



**BRITISH AMERICAN
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MALAYSIA

ANALYST BRIEFING QUARTER 2, 2014

July 2014



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AGENDA

- **Industry Review, Market Share and Volumes**
- **BATM Review**
- **Q2 2014 Results**
- **Other Highlights**

Q2 2014 Headlines

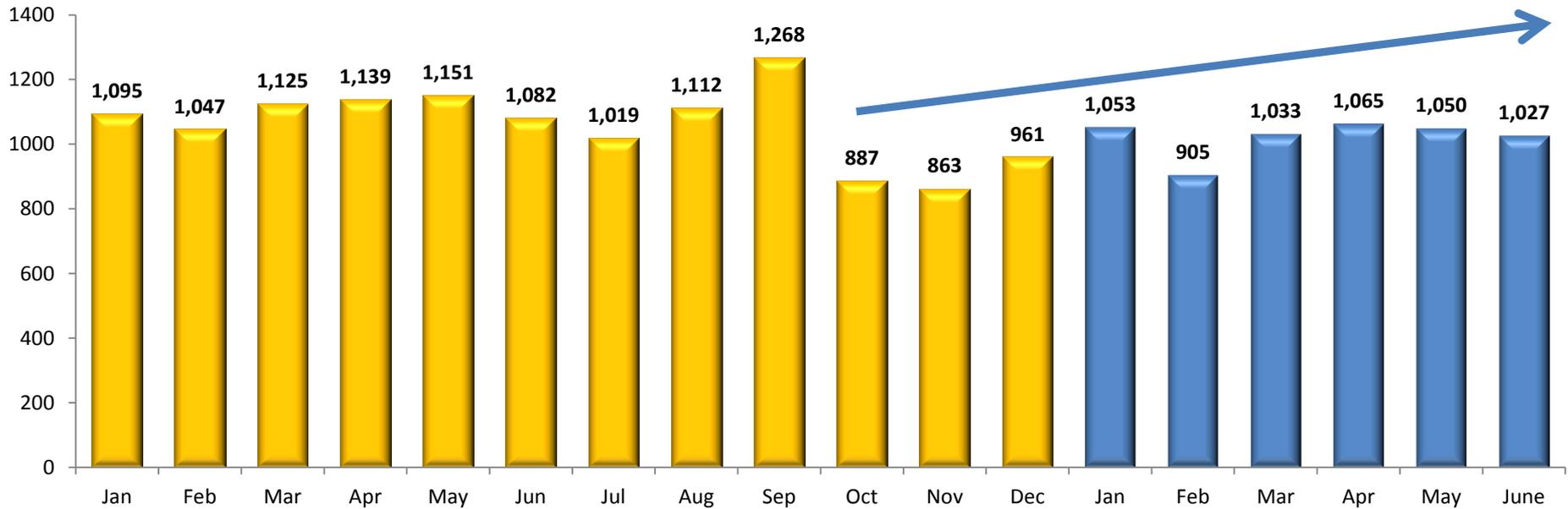
- › Legal industry volumes declining but recovery experienced in Q2
- › BATM Market Share resilient despite late September 2013 Excise led price increase
- › BATM Domestic & DF volumes -4.5% vs. SPLY
- › Very strong financial set of numbers vs. SPLY:
 - *Revenue: +6%*
 - *Profit from Operations: +16.8% (H1: +13.1% vs. H1 2013)*
- › Q2 Dividend RM 0.78/share



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INDUSTRY REVIEW, MARKET SHARE and VOLUMES

Legal market decline -7.6% vs. SPLY due to late Sept. 2013 price increase. However, signs of recovery



