



British American Tobacco (BTI)

Updated February 15th, 2025 by Jonathan Weber

Key Metrics

Current Price:	\$39	5 Year CAGR Estimate:	7.5%	Market Cap:	\$85B
Fair Value Price:	\$38	5 Year Growth Estimate:	1.0%	Ex-Dividend Date:	03/28/25
% Fair Value:	103%	5 Year Valuation Multiple Estimate:	-0.5%	Dividend Payment Date:	05/12/25
Dividend Yield:	7.7%	5 Year Price Target	\$40	Years Of Dividend Growth:	7
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 Depositary 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 fourth-quarter and full-year earnings results on February 13. During the year, British American Tobacco was able to generate revenues of 25.9 billion Pound Sterling, which was down by around 5% compared to one year earlier. On an adjusted organic basis, revenues were up by 1.3%, but the company was negatively impacted by currency exchange rate movements. Its revenue from New Categories, which includes vapes and other non-smokable products, grew by a solid 9% on a currency-adjusted basis, relative to one year earlier. Thanks to strong pricing, British American Tobacco was able to grow its gross profit slightly faster compared to its revenue.

British American Tobacco earned \$4.57 during fiscal 2024 (363 pence), which represents an increase of 4% on a currency-adjusted and organic basis, which is appealing. On a reported basis, once translated into US Dollars, profits were down slightly, however, as currency rate movements once again were a headwind. The company guides for adjusted profit growth of around 2% this year, and analysts forecast solid earnings-per-share growth as well.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$3.18	\$3.08	\$3.96	\$3.89	\$4.38	\$4.58	\$4.45	\$4.49	\$4.74	\$4.57	\$4.75	\$4.99
DPS	\$2.42	\$2.28	\$2.84	\$2.66	\$2.71	\$2.74	\$2.94	\$2.81	\$2.83	\$2.98	\$3.00	\$3.31
Shares¹	1860	1860	2290	2290	2290	2300	2300	2270	2230	2260	2250	2200

British American Tobacco's earnings-per-share grew by around 40% between 2015 and 2024, which equates to an annual earnings-per-share growth rate of 4%. 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 a lot of 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 plans to buy back its own shares in the future, too, 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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	15.3	17.6	19.2	16.4	8.5	9.6	8.1	8.9	6.1	7.9	8.2	8.0
Avg. Yld.	4.3%	4.1%	3.7%	4.1%	8.1%	6.5%	7.4%	7.0%	9.8%	8.3%	7.7%	8.3%

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

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	76.1%	74.0%	55.1%	68.4%	61.9%	59.8%	66.1%	62.6%	59.7%	65.2%	63.2%	66.3%

