Asia could double to \$10B by 2020. **We maintain our Outperform rating on PM shares and it remains our top stock pick for 2012.** Please see our original, detailed report on Asia published on 12/16/11 which includes an analysis of key fundamental drivers for each market in Asia, including demographics, economic growth, regulatory trends, cigarette price and consumption trends, and social attitudes toward cigarette consumption.
- **Individual Country Models Suggest Significant Growth Opportunity** - We've updated our initial country P&L's for PM's top 5 markets in Asia and have included them in this report.
- **Indonesia Will Likely Drive The Majority Of PM's Asian Growth** - Our analysis suggests Indonesia is PM's top market opportunity, as a combination of favorable demographics, economic fundamentals and competitive dynamics should allow PM's profits in Indonesia to almost quadruple to \$5.2 billion by 2020, at that point representing more than 50% of PM's total Asia segment OCI. We feel Indonesia's potential earnings power is misunderstood by the market.
- **Japan Is Highly Profitable, But Has Limited Growth Prospects** - Japan has long been among the most profitable cigarette markets in the world. We estimate that Japan represented about 46% of PM's Asia segment profit in 2011, with approximately 57% margin. Although comps will likely be challenging in 2012, we expect OCI to modestly increase, aided by a stronger yen.
- **China Could Be A Game Changer For PM** - The real upside potential for PM in China lies in the company's opportunity to exploit potential strategic alternatives for CNTC. We think of China as a call option on the stock.
- **The Philippines, Korea, And Australia Are Important Markets** - Opportunity in the Philippines' and Korea stems from the movement toward premium products. Australia is likely a challenging, but profitable market.

Valuation Range: \$87.00 to \$89.00

Our \$87-89 valuation range for PM is based on a 11x forward EV-to-EBITDA multiple and a 16.5x forward P/E multiple, representing a premium of approx. 15-20% to the respective 1-year average multiples. Our valuation range is supported by our ten-year sum-of-the-parts DCF valuation of \$87. Risks to our valuation range include currency fluctuations and a broad-based pullback in consumer spending.


Investment Thesis:

We expect PM to outperform over the long term given its (1) superior and re-invigorated Marlboro brand franchise, (2) its industry-leading, diverse brand portfolio, and (3) its impressive ROIC and improving economic profit. PM has emerged in a class of its own, and we believe it is poised for further growth and margin expansion given that it is a much more nimble, less risk averse, more innovative, and more performance-driven company than in the past.

Please see page 11 for rating definitions, important disclosures and required analyst certifications

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	2011A	2012E		2013E	
		Curr.	Prior	Curr.	Prior
EPS					
Q1 (Mar.)	\$1.06	\$1.18	NC	NE	
Q2 (June)	1.34	1.40	NC	NE	
Q3 (Sep.)	1.37	1.52	NC	NE	
Q4 (Dec.)	1.10	1.25	NC	NE	
FY	\$4.88	\$5.35	NC	\$6.00	NC
CY	\$4.88	\$5.35		\$6.00	
FY P/E	16.8x	15.3x		13.7x	
Rev.(MM)	\$31,097	\$32,253		\$33,960	

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters
 NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful
 V = Volatile,  = Company is on the Priority Stock List

Ticker	PM
Price (02/16/2012)	\$81.94
52-Week Range:	\$59-83
Shares Outstanding: (MM)	1,733.0
Market Cap.: (MM)	\$142,002.0
S&P 500:	1,358.04
Avg. Daily Vol.:	5,762,710
Dividend/Yield:	\$3.08/3.8%
LT Debt: (MM)	\$14,828.0
LT Debt/Total Cap.:	51.0%
ROE:	181.0%
3-5 Yr. Est. Growth Rate:	12.0%
CY 2012 Est. P/E-to-Growth:	1.3x
Last Reporting Date:	02/09/2012

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

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Together we'll go far



Tobacco

Company Description:

Philip Morris International is engaged in the manufacturing and marketing of cigarettes and other tobacco products outside of the United States. Headquartered in New York, the company has a wide range of premium, mid-price, and low-price brands, and its portfolio consists of both international and local brands. Philip Morris' leading brand Marlboro is the world's best-selling international cigarette.

Exhibit 1. Key Financial Data For PM's Asia Segment

Summary of Asia Segment - 2020E

Summary of Asia Segment - 2020E								
Countries	% of Total Asia Volume	Market Share	Volume (in millions of sticks)	Net Revenue (USD)	Operating Income (OCI) (USD)	Operating Margin	% of Total Asia Revenue	% of Total Asia Operating Income
Indonesia	42.3%	37.1%	185,951	\$8,808	\$5,250	59.6%	46.4%	52.3%
Japan	10.2%	33.3%	45,039	\$4,211	\$2,568	61.0%	22.2%	25.6%
Philippines	24.4%	95.7%	107,117	\$2,070	\$826	39.9%	10.9%	8.2%
South Korea	6.0%	28.3%	26,507	\$1,019	\$475	46.6%	5.4%	4.7%
Australia	1.5%	43.6%	6,631	\$1,104	\$667	60.4%	5.8%	6.6%
Other Countries	15.6%	n/a	68,416	\$1,758	\$248	14.1%	9.3%	2.5%
Total	100.0%	n/a	439,660	\$18,970	\$10,033	52.9%	100.0%	100.0%

Source: Wells Fargo Securities, LLC estimates

Summary of Asia Segment - 2011

Summary of Asia Segment - 2011								
Countries	% of Total Asia Volume	Market Share	Volume (in millions of sticks)	Net Revenue (USD)	Operating Income (OCI) (USD)	Operating Margin	% of Total Asia Revenue	% of Total Asia Operating Income
Indonesia	29.3%	31.2%	91,728	\$2,798	\$1,427	51.0%	26.1%	29.4%
Japan	19.1%	30.7%	59,957	\$4,029	\$2,216	55.0%	37.6%	45.7%
Philippines	29.2%	94.0%	91,556	\$1,286	\$444	34.5%	12.0%	9.1%
South Korea	5.7%	19.8%	17,820	\$490	\$211	43.0%	4.6%	4.3%
Australia	2.3%	37.5%	7,350	\$754	\$415	55.0%	7.0%	8.6%
Other Countries	14.3%	n/a	44,871	\$1,348	\$139	10.3%	12.6%	2.9%
Total	100.0%	n/a	313,282	\$10,705	\$4,851	45.3%	100.0%	100.0%

