Company Update Report

British American Tobacco p.l.c

Financials

Ticker	BTI-ZA
Share price	R976
Intrinsic value	R944
Upside/(Downside)	-3%
Recommendation	Hold

As at: 4 May 2026

Analyst thesis

Our recommendation is based on:

- Brand equity positions British American Tobacco (BTI) as one of the leading players in the tobacco industry.
- The launch of next-generation smokeless products alleviates long-term concerns over cigarette volume declines.
- The US (~45% of revenue) illicit vape crackdown through stricter regulation, has assisted in the growth of new generation products and restored revenue growth in the region.
- The dividend yield continues to be an attractive characteristic for an already strong defensive rand-hedge within its sector.
- Valuation levels from a P:E basis are slightly above the long-term history.

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Key highlights

In this report we review BTI's preliminary FY25 results and assess the impact on our outlook:

Financial results at a glance:

- Group revenue rose 2.1% at constant currencies.
  - Revenue from the smokeless next-generation portfolio increased 7% at constant currencies, lifting the category's revenue contribution by 70 basis points (bps) to 18.2%.
  - Revenue from combustibles was up 1% for the period at constant currencies.
  - The decade-long Canadian litigation case involving BTI, Philip Morris International and Japan Tobacco has been resolved, prompting Canadian adjustments that exclude proceeds from BTI's Canadian subsidiary, as it is allocated to the C$32.5 billion settlement which is the total for the trio and not BTI alone.
- The US returned to growth, with revenue up 5.5%, supported by the performance of new category products.
  - Combustibles revenue grew by 4.6%, while new-category product revenue rose 19.8%.
  - Adjusted profit from operations showed a growth of 5.9%.
- Americas and Europe (AME) performance was stable during the period under review, with revenue up by 3.3%.
  - Combustibles revenue grew by 2.3%, with new category product revenue increasing by 4.3%
  - Adjusted profit from operations increased by 9.6%.
- Asia-Pacific, Middle East and Africa (AMPEA) performance was impacted by regulatory headwinds in Bangladesh and Australia, with segment revenue decreasing by 7.2%.
  - Combustibles revenue fell by 8.3%, while new category product revenue decreased 7.6%.
  - Adjusted profit from operations declined 17.9%.
- Group profit from operations surged 265% over the period, driven primarily by a decrease in other operating expenses related to litigation reversals on the Canada settlement provisions. Excluding these provisions, profit from operations increased by 2.3%.
- Group operating profit margin grew by 28 bps to 39%. Adjusted for Canada, the margin remained flat at 44%.
- Diluted earnings per share increased by 157% but went up by 3.4% when adjusted for Canada; dividends per share rose 2%.

Management's outlook:

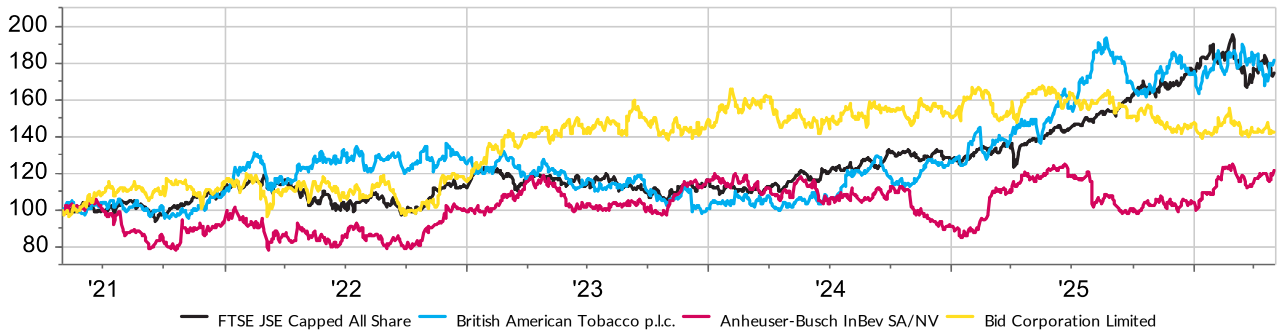
Management has guided global cigarette volumes to decrease by an estimated 2% in FY26. Group revenue is guided to grow between 3%-5%, with next-generation product revenue expected to grow at low double-digits, with adjusted operating profit to increase 4%-6%. Foreign exchange (FX) is anticipated to have a 1% impact, with adjusted diluted earnings per share expected to rise 5%-8% during the period. BTI continues to innovate in next-generation products, driving topline earnings and dividend growth. The company has remained resilient over the past 12 months as a defensive play. Given its defensive qualities, current guidance and valuation levels, we maintain a hold recommendation on BTI.

