



## Why Tobacco Companies Offer More Retirement Potential Than Pharma Stocks

### Description

In recent years, the tobacco sector has lost its appeal for a number of investors. The industry has experienced major regulatory change and a shift in consumer tastes that have contributed to a decline in cigarette volumes. As such, the future growth potential of tobacco products may seem to be somewhat limited.

In contrast, there seems to be a clear growth catalyst for pharma stocks. An ageing world population is set to demand increasing quantities of treatments for a variety of conditions, and this has the potential to improve profitability across the sector.

However, in the long run the tobacco industry could be a [surprisingly strong performer](#). It could even offer greater retirement potential than the pharma sector.

### Changing industry

While cigarette volumes have been on a downward trend in recent years, this is being offset by rising demand for next generation products. E-cigarettes are perhaps the most widely available reduced risk product at the present time, and they have appealed to tobacco users seeking to adopt a healthier lifestyle.

Investment in the next generation products space is significant. The world's major tobacco companies have exposure to it through various brands, while product development means that the segment is likely to expand rapidly over the coming years. For example, **British American Tobacco** is forecasting a five-fold increase in sales from next generation products over the next five years. If met, this would make the segment a significant contributor to the company's earnings, and could mean that it offsets the difficulties which may be experienced in tobacco products.

### Further potential

Looking ahead, regulatory change and a shift in consumer demand towards reduced risk products is likely to mean a fall in cigarette volumes over the medium term. However, the pricing power of major

brands means that tobacco products are likely to deliver rising profitability in future years. In fact, this has been the situation within the industry in recent years, with falling volumes being offset by price rises.

Furthermore, the world's population is expected to increase by 13% over the next 13 years. This could mean that cigarette volume declines are less pronounced than many investors are currently anticipating. It could also mean that the potential market for next generation products increases, which could support higher sales and profitability in the long run.

## **Risk/reward**

Although investing in the tobacco industry may seem risky due to declining cigarette volumes, the sector appears to have strong growth potential. Alongside the pharma industry, it could help an investor to successfully plan for retirement.

Since many of the world's tobacco companies currently trade on relatively low valuations, they could offer wider margins of safety as well as greater upside potential than many of their pharma sector peers. As such, they appear to offer superior risk/reward ratios at the present time.

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## **Date**

2025/08/27

## **Date Created**

2018/04/15

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