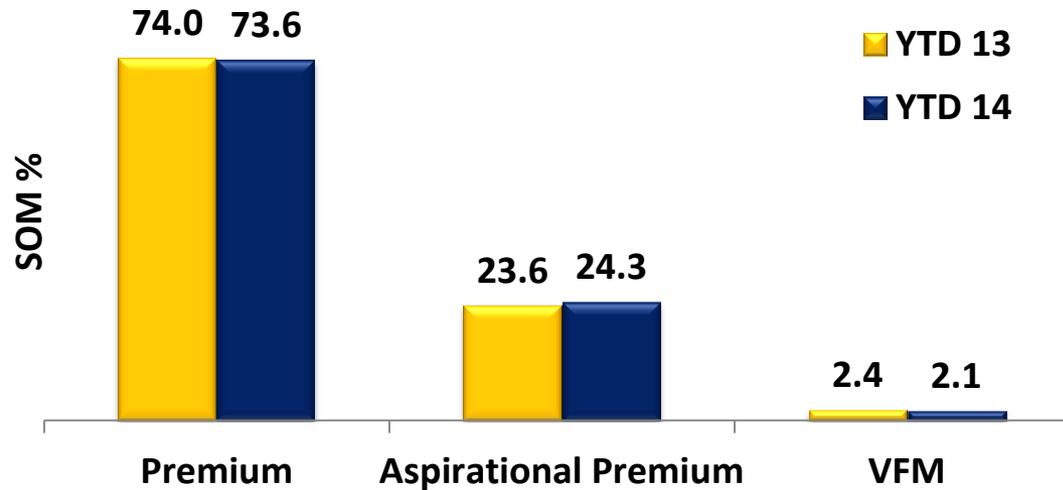
Source: CMTM



	1H vs. SPLY
BAT	-6.9%
Total BIG 3	-7.6%



Aspirational Premium growing at the expense of Premium and VFM

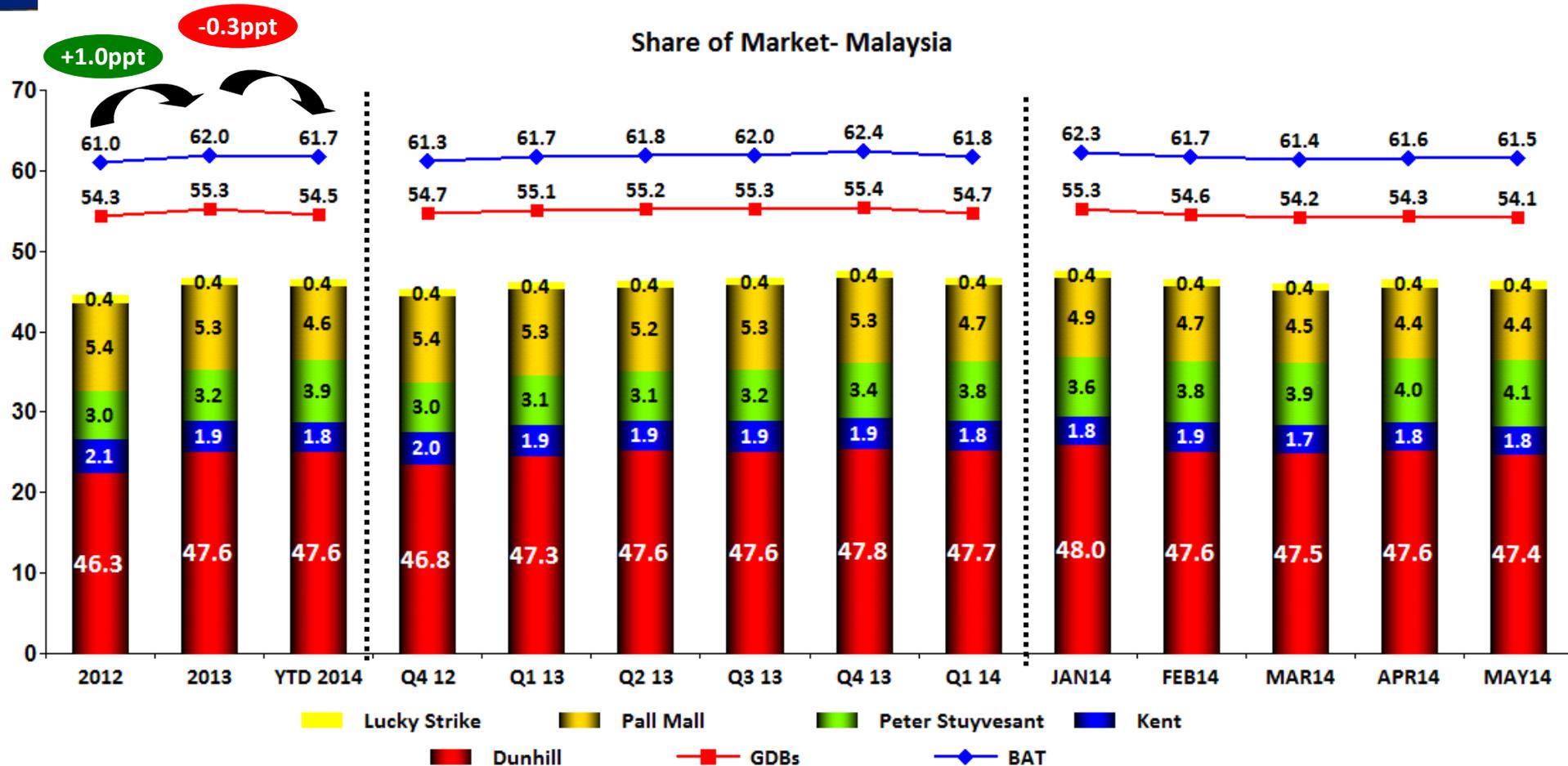


<u>Share of Premium</u>	<u>YTD May vs SPLY</u>
BAT	72.4 (+0.1)
<u>Share of Aspirational Premium</u>	
BAT	34.8 (-0.1)

BAT continues to have leadership in Premium share

Resilient Corporate Share of Market

