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ANALYST BRIEFING QUARTER 3, 2013

17th Oct 2013



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AGENDA

- **Industry Review, Market Share and Volumes**
- **BATM Review**
- **Quarter 3, 2013 Results**
- **Other Highlights**
- **Future Prospects**

Q3 2013 Headlines

- YTD PAT/EPS increased by 5.5% v's SPLY
- +1.50/pk consumer price increase (September 2013)
- Growth in domestic market share
- Good growth of new variants
- Upgraded Peter Stuyvesant July 2013
- Dunhill Kretek Launch
- Significant y.o.y. growth in contract manufacturing volume



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INDUSTRY REVIEW, MARKET SHARE, VOLUMES AND BATM REVIEW

Business update

Cigarette Excise Tax Increase

- The Government has gazetted a cigarette excise tax increase of 14% after two years of no excise tax increase.
- Subsequently, British American Tobacco Malaysia increased the prices of our cigarettes across the board by RM1.50 per pack except for Pall Mall Plain, Lucky Strike Plain, and Rothmans International 100s, which was increased by RM1.60 per pack of 20s stick cigarettes.
- Our pricing decision takes into account the loss of legal volumes due to illegal cigarettes, consequential loss of industry's and retailers' margins and ongoing inflationary pressure.
- In spite of the expected loss in legal volumes, British American Tobacco Malaysia will not compromise our adherence to the highest quality standards in all of our products and operations to cater to our consumers' demands.

Industry Volume: Recovering in Q2'13

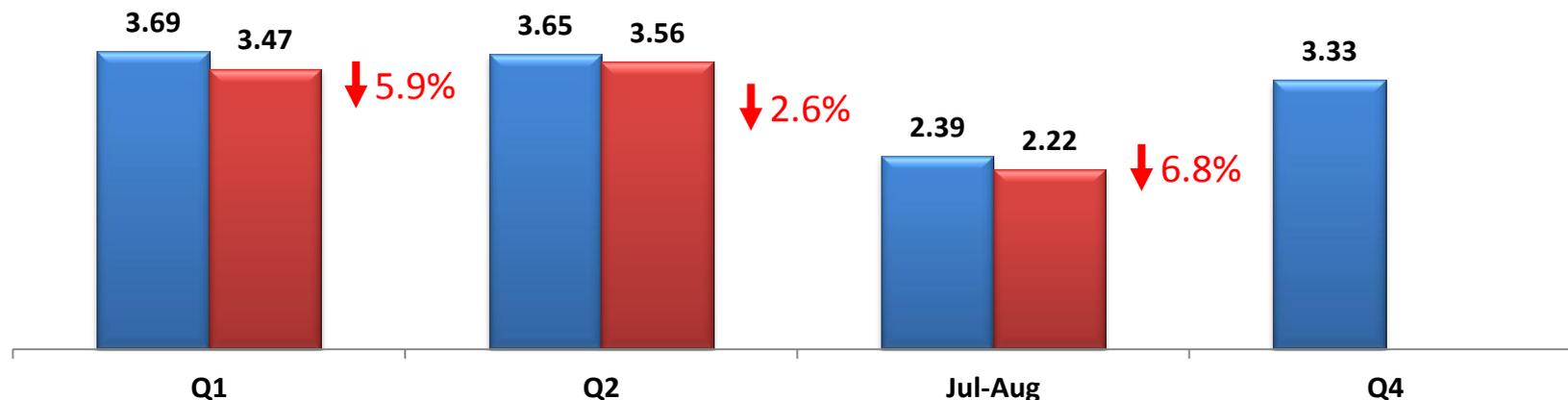
Source: Industry Exchange, IMS Volumes (Kretek + Whites)



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Industry Volumes (bns) Big3 + Sub VFM + Kretek

■ 2012 ■ 2013



			Volume Variance	% Variance			Volume Variance	% Variance
	Jul-Aug'12	Jul-Aug'13	Jul-Aug 13 vs. SPLY	Jul-Aug 13 vs. SPLY	YTD 2012	YTD 2013	YTD 2013 vs. YTD2012	YTD 2013 vs. YTD2012
BATM	1.42	1.37	-0.06	-4.1%	5.79	5.52	-0.28	-4.8%
Total Big3	2.21	2.13	-0.08	-3.7%	9.03	8.77	-0.26	-2.9%
Other Whites (estimate)	0.10	0.04	-0.06	-60.0%	0.40	0.18	-0.23	-56.0%
Kretek	0.08	0.05	-0.02	-28.7%	0.29	0.22	-0.06	-22.7%
Total Big3 + OW + Kretek	2.39	2.22	-0.16	-6.8%	9.72	9.17	-0.56	-5.7%

Note: Other Whites volumes extrapolated from Retail Audit

Note: Sub-VFM volumes extrapolated from Retail Audit

YTD - Industry: -5.7%

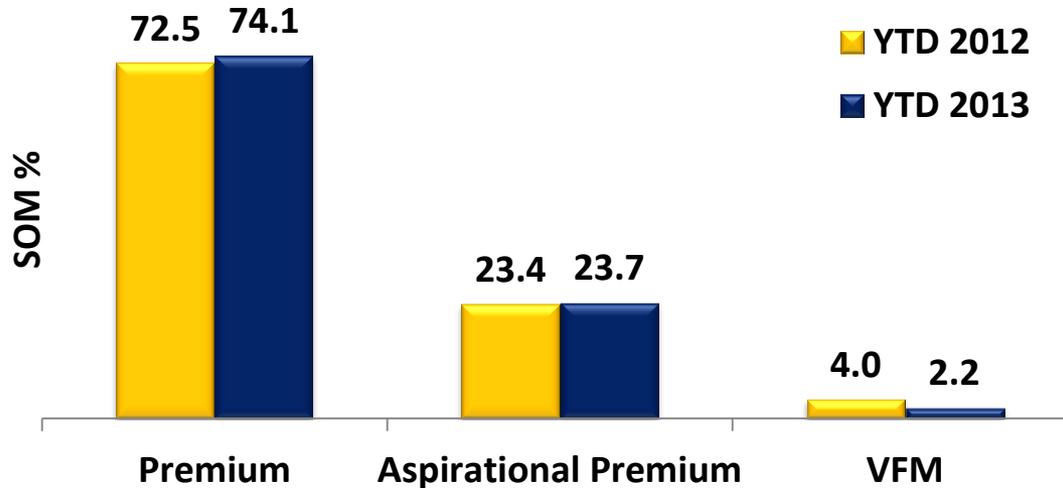
YTD - Big 3 (cigs): -2.9%

YTD - BAT (cigs): -4.8%

Premium segment further grew to 74.1% SOM



Source: YTD Aug'13 Malaysia Retail Audit (Base: Total Legal Market – White + Kretek)



