

Finance Director's Review

REVENUE

Total revenue for BAT Malaysia declined slightly by 1.5% to RM2.60 billion compared to RM2.64 billion in 2021. The decrease was mainly due to a volume decrease of 2.0% when compared to 2021 as a result of the one-off benefit in volume observed during the route-to-market model transition that took place in 2021. Gross profit margin improved by 0.5% from 25.6% (RM675 million) in 2021 to 26.1% (RM678 million in 2022).

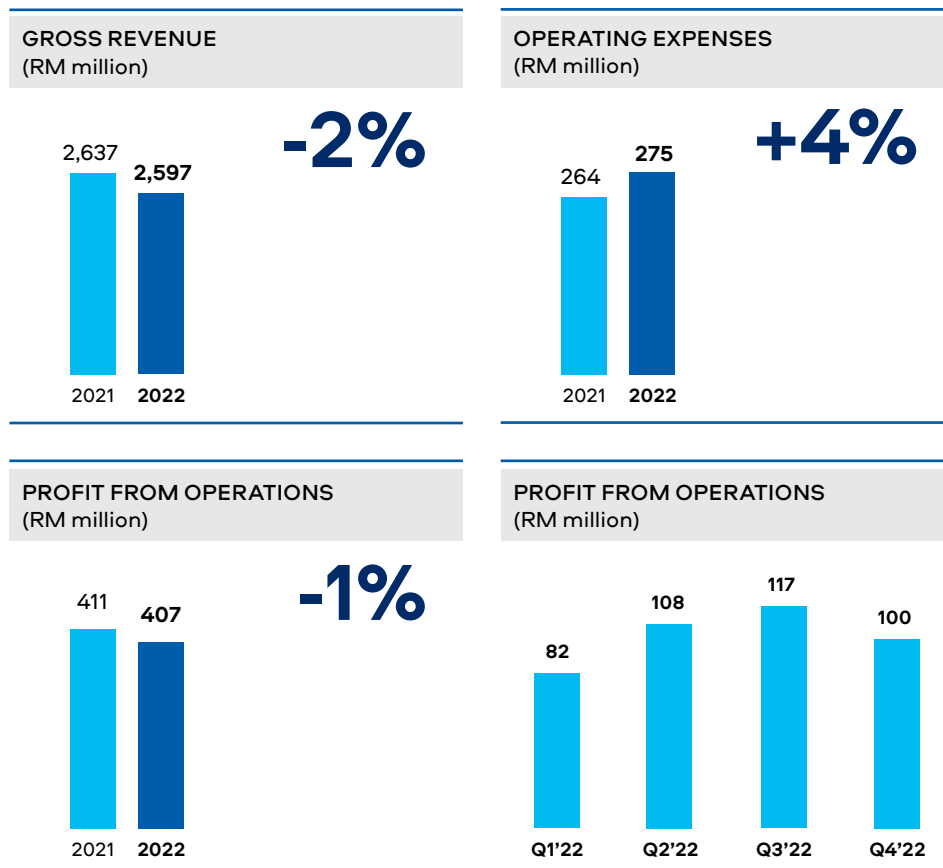
The Group's total market share was 0.8% lower in 2022, mainly attributed to the planned delisting of the Kent and Pall Mall brands during the year. In line with the downtrading trend observed in the market, our VFM brands – KYO and Rothmans – captured an additional 1.0% market share.

COST OF SALES

The Group's cost of sales decreased by 2.2% (RM44 million) in line with the lower sales due to the aforementioned one-off benefit from the implementation of the route-to-market model in 2021. The Group continued to drive cost optimisation initiatives across its value chain to deliver a competitive product cost, leveraging its robust supply chain model.

OPERATING EXPENSES

In 2022, the Group's operating expenses increased by 4.1% (RM11 million) to RM275 million, mainly driven by restructuring expenses. Marketing expenses increased marginally following efforts taken in preparation for the launch of the new tobacco heating product, glo™, in early 2023. The overall increase in cost was offset by the Group's sustained strategy to optimise spending despite operating under increased inflationary pressures.



RESTRUCTURING EXPENSES

The Group incurred RM18 million in 2022 in line with the next phase of our strategy to deliver a fit-for-growth organisation. The restructuring exercise led to a simplified organisational structure that will enable greater collaboration and effective decision-making as we enter a post-pandemic competitive market.

PROFIT FROM OPERATIONS

Profit from operations trended upwards in the first three quarters of 2022 with a decline in the final quarter due to the timing of marketing spend as we geared towards the launch of the tobacco heating product glo™ Hyper X2 in the first quarter of 2023. Despite the high-inflation environment, profit from operations registered a year-on-year slight decrease of 1.0% to RM407 million owing to continuous cost optimisation initiatives.

TAXATION

The average effective tax rate of the Group for the financial year ended 31 December 2022 was 32%. The increase in the average effective tax rate compared to the actual tax rate of 24% was mainly due to the Prosperity Tax that was imposed by the government in 2022.

DIVIDENDS

Despite the challenging environment, the Group remained committed to paying dividends at a level above 90% of its earnings. In 2022, the Group declared four quarterly interim dividends amounting to 88 sen per share, equivalent to a 96% total earnings payout for the year and a dividend yield of 8% based on the average share price in 2022.

