



British American Tobacco

Smokeless Struggles

British American Tobacco (NYSE: \$BTI) reported their revenue/profit growth since 2022 in the first quarter of 2025. This was driven primarily by their smokeless product line Velo. Structural headwinds for BTI such as US Tariffs, cigarette volume decline, and PMI's superior reduced risk performance cap valuation upside. **We initiate BTI with a Sell rating and a 12-month price target of \$40.**

Thesis Point 1

BTI's push into smokeless products, especially Velo, is helping overall revenue and shifting towards a healthier and more profitable sales composition. These smokeless products show management's goal of moving away from traditional combustible tobacco, cigarettes, which has a higher profit per unit sold. However, traditional cigarettes still make up the majority of BTI's earnings. With tighter pricing and increased regulations, the smokeless product growth does not outweigh the downsides of traditional cigarettes' struggle.

Thesis Point 2

Phillip Morrison is excelling in the newer heated tobacco product line with its IQOS brand. This is due to customer loyalty, stronger technology, and high conversion rate. Even though BTI offers smokeless products (Vuse, Glo, Velo), it has not shown trends towards improving market share. As a result, BTI is spending more money on marketing which in turn lower profit margins, especially when compared to competitors. BTI is being outpaced by the quicker growth Philip Morrison has in innovation and in US growth, making it harder for investors to see long term gains.

Company Overview

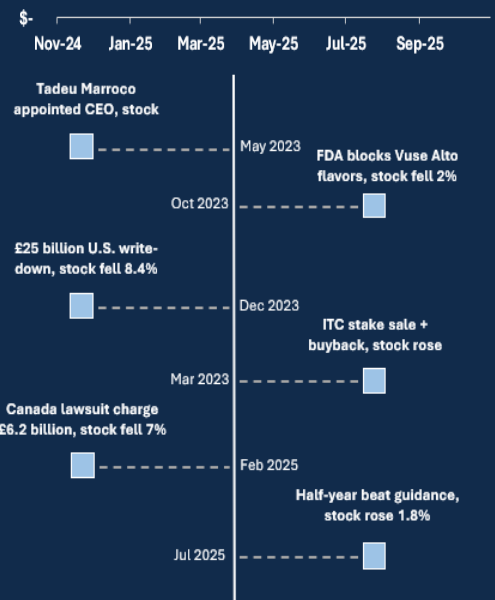
Founded in 1902, British American Tobacco (BAT) is one of the largest multinational companies, selling products that range from electronic cigarettes to nicotine pouches. Its portfolio includes electronic consumption products such as Vuse, glo, and Beyond Nicotine, traditional cigarette brands like Dunhill, Kent, Lucky Strike, Pall Mall, Rothmans, and Newport, and nicotine pouches under the Velo brand. This wide variety of products allows BAT to cover the majority of the tobacco market by offering alternatives across value, mid-tier, and premium segments. The company has pledged to create a "smokeless world," demonstrated by its investments in Vuse, Velo, and glo, and while global cigarette demand is declining, BAT has responded effectively through the diversification of its offerings. Operating in over 180 markets worldwide, BAT's leading regions include the United States, European Union, and Asia-Pacific, followed by Latin America and Africa, with the majority of its 2024 revenue coming from international sales rather than its home market in the United Kingdom.



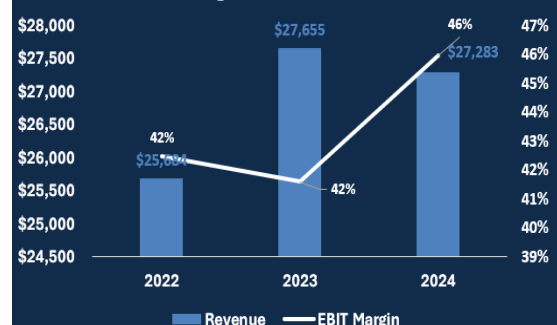
BRITISH AMERICAN TOBACCO

TICKER:	\$BTI
RATING:	SELL
PRICE:	\$52.44
PRICE TARGET:	\$46.0
MARKET CAP:	\$114.5bn
52-W RANGE:	\$34.82 - \$59.29
P/E:	28.63
IMPLIED DOWNSIDE:	(12%)

1 Year Price History



EBIT Margin with Annual Revenue



Risk 1

Faster expansion of Velo and Vuse could boost BTI’s revenue mix toward higher margins, lower risk products. FDA approvals and new market launches would also validate managements pivot towards a “smokeless world” and improve investors sentiment.

