June 21, 2012

RICK SNYDER OKS NEW LAWS ON ISSUES RANGING FROM PLASTIC TO PROPERTY TAXES

By Tim Martin
MLive (MI)
June 20, 2012

Gov. Rick Snyder has signed a wave of new Michigan laws covering a wide range of issues from property taxes to plastic containers.

Some of the bill-signing announcements from this week:

• Property taxes: Local governments in Michigan could collect property taxes sooner -- in the summer -- if taxpayers owe $100 or less in the winter. The legislation would cut postage bills and administrative costs for local governments, including Grand Rapids. But some taxpayers might not be happy about the change because a portion of their payments could be accelerated.

• Tobacco stamps: Digital information stamps will be required on cigarette products. A coalition of tobacco shops specializing in "roll-your-own" cigarettes opposed the bill, saying it would raise their costs.

• Plastic bulk containers: Identification will be required for a sale of 10 or more plastic bulk merchandise containers at a recycling shop. The legislation is designed to deter the theft of the containers. The containers are sometimes stolen and sold to plastic recyclers.

• Health care directives: A "Peace of Mind" registry will be created and maintained by the Department of Community Health. It's a voluntary, online registry for people to specify decisions about their health care ahead of time in case it's needed for a medical emergency. Supporters say the registry will allow health care wishes to be accessible wherever a person travels in the U.S. The registry will be developed and maintained through financial support from Michigan's Gift of Life Foundation.

• Gaming: Approved legislation will allow a wider range of non-profit organizations to apply for licenses to run charitable bingo games and raffles.

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LAWSUITS FILED OVER TOBACCO TAX BILLS

By Penny L. Pool
The Randolph Leader (AL)
June 20, 2012

Last week Ashland attorney Gregory M. Varner filed lawsuits in circuit court in both his home county of Clay and in Randolph County against the local legislative delegation's tobacco tax bills,

The lawsuits are seeking judgments that Senate Bill 486 relating to Randolph County and Senate Bill 476 in Clay County are unconstitutional.

Being sued in Randolph County are state Sen. Gerald Dial, Rep. Richard Laird, Rep. DuWayne Bridges, Dr. Marquita Davis, Alabama's director of finance, and Thomas L. Wright Jr., the state comptroller.

Varner filed the five-count lawsuit on behalf of the Randolph County Industrial Development Council, the Randolph County Water, Sewer, and Fire Protection Authority and as individuals: Hutch Hammond, Faye Sims Smith and Todd Freeman. He said there is some belief that only individuals have standing to sue.

Freeman, Hammond and Smith are listed as Randolph County citizens and taxpayers. Davis and White are sued in their official capacities.

Varner alleges SB 486 is unconstitutional, void and invalid and says plaintiffs want an injunction, both temporary and permanent, preventing the alteration and modification in distribution of Randolph County's tobacco tax receipts.

Ultimately Varner said the suits are designed to have each of the bills in each county set aside as unconstitutional.

Additionally, with the redistricting of Clay there will be taxation without representation. Citizens will pay the tobacco tax to the District Community Service Grant Authority now controlled by Dial, Bridges and Laird but after redistricting takes effect the money will be controlled by people not representing Clay County. After 2014 parts of the county will be represented by another senator and two other representatives who are not members of the grant authority. Clay will no longer be in Laird's district and much of it will no longer be in Dial's district.

"The reason we're bringing the suit is, number one, the bills were passed against the overwhelming objections of all the counties. We're protecting the taxpayers' money and, in the words used by the governor, shutting down a slush fund that is unconstitutional," Varner said.

The Randolph County Industrial Development Council is a plaintiff because when the bill becomes effective July 1 it restricts the council's authority to govern its own affairs and limits its use of funds, according to the complaint.

It will cause imminent and irreparable damage to the two authorities (Water Authority and Industrial Development Council), terminating the expansion of planned water line extensions that would provide water to many rural communities and would include the likely termination of valuable and experienced staff at the RCIDC, the complaint alleges.