DEBT STRUCTURE, WORKING CAPITAL AND LIQUIDITY

As at 31 December 2022, the Group had a total debt facility of RM850 million, maintained with several licensed financial institutions in Malaysia. The Group continued to utilise revolving credits and bank overdrafts to support its short-term working capital requirements. This flexible debt structure allowed the Group to borrow at optimum levels, thereby minimising financing costs and improving interest deductibility.

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At the end of 2022, the Group had RM695 million of revolving credit with a tenure of one month, compared to RM775 million in 2021. In 2022, cash from operations recorded an increase of 242% (RM342 million) as compared to 2021. The increase in cash from operations was largely attributed to improvements in working capital arising from the change in the excise duties payment model. Previously, excise duties were required to be paid when tax stamps were purchased. In 2022, as a result of intensive industry engagement, excise duties were paid only upon stock arrival at the Malaysian port, hence facilitating a lower requirement of upfront cash.

	2021 RM million	2022 RM million
Profit from Operations	411	407
Cash from Operations	141	483
Cash Conversion	34%	119%
Increase/(decrease) in cash and cash equivalents	(7)	(5)

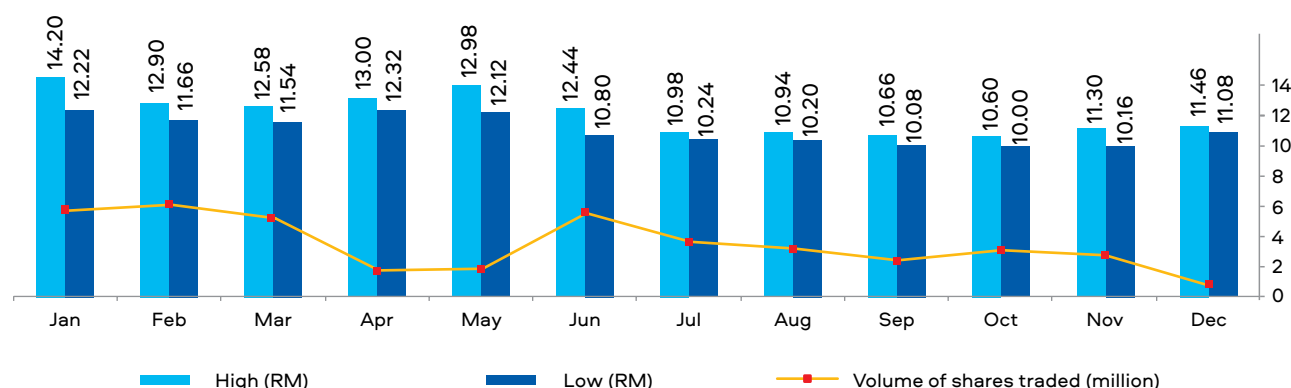
TREASURY

The Group's foreign currency exposure mainly arises from the purchase of finished goods. As part of the Group's treasury policy, foreign currency exposure is minimised by hedging the net exposure for the next 18 months, in line with the hedging period allowed under the Foreign Exchange Control guidelines enforced by Bank Negara Malaysia. The permitted range for the hedge ratio within the 18 months of the transaction date is 0% to 95%. The primary objective of the hedging strategy is to protect shareholder value by minimising the impact of foreign exchange rate fluctuations. This is achieved by layering the hedges monthly within the allowable boundaries set by Bank Negara Malaysia.

SHAREHOLDERS' RETURN

The share price of BAT Malaysia was mainly impacted by external factors such as the tobacco black market and the uncertainties surrounding the tobacco regulatory landscape. The share price was relatively stable in the first quarter of 2022 and subsequently saw a downward slide in the second and third quarters following intensified dialogues and press releases regarding the potential tightening of tobacco regulations. After the General Election was held in November 2022, the share price reflected an upward trend. Market capitalisation for the Group closed at RM3.2 billion in 2022. The annual dividend yield that the Group generated was estimated at 8%. The Group continues to ensure that shareholders' return is maximised through our A Better Tomorrow™ strategy and growing into a multicategory business.

BAT MALAYSIA SHARE PERFORMANCE 2022



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Share Performance	2016	2017	2018	2019	2020	2021	2022
Net Dividends	2.32	1.69	1.55	1.18	0.83	0.98	0.88
Capital Gain/Loss	(11.90)	(4.18)	(3.92)	(21.00)	(1.00)	(0.10)	(2.76)
Annual Shareholders' Return	(9.58)	(2.49)	(2.37)	(19.82)	(0.17)	0.88	(1.88)

OUTLOOK

The Group will continue to focus on driving its ambition of A Better Tomorrow™ in 2023. As we move into an economic environment that will see more moderate growth as a result of inflationary pressures and tighter monetary policy, we are cognisant that consumer spending power will be affected. Similarly, the Group will also be impacted by higher inflation and as such, we will continue to be diligent in optimising operational costs.

The Group remains focused on tobacco harm reduction and will continue to introduce innovative products, offering a choice of reduced-risk alternatives to adult smokers. In this context, the Group welcomes the government's announcement during the retabling of Budget 2023 in February 2023 that it would regulate the vapour market. We will continue to urge the government to establish a balanced science- and evidence-based regulatory framework for vapour products. We also welcome other initiatives outlined under Budget 2023 signalling the government's commitment to combating the black market.

FIVE-YEAR PERFORMANCE HISTORY

