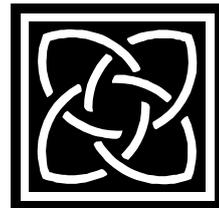


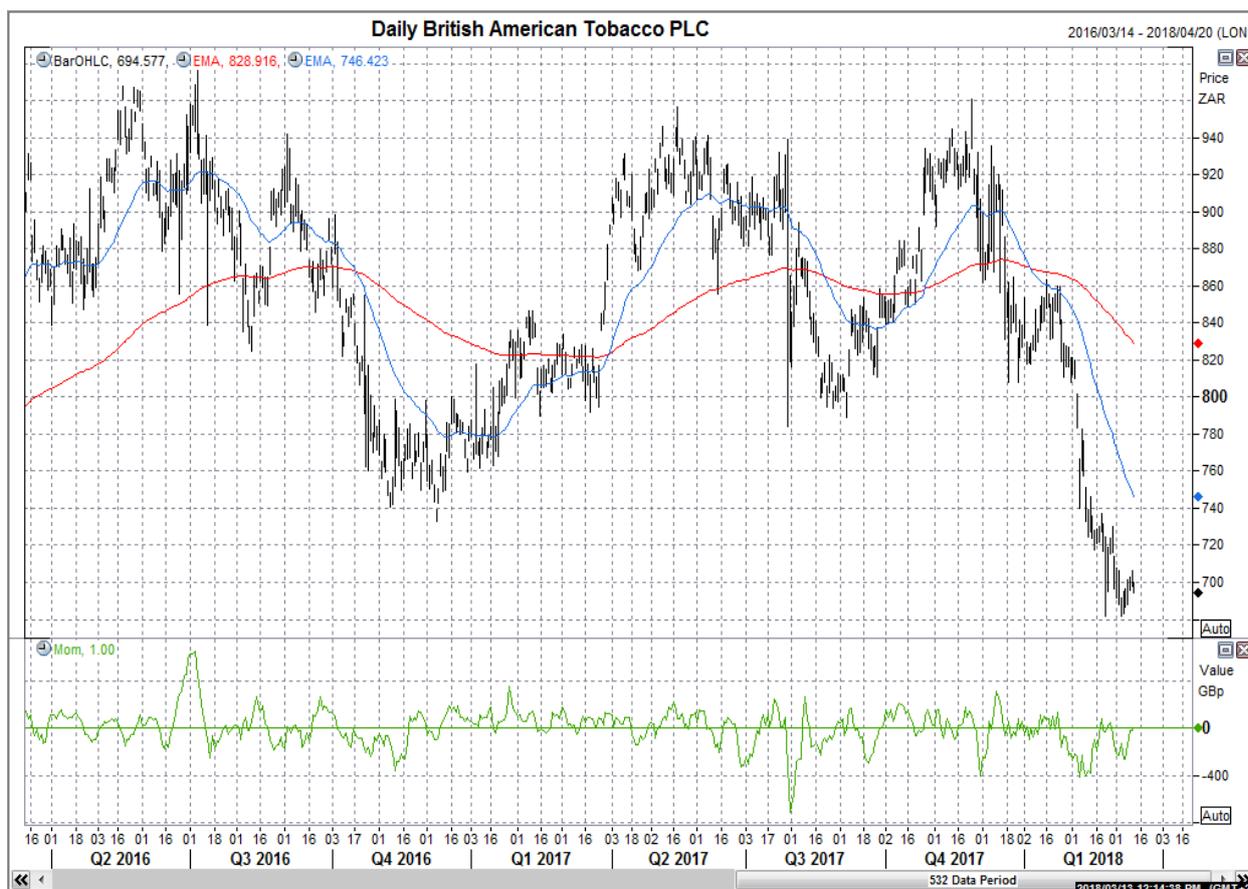
FFO SECURITIES (PTY) LTD

Authorised User of the JSE Limited



TRADE IDEA FOR TODAY

13 Mar 2018



British American Tobacco (BTI) is one of the largest companies listed on the JSE by market capitalisation, and has its primary listing on the London Stock Exchange, and is the largest tobacco and next generation products (NGP) company in the world by revenue and profit, with global brand names like Dunhill, Kent, Rothmans, and Lucky Strike, operating in more than 200 countries worldwide.

UPDATED INVESTMENT CASE

In our Trade Idea report sent in January 2018 we said that British American Tobacco completed its acquisition of Reynolds American Incorporated in 2017, representing the company's largest revenue market. The company projects a US\$ 540 million benefit thanks to Congress passing a cut in the corporate tax rate in the US. This would boost British American Tobacco's earnings by an estimated

6% in 2018. British American Tobacco is also on track in its strategy and commitment to grow its next generation products (NGP) category in South Africa to offer consumers a choice of alternatives to smoking. The company recently signed an agreement to acquire the entire business of Twisp (Pty) Ltd. In a trading update released in December 2017, the company said it is confident of another year of good earnings growth at constant currency, with full year earnings to benefit from a reduced currency translation tailwind.

Since our previous report the company released its results for the year ended 31 December 2017, in February 2018, achieving a 38% increase in revenue driven by the Reynolds Incorporated acquisition and adjusted diluted earnings per share grew 14.9%. Dividends per share also increased by 15% to 195 Pence per share. Despite this solid performance it seems the market was hoping for faster growth in the second half of 2017, together with a resilient Rand in the past couple of weeks, leading to the share price coming under pressure.

The Rand is overbought at current levels and an investment in British American Tobacco presents an opportunity to hedge against possible Rand depreciation, as a typical Rand Hedge share.

Technically, the share price is oversold as measured by the deviation from its 40-day and 200-day moving averages. Furthermore, the current momentum indicators are pointing to a change in direction.

We maintain that an entry at current price levels represent a sound investment, on both fundamental and technical basis.

Our fair value and long-term price target has been adjusted to R 840.00, representing decent upward potential from the current level.

TARGET OUTCOME

Current Price: R 695.00

Target Price: R 840.00

Potential Return: 20.86%

Disclaimer:

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