Source: Wells Fargo Securities, LLC estimates

Exhibit 2. Snapshot Of PM's Top Asian Markets

	Country Snapshot	Market and Brand Share	Tobacco Demographic Trends	Pricing and Taxation	Regulatory Landscape
Indonesia	PM's #1 opportunity in Asia. Profits could nearly quadruple by 2020 to \$5.2 billion from \$1.4 billion currently; 294 billion stick market (total market)	Philip Morris is the market leader in Indonesia with around 31% share. Key competitors include Gudang Garam, 20.6%; Djatun, 20.3%; and BAT/Bentoel, 7.9%. Top brands include Sampoerna A Mild (12.2% share), Dji Sam Soe (7.8% share), Marlboro (4.3% share)	Smoking prevalence: 32%, population: 248 million and growing 0.8%/yr; population aged 20+: 63%; projected long-term GDP growth: 8.5%/yr (highest of the top five)	Retail price/pack: \$1.42; Marlboro avg. price/pack: \$1.41; taxes as a % of retail price: 42%	Very favorable environment for tobacco in terms of regulation; government's Tobacco Roadmap prioritizes employment, then excise taxes, then public health
Japan	Highest revenue and operating income-generating country of PM's Asian top five; 195 billion sticks consumed annually (total market); highest margin country currently and projected to 2020; operating margins leveraging to 61% from 57%	PM's market share at the end of 2011 was 28.2%, the second-highest market share behind Japan Tobacco with a current share of around 59%. BAT has 12.1% share. Marlboro has 12% share	Smoking prevalence: 22%, population: 127 million and declining 0.3%/yr; population aged 20+: 82% (highest of the top five); projected long-term GDP growth: 3.1%/yr	Retail price/pack: \$5.18; Marlboro avg. price/pack: \$1.73; taxes as a % of retail price: 64.5%	Regulatory environment is somewhat favorable as Japan Tobacco is 50% government-owned
Philippines	Philippines is PM Asia's third largest country currently in terms of revenue and operating income and we expect the Philippines to nearly double in size by 2020. The market size is almost 100 billion sticks consumed annually	PM has 94% share; key brands include Fortune (40% share), Marlboro (21.9% share)	Smoking prevalence: 28%, population: 102 million and growing 1.6%/yr (fastest of the top five); population aged 20+: 55% (youngest of the top five); projected long-term GDP growth: 6.6%/yr	Retail price/pack: \$0.51; Marlboro avg. price/pack: \$0.73; taxes as a % of retail price: 50%	Regulatory environment tends to be more strict vs. other emerging economies such as Indonesia; graphic warning labels are mandated and Manila just enacted a smoking ban in public places
South Korea	South Korea is the fourth-largest market in PM Asia's top five countries in terms of volume, with 90 billion sticks consumed annually (total market)	In Q1 2010, PM overtook BAT to reach the No. 2 market-share position behind domestic-based KT&G; PM has nearly 20% share currently; top brands include Marlboro (9.4% share) and Parliament (7.1% share)	Smoking prevalence: 40% (highest of the top five), population: 49 million and growing 0.1%/yr; population aged 20+: 77%; projected long-term GDP growth: 5.7%/yr	Retail price/pack: \$2.44; Marlboro avg. price/pack: \$2.40; taxes as a % of retail price: 55% (PM took a price increase effective 2/10/12)	Although smoking bans are widespread in select places such as schools and hospitals, overall the climate is favorable towards tobacco companies and products
Australia	Australia is PM's fifth-largest market in its Asia segment in terms of volume with a market size of nearly 20 billion sticks ; ranks fourth in terms of revenue and operating income, due to relatively higher cigarette prices and attractive ~55% operating margin	PM has the No. 2 market-share position in Australia of 38%, behind BAT (41.8% share) and ahead of IMT (19.5% share); key brands are medium-priced Longbeach (16.0% share), premium-priced Peter Jackson (13.3% share), choice (4.6% share), Marlboro (2.4% share), and Alpine (2.0% share)	Smoking prevalence: 75%, population: 22 million and growing 1.0%/yr; population aged 20+: 75%; projected long-term GDP growth: 5.7%/yr	Retail price/pack: \$12.74; Marlboro avg. price/pack: \$14.03; taxes as a % of retail price: 60%	Unfavorable environment towards tobacco companies; government wants to decrease smoking prevalence to 10% by 2018 and to do so has passed laws such as plain packaging

