



British American Tobacco (BTI)

Updated December 24th, 2024 by Jonathan Weber

Key Metrics

Current Price:	\$36	5 Year CAGR Estimate:	8.8%	Market Cap:	\$79B
Fair Value Price:	\$37	5 Year Growth Estimate:	1.0%	Ex-Dividend Date:	12/20/24
% Fair Value:	97%	5 Year Valuation Multiple Estimate:	0.7%	Dividend Payment Date:	02/06/25
Dividend Yield:	8.3%	5 Year Price Target	\$39	Years Of Dividend Growth:	2
Dividend Risk Score:	C	Retirement Suitability Score:	A	Rating:	Hold

Overview & Current Events

British American Tobacco is one of the world's largest tobacco companies. British American Tobacco owns many tobacco brands, including *Kool*, *Benson & Hedges*, *Dunhill*, *Kent*, and *Lucky Strike*. The company also acquired the remaining 48% stake in Reynolds American Tobacco that it did not already own in July of 2017. Although the company is incorporated in the United Kingdom and headquartered in London, American investors can purchase its stock through American Depository Receipts that trade on the New York Stock Exchange under the ticker BTI. Despite being headquartered in the United Kingdom, British American Tobacco triggers no dividend withholding tax for United States investors. All numbers in this report are in US\$ unless noted otherwise.

British American Tobacco reported its pre-close trading update for 2024 in December. In its pre-close trading updates, which are done instead of Q1 and Q3 reports prior to the end of the first half and prior to the end of the fiscal year, the company does not release any exact numbers, but adjusts its guidance and comments on how the business is progressing. Management indicated that British American Tobacco is on track to hit its fiscal 2024 guidance, also stating that results have improved in the second half of the year so far. The company's "New Categories" business is a major growth driver, as it was in the previous couple of years as well.

British American Tobacco earned \$4.74 during fiscal 2023 (375 pence), which represents an increase of 5.2% on a currency-adjusted and organic basis, which is appealing. During the first half of 2024, the company generated earnings-per-share of 200 pence, or \$2.58. It is expected that earnings-per-share will be down slightly this year when denominated in US Dollars, but that is due to the US Dollar strengthening versus other currencies.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$3.71	\$3.18	\$3.08	\$3.96	\$3.89	\$4.38	\$4.58	\$4.45	\$4.49	\$4.74	\$4.65	\$4.89
DPS	\$2.35	\$2.42	\$2.28	\$2.84	\$2.66	\$2.71	\$2.74	\$2.94	\$2.81	\$2.83	\$2.99	\$3.30
Shares¹	1860	1860	1860	2290	2290	2290	2300	2300	2270	2230	2200	2100

British American Tobacco's earnings-per-share grew by a little less than 30% between 2014 and 2023, which equates to an annual earnings-per-share growth rate between 2% and 3%. The company's growth has been uneven, though, as there were several years where British American Tobacco's profits declined. The company reports its results in Pound Sterling, whereas the results in the above table are in USD. Depending on the exchange rate between these two currencies, growth rates in USD can differ from British American Tobacco's reported growth rates, depending on whether the US Dollar is strengthening or weakening versus the British Pound.

We do not expect much earnings growth from the company in the future, but we do expect some. Organic growth due to rising cigarette prices and the rise of vaping products should be positive for revenues, and declining interest expenses due to debt paydown could impact profitability as well. On top of that, British American Tobacco is buying back its own shares recently, which will have a positive impact on earnings-per-share as well. On the other hand, declining smoking rates are a headwind for the company and its peers.

¹ In Millions

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	14.6	15.3	17.6	19.2	16.4	8.5	9.6	8.1	8.9	6.1	7.7	8.0
Avg. Yld.	4.4%	4.3%	4.1%	3.7%	4.1%	8.1%	6.5%	7.4%	7.0%	9.8%	8.3%	8.4%

British American Tobacco's shares have traded relatively flat since our last update. Its valuation remains low on an absolute basis, while shares also look inexpensive compared to how the company was valued in the past. British American Tobacco trades for less than 8 times this year's expected net earnings, which is below our fair value estimate. Due to uncertainties for the industry, such as increasing menthol regulation in the US, we believe that the valuation will not expand to the double digits again, however. Investors get an attractive dividend yield at current prices.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	63.3%	76.1%	74.0%	55.1%	68.4%	61.9%	59.8%	66.1%	62.6%	59.7%	64.3%	67.5%