The Water Authority says an average of $50,000 will be diverted annually from its operating budget due to this bill.

The complaint notes Gov. Robert Bentley vetoed SB 486, saying the bill does not appear to be adequately advertised as required by Alabama law. The Senate and House ultimately overrode the executive veto.

Jeremy King, Deputy Communications Director in the governor's office, said, "Governor Bentley believes the bills are unconstitutional, and he has been very open about that view since the time of his veto. The fact that the Legislature overrode his veto would not change his opinion on the issue."

Varner said during the governor's recent visit to Clay County a person in a group session thanked the governor for his veto and the governor referred to the the fund created by the bills as a slush fund and said they were unconstitutional.

Varner asked the governor to join the lawsuit and he said he did not know if he could do that but he would look into it.

The industrial development council's funds from the tobacco tax can, as specified by the bill, only be expended for recruitment of new and existing industries and no more than 20 percent of the generated revenue can be spent on personnel and/or related to personnel.

It restricts the discretion of the Industrial Development Council, forbidding the use of funds to work on broad-based economic development initiatives, such as workforce development and jobs training, the complaint says.

The complaint states Dial altered the proposed legislation, which was not advertised as required after the changes. For example, the published notice created and funded a District Community Service Office with staff, equipment, etc. but that was deleted from the amended bill. A District Community Service Grant Authority consisting of the three legislative delegation members was created to allocate funds. Also, the tobacco funds distribution was changed, as well as the effective date of SB 486.

The complaint also alleges SB 486 is discriminatory because a tax levied in Randolph County can be used in other counties.

David Meddick, chairman of the Randolph County Democratic Executive Committee, said the group is planning to meet and make a decision on whether to join this lawsuit or not.

Chambers County discussed it in executive session Monday but has taken no action.

Clay County Commissioner Roy Johnson and individuals Terry Meek, Mary Wood and Andrea Jackson filed suit in Clay County against the same people, but added Johnny McReynolds, chairman of the Alabama Forestry Commission, the Clay County Industrial Development Council and Citizens For The Welfare of Animals in Clay County as defendants. Their opposition is to Senate Bill 476. The complaint also asks the defendants be enjoined from the allocation of funds as directed by SB 476. The legislation will divert about $117,000 from the Clay County Commission's operating budget. SB 476 will increase the percentage of Clay County Tobacco tax receipts from 32 percent to 35 percent going to the Forestry Commission. The Industrial Development Council amount is increasing under the new bill from 20 to 25 percent. Not a current recipient of funds, under this bill the Citizens for the Welfare of Animals in Clay County will receive 15 percent of the tobacco tax receipts.

Complaints are similar except when SB 476 becomes effective $68,000 will be diverted annually from the Clay County Commission General Fund and $48,000 will be diverted from the commission's fund dedicated to water feeder lines. Services may be eliminated or reduced. Planned water line extensions may be terminated.

The complaint also noted the percentage set aside for the Community Service Grant Authority in all three counties: Clay County's SB 476 specifies 25 percent, or on average $60,000 annually; Randolph County's SB 486 specifies 10 percent, or $50,000 annually; and Chambers County's SB 487 specifies 18 percent, or approximately $90,000 annually.

According to the census Clay County's population is 13,932; Randolph County's is 22,913 and Chambers County's is 34,215. Per capita, Clay County residents will pay $4.30, Randolph residents $2.18 and Chambers residents$2.63.

The complaint alleges Clay County residents are paying more per capita to fund the grant authority.

Dial and Laird did not immediately return telephone calls Tuesday requesting comments on the lawsuit. Previously, Dial had said if people want to waste their money filing suit it is their business. He said Attorney General Luther Strange will defend them.

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BOARD OF EDUCATION BACKS MEASURE THAT CALLS FOR INCREASE IN TOBACCO TAX

By Josh Nelson
The News-Leader (MO)
June 20, 2012

Initiative petition would raise the tax on cigarettes by 73 cents a pack

The Missouri State Board of Education has voiced support for an initiative petition seeking to increase the state’s lowest-in-the-nation tobacco taxes.