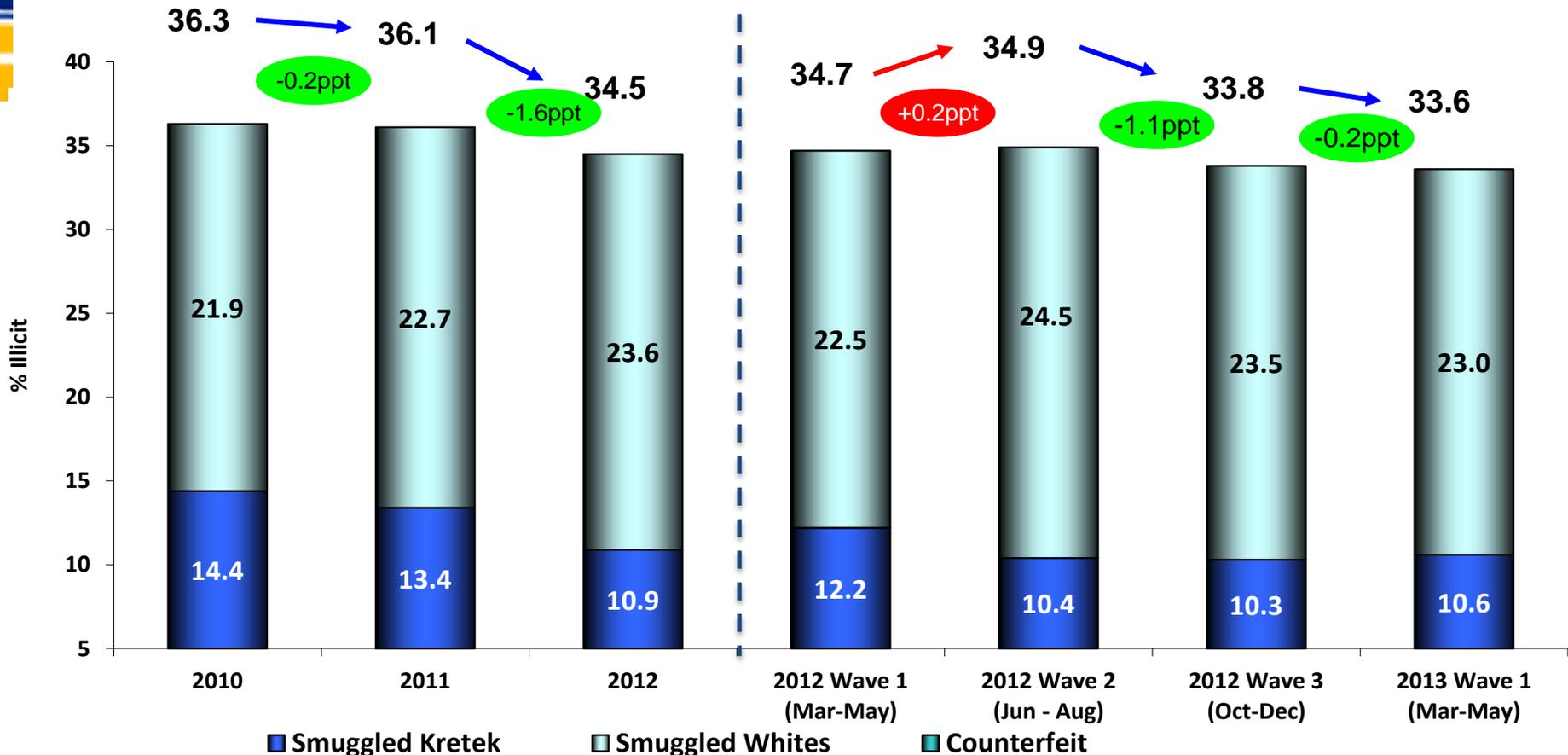
SPLY 2012		YTD 2013	
<u>Share of Premium</u>	<u>YTD Aug 2012</u>	<u>Share of Premium</u>	<u>YTD Aug 2013</u>
BAT	72.3	BAT	72.3
<u>Share of Aspirational Premium</u>		<u>Share of Aspirational Premium</u>	
BAT	36.1	BAT	34.9
<u>Share of VFM</u>		<u>Share of VFM</u>	
BAT	0	BAT	0

Illicit Whites a Significant Concern.



Source: Illicit Cigarette Study, 2010 - 2013

*Survey methodology does not capture sub-VFM brands selling at below minimum price.



2012 vs. 2011

- Illicit down by 1.6ppt
- No excise increase in 2012 Budget
- Greater enforcement by LEAs

2013, Mar-May vs. 2012, Oct-Dec

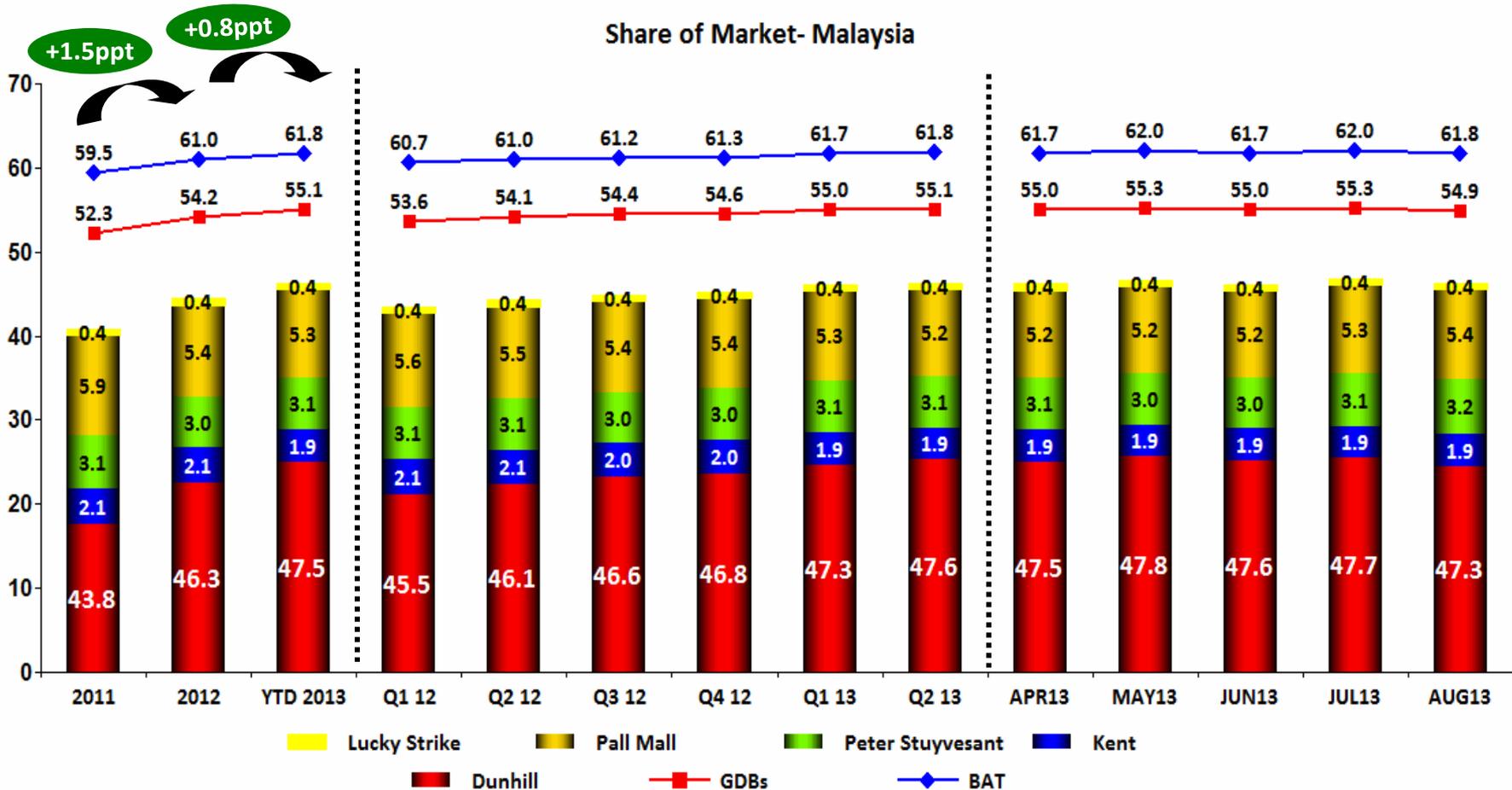
- Smuggled Whites down by 0.5ppt
- Smuggled Kretek up by 0.3ppt

