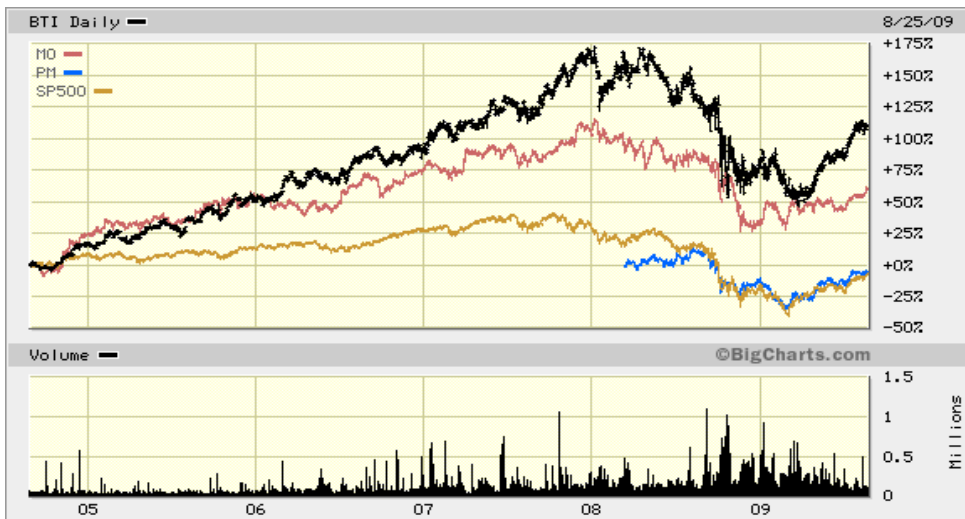


British American Tobacco plc (BTI) 8/25/09

British American Tobacco, along with its subsidiaries, manufactures, distributes, and sales a variety of tobacco products. The company offers cigarettes and cigars under brand names; Dunhill, Kent, Lucky Strike, Pall Mall, Vogue, Viceroy, Rothmans, Kool, State Express 555, Peter Stuyvesant, and Gold Leaf. BTI operates in Europe, Asia, South America, Africa, and the Middle East. BTI was founded in 1902 and is headquartered in London, United Kingdom.

Current Price	\$61.48
52 Week High	\$69.37
52 Week Low	\$43.26
One Yr Target	n/a
Market Cap (in billions)	\$60.48
P/E (Trailing)	13.54
P/E(1 Yr Forward)	n/a
P/E/G	1.41
ROA	12.53%
ROE	39.97%
EPS	\$4.54
Beta	0.42
Annualized Dividend	\$1.84
Dividend Yield	2.99%
Analyst Consensus	1.00



Annual EPS

2005	\$0.84	
2006	\$0.91	8.33%
2007	\$1.04	14.29%
2008	\$1.23	18.27%
2009E	\$4.54	269.16%

Annual Revenue (in millions)

2005	\$9,325.00	
2006	\$9,762.00	4.69%
2007	\$10,018.00	2.62%
2008	\$12,122.00	21.00%

Annual Net Income (in millions)

2005	\$1,767.00	
2006	\$1,896.00	7.30%
2007	\$2,130.00	12.34%
2008	\$2,457.00	15.35%

Required Rate of Return

6.80%

Dividend Growth Model

Present Value of 2013 Price	\$19.57
Holding Period Return (5 years)	-9.74%

Expected Annualized Return Model

Present Value of 2013 Price	\$120.62
Holding Period Return (5 years)	16.71%

Residual Income Model

Intrinsic Stock Price	\$30.71
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Analysis

Positives

Very low Beta, decent P/E ratio, and decent dividend yield point to a good value in stock price

Great ability by company to grow Revenue, Net Income, and EPS over last 4 years

Significantly undervalued according to the trusted EAR valuation model

Negatives

Overvalued according to the DG and RI valuation models

Financial Statements

Balance Sheet is strong but a current ratio < 1 is a concern

Impressive Income Statement with Revenue, Net Income, and EPS increasing over 4 years

Cash Flows had been negative, but are positive in past year due to issuance of debts

Industry Analysis

Company is one of the larger in the industry, which is concentrated

Financial ratios are on average with competitors

Summary

There is much to like about BTI, but also some concern as well. The financial ratios of BTI are solid and point to a good value. The Income Statement numbers over the past several years are impressive, a sign of good management. Two of three valuation models though have BTI as overvalued, a larger concern because it has such a low Beta. Tobacco companies typically do well in a recession, which may lead to BTI being more expensive now that it may be in better economic times. This coupled with the valuation models leads to BTI earning a **hold** rating.