Risk 2

Cutting costs and selling off parts of the business that don’t fit its main focus should help improve profits and liquidity. By keeping the company’s focus solely on smokeless products, BTI can better handle falling cigarettes sales and earn a higher stock valuation.

Catalysts

BTI faces strong competition from PMI and regulator pressure. The FDA’s tighter regulation on smokeless products threatens BTI’s growth in the US while overseas production leave vulnerability to tariffs. Meanwhile, Philip Morrison continues to dominate the smokeless product industry with IQOS. Additionally, the lack of substantial innovation from BTI is limiting their pricing power.

Valuation

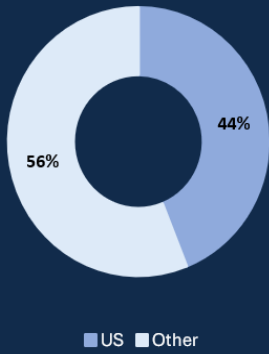
DCF Analysis (\$mm)							
	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030
	12/31/2024	12/31/2025	12/31/2026	12/31/2027	12/30/2028	12/30/2029	12/31/2030
Revenue	25,867	28,850	28,400	27,507	26,216	24,588	22,701
US	11,994	12,250	11,883	11,259	10,414	9,399	8,271
Other	15,289	16,600	16,517	16,249	15,802	15,189	14,430
	0.00	0	0	0	0	0	0
EBIT	9,796	10,200	10,224	9,765	9,176	8,483	7,718
EBIT Margin	38%	35%	36%	36%	35%	35%	34%
Tax Expense	357	325	2,045	1,953	1,835	1,697	1,544
Effective Tax Rate	4%	3%	20%	20%	20%	20%	20%
NOPAT	9,439.00	9,875.00	8,179.06	7,812.06	7,340.49	6,786.38	6,174.67
D&A	2,114	2,114	2,321	2,374	2,382	2,346	2,270
Capex	486	486	534	560	574	577	568
Changes in NWC	(3,524)	(3,524)	(3,869)	(3,361)	(2,834)	(2,313)	(1,816)
UFCF	14,591	15,027	13,835	12,987	11,983	10,869	9,693
PV of FCF		14,971	13,402	11,982	10,530	9,097	7,727

Our base case valuation assumes an 8.0x EV/EBITDA multiple, reflecting moderate compression given regulatory headwinds and declining combustible volumes. This aligns with global tobacco peer averages and reflects BTI’s gradual shift toward smokeless products. Employing a WACC of 4.95%, we arrive at a calculated fair value of \$34.64 per share, or a 23.1% downside from current levels.

Conclusion

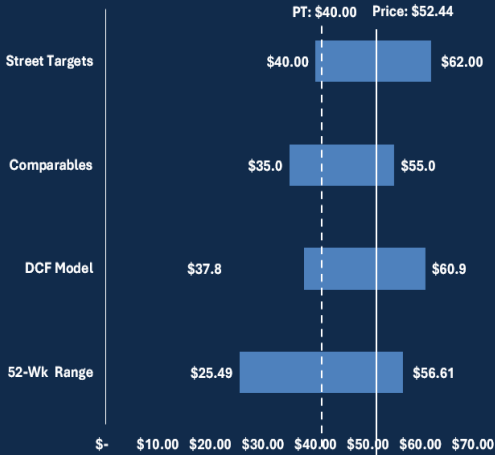
BTI’s new smokeless products are helping to stabilize business growth for now, but with declining cigarette sales, and competition outperforming in heated tobacco this is unlikely to continue. Ongoing risks from regulations, tariffs, and slower innovation limit the growth of the stock price. Even with strong dividends, we think investors will see a higher reward in other consumer companies. We initiate a 12-month SELL rating at \$46.00.

Revenue Segments

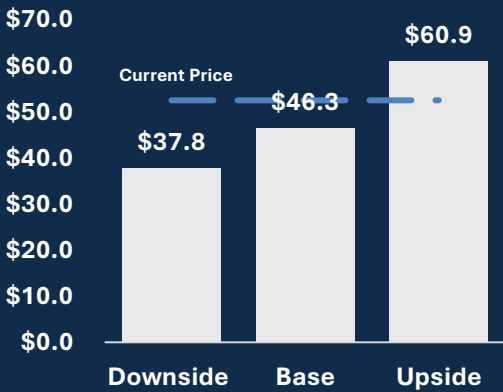


Terminal Value	
Exit Multiple Method	
2034 EBITDA	\$9,988
EV/EBITDA Exit Multiple	8.0x
Terminal Value	\$79,907
PV of Terminal Value	\$63,701
PV of Projection Period	\$67,710
PV of Terminal Value	\$63,701
Implied TEV	\$131,410
(-) Debt	\$35,325
(+) Cash	\$4,893
Implied Equity Value	\$100,978
Diluted Shares Outstanding	2,184
Implied Share Price	\$46.24
Upside/Downside	-11.8%