BAT witnessed mild fluctuations in the latest two months



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Source: YTD Aug'13 Malaysia Retail Audit (Base: Total Legal Market – White + Kretek)



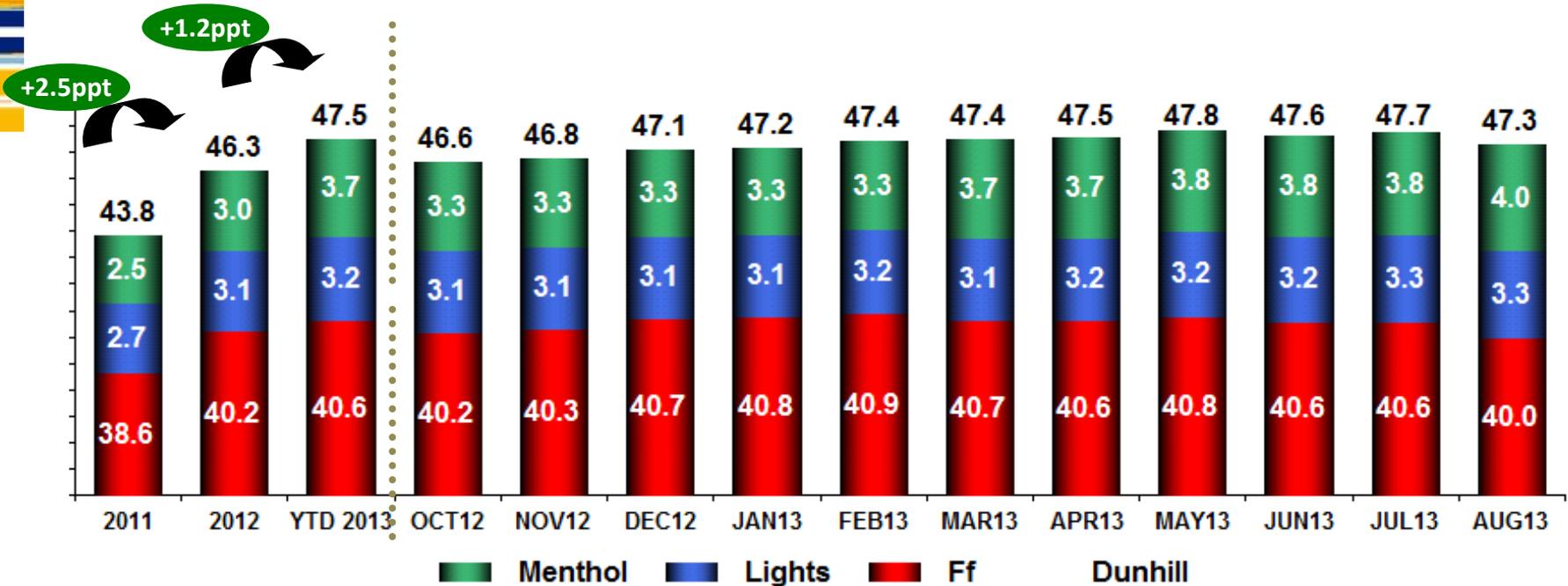
BAT brands Pall Mall & P. Stuyvesant are showing month-on-month improvement since Jun'13

Dunhill: Vigorously grows in 2013 despite Dunhill Red impacted by Ramadan



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Source: YTD Aug'13 Malaysia Retail Audit (Base: Total Legal Market – White + Kretek)



Q4 2012
Dunhill Switch Reinforcement campaign

Mar 2013
Dunhill Ice – High Menthol Capsule product (Nationwide launch)

Sept 2013
Dunhill Kretek - Longer satisfaction with rich and finer taste (Nationwide launch)

DUNHILL Kretek: Initial feedback is good



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Aug 2013 - Petronas Sep 2013 - National

Share price rise 1.7% due to the launch

Hot Stock: BAT rises as high as 1.7% after introducing Kretek cigarette

[First Read](#)

Written by Jeffrey Tan of theedgemalaysia.com

Monday, 09 September 2013 11:27



[A+ / A- / Reset](#)

KUALA LUMPUR (Sept 9): British American Tobacco (M) Bhd (BAT) saw its share price rising as high as 1.7% in early trades after it launched Dunhill Kretek more than a week ago.

At 11.14 am today, BAT was trading at RM62.28, which was higher by 82 sen or 1.3%, with 61,700 shares exchanging hands.

The second top gainer hit a high RM62.50 or 1.7% in earlier trades.

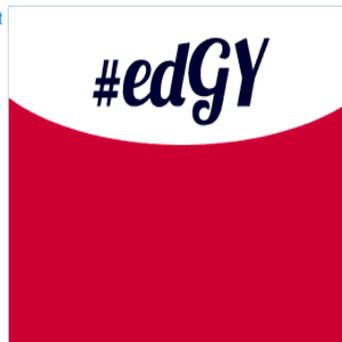
In a note today, Hong Leong Investment Bank Research said the new line came as a surprise as it did not expect the legal tobacco player would manufacture kreteks, and BAT is the first in the industry to do so.

Hong Leong IB research analyst Grace Chew said she gave a neutral view on Kretek as the product's contribution to the group is marginal since the majority of the legal cigarette smokers smoke whites.

"We maintain 'hold' call with unchanged target price of RM59.86 on BAT stocks, based on discounted cash flow valuations," said Chew.

Meanwhile, Chew added that the legal Kretek products would not pose a significant impact towards reducing illicit kretek.

"Illicit products are still the major concern despite the declines for the past two years. The decline was largely due to the drop in illicit kreteks, offsetting the increase in illicit whites," she said.