The board voted in favor of a resolution backing the tax at a regularly scheduled meeting Tuesday in Jefferson City, according to a spokesperson for the Department of Elementary and Secondary Education.

The initiative petition seeks to increase the cigarette taxes by 73 cents for a pack of 20 cigarettes, which would put the overall tax at 90 cents per pack. The initiative also increases taxes on other products, such as roll-your-own tobacco and cigars, between 15 and 25 percent.

The tax could raise an estimated $283 million to $423 million in new revenue for the state, according to the State Auditor's Office. Half of that money would go toward funding K-12 education. An additional 30 percent would go to higher education. The remaining amount would fund public health initiatives, including smoking cessation programs.

Missourians for Health and Education, a group backing the initiative and affiliated with the American Cancer Society, turned in 220,000 petition signatures in May to the Secretary of State's office, double the minimum amount needed to get on the ballot.

Officials with the Secretary of State's office said they are still in the process of verifying all of the signatures.

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CIGAR LOVERS TO FDA: A CIGAR ISN'T JUST A CIGAR

By Michael Felberbaum
Associated Press
June 20, 2012

Sometimes a cigar isn't just a cigar.

From large hand-rolled cigars and smaller machine-made cigars to little cigars that are similar in size to cigarettes, there are nearly as many cigars as there are aficionados to enjoy them. And as federal regulators weigh standards for the entire industry, some in the cigar world are pushing to make sure their livelihoods and the products they enjoy don't go up in smoke.

While the Food and Drug Administration has expressed its intention to regulate cigars under a 2009 law that gave it authority over the tobacco industry, it has yet to specify what's ahead as it ramps up efforts to curb the death and disease caused by tobacco.

If it's anything like the FDA's regulation of cigarettes and smokeless tobacco, that could mean banning certain flavors, requiring new health warnings, limiting the sizes and shapes of cigars, or imposing restrictions for marketing, advertising and retail sales. Cigars also may be restricted from being sold separately and the agency also could limit the amount of nicotine in the products.

The premium cigar industry argues any number of the potential restrictions could hurt both cigar makers and specialty tobacco stores, whose products make up only a small fraction of tobacco sales, don't pose the same concerns as cigarettes, and the range of sizes and shapes of cigars makes across-the-board standards almost impossible.

Even the House Appropriations Committee weighed in on issue in its report on the fiscal year 2013 Agriculture Appropriations bill on Tuesday, reminding the FDA that "premium cigars have unique characteristics and cost prohibitive price points and are not marketed to kids. Any effort to regulate cigars should take these items into consideration."

"If you're going to focus your efforts on regulating tobacco products to meet the spirit and intent of the Tobacco Control Act, where is best to spend those scarce resources - on a tenth of a percent of the market or on a huge chunk of the market?" asked Bill Spann, CEO of the International Premium Cigar & Pipe Retailers Association, an industry group representing more than 2,000 tobacco retailers and more than 350 cigar manufacturers, distributors and others.

According to the latest federal data, there are about 13.3 million cigar smokers in the U.S., far less than the 45.3 million U.S. cigarette smokers.

U.S. tobacco sales topped $107 billion in 2011, but only 7 percent, or $7.77 billion, consisted of cigars, according to statistics from Euromonitor International. And of the 7 billion cigars sold annually, only about 250 million of them qualify as premium, handmade cigars that range in price from $6 to $30 and are - as far as Spann is concerned - akin to fine wines and craft beer.

While Spann recognizes the need for tobacco regulation, he believes smoking premium cigars is a hobby, not a habit, and they aren't marketed or sold to children.

"You don't have a middle-schooler or high-schooler standing on the corner with a $15 Davidoff (a brand of cigar) sticking out of their mouth," Spann said.

