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British American Tobacco

Consumer

7 August 2025

Building momentum

British American Tobacco's (BAT's) H125 results were slightly ahead of expectations and show delivery on the promise to move to higher rates of sustainable growth following two years of below-norm performance. Importantly, the US returned to revenue and profit growth, driven by the strengthened combustibles portfolio and better execution, together with excellent growth in Modern Oral following the Velo Plus launch late last year. Modern Oral was the standout performer in H1 and Velo is the fastest-growing brand in the fastest-growing New Categories segment globally. BAT calls FY25 a deployment year as it is launching new products in all New Categories, with Vuse Ultra in Vapour, glo Hilo in Heated Products and Velo Plus in Modern Oral. Management expects the ongoing phased roll-out of these innovations to drive growth in H2 and beyond.

H125 results slightly ahead of expectations

Constant currency (cc) growth was consistent down the income statement, with 1.8% revenue growth, 1.9% adjusted profit from operations (APFO) excluding Canada and 1.7% adjusted diluted EPS growth. The main driver was higher rates of growth from New Categories (18.2% of group revenue vs 17.5% in FY24), with 2.4% revenue growth driving significant improvements in profitability (category contribution +39%) and return on investment (+5.7pp to 21.6%). Combustibles also contributed, with revenue +0.8% and contribution +2.2%, despite small share losses, as growth in the US and AME was partially offset by a decline in APMEA, where management previously flagged that fiscal headwinds would affect FY25.

FY25 revenue guidance increased for second time

BAT's improving momentum is reflected in two upgrades to management's guidance for FY25 cc revenue growth so far this year: from 1% at the FY24 results to 1–2% at the H125 trading update, and now to the top end of that range. This appears well-supported given H125 growth and the H225 phasing of innovation launches. Other key elements of FY25 guidance are unchanged. APFO guidance remains for 1.5–2.5% growth as BAT absorbs some US tariff costs, and management remains focused on supporting H225's new product launches.

Improving momentum, share price outperformance

BAT's share price has outperformed its peers year to date. As a result, its prospective P/E multiple for FY25 is now broadly in line with the peer average ex Philip Morris International of 12.6x. However, BAT continues to offer a more attractive dividend yield versus the peer average of 4.7%.

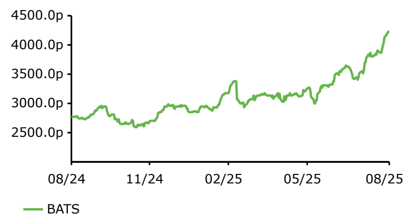
Consensus estimates

Year end	Revenue (£m)	EBIT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
12/23	27,283.0	12,465.0	375.60	235.52	11.3	5.6
12/24	25,867.0	11,890.0	362.52	240.24	11.7	5.7
12/25e	25,643.0	11,363.3	344.04	242.81	12.3	5.7
12/26e	26,401.0	11,785.9	367.61	247.97	11.5	5.9

Source: BAT, LSEG Data & Analytics. Note: Consensus unlikely to reflect estimate changes following H125 results. EBIT adjusted profit from operations.

Price	**4,233.00p**
Market cap	**£92,789m**

Share price performance



Share details

Code	BATS
Listing	LSE
Shares in issue	2,192.0m
Net cash/(debt) at 30 June 2025	£(31,253.0)m

Business description

British American Tobacco manufactures and sells nicotine globally. This includes cigarettes and reduced-risk products such as vapes, heated products and oral products.

Bull points

- BAT estimates the global nicotine market will grow at a CAGR of 4.6% from 2024–35 versus 3.8% from 2017–23, including double-digit growth from new categories in addition to 0-2% growth from combustibles (volume declines, pricing positive).
- Only 10% of the world's one billion smokers currently use new smokeless products.
- High cash conversion enables progressive dividend (FY24 was 26th consecutive year of dividend growth in sterling), further share buybacks, debt reduction and potential bolt-on M&A.

Bear points

- Potential financial losses from product liability and regulatory changes.
- Considerable divergence between countries on how to regulate new categories, including the banning of products despite reduced health risks.
- Competition from illegal products and illicit trade as external parties seek to avoid excise duty or take advantage of lack of regulation.

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British American Tobacco is a research client of Edison Investment Research Limited

The author of this report holds shares in British American Tobacco and, as such, has a financial interest in the subject of this analysis.

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