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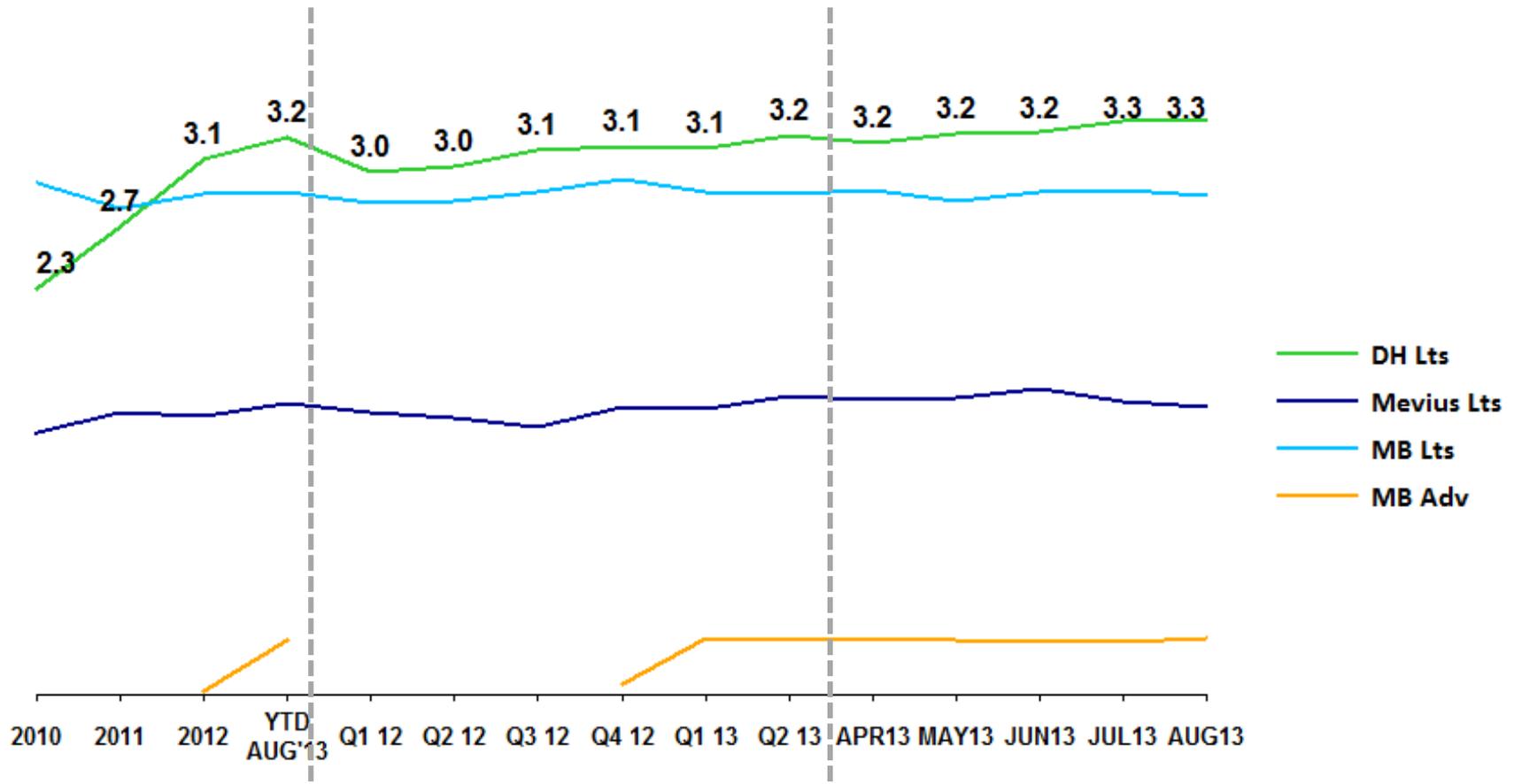


MARKET COMMENTS:

- Consumer are attracted to its classy and premium packaging and reloc function which helps to keep their product fresh
- Dunhill Kretek is being indicated as a less smelly and milder Kretek offer

Dunhill Lights leads in Premium Lights

Source: YTD Aug'13 Malaysia Retail Audit (Base: Total Legal Market – White + Kretek)



Dunhill Lights resilient at 3.3% SOM in Aug'13

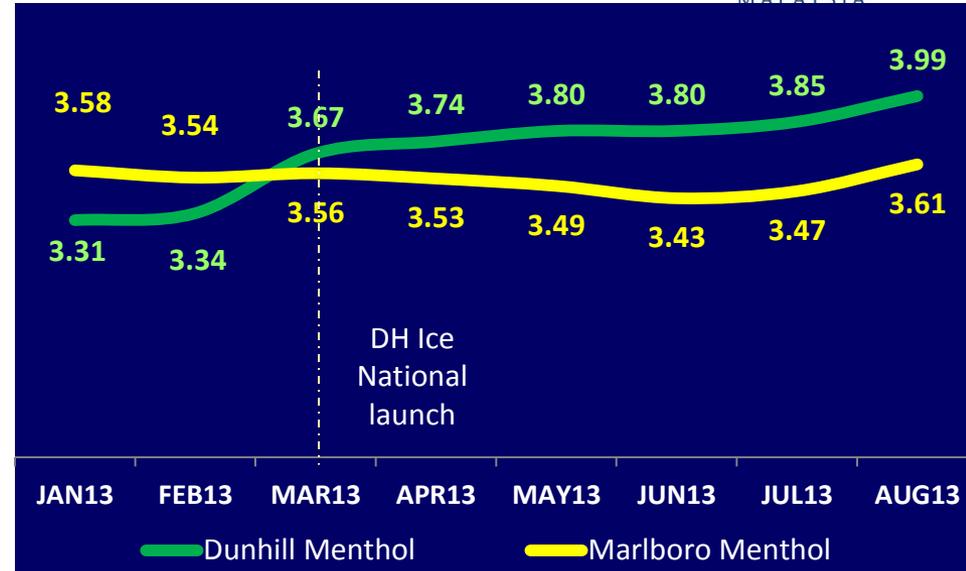
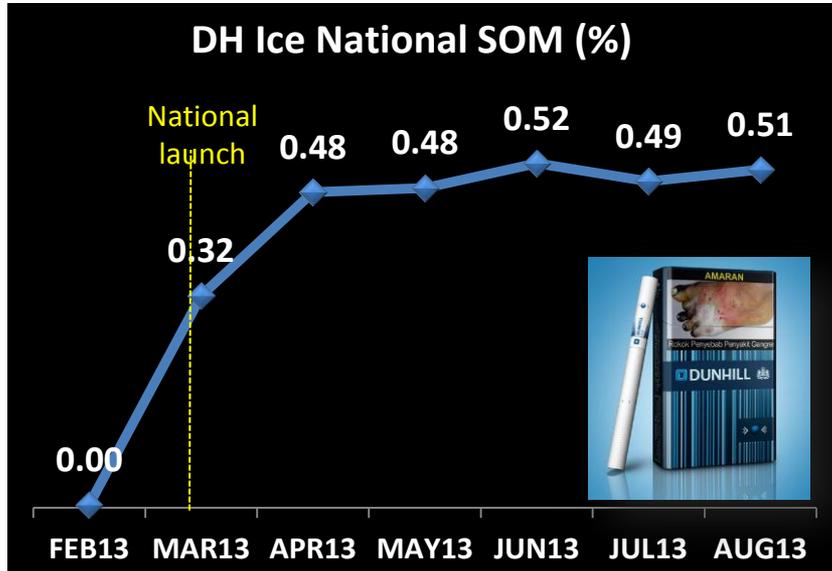
Produk ini mengandung lebih 4,000 bahan kimia termasuk tar, nikotina dan karbon monoksida yang membahayakan kesehatan.