Source: Company reports, Wells Fargo Securities, LLC estimates

Exhibit 3. Indonesia Country P&L

	2005	2006	2007	2008	2009	2010	2011	5-YEAR CAGR	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	5-YEAR CAGR	
Volume																			
Gross Domestic Product (GDP) PPP in \$ billions	\$669.7	\$948.3	\$643.7	\$914.6	\$953.0	\$1,054.0	\$1,121.0		\$1,216.3	\$1,319.7	\$1,431.8	\$1,553.5	\$1,685.6	\$1,825.9	\$1,984.3	\$2,153.0	\$2,336.0		
Growth rate ²	9.0%	-11.0%	8.4%	8.6%	6.1%	6.4%	3.4%		8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	
Population (in millions) ¹	242.0	245.5	234.7	237.5	240.3	243.0	245.6		247.6	249.6	251.6	253.6	255.6	257.6	259.7	261.8	263.9		
Growth rate ³	1.4%	-4.4%	1.2%	1.2%	1.1%	1.1%	0.0%		0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	
Market Size - Total Sticks Consumed (in millions) ⁴	217,000	229,000	238,000	247,000	260,000	270,300	294,000		317,500	339,746	363,529	385,340	408,461	432,968	454,617	477,348	501,215		
Growth rate	5.5%	3.9%	3.8%	5.3%	4.0%	8.8%	5.1%		8.0%	7.0%	7.0%	6.0%	6.0%	6.0%	5.0%	5.0%	5.0%	5.9%	
Yearly Average Stick Consumption/Capita	897	933	1,014	1,040	1,082	1,112	1,197		1,293	1,361	1,445	1,520	1,598	1,681	1,751	1,823	1,899		
Growth rate	4.0%	8.7%	2.6%	4.1%	4.7%	2.8%	7.6%		7.1%	6.2%	6.2%	5.2%	5.2%	5.2%	4.2%	4.2%	4.2%	5.0%	
PM Market Share ⁵	26.4%	28.3%	28.0%	29.6%	29.1%	29.1%	31.2%		31.7%	32.9%	33.5%	34.1%	34.7%	35.3%	35.9%	36.5%	37.1%		
Change	1.9%	-0.3%	1.6%	-0.5%	0.0%	2.1%	0.6%		0.5%	1.2%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	2.0%	
PM Sticks Consumed (in millions)	57,288	64,807	66,640	73,112	75,660	78,657	91,728		100,654	111,777	121,782	131,401	141,736	152,838	163,207	174,232	185,951		
Growth rate	13.1%	2.8%	9.7%	3.5%	4.0%	16.6%	7.2%		9.7%	11.1%	9.0%	7.9%	7.9%	7.9%	6.8%	6.8%	6.7%	8.0%	
Pricing																			
Average Retail Price per Pack (in rupiah)						11,533	12,445		12,605	13,362	14,163	14,871	15,615	16,396	17,216	18,076	18,980		
Taxes per Pack (in rupiah)						4,844	5,227		5,294	5,612	5,949	6,246	6,558	6,886	7,231	7,592	7,972		
Taxes as a % of Retail						42%	42%		42%	42%	42%	42%	42%	42%	42%	42%	42%		
Estimated Retail Price Growth						1.3%	7.9%		1.3%	6.0%	6.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%		
Wholesale Price per Pack (in rupiah) ⁷						4,957	5,346		5,667	6,007	6,367	6,686	7,020	7,371	7,739	8,126	8,533		
Estimated Wholesale Price Increase						7.8%	7.8%		6.0%	6.0%	6.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%		
Net Revenue (rupiah in billions)						19,486.6	24,519.4		28,519.7	33,571.5	38,771.2	43,925.2	49,749.0	56,328.0	63,157.2	70,794.6	79,334.0		
Average FX Rate (rupiah per \$)	9,713.1	9,166.8	9,140.1	9,652.0	10,372.4	9,079.9	8,764.0		9,007.2	9,007.2	9,007.2	9,007.2	9,007.2	9,007.2	9,007.2	9,007.2	9,007.2	0.3%	
Financials (in USD)																			
Net Revenue (net of excise taxes - USD in millions)						\$ 2,147.2	\$ 2,797.7		\$ 3,166.3	\$ 3,727.2	\$ 4,304.5	\$ 4,876.7	\$ 5,523.3	\$ 6,253.7	\$ 7,011.9	\$ 7,859.8	\$ 8,807.9		
Growth rate						30.3%	30.3%		13.2%	17.7%	15.5%	13.3%	13.3%	13.2%	12.1%	12.1%	12.1%	13.6%	
Operating Income (USD in millions)						\$ 966.7	\$ 1,426.8		\$ 1,646.5	\$ 1,975.4	\$ 2,324.4	\$ 2,682.2	\$ 3,093.0	\$ 3,564.6	\$ 4,066.9	\$ 4,621.6	\$ 5,249.5		
Growth rate						47.6%	47.6%		15.4%	20.0%	17.7%	15.4%	15.3%	15.2%	14.1%	13.6%	13.6%	15.6%	
Operating Margin						45.0%	51.0%		52.0%	53.0%	54.0%	55.0%	56.0%	57.0%	58.0%	58.8%	59.6%		
% of Total Asia Market Size						24%	29%		32%	34%	36%	37%	38%	39%	40%	41%	42%		
% of Total Asia Volume						26%	26%		25%	25%	26%	26%	26%	26%	26%	26%	26%	43%	
% of Total Asia Revenue						31.5%	29%		32%	35%	36%	37%	38%	39%	40%	41%	42%	46%	
% of Total Asia Operating Income						27.30	30.50		31.46	33.35	35.35	37.11	38.97	40.92	42.96	45.11	47.37	52%	
Revenue per 1,000 Sticks						12.29	15.56		16.36	17.67	19.09	20.41	21.82	23.32	24.92	26.53	28.23		
Operating Income per 1,000 Sticks																			

Source: Company Reports, Wells Fargo Securities, LLC estimates

Sources & Notes

- ¹ CIA Factbook
 - ² Forecasted growth through 2016 from IMF - thereafter our estimates.
 - ³ Forecasted population growth - Census.gov
 - ⁴ TMA and company data
 - ⁵ Company data
 - ⁶ Wholesale price per pack estimated from retail price less trade mark-up
 - ⁷ Smoking prevalence in Indonesia was 31.5% in 2010. Marlboro's share was 4.3% as of 3Q11
- Pack size varies by units. All packs converted to 20 units per pack.

