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## ABSTRACT

### **BUSINESS ANALYSIS AND VALUATION OF BRITISH AMERICAN TOBACCO P.L.C.**

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*This paper seeks to estimate the target share price for British American Tobacco p.l.c. at the end of 2021 and provide an investment recommendation. Free cash flow to the firm (FCFF) for the next ten years are forecasted using the historical growth rates from the period of 2011-2020. Based on the discounted cash flow model, the FCFFs are discounted back to 2021 with the weighted average cost of capital of 8.64% as discount rate and a perpetuity growth rate of 1.5%. The model generates an enterprise value of £125,603 million from the present value of the FCFFs and the terminal value and an equity value of £86,047 million. The value per share at the end of the year 2021 is estimated at GBX 3,749. Compared to the market value on 30 June 2021, which is closed at GBX 2,800, the target price has a potential upside of 33.9%. This means that the market undervalues the target price. Sensitivity analysis and scenario analysis are performed to see how the target price affected by changes in key assumptions. Relative valuation analysis is also conducted by comparing BAT's multiples to its peers. This paper recommends investors a BUY strategy towards British American Tobacco equity.*

*Keyword : valuation, discounted cash flow, market price, target price*