Possible restrictions to premium cigars have been a topic of conversation at any one of Craig Cass' specialty tobacco shops in North Carolina and South Carolina, where smokers often make use of lounge areas to smoke and chat.

"They're worried about losing the artisan nature of our products, where every time they come in there's something new to select from," Cass said, adding that customers aren't just coming in to "grab their smokes," they are looking for a particular cigar to suit their mood or the situation.

If regulations force cigar makers to conform their products, that could limit the number of cigars available for aficionados to choose from the store's large, walk-in humidors.

"All of that range of flavor is very unique to every single box in the humidor," Cass said. "If we were like the other category of tobacco like a cigarette, you could walk in the humidor and have 10 boxes of cigars in there. ... We have 700."

Cass' interaction with customers could also change under federal regulations, putting the cigars behind the counter rather than in a humidor where customers can smell, touch and see a variety of cigars. In Canada, for example, cigar shops now have binders with a list of available cigars that customers can point to on a piece of paper.

Cass and Spann have joined with others in the cigar industry to seek a change in Congress to protect premium hand-rolled cigars from FDA regulation and save 85,000 small business jobs around the country. Resolutions in both the House and the Senate remain in committee.

In the House, the resolution sponsored by U.S. Rep. Bill Posey, a Republican from Florida - home to many of the nation's premium cigar makers - has gained more than 200 co-sponsors. The Senate resolution, sponsored by Democratic U.S. Sen. Bill Nelson, also from Florida, has more than 10 co-sponsors.

As far as regulation is concerned, the greatest need is to "put an end to the production and marketing of products that have the greatest appeal to youth," said Matt Myers, president of the Campaign for Tobacco-Free Kids, singling out machine-made large cigars, little cigars and tobacco wrappers that sold at convenience stores for low prices and in a variety of flavors like peach and strawberry.

Nearly 19 percent of high school boys currently smoke cigars, according to the 2009 Youth Risk Behavior Survey. That's slightly less than the 2005 rate of 19.2 percent.

"These highly flavored little cigars clearly appeal disproportionately to young people and have the potential to serve as starter tobacco products," Myers said.

While all cigars increase the risk of disease, Myers said "the FDA has the ability to segment which cigar products pose the greatest risk both in terms of disease and in terms of youth use and to design regulations appropriate for each, which is what we'd like to see them do."

Richmond, Va.-based Altria Group Inc., owner of Black & Mild cigar maker John Middleton, said in a statement that if the FDA asserts regulation over cigars, it should be "science-based and apply to all cigar manufacturers." Machine-made Black & Mild cigars and cigarillos are sold in flavor varieties such as sweet, wine and apple. Altria also owns the nation's biggest tobacco company and maker of top-selling Marlboro cigarettes, Philip Morris USA.

But for Rocky Patel, who quit his job as an entertainment lawyer in California to start a boutique cigar business out of his garage, legislative or regulatory exemption of premium handmade cigars is vital to his survival and the about 2,000 people he directly or indirectly employs.

"I gave up a law practice to start this dream ... I worked relentlessly and built this company and started with nothing," Patel said of his Florida-based cigar company. "We went from making 100,000 cigars to about 18 million cigars (each year) and all this could be taken away with the stroke of a pen from the FDA."

Originally published here with video: http://www.theolympian.com/2012/06/20/2147681/cigar-lovers-to-fda-a-cigar-isnt.html#storylink=cpy

DAYTONA URGES STORES TO STOP SELLING FLAVORED TOBACCO

By James Harper
Daytona Times (FL)
June 21, 2012

Daytona Beach commissioners voted on a resolution this month urging retailers to stop the sale and marketing of flavored tobacco products within city limits.

Susan Cerbone, Daytona Beach public information officer, said one of the reasons the commissioners supported the resolution is because “tobacco use is the number one cause of preventable deaths in the United States and nearly 90 percent of users start before the age of 18.”

“While the resolution is not an outright ban on sales, it sends a clear message that Daytona Beach cares about its youth,” Cerbone said.