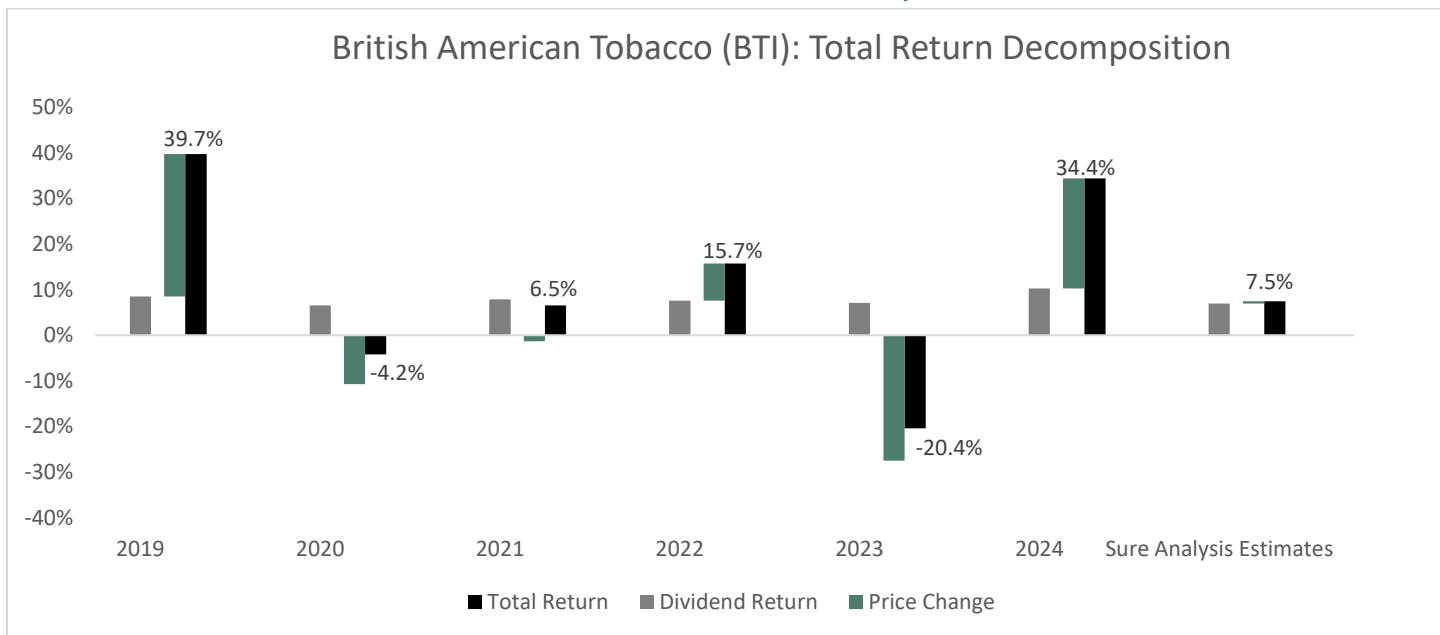
British American Tobacco has kept its dividend payout ratio in a range of 55%-75% throughout the last decade. Compared to other tobacco stocks, this is not a high payout ratio. Some competitors, such as Altria, pay out ~80% of their profits in the form of dividends. We believe that the dividend is safe 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. 2024 was a solid year for the company as it saw appealing growth in the New Categories space, although currency rate movements had a negative impact. In 2025, earnings-per-share will be up again according to current estimates. The total return outlook is very solid and shares trade around fair value. We thus rate British American Tobacco a hold at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	20,026	19,145	25,260	32,678	33,041	33,082	35,335	34,246	33,949	33,059
Gross Profit	15,391	14,087	18,762	26,608	27,376	27,771	29,306	28,607	28,174	27,390
Gross Margin	76.9%	73.6%	74.3%	81.4%	82.9%	83.9%	82.9%	83.5%	83.0%	82.9%
SG&A Exp.	19	15	39	34	1,499	1,443	1,746	1,472	1,470	1,458
D&A Exp.	654	822	1,165	1,385	1,683	1,593	1,402	1,616	29,864	3,913
Operating Profit	6,979	6,745	8,697	12,592	12,111	17,766	14,969	14,175	(13217)	11,438
Op. Margin	34.9%	35.2%	34.4%	38.5%	36.7%	53.7%	42.4%	41.4%	-38.9%	34.6%
Net Profit	6,556	6,298	48,400	8,048	7,283	8,214	9,356	8,255	(17877)	3,921
Net Margin	32.7%	32.9%	191.6%	24.6%	22.0%	24.8%	26.5%	24.1%	-52.7%	11.9%
Free Cash Flow	6,295	5,333	5,641	12,478	10,446	11,591	12,343	12,059	12,584	12,163
Income Tax	2,037	1,905	(10496)	2,857	2,634	2,706	3,011	3,069	(3,574)	456

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets (\$B)	46.69	48.86	190.62	185.69	184.88	187.65	185.39	185.82	151.23	149.19
Cash & Equivalents	2,658	2,515	4,231	3,086	2,490	2,461	1,997	2,071	3,010	3,621
Acc. Receivable	4,839	4,772	5,477	4,553	5,367	5,071	5,332	5,285	4,613	4,522
Inventories	6,292	7,117	7,925	7,650	7,990	8,174	7,125	6,863	6,291	5,792
Goodwill/Int. (\$B)	15.46	14.89	159.17	157.36	155.75	157.19	156.05	156.21	121.74	118.30
Total Liab. (\$B)	39.23	38.53	108.21	102.34	100.76	101.85	94.43	94.20	83.80	86.46
Accounts Payable	8,796	9,011	12,038	13,490	12,754	13,210	12,926	12,645	12,357	11,983
Long-Term Debt	25,187	23,950	66,827	60,284	59,483	59,274	52,922	51,581	49,978	45,630
Total Equity	7,250	10,052	82,110	83,042	83,786	85,413	90,562	91,210	66,964	62,292
LTD/E Ratio	3.47	2.38	0.81	0.73	0.71	0.69	0.58	0.57	0.75	0.73

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	15.0%	13.2%	40.4%	4.3%	3.9%	4.4%	5.0%	4.4%	-10.6%	2.6%
Return on Equity	79.4%	70.8%	104%	9.7%	8.7%	9.7%	10.6%	9.0%	-22.5%	6.0%
ROIC	21.6%	18.8%	52.7%	5.5%	5.1%	5.7%	6.5%	5.8%	-13.7%	3.5%
Shares Out.	1860	1860	2290	2290	2290	2300	2300	2270	2230	2260
Revenue/Share	10.75	10.27	12.32	14.26	14.42	14.42	15.38	15.11	15.23	14.86
FCF/Share	3.38	2.86	2.75	5.44	4.56	5.05	5.37	5.32	5.65	5.47

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

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