Exhibit 4. Japan Country P&L

	2005	2006	2007	2008	2009	2010	2011	5-YEAR CAGR	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	9-YEAR CAGR
Volume																		
Gross Domestic Product (GDP) PPP in \$ billions 1	\$4,025.0	\$4,218.0	\$4,272.0	\$4,329.0	\$4,242.0	\$4,410.0	\$4,389.0	0.8%	\$4,463.6	\$4,535.0	\$4,607.6	\$4,681.3	\$4,756.2	\$4,832.3	\$4,909.6	\$4,988.2	\$5,068.0	1.6%
Growth rate 2	4.8%	4.8%	1.3%	1.3%	-2.0%	4.0%	-0.5%	0.8%	1.7%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%
Population (in millions) 1	127.4	127.5	127.4	127.3	127.1	126.8	126.5	-0.2%	126.1	125.7	125.3	125.0	124.6	124.2	123.8	123.5	123.1	-0.3%
Growth rate 3	0.0%	0.0%	0.0%	-0.1%	-0.2%	-0.2%	-0.3%	-0.2%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%
Market Size - Total Sticks Consumed (in millions) 4	286,000	274,000	261,000	249,000	236,000	218,900	195,300	-6.5%	187,488	179,988	172,789	165,877	159,242	152,873	146,758	140,887	135,252	-4.0%
Growth rate	-4.2%	-4.2%	-4.7%	-4.6%	-5.2%	-7.2%	-10.8%	-6.5%	-4.0%	-4.0%	-4.0%	-4.0%	-4.0%	-4.0%	-4.0%	-4.0%	-4.0%	-4.0%
Yearly Average Stick Consumption/Capita	2,245	2,150	2,048	1,956	1,857	1,726	1,544	-6.4%	1,487	1,432	1,379	1,327	1,278	1,231	1,185	1,141	1,099	-3.7%
PM Market Share 5	24.8%	24.7%	24.3%	23.9%	24.0%	24.4%	30.7%	6.3%	28.7%	29.2%	29.7%	30.3%	30.9%	31.5%	32.1%	32.7%	33.3%	1.9%
Change	-0.1%	-0.1%	-0.4%	-0.4%	0.1%	0.4%	6.3%	6.3%	-2.0%	0.5%	0.5%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
PM Sticks Consumed (in millions)	70,928	67,678	63,423	59,511	56,640	53,412	50,957	-2.4%	53,809	52,557	51,318	50,261	49,206	48,155	47,109	46,070	45,039	-2.2%
Growth rate	-4.6%	-4.6%	-6.3%	-6.2%	-4.8%	-5.7%	12.3%	-2.4%	-10.3%	-2.3%	-2.4%	-2.1%	-2.1%	-2.1%	-2.2%	-2.2%	-2.2%	-2.2%
Pricing																		
Average Retail Price per Pack (in Yen)						291.05	412.74		477.12	492.39	508.15	524.41	541.19	558.51	576.38	594.82	613.86	3.2%
Taxes per Pack (in Yen)						187.73	266.22		310.13	320.05	330.29	340.86	351.77	363.03	374.65	386.63	399.01	3.2%
Estimated Retail Price Growth						65%	65%		15.6%	65%	65%	65%	65%	65%	65%	65%	65%	65%
Wholesale Price per Pack (in Yen) 6						100.76	107.08		110.61	114.15	117.80	121.57	125.46	129.48	133.62	137.90	142.31	3.2%
Estimated Wholesale Price Increase						6.3%	6.3%		3.3%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%
Net Revenue (Yen in millions)						289,100.2	320,999.8		297,591.1	299,965.8	302,270.9	305,515.6	308,674.1	311,747.6	314,737.6	317,645.2	320,471.7	0.0%
Average FX Rate (Yen per \$)	110.1	116.3	117.8	103.4	93.6	87.7	79.7		76.1	76.1	76.1	76.1	76.1	76.1	76.1	76.1	76.1	-0.5%
Financials (in USD)																		
Net Revenue (net of excise taxes - USD in millions)						\$ 3,067.3	\$ 4,028.6		\$ 3,910.0	\$ 3,941.2	\$ 3,971.5	\$ 4,014.1	\$ 4,055.6	\$ 4,096.0	\$ 4,135.3	\$ 4,173.5	\$ 4,210.6	0.5%
Growth rate						31.3%	31.3%		-2.9%	0.8%	0.8%	1.1%	1.0%	1.0%	1.0%	0.9%	0.9%	0.9%
Operating Income (USD in millions)						\$ 1,258.3	\$ 2,215.7		\$ 2,228.7	\$ 2,266.2	\$ 2,303.5	\$ 2,348.3	\$ 2,392.8	\$ 2,437.1	\$ 2,481.2	\$ 2,525.0	\$ 2,568.5	1.7%
Operating Margin						41.0%	55.0%		57.0%	57.5%	58.0%	58.5%	59.0%	59.5%	60.0%	60.5%	61.0%	1.7%
% of Total Asia Market Size						19%	19%		17%	16%	15%	14%	13%	12%	12%	11%	10%	10%
% of Total Asia Volume						39%	38%		35%	33%	31%	30%	28%	26%	25%	24%	22%	22%
% of Total Asia Operating Income						41%	46%		43%	40%	38%	35%	33%	31%	29%	27%	26%	26%
Revenue per 1,000 Sticks						57.43	67.19		72.66	74.99	77.39	79.87	82.42	85.06	87.78	90.59	93.49	93.49
Operating Income per 1,000 Sticks						23.56	36.96		41.42	43.12	44.89	46.72	48.63	50.61	52.67	54.81	57.03	57.03

Source: Company Reports, Wells Fargo Securities, LLC estimates

Sources & Notes

- 1 CIA Factbook
- 2 Forecasted growth through 2016 from IMF - thereafter our estimates.
- 3 Forecasted population growth - Census.gov
- 4 Tobacco Institute of Japan and company data
- 5 Company data
- 6 Wholesale price per pack estimated from retail price less trade mark-up
- Smoking prevalence in Japan was 29% in 2010.
- Marlboro's share was 12% as of 3Q11.
- Pack size varies by units. All packs converted to 20 units per pack.