Young smokers

According to information obtained by the Daytona Times, in Volusia County, 12.2 percent of middle school students and 26.3 percent of high school students reported using some form of tobacco one or more times in the past 30 days.

Also in Volusia County, 7.4 percent of middle school students and 16 percent of high school students report having smoked cigarettes one or more times in the past 30 days.

Health department pleased

Dr. Bonnie J. Sorensen, director of the Volusia County Health Department, says the agency is pleased that the city has adopted a resolution urging tobacco retailers to stop selling and marketing candy-flavored tobacco products. All of the convenience stores surveyed sell the candy-flavored products stores in Volusia County.

“Daytona Beach joins a growing list of municipalities taking a stand against candy-flavored tobacco products. There are 88 people dying daily in the state of Florida from tobacco-related illnesses. Tobacco use is the number one cause of preventable death in the United States,” said Sorensen, who also spoke before the city commissioners voted on the resolution.

Impact on Blacks

Stefany Strong, spokesperson for the Volusia County Health Department, said each year approximately 45,000 African-Americans die from a preventable smoking-related disease, which represents more than 10 percent of the estimated yearly smoking related deaths in the U.S.

Strong also noted that smoking is responsible for 87 percent of lung cancers.

African-American men are at least 50 percent more likely to develop lung cancer than White men. Blacks disproportionately suffer from chronic and preventable disease compared to White Americans. And of the three major causes of death in African-Americans – heart disease, cancer and stroke – smoking and other tobacco use are key contributors to these illnesses, Strong elaborated.

Resolution includes flavored cigars

Signed on June 6 by Mayor Glenn Ritchey, the resolution urges all local retailers who sell tobacco products to cease the sale and marketing of all flavored tobacco products, which are defined as loose tobacco, including snuff flour, plug and twist tobacco, fine cuts, chewing tobacco, snus, shisha tobacco, smoking or snuffing tobacco products.

The resolution also limits “all other kinds and forms of tobacco, including but not limited to cigarettes, cigars, smokeless tobacco products, and blunt wraps prepared in such a manner with the purpose of chewing, inhaling, smoking, or ingesting in any manner which have been flavored through the addition of natural or artificial flavorings, herbs, spices, or other means with flavors characterizing fruit, candy, alcohol, or other similar flavorings with the exception that menthol will not be included in this definition.’’

Other information provided by the health department to persuade commissioners to support the resolution include:
- Ninety percent of today’s smokers started before they were 18 years old.
- Candy and fruit flavors mask the bad taste of tobacco, making it easier for kids to start using tobacco products.
- These products containing flavors like vanilla, orange, chocolate, cherry and coffee are especially attractive to youth.
- Young people are much more likely to use candy and fruit flavored products than adults. Tobacco industry documents show that companies have designed these products with youth in mind.
- Flavored cigars, cigarillos, bidis, shisha, snus, blunts and smokeless tobacco are just as harmful as flavored cigarettes and are heavily marketed to youth.

City commissioners in Port Orange, Holly Hill, Deltona and New Smyrna Beach also have voted to urge retailers to stop selling candy-flavored tobacco products.

The Volusia County Health Department initially made a presentation to the Volusia Council of Governments earlier this year requesting that it asks local cities to adopt resolutions urging tobacco retailers to stop the sale and marketing of candy-flavored tobacco.

Originally published here: http://daytonatimes.com/2012/06/21/daytona-urges-stores-to-stop-selling-flavored-tobacco/

FOR PROP. 29 BACKERS, HOPE STILL BURNS

Opinion by Staff
Daily News – Los Angles, California
June 20, 2012

There seems to be one of these cliffhanger contests in every California election now, perhaps a result of the rise in the number of people voting by mail.

This time, the cliffhanger is over the tobacco-tax Proposition 29. The "no" side leads by less than 17,000 votes, out of nearly five million cast, at last check of the state elections website. This, after "no" led by more than 60,000 votes right after the June 5 primary and was widely declared the winner.

