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# British American Tobacco

Consumer

31 July 2026

## Transformation gathering pace

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|---|---|
| Price | 4,566.00p |
| Market cap | £98,765m |

**British American Tobacco's (BAT's) H126 results, which were in line with management's expectations, reinforce that the company is making tangible progress in its transformation towards higher growth with more smokeless products. Management highlighted continued momentum across its New Categories, particularly Modern Oral, alongside strong growth in the US, partly offset by a slower than expected recovery in Asia Pacific. BAT continues to prioritise investment on its highest-return opportunities, with disciplined capital allocation and shareholder returns.**

### Performance driven by New Categories and the US

Revenue increased by 2.9%, adjusted profit from operations (excluding Canada) rose by 3.5% and adjusted diluted EPS (excluding Canada) was up 7.9%, all at constant currency (cc), with EPS helped by lower financing costs and share buybacks. New Categories was the standout performer with 18% cc revenue growth, taking it to almost 20% of group revenue, and the contribution margin expanded by 330bp to 13.8%. Combustibles remained resilient with 2.1% cc growth through pricing despite continued volume pressure. Management highlighted strong multi-category delivery in the US with stabilisation of combustibles volume share, another excellent performance in Modern Oral and a return to double-digit revenue growth in Vapour.

### Confident in FY26 delivery with EPS upgrade

Management reconfirmed its guidance at the lower end of 3–5% cc revenue growth and cc 4–6% adjusted profit from operations growth (excluding Canada). Industry cigarette volumes are now expected to decline c 3% (previously c -2.5% in the June 2026 trading update), following an excise hike in Brazil. H226 is expected to benefit from mid-teens New Category revenue growth, improved performance in AME and APMEA and a moderation in US growth, supported by ongoing productivity savings. Net financial charges are now projected to be c £1.65bn (previously c £1.75bn at the June 2026 trading update). This, along with a lower expected tax rate of 24–25% (previously c 25%), leads to an increase in full year cc adjusted EPS growth (excluding Canada) towards the middle of the medium-term 5–8% guided range (previously 'lower end').

### Valuation attractive versus peers

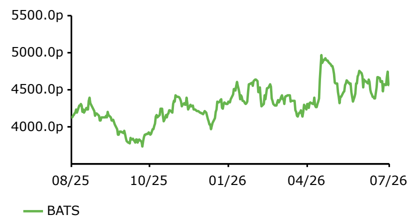
BAT's prospective P/E multiples remain at a discount to the simple averages for its global peers of 16.0x and 14.8x in FY26e and FY27e, while offering a more attractive dividend yield than the peer averages of 4.7% and 5.0%, respectively.

Consensus estimates

| Year end | Revenue (£m) | EBIT (£m) | EPS (p) | DPS (p) | P/E (x) | Yield (%) |
|---|---|---|---|---|---|---|
| 12/24 | 25,867.0 | 11,370.0 | 341.10 | 240.24 | 13.4 | 5.3 |
| 12/25 | 25,610.0 | 11,279.0 | 340.50 | 245.04 | 13.4 | 5.4 |
| 12/26e | 26,243.0 | 11,680.5 | 359.92 | 250.22 | 12.7 | 5.5 |
| 12/27e | 27,212.0 | 12,254.3 | 387.56 | 258.78 | 11.8 | 5.7 |

Source: BAT, LSEG Data & Analytics. Note: EBIT is adjusted profit from operations.

### Share price performance




### Share details

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| Code | BATS |
| Listing | LSE |
| Shares in issue | 2,163.1m |
| Net cash/(debt) at 30 June 2026 | £(31,969.0)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% from 2025–30 versus 3.8% from 2017–23, including double-digit growth from New Categories in addition to 1–2% 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 a progressive dividend (FY25 was the 27th 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.

### Analysts


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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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