

"2 Consumer Staples Dividend Stocks Beating The Market"

Looking for stable dividend stocks to ride out the ups and downs of the market in the last half of the year? The final 6 months, especially October, are often more volatile than the 1st half of the year. Historically, October has been 40% more volatility than the 11 other months. Couple that with October and September having the lowest average historical returns, and you can see why investors seek out defensive stocks to hide behind during the last 2 quarters.

In spite of its negative health and moral issues, the tobacco industry continues to serve income investors well in the market. While many high dividend stocks sectors and industries have been under pressure over the past 10 months, (such as Utilities, REIT's and Energy-related LP's), the tobacco industry has held up well.

In fact, these 2 well-known tobacco stocks, Altria, (MO), and Philip Morris, (PM), have outperformed the S&P 500 over the past month, quarter, and year-to-date. MO has a much lower Beta than PM, indicating more resiliency in adverse markets:

Ticker	Performance (Month)	Performance (Quarter)	Performance (1 Year)	Performance (YTD)	Beta	52-Week High	52-Week Low
MO	8.59%	3.14%	32.95%	11.28%	0.53	-3.61%	38.80%
PM	4.26%	1.97%	4.47%	7.74%	0.95	-1.70%	14.99%
S&P 500	0.56%	1.26%	8.99%	3.57%	1.00	-0.73%	16.40%

Profiles: Altria Group, Inc., (MO). through its subsidiaries, manufactures and sells cigarettes, cigars, smokeless products, and wine in the United States and internationally. Altria's wholly-owned subsidiaries include Philip Morris USA Inc., U.S. Smokeless Tobacco Company LLC, John Middleton Co., Nu Mark LLC, Ste. Michelle Wine Estates Ltd., and Philip Morris Capital Corporation. Altria holds a continuing economic and voting interest in SABMiller plc.

The brand portfolios of Altria's tobacco operating companies include *Marlboro*®, *Black & Mild*®, *Copenhagen*®, *Skoal*®, *MarkTen*® and *Green Smoke*®. Ste. Michelle produces and markets premium wines sold under various labels, including *Chateau Ste. Michelle*®, *Columbia Crest*®, *14 Hands*® and *Stag's Leap Wine Cellars*™, and it imports and markets *Antinori*®, *Champagne Nicolas Feuillatte*™, *Torres*® and *Villa Maria Estate*™ products in the United States.

Philip Morris International Inc., (PM), through its subsidiaries, manufactures and sells cigarettes, other tobacco products, and other nicotine-containing products. Its portfolio of brands comprise Marlboro, Merit, Parliament, Virginia Slims, L&M, Chesterfield, Bond Street, Lark, Muratti, Next, Philip Morris, and Red & White. The company also owns various cigarette brands comprising Sampoerna, Dji Sam Soe, and U Mild in Indonesia; Fortune, Champion, and Hope in the Philippines; Diana in Italy; Optima and Apollo-Soyuz in Russia; Morven Gold in Pakistan; Boston in Colombia; Belmont, Canadian Classics, and Number 7 in Canada; Best and Classic in Serbia; f6 in Germany; Delicados in Mexico; Assos in Greece; and Petra in the Czech Republic and Slovakia. It sells its products in approximately 180 countries in the European Union, Eastern Europe, the Middle East, Africa, Asia, Latin America, and Canada. The company was incorporated in 1987 and is headquartered in New York, New York.

Dividends: Our [High Dividend Stocks By Sector Tables](#) track both MO and PM, in the Consumer Staples section.

PM has a higher dividend yield, a much higher 5-year dividend growth rate, and a lower dividend payout ratio.

Ticker	Dividend Yield	Payout Ratio	Most Recent Dividend	Next Ex-Dividend Date (approx.)	Next Pay Date (approx.)	5-Year Dividend Growth Rate
MO	3.87%	81.60%	\$0.52	9/11/15	10/10/15	4.95%
PM	4.67%	66.30%	\$1.00	9/23/15	10/10/15	11.61%

Options: Our [Covered Calls Table](#) and [Cash Secured Puts Table](#) don't show options trades for MO or PM at present, as their options yields aren't that attractive now. However, we maintain coverage on over 30 other options-selling income trades in these tables.

Earnings:

Ticker	Sales Growth Past 5 Years	EPS growth past 5 years	EPS growth next 5 years
MO	0.80%	10.70%	8.27%
PM	3.50%	8.00%	6.03%

As you can see, these stocks aren't big growth stories - in fact, PM's EPS will probably decrease in 2015, before bouncing back in 2016, while MO is forecasted to have high single-digit growth in both 2015 and 2016:

Ticker	P/E (ttm)	ESTIMATED EPS GROWTH % : 2015	PEG: CURRENT YEAR	ESTIMATED EPS GROWTH % : NEXT YEAR	PEG NEXT YEAR
MO	21.66	9.34%	2.18	7.83%	2.60
PM	17.99	-11.55%	-1.55	6.98%	2.56

Valuations: Due to their price gains and slow EPS growth, both stocks are currently trading at the high end of their 5-year P/E ranges, but they're still lower than industry averages. PM has a negative Book Value, resulting from its large buyback program, which was funded largely by debt.

Ticker	Company	Market Cap	P/E	Forward P/E	5-Year P/E Range	P/S	P/B
MO	Altria Group Inc.	\$105.62B	21.66	17.70	13.16 to 21.66	4.26	41.64
PM	Philip Morris International	\$132.62B	17.99	18.03	14.92 to 17.99	4.5	Negative Book Value
	INDUSTRY AVGS.	\$79.54B	30.45	N/A	18.10 to 27.68	3.83	18.81

Analysts' Targets: MO is a bit further away from the consensus price target, whereas PM is only 2% below it at this point.

Ticker	7/21/15 Price	Analysts' AVG. Target Price	Discount From AVG. Target Price
MO	\$53.55	\$57.33	-6.59%
PM	\$85.54	\$87.27	-1.98%

Financials: MO wins the day on ROA and ROE, but PM has a higher Operating Margin and ROI. Once again, PM's negative ROE stems from negative Equity, due to its usage of debt to fund share buybacks and pensions, in addition to incurring some currency translation losses.

Ticker	Return on Assets	Return on Equity	Return on Investment	Total Debt/Equity	Current Ratio	Operating Margin
MO	14.40%	137.70%	27.50%	5.49	0.80	31.70%
PM	26.40%	-81.00%	51.10%	Negative Equity	1.00	41.20%
INDUSTRY AVGS.	32.51%	58.04%	53.81%	2.94	1.42	16.75%

Disclaimer: This article is for informational purposes only, and is not intended as investment advice.

Disclosure: Author owns no shares of any stock mentioned in this article at the time of publishing.

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