DH Ice adding to the growth with an SOM of 0.5%

Source: YTD Aug'13 Malaysia Retail Audit (Base: Total Legal Market – White + Kretek)



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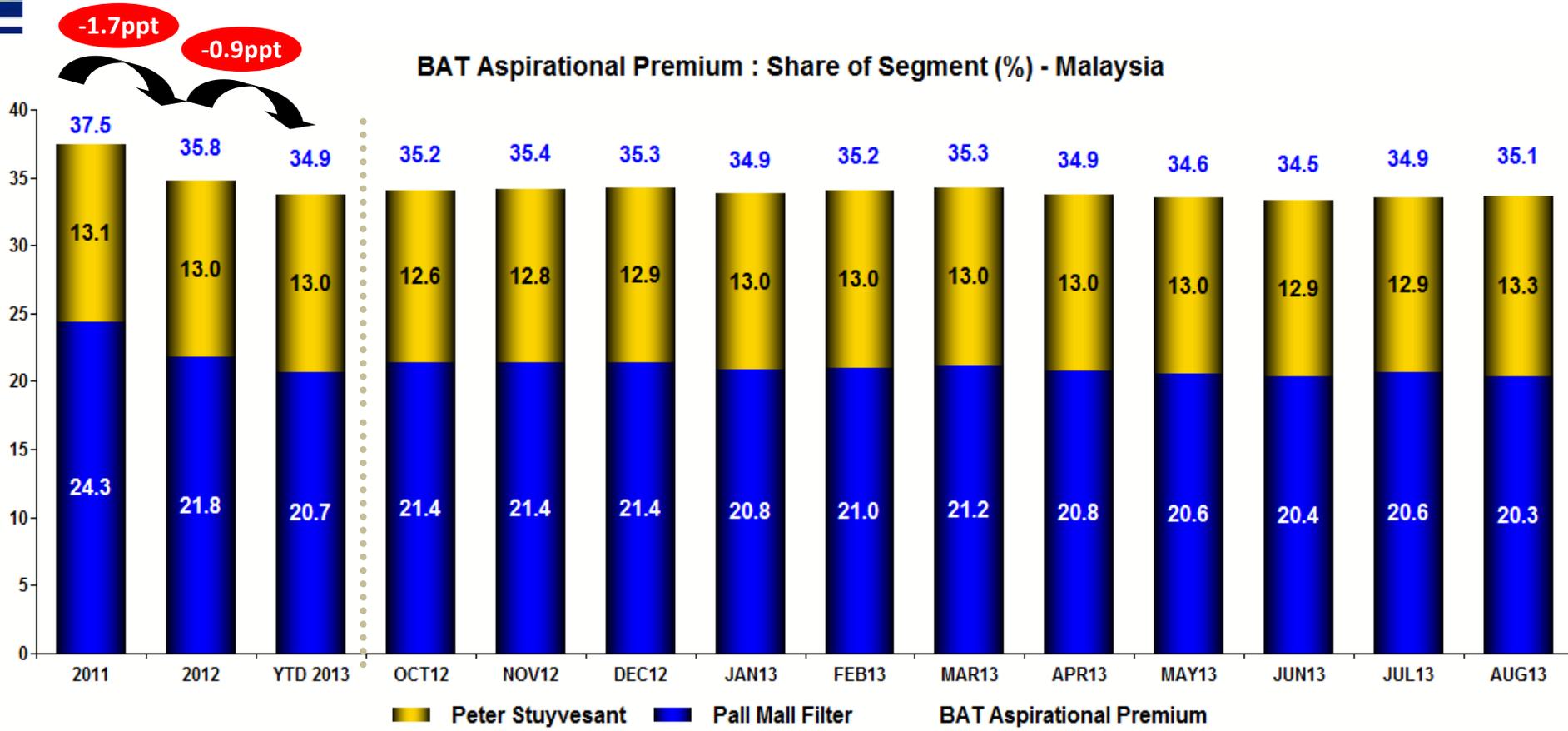
High level of awareness of all DH Ice POSMs (Point of Sales Materials) recorded
(Source: TNS Research Agency, 2013)

BAT Aspirational Premium gradually rising in recent months



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Source: YTD Aug'13 Malaysia Retail Audit (Base: Total Legal Market – White + Kretek)



Peter Stuyvesant gains post upgrade

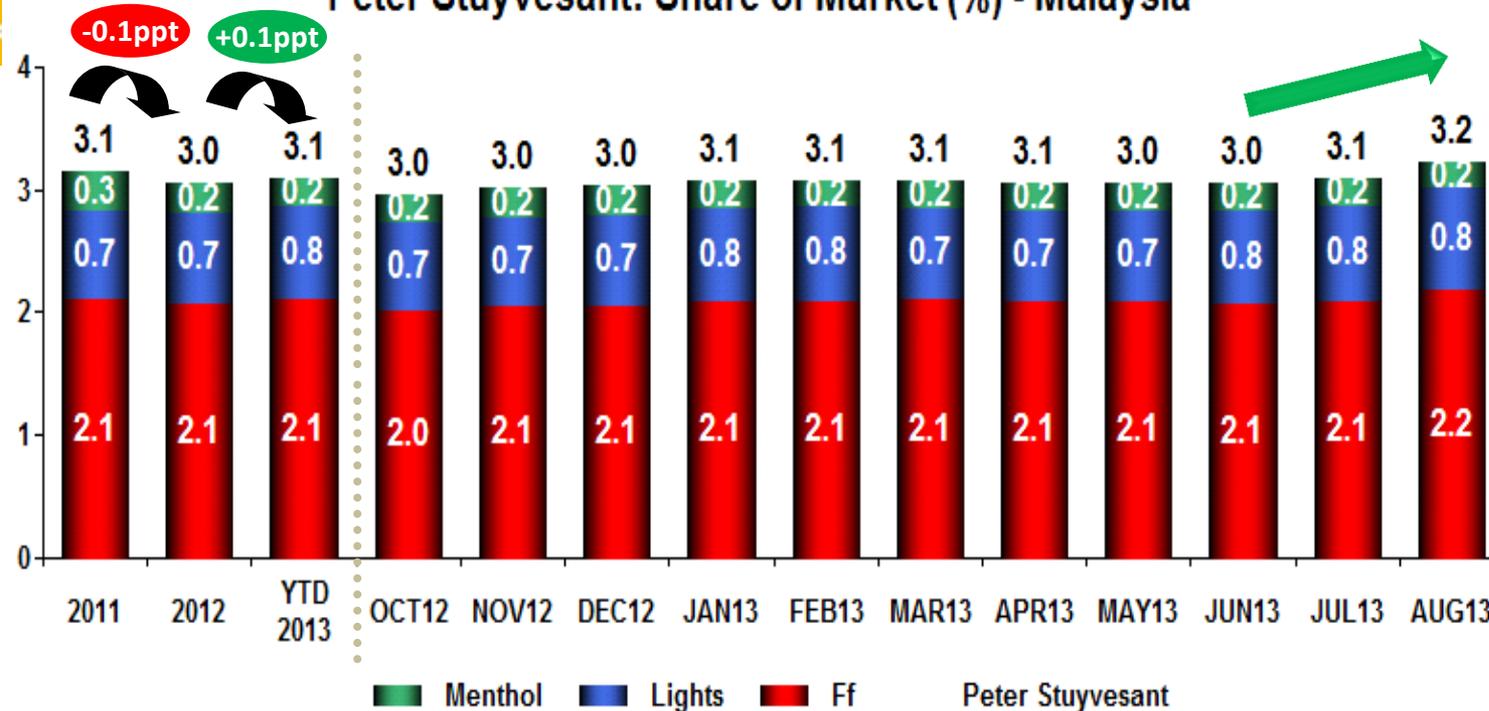
Pack Upgrade of Peter Stuyvesant in July'13



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Source: YTD Aug'13 Malaysia Retail Audit (Base: Total Legal Market – White + Kretek)

Peter Stuyvesant: Share of Market (%) - Malaysia



Blister Pack

Mini Merchandising
Unit

Produk ini mengandung lebih 4,000 bahan kimia termasuk tar, nikotina dan karbon monoksida yang membahayakan kesehatan.