At last report, "no" leads by 50.2 percent to 49.8 percent, with a few hundred thousand ballots yet to be counted.

Analysts say it's unlikely the yes-on-29 forces can get a high enough percentage of the remaining ballots to swing the outcome, but we'll see. A recount is not out of the question.

The proposition would raise the California cigarette tax by $1 a pack to fund anti-smoking programs and medical research.

After the state election in November 2010, the race for attorney general between Kamala Harris and Steve Cooley was so close that it took Cooley three weeks to concede.

The Proposition 29 count could take a while, too, because election officials can take until July 6 to report final results.

Smoke 'em if you got 'em.

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5 DIVIDEND KINGS IN THE TOBACCO INDUSTRY

Seeking Alpha
June21, 2012

We have identified and analyzed the tobacco companies that are offering high dividend yields, have strong balance sheets, and have enough free cash flow to maintain their dividend payout ratios. With continuous growth in terms of high unit sales and net earnings, we believe that Philip Morris International, Inc (PM) is an attractive prospect, with its stock offering an attractive dividend yield of 3.5%.

Separately, Lorrilard Inc. (LO)'s stock has performed well in the recent past and has outperformed the market and competitors alike. The company's attractive dividend yield of 4.9%, which along with its high payout ratio and reasonable free cash flows, make it a valuable dividend stock to hold.

Also, despite Reynolds Amercian Inc.'s (RAI) revenues being downward trending, the company continues to be an attractive investment from a dividend standpoint (dividend yield of 5.5%). It has a good record of returning money to its shareholders in the form of dividends.

Altria Group (MO) and British American Tobacco (BTI) are the two other tobacco stocks having a strong cash flow situation and offering a dividend yields of 4.9% and 5.8%, respectively.

Industry Introduction

The largest tobacco company in the world by volume is China National Tobacco Co. Following extensive merger and acquisition activity in the 1990s and 2000s, the international markets are now dominated by five companies: Altria, British American Tobacco, Imperial Tobacco, Japan Tobacco and Philip Morris International.

Due to heavy regulations imposed on tobacco manufacturers and various high profile law suits, the Tobacco Industry in the U.S. has been adversely suffering and it is widely accepted that in the long term, these law suits will continue to strain the Tobacco Industry's financial performance.

The three main big players in the Tobacco Industry in the U.S. are Philip Morris, Reynolds American Inc., and Lorillard.

Key Industry Drivers:

Prices: Increased prices for tobacco products reduce consumption among adults, adversely impacting the industry.

Marketing: Funds invested in marketing by tobacco companies are crucial for their profitability. These funds go to licensed tobacco retailers so that they can put their products in the most visible locations. The chart shows the amount of funds invested by tobacco companies in marketing their products, an amount that is higher than the marketing expenditures for junk food and alcohol combined.

Risks: The Tobacco Industry is heavily taxed and various additional taxes have been proposed for the industry, but have yet to be enacted. Taxation has the potential to hit the company's profitability, however, despite the presence of existing regulations, the company has performed well.

Philip Morris International

Philip Morris International Inc., through its subsidiaries, is engaged in manufacturing and selling cigarettes and other tobacco products. Its portfolio of international and local brands include Marlboro, Merit, Parliament, Virginia Slims, L&M, Chesterfield, Bond Street, Lark, Muratti, Next, Philip Morris, and Red & White. PM sells its products in approximately 180 countries in the European Union, Eastern Europe, the Middle East, Africa, Asia, Latin America, and Canada.

Volume analysis: The company's cigarette shipment volume increased by almost 5% in 1Q2012 to 219 billion units, primarily due to growth in its Asian, African and Eastern Europe segments. The European Union segment slacked slightly because of a relatively low market share in the region. The Asian segment showed the most growth in terms of volume, with a 12% improvement in the first quarter. This increase was largely due to a higher market share in countries like Japan, Korea and Thailand. Overall, the total shipment volume from all segments was up almost 5% in the first quarter, with brands like Marlboro and Parliament outshining others. The company's other tobacco products, which include cigars, pipes and make-your-own cigarettes, also grew by an impressive 15% in volume.

