

ModernGraham Valuation



Company Name:

Reynolds American,
Inc.

Company Ticker RAI

Date of Analysis

7/20/2016

Stage 1: Is this company suitable for the Defensive Investor or the Enterprising Investor?

Defensive Investor; must pass 6 out of the following 7 tests.

1. Adequate Size of the Enterprise	Market Cap > \$2Bil	\$74,664,574,790	Pass
2. Sufficiently Strong Financial Condition	Current Ratio > 2	0.99	Fail
3. Earnings Stability	Positive EPS for 10 years prior		Pass
4. Dividend Record	Dividend Payments for 10 years prior		Pass
5. Earnings Growth	Increase of 33% in EPS in past 10 years using 3 year averages at beginning and end	102.37%	Pass
6. Moderate PEmg Ratio	PEmg < 20	26.12	Fail
7. Moderate Price to Assets	PB Ratio < 2.5 OR PB*PEmg < 50	3.54	Fail

Enterprising Investor; must pass 4 out of the following 5 tests, or be suitable for the Defensive Investor.

1. Sufficiently Strong Financial Condition	Current Ratio > 1.5	0.99	Fail
2. Sufficiently Strong Financial Condition	Debt to NCA < 1.1	-176.17	Fail
3. Earnings Stability	Positive EPS for 5 years prior		Pass
4. Dividend Record	Currently Pays Dividend		Pass
5. Earnings Growth	EPSmg greater than 5 years ago		Pass

Suitability

Defensive	No
Enterprising	No

Stage 2: Determination of Intrinsic Value

EPSmg	\$2.00
MG Growth Estimate	13.11%
MG Value	\$69.59
MG Value based on 3% Growth	\$29.06
MG Value based on 0% Growth	\$17.04
Market Implied Growth Rate	8.81%

MG Opinion

Current Price	\$52.36
% of Intrinsic Value	75.24%
Opinion	Fairly Valued
MG Grade	C-

Stage 3: Information for Further Research

Net Current Asset Value (NCAV)	-\$17.97
Graham Number	\$27.58
PEmg	26.12
Current Ratio	0.99
PB Ratio	3.54
Current Dividend	\$1.48
Dividend Yield	2.82%
Number of Consecutive Years of Dividend Growth	12

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EPS History		EPSmg History	
Next Fiscal Year Estimate	\$2.28	Next Fiscal Year Estimate	\$2.00
Dec2015	\$2.57	Dec2015	\$1.77
Dec2014	\$1.38	Dec2014	\$1.32
Dec2013	\$1.57	Dec2013	\$1.24
Dec2012	\$1.12	Dec2012	\$1.07
Dec2011	\$1.20	Dec2011	\$1.04
Dec2010	\$0.95	Dec2010	\$0.98
Dec2009	\$0.83	Dec2009	\$1.00
Dec2008	\$1.14	Dec2008	\$1.05
Dec2007	\$1.11	Dec2007	\$0.58
Dec2006	\$1.03	Dec2006	\$0.04
Dec2005	\$0.88	Dec2005	-\$0.50
Dec2004	\$0.77	Dec2004	-\$0.90
Dec2003	-\$5.15	Dec2003	-\$1.14
Dec2002	-\$0.06	Dec2002	\$0.89
Dec2001	\$0.55	Dec2001	\$1.24
Dec2000	\$2.24	Dec2000	\$1.35
Dec1999	\$2.70	Balance Sheet Information 3/1/2016	
Dec1998	-\$0.59	Total Current Assets	\$7,529,000,000
Dec1997	\$0.00	Total Current Liabilities	\$7,604,000,000
Dec1996	\$0.00	Long-Term Debt	\$13,213,000,000
		Total Assets	\$54,408,000,000
		Intangible Assets	\$45,454,000,000
		Total Liabilities	\$33,245,000,000
		Shares Outstanding (Diluted Average)	1,431,069,000





Disclaimer:

This valuation is not investment advice. Anyone who is considering making an investment decision should speak to a registered investment advisor.

The author did not hold a position in any company mentioned in this article at the time of publication and had no intention of changing those holdings within the next 72 hours.

Recommended Reading:

Other ModernGraham posts about the company

- [23 Companies in the Spotlight This Week – 3/9/15](#)
- [Reynolds American Inc. Annual Valuation – 2015 \\$RAI](#)
- [16 Companies in the Spotlight This Week – 3/1/14](#)
- [Reynolds American Inc. \(RAI\) Annual Valuation](#)

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- [Philip Morris International Inc Valuation – June 2016 \\$PM](#)
- [Altria Group Inc Valuation – June 2016 \\$MO](#)
- [Constellation Brands Inc Valuation – January 2016 Update \\$STZ](#)
- [Molson Coors Brewing Co. Valuation – November 2015 Update \\$TAP](#)
- [Brown-Forman Corporation Analysis – September 2015 Update \\$BF/B](#)
- [Brown-Forman Corporation Analysis – June 2015 Update \\$BF.B](#)
- [Philip Morris International Annual Valuation – 2015 \\$PM](#)
- [Brown-Forman Corporation Quarterly Valuation – March 2015 \\$BF.B](#)
- [Lorillard Inc. Quarterly Valuation – March 2015 \\$LO](#)
- [Reynolds American Inc. Annual Valuation – 2015 \\$RAI](#)