

01:37pm EDT 13-Oct-93 Wheat First Butcher & Singer (John C. Maxwell (804) 782-3
CIGARETTE COMPANIES: RATINGS ESTABLISHED FOR MO, AMB, & RN

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COMPANY: PHILIP MORRIS (MO/NYSE) \$51 Rating 1/2
AMERICAN BRANDS (AMB/NYSE) \$34 Rating 1/2
RJR NABISCO (RN/NYSE) \$5 Rating 1/2

DATE: October 13, 1993
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KEY POINTS:

-- It would appear that Philip Morris has become more satisfied with its industry position with Marlboro close to its all time high share currently near 25% share of the market. In addition the discount market at retail is down 3-4 percentage points to around 36% of the market. Further, the spread between discounts and full price are in the range of \$0.50-0.60, which the industry feels is appropriate. Philip Morris appears to be content with its share in the current stabilization/declination market.

-- We believe that there is now price stability in the industry and would further anticipate that there may be a modest price increase in the next few months. By modest, we believe that the 10-12% increases by the industry in the past are gone and would guess that any increase would be more in the 3-5% range at best.

-- Risks to this situation include:

- 1) That one of the remaining five companies in the industry would try again to buy market share although we doubt that this is a real possibility;
- 2) That Directors of Philip Morris do not raise the dividend at the November meeting, which Wall Street might interpret as lack of faith in the company's outlook;
- 3) That none of the companies are currently comfortable with discussing estimates for 1994. However, if our thesis that pricing has stabilized is correct, earnings for 1994 should be up though comparisons in the first quarter will be difficult.

-- As such, we are going to rate MO, RN, and AMB at 1/2 and as soon as we have a clearer vision for 1994, we may move to a 1/1.

Additional information is available upon request.

END OF NOTE

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