Exhibit 8. Consolidated Asia Segment P&L

	2005	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	5-Year CAGR
Market Size - Total Sticks Consumed in PM's Asia Region (in millions)	686,823	703,470	696,694	703,763	703,544	702,000	696,900	713,172	729,771	748,985	764,748	782,832	802,606	819,812	837,833	857,249	
PM's 5 Top Markets in Asia	459,630	465,408	472,237	480,770	487,160	428,014	428,014	428,827	430,984	431,449	432,312	432,312	433,176	434,043	434,911	435,781	
PM's Other Markets in Asia	1,162,100	1,162,100	1,176,000	1,184,314	1,179,160	1,124,314	1,124,314	1,142,042	1,159,499	1,178,873	1,196,197	1,215,144	1,236,782	1,253,894	1,272,744	1,293,029	1.6%
Growth rate		16.7%	18.3%	19.0%	19.1%	25.0%	27.9%	27.7%	28.4%	29.0%	29.7%	30.6%	31.4%	32.3%	33.1%	34.0%	
PM's Market Share in Asia Region																	
PM Sticks Consumed (in millions)	159,364	172,480	170,952	176,292	176,563	249,355	288,411	273,469	286,311	298,104	309,291	321,234	333,984	346,045	358,282	371,245	
PM's 5 Top Markets in Asia	13,336	22,120	42,193	47,432	47,692	32,355	44,571	42,652	43,094	44,345	46,582	50,297	54,310	58,655	63,346	68,416	
PM's Other Markets in Asia	173,300	194,600	213,145	223,724	226,304	282,290	313,262	310,986	323,316	347,489	359,684	371,921	386,294	404,700	421,630	439,660	4.2%
Growth rate		12.3%	9.5%	5.0%	1.1%	24.6%	11.0%	0.9%	4.2%	4.0%	3.9%	4.4%	4.5%	4.2%	4.2%	4.3%	
Net Revenue (net of excise taxes - in USD millions)	4,391	5,172	5,649	6,185	6,528	7,935	10,705	11,165	11,693	12,763	13,577	14,472	15,491	16,547	17,685	18,970	6.8%
PM's 5 Top Markets in Asia						\$7,413	\$9,957	\$9,910	\$10,559	\$11,332	\$12,118	\$12,985	\$13,943	\$14,938	\$16,021	\$17,212	
PM's Other Markets in Asia						1,522	1,349	1,325	1,403	1,431	1,459	1,488	1,548	1,610	1,674	1,758	
Total						8,935	11,305	11,490	12,056	12,794	13,577	14,473	15,491	16,547	17,695	18,970	
Growth rate		17.8%	9.2%	9.5%	5.5%	21.6%	34.9%	4.8%	6.9%	6.7%	6.6%	6.6%	7.0%	6.8%	6.9%	7.2%	6.8%
Operating Income (in USD millions)	1,809	1,858	1,831	2,071	2,436	3,014	\$4,712	\$5,046	\$5,494	\$5,967	\$6,461	\$7,013	\$7,632	\$8,287	\$8,997	\$9,786	8.6%
PM's 5 Top Markets in Asia						55	130	143	148	152	160	172	186	201	221	248	
PM's Other Markets in Asia						3,069	4,651	4,903	5,346	5,815	6,301	6,841	7,447	8,086	8,776	9,538	
Total						3,124	4,781	5,046	5,494	5,967	6,461	7,013	7,632	8,287	8,997	9,786	
Growth rate		4.4%	-3.0%	13.1%	17.6%	26.0%	56.1%	7.0%	8.7%	8.5%	8.2%	8.5%	8.8%	8.6%	8.6%	8.6%	8.6%
Operating Margin	41.2%	36.5%	32.4%	33.5%	37.3%	38.7%	45.3%	51.4%	52.0%	52.7%	53.3%	54.0%	54.7%	55.5%	56.2%	56.9%	
PM's 5 Top Markets in Asia						10.6%	10.3%	10.4%	10.5%	10.6%	10.9%	11.6%	12.0%	12.5%	13.2%	14.1%	
PM's Other Markets in Asia						38.7%	45.3%	46.4%	47.2%	47.9%	48.8%	49.6%	50.5%	51.3%	52.1%	52.9%	
Total						38.7%	45.3%	46.4%	47.2%	47.9%	48.8%	49.6%	50.5%	51.3%	52.1%	52.9%	
Revenue per 1,000 Sticks	25.34	26.58	26.50	27.65	28.86	28.11	34.17	\$35.87	\$36.88	\$38.01	\$39.18	\$40.42	\$41.75	\$43.17	\$44.71	\$46.36	3.3%
PM's 5 Top Markets in Asia						15.86	30.04	32.26	32.58	32.26	31.34	29.60	28.50	27.45	26.43	25.69	
PM's Other Markets in Asia						28.11	34.17	35.39	36.32	37.27	38.15	39.96	39.89	40.89	41.97	43.15	
Total						28.11	34.17	35.39	36.32	37.27	38.15	39.96	39.89	40.89	41.97	43.15	
Growth rate		9.7%	8.5%	9.2%	10.7%	10.87	15.48	16.42	17.13	17.87	18.50	19.34	20.13	20.97	21.86	22.82	4.2%
Operating Income per 1,000 Sticks	10.44	9.70	8.59	9.26	10.77	10.87	15.48	\$18.45	\$19.19	\$20.02	\$20.89	\$21.83	\$22.85	\$23.95	\$25.11	\$26.36	4.6%
PM's 5 Top Markets in Asia						3.43	3.10	3.36	3.43	3.43	3.43	3.43	3.43	3.43	3.49	3.62	
PM's Other Markets in Asia						10.87	15.48	16.42	17.13	17.87	18.50	19.34	20.13	20.97	21.86	22.82	
Total						10.87	15.48	16.42	17.13	17.87	18.50	19.34	20.13	20.97	21.86	22.82	
Growth rate						10.87	15.48	16.42	17.13	17.87	18.50	19.34	20.13	20.97	21.86	22.82	4.2%
Discounted Cash Flow Analysis																	
Adjusted OCI	\$1,809	\$1,868	\$1,831	\$2,071	\$2,436	\$3,069	\$4,851	\$5,189	\$5,641	\$6,119	\$6,620	\$7,185	\$7,818	\$8,488	\$9,218	\$10,033	8.6%
Less: Amortization ¹			(7)	(11)	(19)	(26)	(34)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	
Less: General Corporate Exp ¹			(31)	(34)	(41)	(52)	(63)	(66)	(79)	(94)	(111)	(108)	(117)	(127)	(138)	(151)	
EBIT			1,793	2,026	2,376	2,992	4,754	5,095	5,534	5,966	6,485	7,049	7,672	8,332	9,051	9,854	8.6%
Less: Cash Taxes			527	588	606	858	1,396	1,503	1,632	1,769	1,912	2,044	2,225	2,416	2,625	2,858	8.4%
NOPAT			1,266	1,429	1,680	2,134	3,358	3,592	3,901	4,227	4,569	5,005	5,447	5,916	6,426	6,997	8.7%
Add: Depreciation			194	244	266	332	366	389	418	450	485	524	566	611	660	713	7.9%
Add: Amortization			7	11	19	26	34	29	29	29	29	29	29	29	29	29	0.0%
Less: Capital Expenditures			(236)	(173)	(116)	(161)	(146)	(152)	(160)	(169)	(179)	(190)	(201)	(213)	(226)	(239)	
+/- Changes in working capital ¹			(396)	(82)	144	366	(167)	151	111	(63)	71	(20)	(20)	(20)	(20)	(20)	
Unlevered Free Cash Flow			835	1,478	2,013	2,697	3,447	4,009	4,299	4,474	4,975	5,348	5,820	6,322	6,869	7,478	8.1%
Unlevered Free Cash Flow Growth Rate			77%	77%	36%	34%	28%	16%	7%	4%	11%	7%	9%	9%	9%	9%	
Year								1.00	2.00	3.00	4.00	5.00	6.00	7.00	8.00	9.00	
Present Value Discount Factor								0.9067	0.8221	0.7454	0.6758	0.6128	0.5556	0.5037	0.4567	0.4141	
Present Value of Free Cash Flow								3,635	3,534	3,335	3,362	3,277	3,234	3,185	3,137	3,097	
Terminal Value Forecast								3.0%									
Total PV of Unlevered Free Cash Flow								\$29,795									
Terminal Value								\$43,746									
Total Enterprise Value								\$72,541									
Shares Outstanding								1,733									
Current Fair Value for PM's Asia Business								\$42.44									