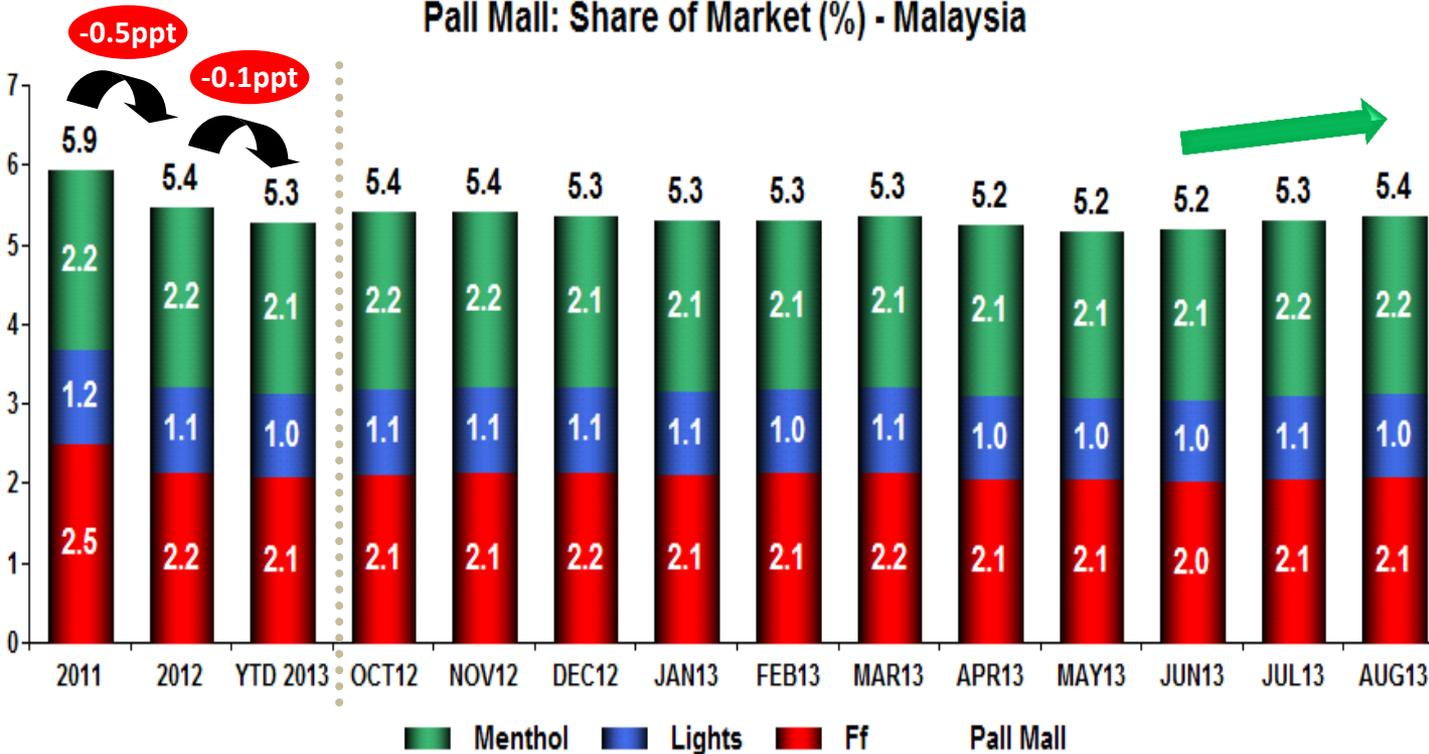
Pall Mall upwards trend since Jun'13

Source: YTD Aug'13 Malaysia Retail Audit (Base: Total Legal Market – White + Kretek)



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Pall Mall: Share of Market (%) - Malaysia



Jun 2013:
Pall Mall Menthol Range Re-launch

Feb 2012:
Launch of
Pall Mall
Mint

Jul 2012:
Pall Mall Core Range Re-launch

Sep 2012:
Pall Mall OT Pack Upgrade



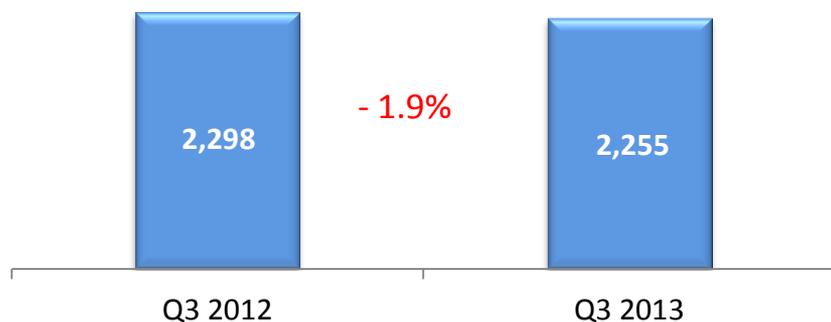
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FINANCIAL HIGHLIGHTS

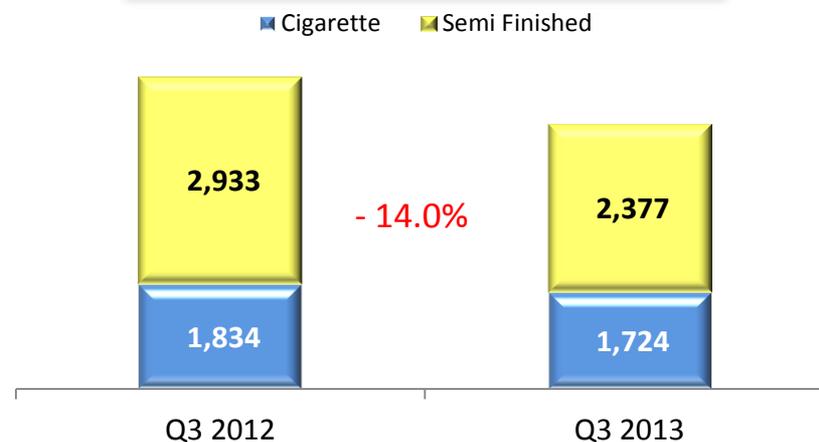


Q3: Volume and Revenue Mix

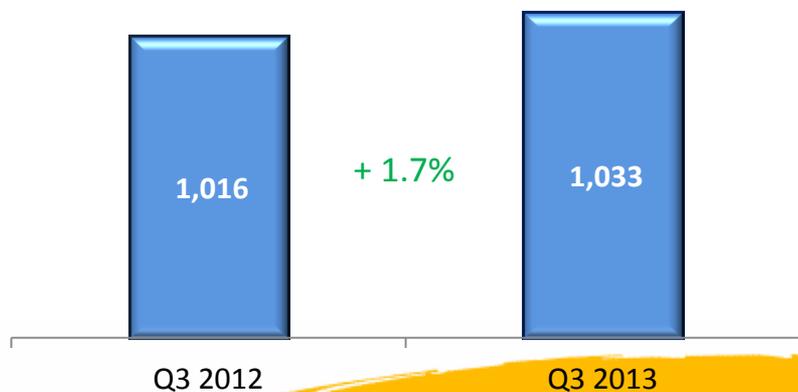
Domestic & DF Volumes (mn stick)



