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BAT calls for price approval consistency amid lower 1Q profit

BY WONG EE LIN

KUALA LUMPUR: British American Tobacco (Malaysia) Bhd's (BAT) net profit fell 7.93% to RM88.6 million for the first quarter ended March 31, 2019 (1QFY19), versus RM96.23 million last year, as consumers downtraded and the legal market contracted.

Its revenue slipped 2.6% to RM620.96 million from RM637.65 million, its filing with Bursa Malaysia yesterday showed, due to the said factors, partially offset by a sales and services tax (SST)-led pricing benefit and the goods and services tax's removal. Quarterly earnings per share dropped to 31 sen from 33.7 sen.

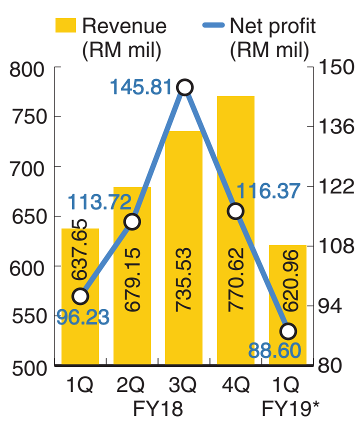
The group declared a first interim dividend of 30 sen per share for the financial year ending Dec 31, 2019, amounting to RM85.66 million, payable on June 25. The payout is three sen less than the 33 sen it announced for the same quarter last year.

"The total legal industry volume declined 6% compared with that in the same period of last year, largely attributed to the SST-led pricing and a high illegal cigarette incidence of 61%," said BAT.

Meanwhile, the legal cigarette market experienced downtrading from the Premium and Aspirational Premium segments to the Value for Money segment, the only one seeing growth in the legal industry. Rothmans, it said, registered a solid performance in this new emerging segment, with its share growing 1.4% year-on-year.

BAT also said it remains highly dependent on enforcement to curb the illegal cigarette trade.

In a separate statement, BAT Malaysia managing director Erik Stoel (*pic*) said the legal market also experienced an outflow to the quasi-legal industry, offering "brands with fake tax stamps".



British American Tobacco (Malaysia) Bhd's revenue and net profit

Financial year ending Dec 31
*Three months ended March 31, 2019
Source: Bursa Malaysia

"The grim reality facing the legal industry is 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 with any form of regulations or excise," he added.

Glo's launch still stalled by a delay in price approvals

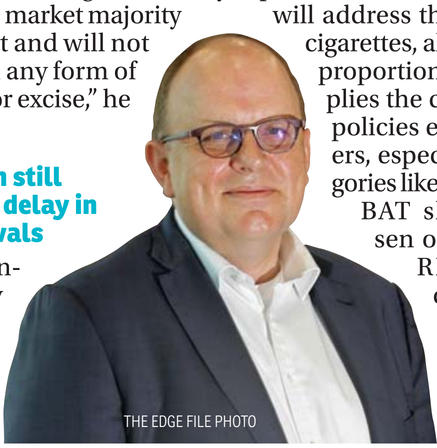
Stoel said "another key area requiring urgent and immediate focus is around the introduction of a more consistent regulatory framework to govern the tobacco industry, especially in the new category of Potentially Reduced Risk Products (PRRPs)".

He said there seems to be a lack of consistent application of the law surrounding price approvals — unjustified as it has delayed the launch of Glo, the group's tobacco heated product.

"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 ministry of health's tobacco control sector appears unwarranted, giving the impression that BAT Malaysia will not be allowed a fair opportunity to sell its products, despite complying with all prevailing regulatory requirements.

"If the issue persists, [then] it is likely this can undermine investments and future earnings.

"The coming quarter will mark a critical period for the business as the growth outlook remains dependent on how the government will address the levels of illegal cigarettes, already in endemic proportions, and how it applies the current regulatory policies equally to all players, especially in new categories like PRRPs," he added.



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BAT shares closed 40 sen or 1.21% higher at RM33.44 yesterday, with a market capitalisation of RM9.55 billion. In the past one year, the stock has climbed 10.22%.