Source: Company reports, Wells Fargo Securities, LLC Estimates

Tobacco

Philip Morris International (PM) - Quarterly Earnings Model

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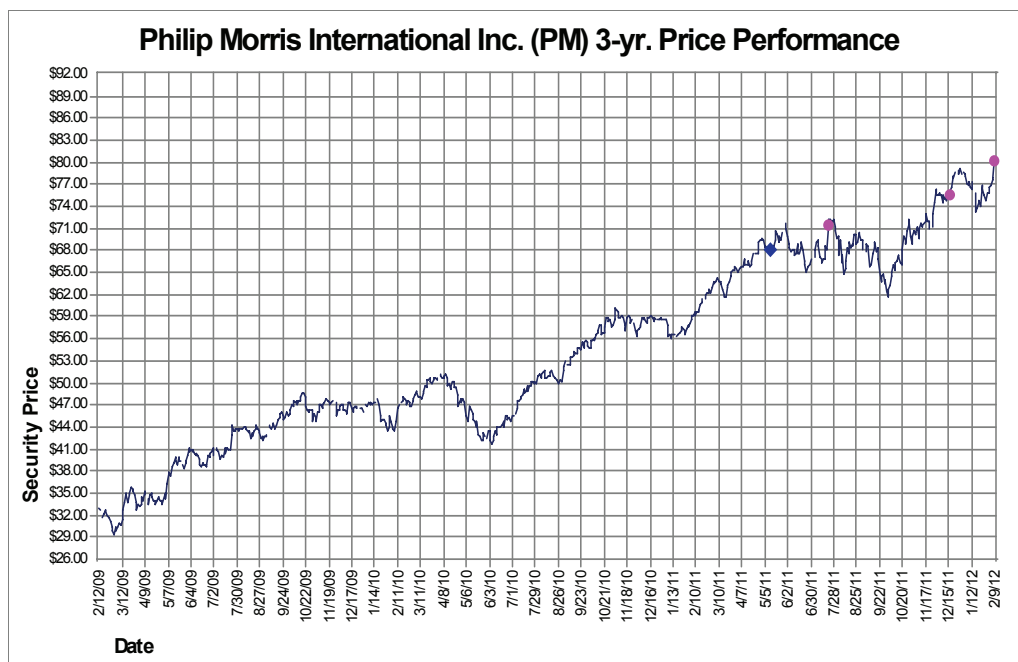
(SMM, except per-share data)
Source: Wells Fargo Securities, LLC estimates and company reports; consensus from FactSet

