



BRITISH AMERICAN TOBACCO (MALAYSIA) EXPERIENCES CHALLENGING FIRST QUARTER 2019

Market contraction impacting quarter one revenue and operating profit

Bukit Damansara, 28 May 2019 – British American Tobacco (Malaysia) Berhad (BAT Malaysia) today announced its financial results for the first quarter of the year that ended 31 March 2019.

The continued dominance of high illegal cigarettes trade at 61% of the market despite enforcement efforts by Royal Malaysian Customs in the first quarter, together with the SST led price increase in November 2018, the smoking restriction at eateries, and the unprecedented affordability stretch on consumers, have led the legal market volume to decline by 8% in first quarter 2019 versus preceding quarter. Furthermore, the legal cigarette market experienced downtrading from premium and aspirational premium (AP) segment to value for money (VFM) segment.

The market contraction in the legal market mainly impacted the Group's revenue and profit from operations. Revenue in first quarter was RM621 million, 2.6% lower versus the same period last year. Profit from operations was RM120 million, down by 7.5% compared to same period last year.

The company with its more premium focused portfolio and wider geographic spread saw a higher volume impact than industry, registering a total market share decline of 0.5ppt versus the previous quarter. This is attributed to the high price elasticity levels and the unprecedented affordability stretch on consumers across Malaysia, where illegal products are still widely available and selling significantly below legal minimum price.

Despite these pressures, BAT Malaysia retains its leadership position, stable in first quarter at 54.8% of the overall legal market. Within the premium segment DUNHILL holds strong with a share growth of 0.4ppt when compared to other premium brands in the first quarter. ROTHMANS registered solid performance in the VFM segment, growing share by 0.6ppt versus last quarter.

Based on this quarter's financial performance, the Board of Directors has declared a first interim dividend of 30 sen per share.

Erik Stoel, Managing Director of BAT Malaysia commented: "The first quarter of 2019 has been challenging, with both legal industry and BAT's volumes registering a decline due to market contraction from continued high levels of illegal cigarette incidences at 61%, smoking restriction and consumers downtrading due to affordability issues. In addition, the legal market also experienced outflow to the quasi legal industry, which carries brands with fake tax stamps."



“The grim reality facing the legal industry is that while legal players conform to all current and existing regulations governing the industry, there is still a market majority that does not and will not comply to any form of regulations or excise. Despite the increased enforcement actions, the illegal cigarette syndicates are rapidly evolving their tactics and operations to avoid detection by the authorities. These sophisticated tactics have seen syndicates resorted to selling their contraband off premises via social media, through chat groups or via home delivery service. We therefore urge the government to consider a more holistic and comprehensive solution that addresses the real motivations behind the continued consumption of illegal cigarettes – affordability, as well as applying enforcement activities at a higher level of intensity.”

“Another key area that requires urgent and immediate focus is around the introduction of a more consistent regulatory framework to govern the tobacco industry, especially in the new category of Potentially Reduced Risk Products (PRRPs). There seems to be a lack of consistent application of the law surrounding price approvals which is unjustified as it has delayed the launch of our tobacco heated product (THP), Glo.”

“In fact, Malaysia is the only market in the world where Glo still awaits a decision by regulators while a competitor product has long been approved and is available on shelves. The delay by the MOH’s Tobacco Control Sector appears unwarranted and gives the impression that BAT Malaysia will not be allowed a fair opportunity to sell its products despite complying with all prevailing regulatory requirements. Should the issue persist, it is likely that this can undermine investments and future earnings.”

“The coming quarter will mark a critical period for the business as the outlook for growth remains dependent on how the government will address the levels of illegal cigarettes which is still at endemic proportions and how it applies the current regulatory policies equally to all players especially in new categories like PRRPs.”

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For more information on British American Tobacco Malaysia's financial results, please visit www.batmalaysia.com

About British American Tobacco (Malaysia) Berhad

British American Tobacco (Malaysia) Berhad is the leading tobacco company in Malaysia. This strong position is built upon a portfolio of high-quality tobacco products designed to meet diverse consumer preferences. Our portfolio includes world- famous brands like DUNHILL, KENT, PETER STUYVESANT, PALL MALL and ROTHMANS.

British American Tobacco Malaysia employs almost 500 employees who are involved in a wide spectrum of disciplines, from generating insights, developing brands and making these available on a national level. In addition, we also set leading edge talent development practices as well as ensure a strong foundation of corporate governance and shareholder relations.

The company is part of the British American Tobacco group, which is the world's most international tobacco group and the second largest stock market listed tobacco group by global market share.

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