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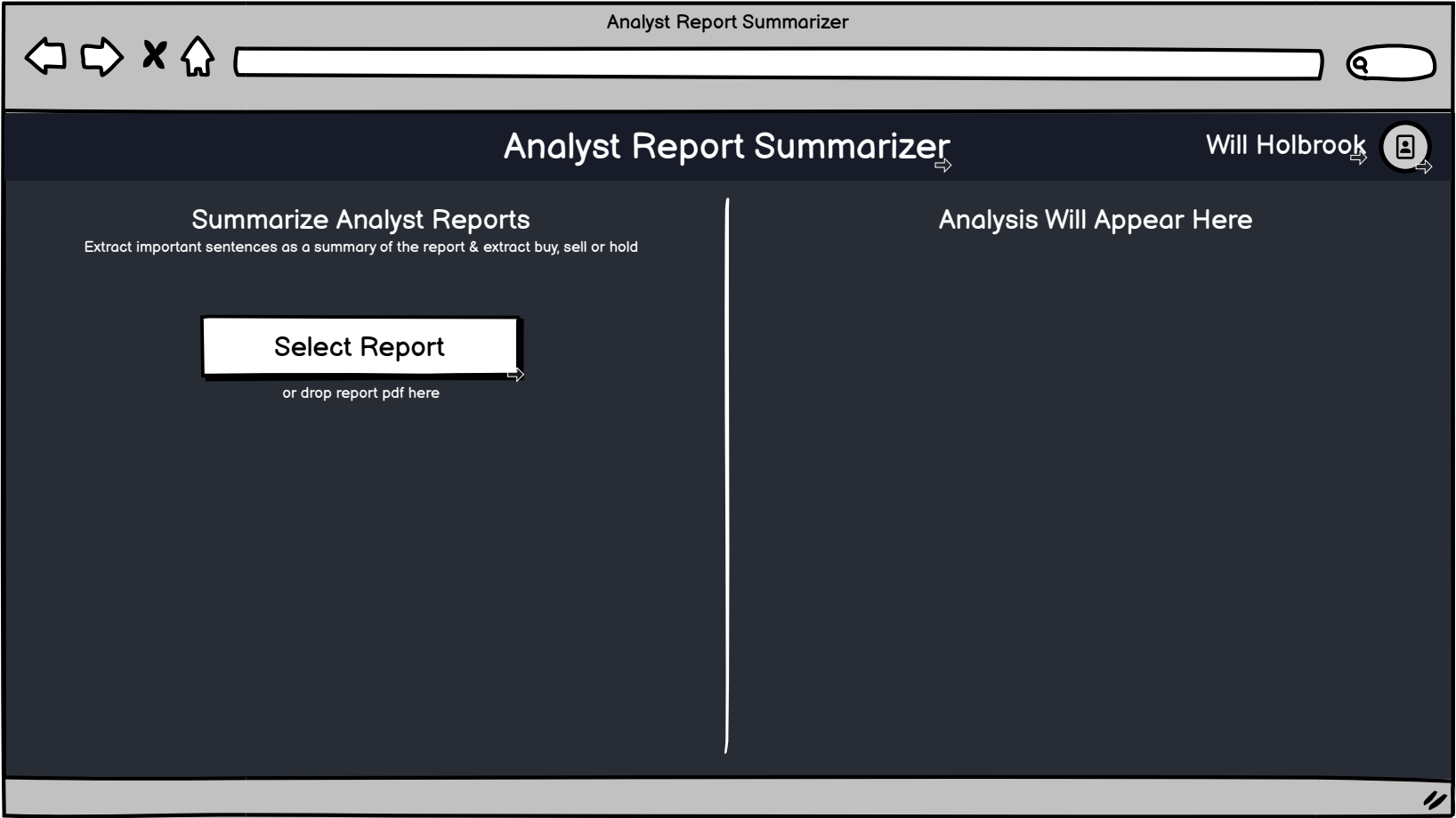**Username**

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Deutsche Bank Research

Rating	Company	Date
Buy	British American Tobacco	20 July 2022
Europe United Kingdom		Company Update
Consumer Staples Tobacco		

1H preview

1H results due pre-open 27 July

Ahead of a fireside chat at our recent Paris Global Consumer Conference BAT issued an 'in-line' trading update on 9 June. Following the update and ahead of 1H results, Vuma consensus models group revenue of £12,619m (DBe £12,682m), new category revenue of £1,163m (DBe £1,175m) and EPS of 163.4p (DBe 165.9p).

Notwithstanding concerns as to consumer disposable incomes, we expect no material change in the FY outlook provided at the trading update ex highlighting a greater FX tail wind than the current +2% guidance. We see BAT retaining 2-4% constant FX revenue growth (DBe 3.0%) and mid-single figure adjusted diluted EPS growth at constant FX (DBe 8.5%). For the FY, we currently model 368p of adjusted diluted EPS with Vuma consensus at 363p. Subject to the 1H results, we see both DBe and consensus FY estimates carrying upside risk - for FX, if nothing else - while noting concerns as to consumer behaviour, specifically as regards the US.

YTD, BAT has risen 27% (13% in USD terms) and outperformed the FTSE100 by 29% and the Stoxx600 by 45% (USD terms). In our view, an element of that outperformance has been driven by the operational attractiveness (and valuation) of the tobacco industry generally in the currently uncertain macro environment as much as the specific positive operational fundamentals of BAT. We further note that the marginal 'ESG seller' has likely sold out meaning fear negative no longer exists.

Sector-wide positives aside, and subject to the potential impact of declining consumer disposable incomes, we see BAT's relatively strong operational performance continuing with new category performance key for sentiment. As the market turns to consider FY23E, we believe BAT's continued relative attractiveness will remain supportive to the shares; the valuation remains undemanding at an FY23E unlevered yield of close to 10%.

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Analysis

Stock Position: Buy

(Buy, Sell or Hold)

Summary:

1. Ahead of a fireside chat at our recent Paris Global Consumer Conference BAT issued an 'in-line' trading update on 9 June.
2. Notwithstanding concerns as to consumer disposable incomes, we expect no material change in the FY outlook provided at the trading update ex highlighting a greater FX tail wind than the current +2% guidance.
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