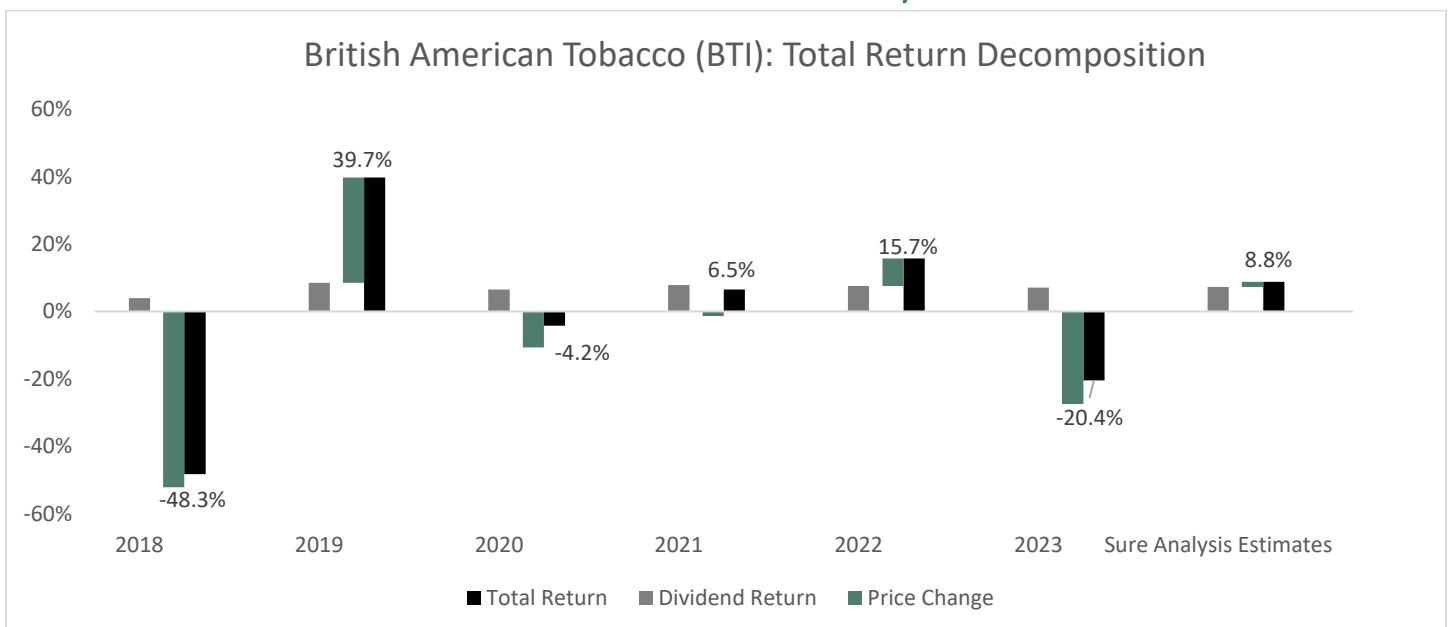
British American Tobacco has kept its dividend payout ratio in a range of 55%-75% throughout the last decade. Compared to other tobacco stocks, this is not a high payout ratio. Some competitors, such as Altria, pay out ~80% of their profits in the form of dividends. We believe that the dividend is safe for the foreseeable future.

British American Tobacco operates in an oligopoly that does not have a tendency to engage in price wars. The players in this industry have always focused on profits over market share gains, which is why the industry is not overly competitive, and why profits have been strong for all players. Demand for cigarettes is not cyclical, which is why British American Tobacco performed well during the Great Recession as well as during the COVID pandemic.

Final Thoughts & Recommendation

British American Tobacco's dividend yield remains at a very attractive level. 2023 was a good year for the company as it saw rapid growth in the New Categories space while continuing to deleverage. In 2024, earnings-per-share will be down slightly according to current estimates, but the total return outlook is still very solid and shares trade slightly below fair value. We rate British American Tobacco a hold at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	23,029	20,026	19,145	25,260	32,678	33,041	33,082	35,335	34,246	33,949
Gross Profit	18,035	15,391	14,087	18,762	26,608	27,376	27,771	29,306	28,607	28,174
Gross Margin	78.3%	76.9%	73.6%	74.3%	81.4%	82.9%	83.9%	82.9%	83.5%	83.0%
SG&A Exp.	25	19	15	39	34	1,499	1,443	1,746	1,472	1,470
D&A Exp.	697	654	822	1,165	1,385	1,683	1,593	1,402	1,616	29,864
Operating Profit	7,670	6,979	6,745	8,697	12,592	12,111	17,766	14,969	14,175	(13,217)
Op. Margin	33.3%	34.9%	35.2%	34.4%	38.5%	36.7%	53.7%	42.4%	41.4%	-38.9%
Net Profit	5,135	6,556	6,298	48,400	8,048	7,283	8,214	9,356	8,255	(17,877)
Net Margin	22.3%	32.7%	32.9%	191.6%	24.6%	22.0%	24.8%	26.5%	24.1%	-52.7%
Free Cash Flow	4,985	6,295	5,333	5,641	12,478	10,446	11,591	12,343	12,059	12,584
Income Tax	2,398	2,037	1,905	(10,496)	2,857	2,634	2,706	3,011	3,069	(3,574)

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets (\$B)	41	47	49	191	186	185	188	185	186	151
Cash & Equivalents	2,534	2,658	2,515	4,231	3,086	2,490	2,461	1,997	2,071	3,010
Acc. Receivable	4,308	4,839	4,772	5,477	4,553	5,367	5,071	5,332	5,285	4,613
Inventories	6,433	6,292	7,117	7,925	7,650	7,990	8,174	7,125	6,863	6,291
Goodwill/Int. (\$B)	17	15	15	159	157	156	157	156	156	122
Total Liab. (\$B)	32	39	39	108	102	101	102	94	94	84
Accounts Payable	8,598	8,796	9,011	12,038	13,490	12,754	13,210	12,926	12,645	12,357
Long-Term Debt	19,079	25,187	23,950	66,827	60,284	59,483	59,274	52,922	51,581	49,978
Total Equity	8,576	7,250	10,052	82,110	83,042	83,786	85,413	90,562	91,210	66,964
LTD/E Ratio	2.22	3.47	2.38	0.81	0.73	0.71	0.69	0.58	0.57	0.75

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	12.1%	15.0%	13.2%	40.4%	4.3%	3.9%	4.4%	5.0%	4.4%	-10.6%
Return on Equity	50.1%	79.4%	70.8%	104%	9.7%	8.7%	9.7%	10.6%	9.0%	-22.5%
ROIC	17.4%	21.6%	18.8%	52.7%	5.5%	5.1%	5.7%	6.5%	5.8%	-13.7%
Shares Out.	1860	1860	1860	2290	2290	2290	2300	2300	2270	2230
Revenue/Share	12.32	10.75	10.27	12.32	14.26	14.42	14.42	15.38	15.11	15.23
FCF/Share	2.67	3.38	2.86	2.75	5.44	4.56	5.05	5.37	5.32	5.65

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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