Revenue analysis: Compared to 1Q2011, PM's overall net revenues from all segments increased by 9% in the first quarter to a total of almost $18 billion. However, this increase was largely offset by adverse currency movements, resulting in translation losses of almost $600 million. The Asian segment outperformed others in terms of revenues generated, showing an improvement of almost 21% in 1Q2012.

Analyzing the annual data reveals that the company's revenues have grown at almost 13%, which is higher than the increase in its cost of sales (increase of 11%) and a first quarterly increase of 6.4%.

Earnings Analysis And The Revisions: Net earnings increased by almost 13% in the first quarter to $242 million, with EPS up by 18% to $1.25. PM has revised its forecast for its 2012 earnings. It now expects EPS to be in the range of $5.20 to $5.30, up approximately 10% to 12% from 2011.

Balance Sheet: The company has a total debt of around $21 billion as of the most recent quarter, and a very high leverage ratio of 1,300%, which puts the company under immense pressure in terms of interest payments. However, it has a high interest coverage ratio of 13% compared to the industry average. All major credit rating agencies have a stable outlook for the company's debt. PM has a total of $2.5 billion in cash and other short term investments, which it plans to use for future share repurchase programs and dividend payments.

Upcoming Developments: The company has set a new share repurchase target of $18 billion, which is to be initiated from August this year. In the third quarter of 2011, PM's BOD approved a 20% increase in dividend payments to $0.77 per share, which are to be paid next month in July. Currently, the stock's dividend yield is an impressive 3.50%. With stable operations and free cash flows of $9 billion, the company's high dividend yield and plans to repurchase more shares are well supported.

Market Performance: PM has outperformed the market as well as its peers over a one year period as illustrated in the chart given below. The stock yielded 28%.

Valuation: The company is earning $5 per share and the year end estimate is $5.2. Applying a PE multiple of 17 to the estimated EPS of $5.2, we arrive at a target price of $88. Currently, the stock is trading around this level and we believe that this represents a fair valuation.

Recommendation: Based on our analysis, we believe that the company has performed well and it continues to see growth in its various segments in terms of high unit sales and net earnings. Moreover, the stock offers an attractive dividend yield and has announced its future plans for a share repurchase. All this is well backed by strong operations and sufficient sources of liquidity.

Reynolds Amercian Inc.

Reynolds American Inc. manufactures and sells cigarettes and other tobacco products in the United States. The company offers cigarettes under the brand names of Camel, Pallmall, Winston, Kool etc. It also provides smokeless tobacco products like moist snuff under GRIZZLY and KODIAK brand names, pasteurized tobacco under CAMEL Snus brand name; and milled tobacco under the brand name of CAMEL dissolvables.

Revenue analysis: RAI operates through three segments: RJR Tobacco, American Snuff and Santa Fe. RAI's largest segment is the RJR Tobacco, which is also the second largest tobacco company in the United States. RJR's revenues took a 6% dive in 1Q2012, largely due to lower cigarette volumes. The decline in sales is illustrated in the table below.

Moreover, RJR Tobacco lost some of its market share in the first quarter of the year in comparison to 4Q2011. Looking at the annual data, the company's revenues declined by almost 2%. However, its gross margins are stable at an impressive 47% YoY, higher than PM's 27%. RAI's operating income also took a dive in the first quarter, which was largely due to lower cigarette volume and a restructuring charge of $138 million.

Earnings Analysis: Despite the fact that the company's management has reaffirmed its earnings guidance for 2012, its EPS was $0.47, down almost 28% from the previous year's quarter. This decline was due to the restructuring charge it incurred during the quarter.

Balance Sheet : The company has $2.4 billion in cash and other short-term investments and a total debt of around $4 billion. Its leverage ratio is under control as compared to the debt to equity of PM. The company relies on the funds generated from its operations to meet its liquidity requirements, as well as proceeds from the issuance of debt securities.