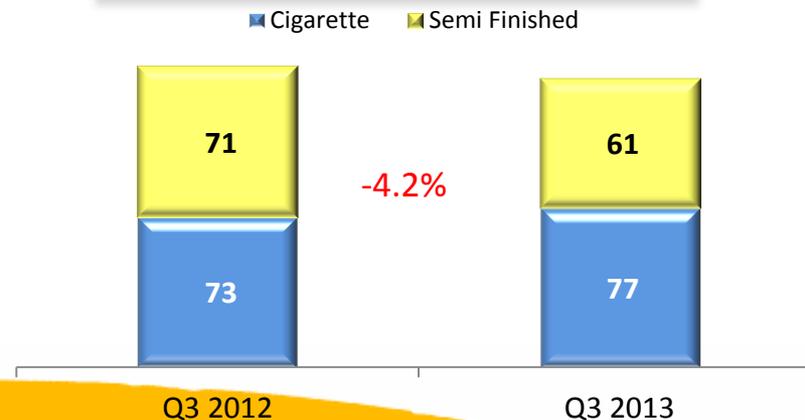
Contract Manufacturing Volumes (mn stick)



Revenue - Domestic & DF (RM'mn)



Revenue - Contract Manufacturing (RM'mn)

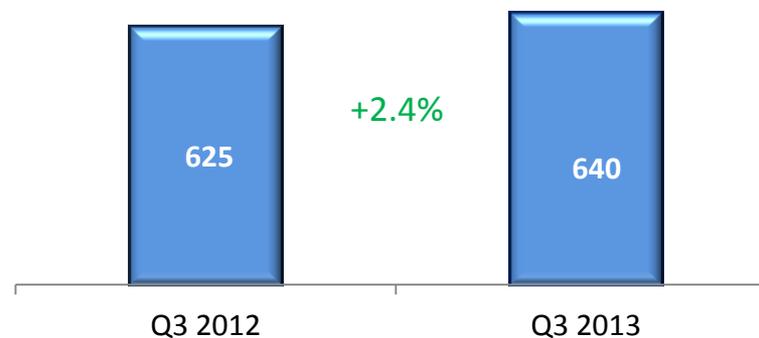


Key Metrics: Total Quarter 3, 2013 vs. SPLY

Revenue (RM'mn)



Net Turnover (RM'mn)



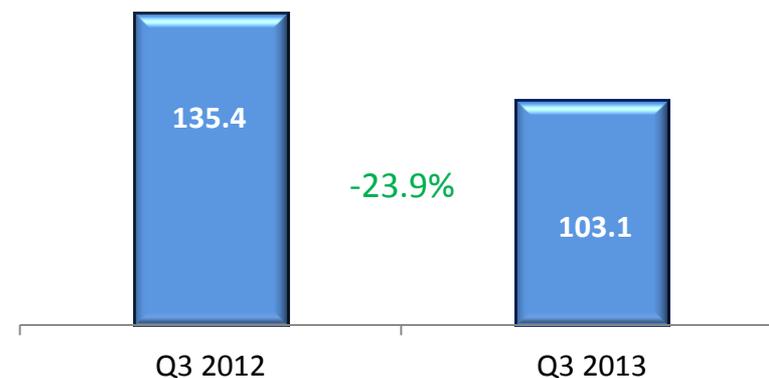


Key Metrics: Total Quarter 3, 2013 vs. SPLY

Gross Profit (RM'mn)



Operating Expenses (RM'mn)



Profit from Operation (RM'mn)



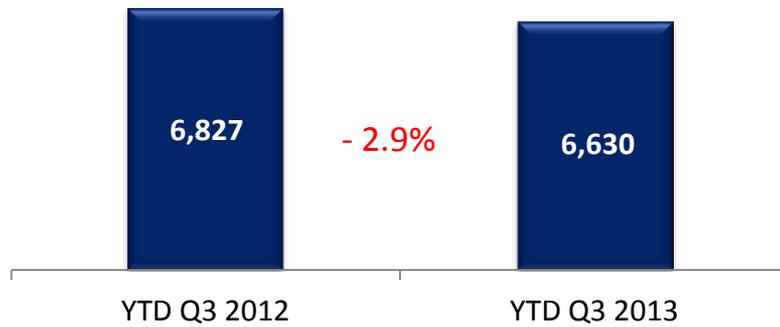
Earning per Share (Sen/share)



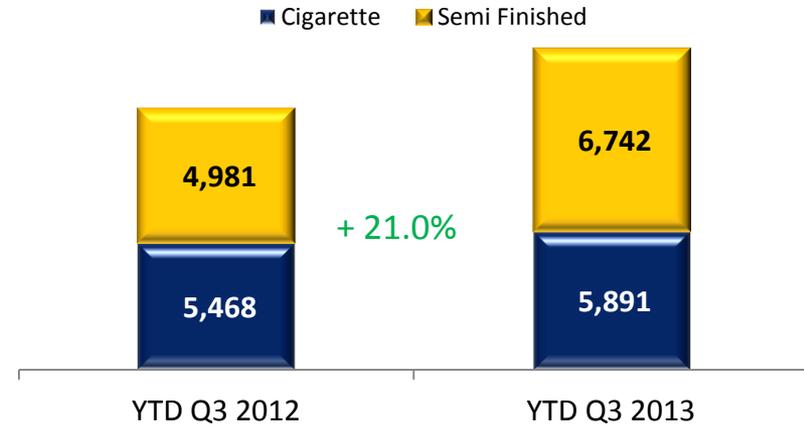


YTD Q3: Volume and Revenue Mix

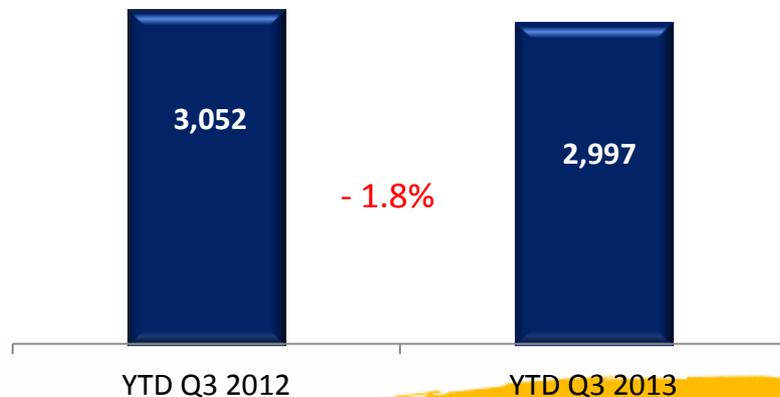
Domestic & DF Volumes (mn stick)