	2007	2008	2009	2010	1Q11	2Q11	3Q11	4Q11	2011	1Q12E	2Q12E	3Q12E	4Q12E	2012E	2013E
Gross Revenue	55,243	63,640	62,080	67,713	16,530	20,234	20,706	18,576	76,346	18,189	20,888	21,149	19,903	80,130	82,971
Excise Taxes on Products	32,433	37,935	37,045	40,505	9,739	11,961	12,344	11,205	45,249	10,976	12,547	12,538	11,816	47,877	49,011
Net Revenue (net of excise taxes)	22,810	25,705	25,035	27,208	6,791	8,273	8,362	7,671	31,097	7,213	8,342	8,611	8,087	32,253	33,960
Cost of Sales	8,711	9,328	9,022	9,713	2,295	2,844	2,847	2,692	10,678	2,402	2,826	2,889	2,798	10,914	12,090
% of Net Revenue	38.2%	36.3%	36.0%	35.7%	33.8%	34.4%	34.0%	35.1%	34.3%	33.3%	33.9%	33.5%	34.6%	33.8%	35.6%
Gross profit	14,099	16,377	16,013	17,495	4,496	5,429	5,515	4,979	20,419	4,812	5,516	5,722	5,289	21,339	21,871
gross margin	61.8%	63.7%	64.0%	64.3%	66.2%	65.6%	66.0%	64.9%	65.7%	66.7%	66.1%	66.5%	65.4%	66.2%	64.4%
SG&A	4,961	5,735	5,578	5,983	1,408	1,647	1,721	1,921	6,697	1,542	1,731	1,673	1,967	6,913	6,437
% of Net Revenue	21.7%	22.3%	22.3%	22.0%	20.7%	19.9%	20.6%	25.0%	21.5%	21.4%	20.8%	19.4%	24.3%	21.4%	19.0%
Operating profit (OCI)	9,138	10,642	10,435	11,512	3,088	3,782	3,794	3,058	13,722	3,270	3,785	4,049	3,323	14,426	15,434
OCI margin	40.1%	41.4%	41.7%	42.3%	45.5%	45.7%	45.4%	39.9%	44.1%	45.3%	45.4%	47.0%	41.1%	44.7%	45.4%
Amortization	28	44	74	88.0	24.0	24.0	25.0	25.0	98.0	24.5	24.5	24.5	24.5	98.0	98.0
General corporate expenses	124	142	157	177	41	45	49	48	183	50	58	60	57	226	272
% of Net Revenue	0.5%	0.6%	0.6%	0.7%	0.6%	0.5%	0.6%	0.6%	0.6%	0.7%	0.7%	0.7%	0.7%	0.7%	0.8%
EBIT (incl. minority interest)	8,986	10,456	10,204	11,247	3,023	3,713	3,720	2,985	13,441	3,195	3,702	3,964	3,241	14,102	15,064
EBIT Margin	39.4%	40.7%	40.8%	41.3%	44.5%	44.9%	44.5%	38.9%	43.2%	44.3%	44.4%	46.0%	40.1%	43.7%	44.4%
Interest expenses, net	209	311	797	876	213	208	192	187	800	206	206	206	206	824	839
Pretax Income	8,777	10,145	9,407	10,371	2,810	3,505	3,528	2,798	12,641	2,989	3,496	3,758	3,036	13,278	14,225
Income taxes	2,581	2,992	2,755	2,973	834	1,033	1,027	817	3,712	882	1,031	1,109	895	3,917	4,196
Minority interest in earnings, net of income tax	276	260	210	239	68	76	84	60	288	71	80	88	63	302	296
Earnings attributable to share-based payment	15	23	33	33	10	14	14	11	49	9	9	9	9	35	35
Net Income	5,920	6,878	6,419	7,126	1,898	2,382	2,403	1,910	8,592	2,027	2,376	2,553	2,068	9,024	9,698
Basic shares outstanding	2,109	2,068	1,943	1,839	1,793	1,772	1,749	1,733	1,761	1,712	1,692	1,673	1,656	1,683	1,613
Diluted shares outstanding	2,109	2,078	1,950	1,842	1,794	1,772	1,749	1,733	1,762	1,715	1,695	1,676	1,659	1,686	1,616
Recurring Diluted EPS	2.81	3.31	3.29	3.87	1.06	1.34	1.37	1.10	4.88	1.18	1.40	1.52	1.25	5.35	6.00
Dividend per share	\$0.00	\$1.54	\$2.24	\$2.44	\$0.64	\$0.64	\$0.77	\$0.77	\$2.82	\$0.77	\$0.77	\$0.84	\$0.84	\$3.21	\$3.60
Effective tax rate	29.4%	28.1%	29.1%	28.7%	29.7%	29.5%	29.1%	29.2%	29.4%	29.5%	29.5%	29.5%	29.5%	29.5%	29.5%

