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BAT's net profit down 42% on lower volume

Revenue for the quarter drops 20.6% YoY to RM584m driven by the rampant trading of illegal products

by SHAHEERA AZNAM SHAH

BRITISH American Tobacco (M) Bhd (BAT) has reported its third consecutive drop in net profit for its third quarter ended Sept 2019 (3Q19).

BAT's net profit between July and September dropped 42% year-on-year (YoY) to RM84.8 million driven by the rampant trading of illegal products.

Revenue for the quarter dropped 20.55% YoY to RM584.34 million.

This decline was driven mainly by lower volume as a result of legal market contraction and the absence of one-off factors reported in the same period last year such as the benefit from the Goods and Services Tax removal and prior-year tax stamps refunds, the tobacco company noted in its release yesterday.

"The total legal industry volume declined by 11% YoY, largely attributed to Sales and Services Tax-led pricing, which is a rapid increase in illegal vaping products and the high level of illegal cigarette inci-



The legal industry volume continues to contract by 4% in 3Q19 due to the increase in illegal cigarettes trade and the impact of illegal vaping

dence of 65%," BAT noted in an exchange filing yesterday.

Earnings per share for the period was 29.1 sen.

BAT said the shrinking market of the legal tobacco industry coupled with the inventory adjustment had contributed to the decline in the group's volume by

8% quarter-on-quarter.

"The legal industry volume continues to contract by 4% in 3Q19 against the preceding quarter, primarily due to the increase in illegal cigarettes trade as well as the impact of illegal vaping," it stated.

The legal industry contraction, as well as the inventory adjustment

from seasonal impact, had led to the decline in the group's volume of 8% against the preceding quarter.

The decline translated into 8.8% decrease in the group's revenue of RM56 million and a 12% decrease in the group's gross profit of RM22 million it said.

As a result of the decline, BAT said its market share had narrowed by 0.4 percentage points to 54.4%.

Despite the lower performance, the company declared a third interim dividend of 29 sen per share to be paid on Nov 26.

Revenue in the nine months declined by 10% YoY to RM1.85 billion, while the net profit fell 29.7% YoY to RM249.9 million.

MD Erik Stoel said the illegal tobacco segment is expected to put pressure onto the legal cigarette volumes in Malaysia.

"The current environment within the tobacco industry is one that is unsustainable and untenable for any legal company. While we continue in our commitment to deliver value to our shareholders, the result for this quarter was achieved on the back of conscious cost base and investment management," he said.

Stoel added that the current

scenario of cheap illegal contraband tobacco products has further deteriorated in Malaysia, despite the efforts by law enforcement agencies like the police and customs that had clamped down on the cartels running these syndicates.

"We need more players like the Ministry of Health bearing down on the inflow of cheap contraband cigarettes that does not comply with tobacco control laws into the country," BAT said.

Moving forward, the company said it will continue to rationalise operating costs and work closely with the authorities on enhancing enforcement and setting up a comprehensive and sustainable total regulatory framework.

"The group is extremely concerned about the lack of progress on the reduction of illegal cigarette trade and the high level of affordability stretch on legal consumers in Malaysia.

"The recent rapid growth of unregulated vaping products in the market puts further pressure on the legal industry market," it said.

BAT's shares closed higher at 14 sen or 0.75% at RM18.82, giving it a market capitalisation of RM5.37 billion.