Table 1: Qualitative summary

Factor	Rating	Description
Growth	★★☆☆☆	Expected three-year revenue CAGR is 3.2% and expected three-year EPS CAGR is 5.6%. We expect earnings growth over the next three years to be driven by: A growth in smokeless products as the pressure on cigarettes continues to be a sector-wide concern.
Valuation	★★☆☆☆	The share price is trading at a 3% premium to the intrinsic value. Current NTM P:E of 11.9x is trading at a 16% premium to the five-year average P:E of 10.3x.
Dividend	★★★★☆	LTM dividend yield 6%. NTM dividend yield 6%.
Issuance	★★★★☆	Shares issued have decreased by 4% over the past five years. The group has also reiterated its £1.3bn share buyback programme.
Catalyst		Growth in new smokeless categories. Cost-saving initiatives to protect margins and profitability. US regulations to continue to combat illicit vapes and benefit the legitimate tobacco players such as BTI.
Quality of earnings	★★★☆☆	Five-year average ROE 3.5%. Five-year average operating margin 37.2%. Earnings growth has been positive in six of the past 10 years. Earnings declines in the other four years was related to the full purchase of Reynolds American, which spiked revenue in 2017 and saw a subsequent decline the following year. In 2023, a major impairment write-down of US cigarette brands, alongside the 2022 sale of the Russian and Belarusian businesses, drove the earnings decline.
Moat	★★★☆☆	Brand equity in combustibles remains strong, with well-established global brands like Dunhill, Rothmans and Lucky Strike ranking among consumers' preferred choices. Industry structure increases barriers to entry due to a highly regulated environment. Global scale through operating in almost 180 countries leading to significant economies of scale in sourcing and manufacturing. Intellectual property in the development of regulation-compliant next-generation products.
Management and governance	★★★☆☆	Executive management has a long tenure in the company with an average of 13 years. BTI recently announced the appointment of Dragos Constantinescu as CFO and executive director, effective from 1 September 2026.
Balance sheet	★★★☆☆	Net debt/EBITDA ratio was at 2.5x with the interest coverage ratio at 5.6x. Debt/assets ratio 32.1%.
Risks		Illicit vapes pose a threat to the smokeless new generation product market share. Shifting consumer health preferences continue to pressure combustible product volumes. Regulation: nicotine continues to be a highly regulated product, with tobacco laws progressively tightening along with increases in sin taxes impacting pricing and volume along with health concerns around the products.

Source: FactSet

Graph 1: Five-year price (Indexed to 100)



Source: FactSet

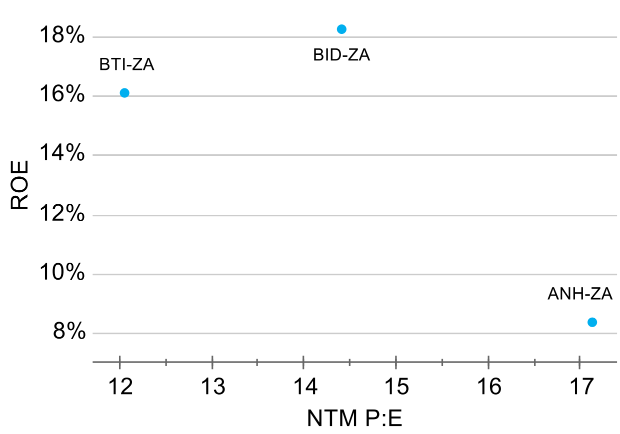
Table 2: Price performance versus benchmark and peers

Period	YTD	MTD	3M	6M	1Y	2Y	3Y	5Y	10Y
BTI-ZA	3.7%	0.0%	1.9%	10.0%	21.3%	76.2%	45.5%	81.7%	12.0%
ANH-ZA	17.4%	0.0%	9.5%	19.4%	3.9%	10.3%	5.3%	22.0%	-29.0%
***BID-ZA**	-3.4%	0.0%	0.8%	-5.0%	-12.8%	-5.6%	-2.1%	42.6%	-
Capped All Share	-0.4%	0.0%	-3.1%	6.4%	26.3%	51.7%	47.7%	76.0%	112.7%

Source: FactSet

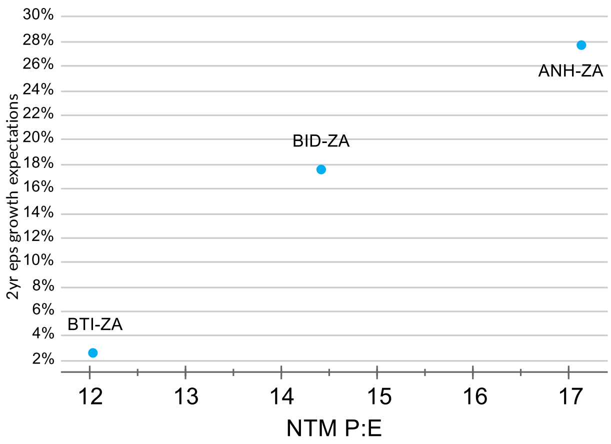
*Bid Corporation was listed in May 2016 hence no number in the 10-year spot in the above table