Football Field Valuation Range



Risk vs. Reward - DCF Cases



Income Statement (\$mm)	2024A	2025E	2026E	2027E	2028E	CAGR%
Revenue	25,867	28,850	28,400	27,507	26,216	0.3%
EBITDA	11,910	12,314	12,545	12,139	11,558	-0.7%
EBIT	9,796	10,200	10,224	9,765	9,176	-1.6%
NOPAT	9,439	9,875	8,179	7,812	7,340	-6.1%
Margin & Growth Data	2024A	2025E	2026E	2027E	2028E	AVG%
EBITDA Margin	46.0%	42.7%	44.2%	44.1%	44.1%	44.2%
EBIT Margin	37.9%	35.4%	36.0%	35.5%	35.0%	35.9%
Revenue Growth	-5.2%	11.5%	-1.6%	-3.1%	-4.7%	-0.6%
EBIT Growth	-21.9%	4.1%	0.2%	-4.5%	-6.0%	-5.6%
Valuation Metrics	2024A	2025E	2026E	2027E	2028E	AVG%
P/FCF	6.1x	5.9x	6.4x	6.8x	7.4x	6.5x
EV/Sales	4.4x	4.1x	4.2x	4.3x	4.5x	4.3x
EV/EBITDA	10.0x	9.7x	9.5x	9.8x	10.3x	9.8x
FCF Yield	16.5%	17.0%	15.6%	14.7%	13.5%	15.5%

Comparable Companies

\$mm

Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM
Imperial Brands PLC (LSE:IMB)	\$32,213	\$46,761	0.0x	\$24,822	\$5,448
Philip Morris International Inc. (NYSE:PM)	\$245,521	\$294,827	0.0x	\$39,058	\$17,838
Altria Group, Inc. (NYSE:MO)	\$108,975	\$132,458	0.0x	\$20,259	\$12,573
Scandinavian Tobacco Group A/S (CPSE:STG)	\$1,065	\$1,920	0.0x	\$1,437	\$284
British American Tobacco	\$80,500	\$125,000	6.9x	\$27,200	\$12,000

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	Yr Rev Growth Rate L
Imperial Brands PLC (LSE:IMB)	8.6x	36.8%	21.9%	19.1%	1.9%
Philip Morris International Inc. (NYSE:PM)	16.5x	66.4%	45.7%	40.7%	7.2%
Altria Group, Inc. (NYSE:MO)	10.5x	71.7%	62.1%	60.6%	(0.2%)
Scandinavian Tobacco Group A/S (CPSE:STG)	6.8x	45.7%	19.8%	16.0%	4.1%
British American Tobacco	10.4x	0.0%	0.0%	0.0%	0.0%

High	16.53x	71.7%	62.1%	60.6%	7.2%
75th Percentile	10.54x	66.4%	45.7%	40.7%	4.1%
Average	10.56x	44.1%	29.9%	27.3%	2.6%
Median	10.42x	45.7%	0.0%	19.1%	1.9%
25th Percentile	8.58x	36.8%	19.8%	16.0%	0.0%
Low	6.76x	0.0%	0.0%	0.0%	-0.2%

Weighted Average Cost of Capital (\$mm)	
Market Risk Premium	4.33%
Beta	0.60
Risk Free Rate	4.39%
Cost of Equity	4.99%
Weighted Average Cost of Debt	0.00%
Tax Rate	20.00%
Cost of Debt	0.00%
Total Equity	\$88,447
Total Debt	\$30,432
Equity/Total Capitalization	71.46%
Debt/Total Capitalization	28.54%
WACC	4.99%

Downside Case: We apply an 8.0x EV/EBITDA multiple, assuming weak RRP adoption and continued share loss. Revenue grows just ~1–2% annually, with margins slipping toward low 40%. Supporting a \$38 price target.

Upside Case: We apply a 11.0x EV/EBITDA multiple, reflecting strong RRP growth and stable pricing. Revenue expands ~6–7% by 2030, with steady margins, implying a \$60 price target.

Disclosures and Ratings: Bluegrass Capital Research does not hold any professional relationships with the securities mentioned in this report. Our ratings are defined as follows: **Buy** (expected to outperform the market), **Hold** (expected to perform in line with the market), and **Sell** (expected to underperform the market), typically over a 12-month horizon. This report is for educational and informational purposes only and should not be considered as financial advice.