Attractive Dividend Yield: RAI paid a quarterly cash dividend of $0.56 per share, which was paid in April 2012. Furthermore, according to an announcement made by RAI, the company's BOD has approved an increase in the quarterly dividend to $0.59 from the previous $0.56. RAI has an impressive dividend yield of 5.50%, higher than the yield of its major competitor, Philip Morris. The company has also consistently paid dividends in the past.

Market Performance: The stock has underperformed the market as well as its major competitors over a period of one year, yielding -2%.

Recommendation: The current P/E ratio for RAI is 19x, at a premium to its industry average. Despite the fact that the company's revenues are downward trending and it has lost some of its market share, it continues to be an attractive investment from a dividend standpoint. It has historically returned money to its shareholders in the form of dividends. With limited upside, it can be a value stock for investors that prefer dividends.

Lorillard,Inc.

Lorillard, Inc., through its subsidiaries, manufactures and sells cigarettes in the U.S. It markets approximately 43 product offerings under various brand names, including Newport, Kent, True, Maverick, and Old Gold. LO is headquartered in North Carolina.

Declining Unit Sales: LO's total domestic volumes declined in 1Q2012 compared to the first quarter of the previous year; however, this decline was in line with the industry.

Net sales for the company also declined in 1Q2012, down 0.6% from the three months ended March, 2011. This decrease was largely due to a low unit sales volume. On a yearly basis, LO's revenues have shown a quarterly revenue growth of 0.30% (YoY) versus -2.90% for its competitor, RAI. Gross margins for LO at 50% also stand out from its competitors.

The company reported a quarterly EPS of $1.7, not changing much from 1Q2011. Earnings have grown at an impressive compounded annual growth rate of almost 9% over a two-year period.

Balance Sheet: The company has almost $2 billion in cash and it invests in money market funds. LO's cash flow from operations declined in the first quarter, largely due to higher leaf tobacco purchases. The company's debt, relative to its peers, is manageable at almost $3 billion.

Risks: LO's credit ratings are lower than its peers (currently BBB by Fitch), largely due to its reliance on one major brand, Newport. Any deterioration in its performance in the future can affect the profitability of the entire company.

Dividend Yield: The stock has a dividend yield of 4.90% and a high payout ratio of almost 68%, which is more than its peers. The chart below shows the dividend history of the company.

Recommendation: LO's stock has performed well in the recent past and has outperformed the market as well as competitors like Vector Group Ltd. (VGR) and RAI. Shares are up 12% year to date as of June, 2012. The company is trading at a P/E ratio of 16x, at a slight premium to its five-year average. However, LO's attractive dividend yield along with its high payout ratio and reasonable free cash flows of $1 billion make it a valuable stock to hold. Therefore, we recommend a long position.

British American Tobacco PLC

British American Tobacco PLC operates through its subsidiaries and engages in the manufacture, distribution, and sale of tobacco and nicotine products. It offers cigarettes, cigars, smokeless snuff, roll-your-own cigarettes, and pipe tobacco products. The company has total cash of $3.5 billion and a high leverage ratio of 121%. Quarterly revenue growth is impressive at 5%, which ranks above most of its peers. BTI has a dividend yield of 5.80% with a high payout ratio of 76%. The high dividend yield is well supported by the company's free cash flows of $4.29 billion.

Altria Group Inc.

Altria Group, Inc., through its subsidiaries, engages in the manufacture and sale of cigarettes, smokeless products, and wine in the U.S. and abroad. It offers cigarettes under the Marlboro, Virginia Slims, Parliament, Benson & Hedges, Basic, and L&M brands. The company has total cash of around $4 billion and a very high debt to equity ratio of almost 370%. MO has a dividend yield of 4.90% and a high payout ratio of 96%, which is well supported by its operating cash flows and free cash flows of $3.40 billion and $5 billion, respectively.

Disclosure: I have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours.

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