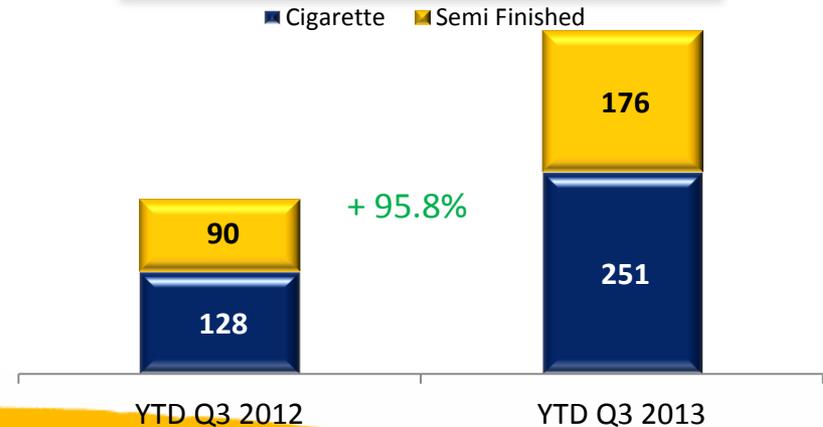
Contract Manufacturing Volumes (mn stick)



Revenue - Domestic & DF (RM'mn)



Revenue - Contract Manufacturing (RM'mn)



Key Metrics: Total YTD Quarter 3, 2013 vs. SPLY



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Revenue (RM'mn)



YTD Q3 2012

+ 4.7%



YTD Q3 2013

Net Turnover (RM'mn)



YTD Q3 2012

+11.1%



YTD Q3 2013

Key Metrics: Total YTD Quarter 3, 2013 vs. SPLY



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Gross Profit (RM'mn)



Operating Expenses (RM'mn)



Profit from Operation (RM'mn)



Earning per Share (Sen/share)

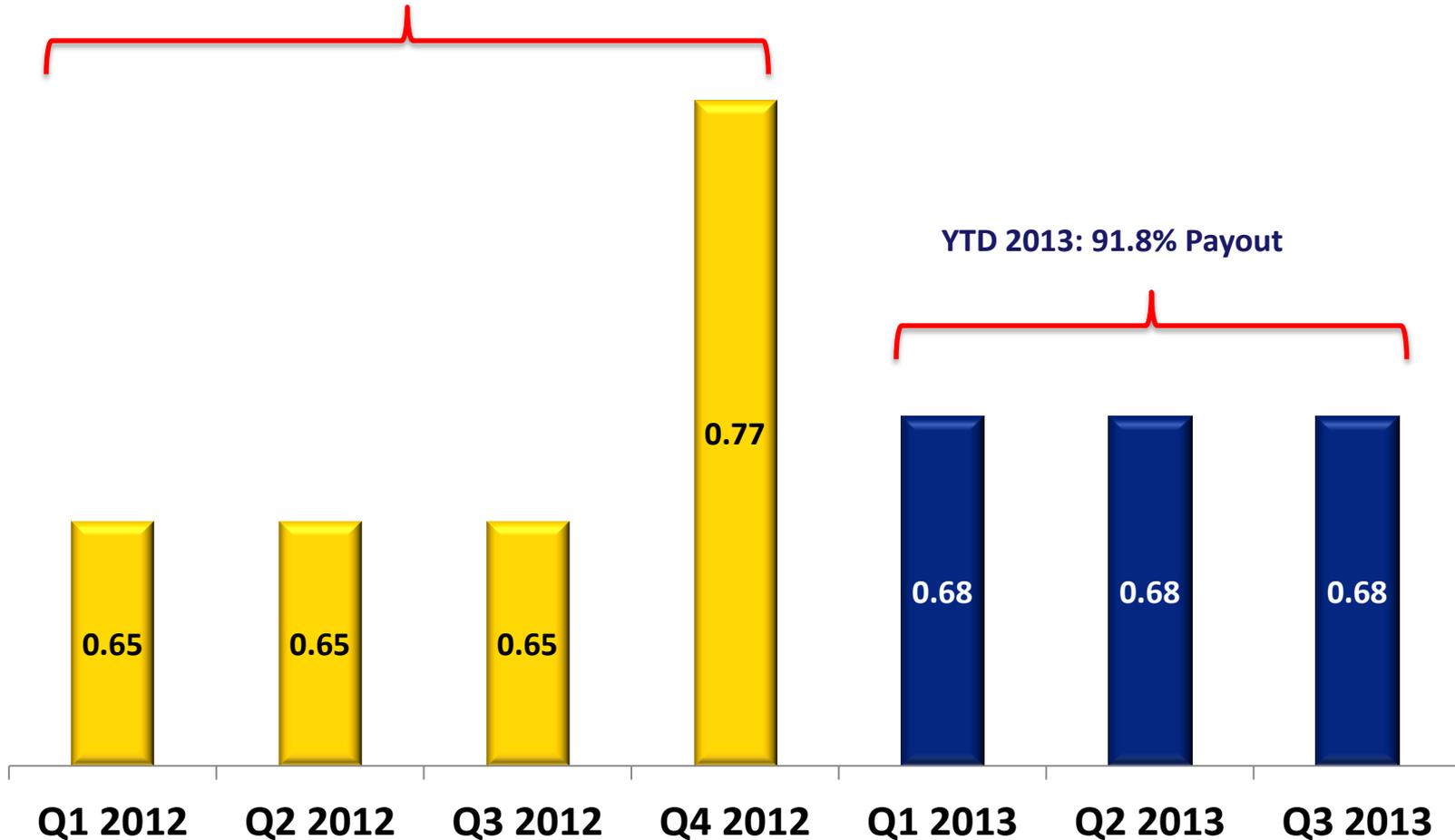




Q3 Dividends

2012: RM2.72 - 97.4% Payout

YTD 2013: 91.8% Payout



Dividends for Q3 2013 at 68 cents per share

Future Prospects



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- Concern about soft economic conditions and Government actions to address budget deficit impacting disposable incomes;
- Recent excise increase was against industry advice, and only likely to fuel illicit trade unless significant actions taken by the Government;
- In light of excise increase, and despite the pricing, the Group has a cautious outlook on the next quarter and year ahead



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OTHER HIGHLIGHTS



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Recent External Recognition

The Edge Billion Ringgit Club Awards 2013

- Most Profitable Company in **Consumer Products Sector** (4th consecutive year)
- Most Profitable Company in **Big Cap Companies** category (more than RM10 billion market capitalisation) (3rd consecutive year)



BAT Malaysia rated 6th in world & 1st in Malaysia for Environment, Social & Governance Performance

Environment, Social and Governance performance ratings by Sustainalytics (leading global sustainability ratings company).

- **6th out of 153 companies** within the food, beverage and tobacco industry globally.
- **1st among 45 leading companies** in Malaysia



BAT Malaysia Analyst Briefing



Current	Option 1	Option 2
Quarterly	Biannual	Triannual
(Feb, Apr, Jul, Oct)	HY (Jul) FY (Feb)	HY (Jul) Q3 (Oct) FY (Feb)

Your thoughts & input welcomed



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THANK YOU