

## BAT: Out of the Ashes

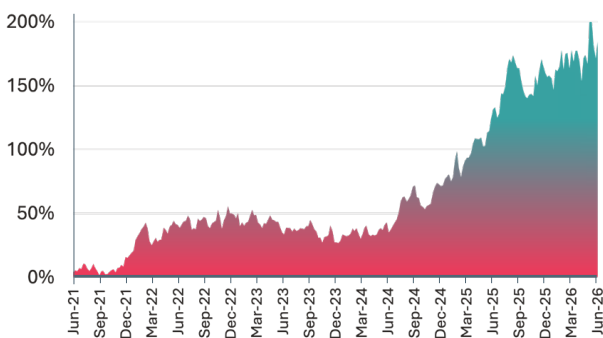
British American Tobacco (BAT) is the world's second-largest tobacco group by net sales founded in 1902, operating in around 180 countries. The cash engine is combustibles, shifting **465 billion cigarettes** in 2025. The new driving force is their smokeless segment: **Vuse** in vapour, glo in heated tobacco and **Velo** in nicotine pouches, now **18.2% of group revenue**. Cigarettes are the melting ice cube funding the dividend, the buybacks and the pivot; the whole case turns on smokeless scaling fast enough to offset the decline.



### Reinvigorated:

- **2022 to 2024: The stall.** Revenue fell from £27.7bn to £25.9bn, with volumes shrinking; the business was priced as being in terminal decline.
- **2025: The inflection.** Revenue increased by 2.1% and adjusted EPS by 3.4%; smokeless products now account for 18.2% of the mix, and New Categories revenue grew 7% to £3.62bn
- **2026 onward: Growth, officially.** Guidance indicates 3%–5% revenue growth, 4%–6% profit growth, and 5%–8% EPS growth
- **Throughout:** 100% cash conversion and £28bn returned to shareholders over five years
- Zyn built the US pouch category and still leads on volume; globally, it is a dead heat, with Velo and Zyn each at **33%**
- However, **Velo is driving growth:** US volume increased by **233%** in 2024, with share above 10%, and category volume share rising 11.6 percentage points to 18.0% in 2025
- The US category grew 40% in 2025, while Velo's revenue grew **372%** - nearly 9x the market
- **The prize is significant:** the US pouch market is projected to grow from \$3.95bn (2024) to \$49bn by 2033, representing a 32%+ CAGR

### BTI's 5 year total return



Source: Factset, 15 June 2026

- FDA approval for some fruit-flavoured pods in March 2026
- Direction of travel is **clearly industry-friendly**
- Flavours **drove 80%** of US vape sales growth (2019 to 2023)
- The reopening of this as a US revenue driver could be significant



BAT is a mispriced transition story. The market still prices it like the melting ice cube of 2023, but 2025 brought revenue back to growth and restored guidance to 3-5% revenue and 5-8% EPS growth from 2026. The engine is Velo, a global pouch co-leader with Zyn, taking the lion's share of US growth. It all sits on a cash machine that funds a 5%+ yield and a buyback, yet trades on a forward P/E near 12, a deep discount to peers such as Philip Morris. A happy hold in our local portfolio solutions.

The views expressed above are those of the Advantage Securities Investment Team and are based on our analysis, interpretation of publicly available information, and professional judgement at the time of writing.

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T: (021) 936 9500 | T: (011) 463 9600

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