



# British American Tobacco (BTI)

Updated July 2<sup>nd</sup>, 2025 by Jonathan Weber

## Key Metrics

<b>Current Price:</b>	\$47	<b>5 Year CAGR Estimate:</b>	4.9%	<b>Market Cap:</b>	\$104B
<b>Fair Value Price:</b>	\$41	<b>5 Year Growth Estimate:</b>	1.0%	<b>Ex-Dividend Date:</b>	06/27/25
<b>% Fair Value:</b>	114%	<b>5 Year Valuation Multiple Estimate:</b>	-2.5%	<b>Dividend Payment Date:</b>	08/06/25
<b>Dividend Yield:</b>	6.5%	<b>5 Year Price Target</b>	\$44	<b>Years Of Dividend Growth:</b>	7
<b>Dividend Risk Score:</b>	F	<b>Sector:</b>	Consumer Staples	<b>Rating:</b>	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 H2 pre-close update, the equivalent to its Q1 report, in June. For these pre-close updates, British American Tobacco does not report exact results for revenues, earnings, and so on, but updates its guidance and gives some qualitative remarks. During the period, British American Tobacco enjoyed positive revenue growth, thanks to an improving performance of its combustibles business, while growth in alternative products, especially Velo Plus, had a positive impact as well. Management guides for an improving growth rate for the New Categories business in H2 and believes that FY2025 will show positive revenue growth overall, too.

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. But with the US Dollar weakening in 2025, currency headwinds will likely not persist, and 2025 should see some earnings-per-share growth.

## Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
<b>EPS</b>	\$3.18	\$3.08	\$3.96	\$3.89	\$4.38	\$4.58	\$4.45	\$4.49	\$4.74	\$4.57	<b>\$4.60</b>	<b>\$4.83</b>
<b>DPS</b>	\$2.42	\$2.28	\$2.84	\$2.66	\$2.71	\$2.74	\$2.94	\$2.81	\$2.83	\$2.98	<b>\$3.05</b>	<b>\$3.37</b>
<b>Shares<sup>1</sup></b>	1860	1860	2290	2290	2290	2300	2300	2270	2230	2260	<b>2250</b>	<b>2200</b>

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.

<sup>1</sup> 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	<b>10.2</b>	<b>9.0</b>
Avg. Yld.	4.3%	4.1%	3.7%	4.1%	8.1%	6.5%	7.4%	7.0%	9.8%	8.3%	<b>6.5%</b>	<b>7.7%</b>

British American Tobacco's shares are up quite a lot since our last update. Its valuation is not high on an absolute basis, but shares are more expensive than they were, on average, over the last couple of years. British American Tobacco trades for around 10 times this year's expected net earnings, which is ahead of our fair value estimate. Due to uncertainties for the industry, such as menthol regulation in the US, we believe that the valuation will not remain in the double-digits in the long run. 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%	74%	72%	68%	62%	60%	66%	63%	60%	65%	<b>66%</b>	<b>70%</b>

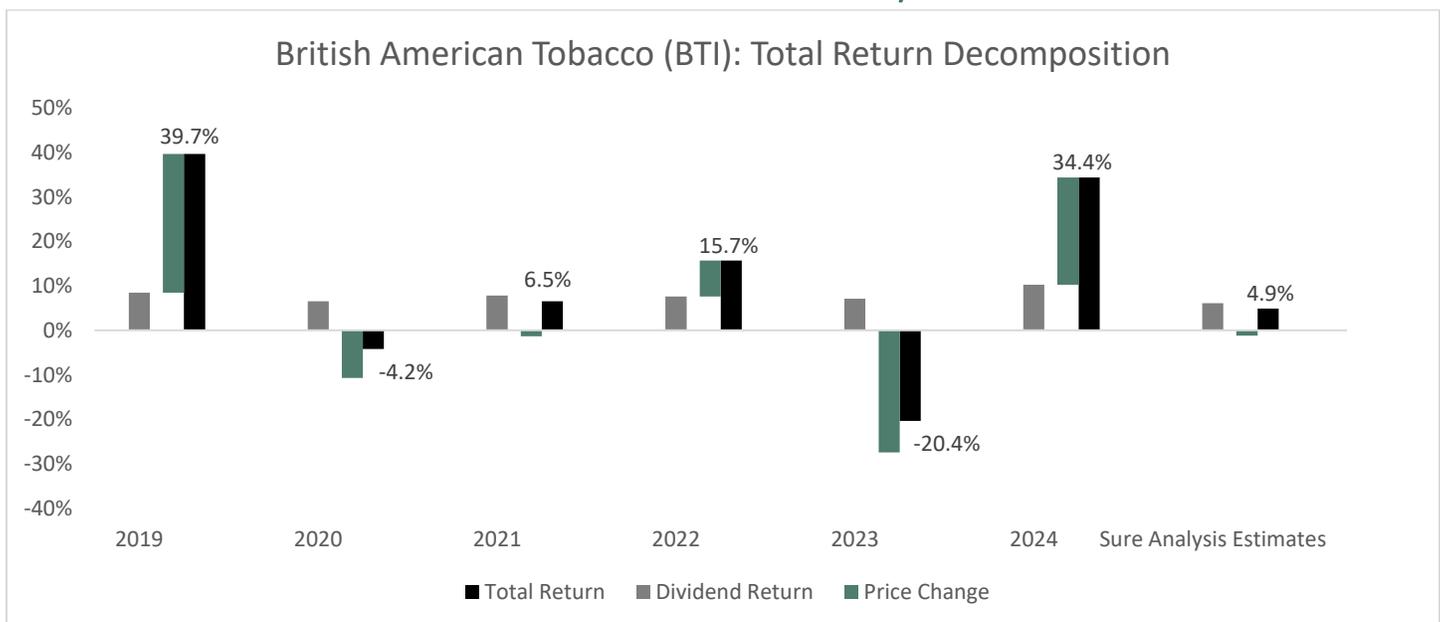
British American Tobacco has kept its dividend payout ratio in a range of 55%-75% throughout the last decade. Compared to other tobacco stocks, this is not a very high payout ratio, as some competitors, such as Altria, pay out ~80% of their profits in the form of dividends. Nevertheless, the dividend does not look ultra-safe.

