

Headline	BAT`s projects to turn positive on stabilising illicit cigarettes trade		
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▶ BRITISH AMERICAN TOBACCO (M) BHD				
FYE 31 DEC	2018	2019E	2020E	2021E
REVENUE (RM mil)	2,822.9	3,128.2	3,508.7	3,953.5
NET PROFIT (RM mil)	468.5	532.3	608.8	710.1
EPS (sen)	164.1	186.4	213.2	248.7
PER (x)	22.7	20.0	17.5	15.0

BAT's projects to turn positive on stabilising illicit cigarettes trade

▶ Recommendation:
Buy
TARGET Price: RM40.20
by Affin Hwang Investment Bank Bhd (Feb 22)

Highlights
BRITISH American Tobacco (M) Bhd's (BAT) 2018 results came in within our and consensus' expectations.

Core earnings declined 14% YoY as sales volume again suffered from the rampant illicit cigarettes trade.

Market conditions have nonetheless stabilised in 2018, and the worst is likely to be over, in our view.

We continue to favour BAT's recovery prospects in 2019, spurred by the government's mounting pressure against the untaxed illicit market.

Reiterate 'Buy' with an unchanged TP of RM40.20.

Ending within expectations. BAT's 2018 core net profit declined by 14% YoY to RM449.2m amid higher incidences of cheap illicit cigarettes in the market (63% of

market versus 61% in 2017).

Sales volume declined 4.6% YoY, while margins were impacted by the introduction of value-for-money (VFM) Rothmans cigarettes.

Overall, the results were within both our and consensus' expectations, accounting for 104% and 101% of 2018 estimates respectively.

A fourth dividend of 47 sen was declared, bringing full-year DPS to 155 sen (FY17: 169 sen).

There were positive signs for BAT, including a stabilising illicit market over 2018 following its shocking rise during 2015-2017.

In the legal market, BAT retained its leading share of 56.3%, led by premium Dunhill's strength. Meanwhile, management expects only a marginal impact on volumes following the smoking ban at eateries.

Expecting a turnaround year. Going into 2019, we turn more positive on BAT's earnings recovery prospects,

fuelled by the government and Customs' intensifying efforts to stifle the illicit cigarettes trade and recover at least RM1b of tax leakages.

We believe that escalating pressure — significantly heavier penalties, increasing number of raids, joint-agency coordination — on the illicit activities would over the year lead to a meaningful reduction of contraband cigarettes.

On the heated tobacco segment, management is also working on bringing in its heat-not-burn 'Glo' device into the market.

Maintain 'Buy'. We leave our earnings forecasts largely unchanged, while introducing our 2021E EPS forecasts. Hence, we reiterate our 'Buy' recommendation on BAT, with an unchanged 12-month DDM-derived TP of RM40.20.

Downside risks: i) Slower enforcement activities; ii) aggressive excise duty hikes; and (iii) heightened competition from heated tobacco products.