Graph 2: P:E vs 2Y average ROE



Source: FactSet

Graph 3: P:E vs EPS 2Y CAGR forecast



Source: FactSet

Valuation

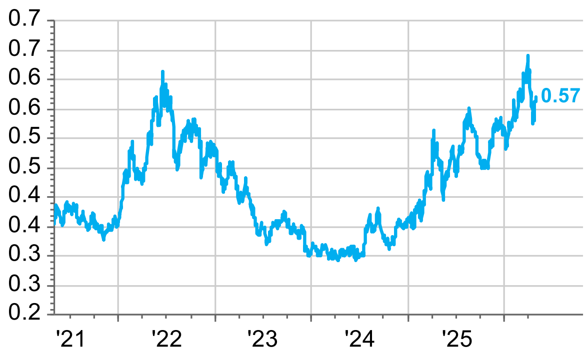
We value BTI using a forecasted EBITDA and an assumed EV/EBITDA exit multiple. We have taken the FY26 guidance into consideration and place our assumptions closer to the lower end of the guidance. Considering our scenario weights, skewed to the bull because of the quality of the company, we reach an intrinsic value of R944 per share and recommend a hold.

Table 3: Valuation table

	Bear	Base	Bull	Weighted
Scenario	20%	50%	30%	100%
FY26 est EBITDA (GBP mn)	12 221	12 221	12 221	12 221
EV/EBITDA	**9.0x**	**10.0x**	**11.0x**	**10.1x**
Enterprise value (GBP mn)	109 989	122 210	134 431	123 432
Equity value (GBP mn)	82 108	94 329	106 550	95 551
Intrinsic value (GBP)	**36**	**41**	**47**	**42**
GBPZAR	22.57	22.57	22.57	22.57
Intrinsic value (ZAR)	**811**	**931**	**1,052**	**944**
Share price (ZAR)	976	976	976	976
Upside/downside	**-17%**	**-5%**	**8%**	**-3%**

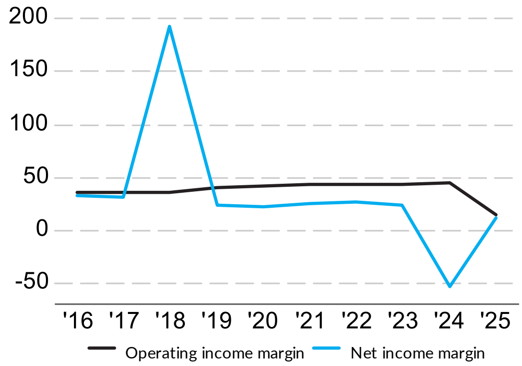
Source: PSG Wealth Research FactSet

Graph 4: NTM P:E relative to benchmark



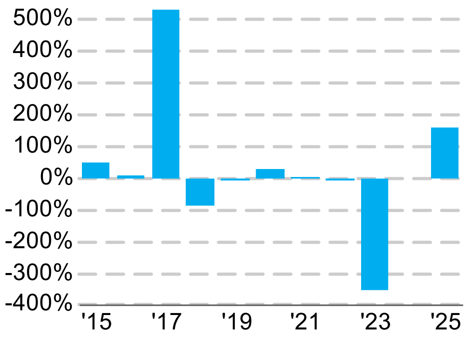
Source: FactSet

Graph 5: Profit margins (%)