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 an 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 solid, but shares trade above 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
<b>Revenue</b>	20,026	19,145	25,260	32,678	33,041	33,082	35,335	34,246	33,949	33,059
<b>Gross Profit</b>	15,391	14,087	18,762	26,608	27,376	27,771	29,306	28,607	28,174	27,390
<b>Gross Margin</b>	76.9%	73.6%	74.3%	81.4%	82.9%	83.9%	82.9%	83.5%	83.0%	82.9%
<b>SG&amp;A Exp.</b>	19	15	39	34	1,499	1,443	1,746	1,472	1,470	1,458
<b>D&amp;A Exp.</b>	654	822	1,165	1,385	1,683	1,593	1,402	1,616	29,864	3,913
<b>Operating Profit</b>	6,979	6,745	8,697	12,592	12,111	17,766	14,969	14,175	(13217)	11,438
<b>Op. Margin</b>	34.9%	35.2%	34.4%	38.5%	36.7%	53.7%	42.4%	41.4%	-38.9%	34.6%
<b>Net Profit</b>	6,556	6,298	48,400	8,048	7,283	8,214	9,356	8,255	(17877)	3,921
<b>Net Margin</b>	32.7%	32.9%	191.6%	24.6%	22.0%	24.8%	26.5%	24.1%	-52.7%	11.9%
<b>Free Cash Flow</b>	6,295	5,333	5,641	12,478	10,446	11,591	12,343	12,059	12,584	12,163
<b>Income Tax</b>	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
<b>Total Assets (\$B)</b>	46.69	48.86	190.62	185.69	184.88	187.65	185.39	185.82	151.23	149.19
<b>Cash &amp; Equivalents</b>	2,658	2,515	4,231	3,086	2,490	2,461	1,997	2,071	3,010	3,621
<b>Acc. Receivable</b>	4,839	4,772	5,477	4,553	5,367	5,071	5,332	5,285	4,613	4,522
<b>Inventories</b>	6,292	7,117	7,925	7,650	7,990	8,174	7,125	6,863	6,291	5,792
<b>Goodwill/Int. (\$B)</b>	15.46	14.89	159.17	157.36	155.75	157.19	156.05	156.21	121.74	118.30
<b>Total Liab. (\$B)</b>	39.23	38.53	108.21	102.34	100.76	101.85	94.43	94.20	83.80	86.46
<b>Accounts Payable</b>	8,796	9,011	12,038	13,490	12,754	13,210	12,926	12,645	12,357	11,983
<b>Long-Term Debt</b>	25,187	23,950	66,827	60,284	59,483	59,274	52,922	51,581	49,978	45,630
<b>Total Equity</b>	7,250	10,052	82,110	83,042	83,786	85,413	90,562	91,210	66,964	62,292
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	15.0%	13.2%	40.4%	4.3%	3.9%	4.4%	5.0%	4.4%	-10.6%	2.6%
<b>Return on Equity</b>	79.4%	70.8%	104%	9.7%	8.7%	9.7%	10.6%	9.0%	-22.5%	6.0%
<b>ROIC</b>	21.6%	18.8%	52.7%	5.5%	5.1%	5.7%	6.5%	5.8%	-13.7%	3.5%
<b>Shares Out.</b>	1860	1860	2290	2290	2290	2300	2300	2270	2230	2260
<b>Revenue/Share</b>	10.75	10.27	12.32	14.26	14.42	14.42	15.38	15.11	15.23	14.86
<b>FCF/Share</b>	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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