	2007	2008	2009	2010	1Q11	2Q11	3Q11	4Q11	2011	1Q12E	2Q12E	3Q12E	4Q12E	2012E	2013E
Total Volume		2.5%	-0.7%	4.1%	1.6%	0.1%	4.5%	0.7%	1.7%	0.9%	0.7%	0.2%	1.1%	0.7%	1.5%
Gross Revenue		15.2%	-2.5%	9.1%	6.0%	16.4%	22.3%	6.0%	12.7%	10.0%	3.2%	2.1%	5.4%	5.0%	3.5%
Excise Taxes		17.0%	-2.3%	9.3%	7.1%	15.9%	19.6%	4.0%	11.7%	12.7%	4.9%	1.6%	5.5%	5.8%	2.4%
Net Revenue		12.7%	-2.6%	8.7%	4.5%	17.2%	26.4%	9.0%	14.3%	6.2%	0.8%	3.0%	5.4%	3.7%	5.3%
Net Revenue Excluding Currency & Acquisitions		6.6%	5.3%	3.4%	2.7%	10.1%	15.7%	8.2%	9.2%	7.5%	3.9%	4.8%	6.6%	5.8%	5.3%
Net Revenue Excl. Currency Incl. Acquisitions		6.6%	7.5%	5.9%	4.3%	10.2%	15.9%	8.4%	9.7%	7.5%	3.9%	4.8%	6.6%	5.8%	5.3%
Cost of Sales		7.1%	-3.3%	7.7%	-3.2%	11.5%	24.3%	7.6%	9.9%	4.6%	-0.6%	1.5%	3.9%	2.2%	10.8%
Gross Profit		16.2%	-2.2%	9.3%	9.0%	20.4%	27.5%	9.8%	16.7%	7.0%	1.6%	3.8%	6.2%	4.2%	2.5%
SG&A Expense		15.6%	-2.7%	7.3%	4.2%	7.2%	22.8%	13.4%	11.9%	9.5%	5.1%	-2.8%	2.4%	3.2%	-6.9%
Operating Profit - OCI		16.5%	-1.9%	10.3%	11.4%	27.2%	29.8%	7.6%	19.2%	5.9%	0.1%	6.7%	8.7%	5.1%	7.0%
OCI Excluding Currency & Acquisitions		9.8%	8.7%	5.8%	8.0%	16.5%	23.7%	7.0%	14.0%	8.4%	3.6%	8.2%	9.9%	7.4%	7.0%
OCI Excl. Currency Incl. Acquisitions		11.2%	11.1%	7.0%	8.8%	16.5%	23.7%	7.1%	14.2%	8.4%	3.6%	8.2%	9.9%	7.4%	-
Net Income		16.2%	-6.7%	11.0%	11.9%	29.2%	31.3%	8.7%	20.6%	6.8%	-0.3%	6.2%	8.3%	5.0%	7.5%
EPS		17.9%	-0.5%	17.5%	17.2%	34.8%	37.4%	13.5%	26.1%	11.8%	4.3%	10.8%	13.2%	9.7%	12.1%
EPS Excluding Currency		12.0%	14.7%	13.5%	14.1%	22.2%	30.2%	13.0%	20.1%	14.8%	8.4%	12.6%	14.6%	12.1%	12.1%
YOY Growth per Stock															
Gross Revenue		12.4%	-1.8%	4.7%	4.4%	16.3%	17.0%	5.2%	10.9%	9.0%	2.5%	2.0%	4.3%	4.2%	2.0%
Excise Taxes		14.1%	-1.7%	5.0%	5.5%	15.8%	14.4%	3.3%	9.8%	11.7%	4.1%	1.4%	4.3%	5.0%	0.8%
Net Revenue		10.0%	-2.0%	4.4%	2.9%	17.1%	21.0%	8.2%	12.4%	5.3%	0.1%	2.8%	4.2%	3.0%	3.7%
Cost of Sales		4.5%	-2.6%	3.4%	-4.7%	11.4%	19.0%	6.8%	8.1%	3.7%	-1.4%	1.3%	2.7%	1.5%	9.1%
Gross Profit		13.3%	-1.6%	4.9%	7.4%	20.2%	22.0%	9.0%	14.7%	6.0%	0.9%	3.6%	5.0%	3.7%	1.0%
SG&A Expense		12.8%	-2.1%	3.0%	2.6%	7.1%	17.5%	12.6%	10.0%	8.5%	4.3%	-2.9%	1.2%	2.5%	-8.3%
Operating Profit		13.6%	-1.3%	5.9%	9.7%	27.1%	24.2%	6.8%	17.2%	4.9%	-0.7%	6.5%	7.4%	4.4%	5.4%
Net Income		13.4%	-6.0%	6.6%	10.2%	29.1%	25.7%	7.9%	18.5%	5.8%	-1.0%	6.0%	7.1%	4.3%	5.9%
Margins															
Gross Profit Margin		61.8%	63.7%	64.0%	64.3%	66.2%	65.6%	66.0%	65.7%	66.7%	66.1%	66.5%	65.4%	66.2%	64.4%
Operating Profit (OCI) Margin		40.1%	41.4%	41.7%	42.3%	45.5%	45.7%	45.4%	44.1%	45.3%	45.4%	47.0%	41.1%	44.7%	45.4%
Operating Profit (OCI) Margin Excluding Curr		40.1%	41.3%	42.7%	42.6%	44.9%	44.6%	47.3%	44.2%	45.9%	45.6%	46.9%	41.1%	44.9%	45.4%
Net Margin		26.0%	26.8%	25.6%	26.2%	27.9%	28.8%	28.7%	27.6%	28.1%	28.5%	29.6%	25.6%	28.0%	28.6%

Segment Data	2007	2008	2009	2010	1Q11	2Q11	3Q11	4Q11	2011	1Q12E	2Q12E	3Q12E	4Q12E	2012E	2013E
Volume (Million Units)															
European Union	257,541	243,451	235,300	222,964	48,522	57,193	56,198	49,580	211,493	49,250	56,049	54,793	48,836	208,928	201,616
Eastern Europe, Middle East & Africa	290,310	303,205	298,760	289,312	63,643	75,336	79,053	72,218	290,250	64,598	78,349	79,053	72,218	294,218	300,102
Asia	211,480	223,724	226,204	282,290	72,092	84,042	79,053	78,095	313,282	71,371	83,202	80,634	80,889	316,096	329,364
Latin America & Canada	89,307	99,377	103,779	105,290	23,663	24,606	25,243	26,729	100,241	24,610	25,344	25,495	27,264	102,713	104,767
Total Volume	848,638	869,757	864,043	899,856	207,920	241,177	239,547	226,622	915,266	209,828	242,944	239,976	229,207	921,956	935,850
Growth		2.5%	-0.7%	4.1%	1.6%	0.1%	4.5%	0.7%	1.7%	0.9%	0.7%	0.2%	1.1%	0.7%	1.5%
Net Revenue (net of excise taxes)															
European Union	8,835	9,688	9,041	8,811	2,001	2,497	2,506	2,208	9,212	2,122	2,472	2,504	2,251	9,349	9,446
Eastern Europe, Middle East & Africa	6,346	7,504	6,795	7,409	1,687	2,012	2,210	1,972	7,881	1,815	2,072	2,276	2,090	8,253	8,839
Asia	5,648	6,185	6,528	7,935	2,323	2,936	2,799	2,647	10,705	2,461	2,950	2,941	2,833	11,185	11,963
Latin America & Canada	1,981	2,328	2,671	3,053	780	828	847								

Required Disclosures



	Date	Publication Price (\$)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price (\$)
	5/12/2011		Herzog			
◆	5/12/2011	68.10	1	74.00	76.00	68.21
●	7/21/2011	71.49	1	77.00	79.00	71.49
●	12/16/2011	75.92	1	81.00	83.00	75.60
●	2/9/2012	80.06	1	87.00	89.00	80.06

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key

▼	Rating Downgrade	◆	Initiation, Resumption, Drop or Suspend
▲	Rating Upgrade	■	Analyst Change
●	Valuation Range Change	□	Split Adjustment

Rating Code Key

1	Outperform/Buy	SR	Suspended
2	Market Perform/Hold	NR	Not Rated
3	Underperform/Sell	NE	No Estimate

Additional Information Available Upon Request

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2=Market Perform: The stock appears appropriately valued, and we believe the stock's total return will be in line with the market over the next 12 months. HOLD

3=Underperform: The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

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O=Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

M=Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

U=Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

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V = A stock is defined as volatile if the stock price has fluctuated by +/-20% or greater in at least 8 of the past 24 months or if the analyst expects significant volatility. All IPO stocks are automatically rated volatile within the first 24 months of trading.

As of: February 16, 2012

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