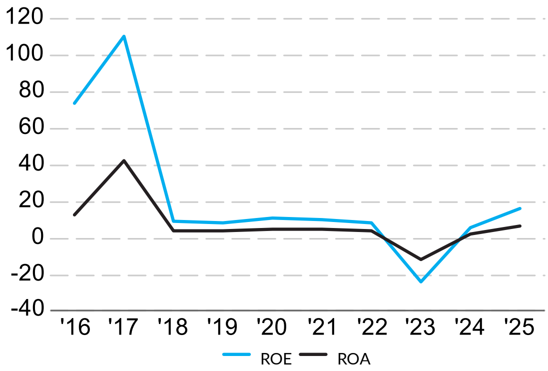
Source: FactSet

Graph 6: 10Y EPS year-on-year change



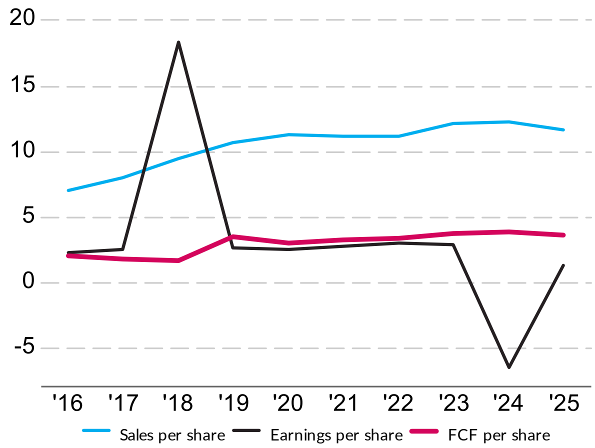
Source: FactSet

Graph 7: ROE and ROA (%)



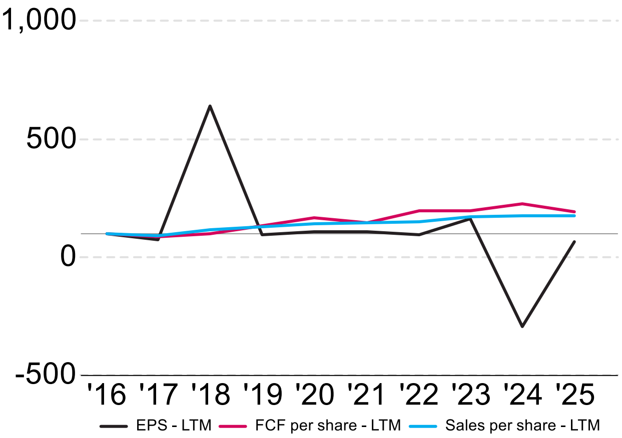
Source: FactSet

Graph 8: Sales, earnings and FCF per share (GBP)



Source: FactSet

Graph 9: Sales, earnings and FCF per share indexed



Source: FactSet

Graph 10: NTM P:E

Source: FactSet

Table 4: Financials and ratios

Income statement (£Mn)	Dec 21	Dec 22	Dec 23	Dec 24	Dec 25	1Y Growth	3Y CAGR	5Y CAGR
Revenue	25 684	27 655	27 283	25 867	25 610	-1%	-3%	0%
Cost of sales	8 175	8 651	35 919	10 368	9 898	-5%	5%	4%
Gross income	17 509	19 004	-8 636	15 499	15 712	1%	-6%	-2%
EBIT	10 234	10 703	-15 751	2 736	9 996	265%	-2%	0%
EBITDA	11 310	12 008	12 863	5 837	12 543	115%	1%	2%
Net income	6 974	7 026	-14 189	3 181	7 764	144%	3%	3%
EPS (£)	3.0	2.9	-6.5	1.4	3.5	157%	6%	5%
Balance sheet (£Mn)	**Dec 21**	**Dec 22**	**Dec 23**	**Dec 24**	**Dec 25**	**1Y Growth**	**3Y CAGR**	**5Y CAGR**
Total assets	137 365	153 546	118 716	118 899	109 290	-8%	-11%	-5%
Total shareholders' equity	67 401	75 710	52 934	49 995	48 145	-4%	-14%	-5%
Total liabilities	69 964	77 836	65 782	68 904	61 145	-11%	-8%	-4%
Ratios	**Dec 21**	**Dec 22**	**Dec 23**	**Dec 24**	**Dec 25**	**5Y Avg**		
Net debt/EBITDA	3.0	2.7	2.6	5.2	2.5	3.2		
Interest coverage	7.4	7.2	6.5	3.0	5.6	5.9		
Debt/assets	28.5	25.3	33.5	31.1	32.1	30.1		

Source: FactSet

Table 5: Standard finance and investment abbreviations

Abbreviation	Definition
AME	Americas & Europe
AMPEA	Asia-Pacific, Middle East and Africa
ANH-ZA	Anheuser-Busch InBev
BID-ZA	Bid Corporation Limited
Bps	Basis points
BTI-ZA	British American Tobacco
C$	Canadian Dollar
CAGR	Compound annual growth rate
EBITDA	Earnings before interest, tax, depreciation, and amortisation
EPS	Earnings per share
FCF	Free cash flow
FX	Foreign currency exchange
FY	Financial year
LTM	Last twelve months (also known as trailing)
M	Month
MTD	Month-to-date
NTM	Next twelve months (also known as forward)
P:E	Price to earnings
ROA	Return on assets
ROE	Return on equity
Y/y	Year(s)
YTD	Year-to-date

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*Share price as at closing.

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