Source: YTD May 14 Malaysia Retail Audit (Base: Total Legal Market – White + Kretek)





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BATM REVIEW

Dunhill holding SOM due to strong equity despite downtrading pressure

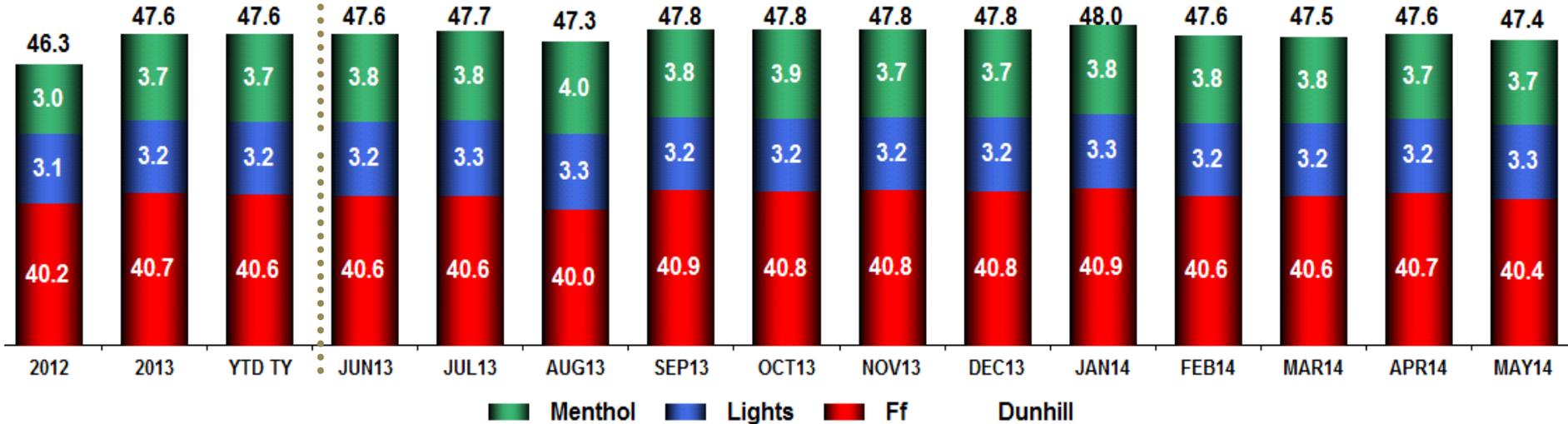


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Source: YTD May 14 Malaysia Retail Audit (Base: Total Legal Market – White + Kretek)

+1.3ppt

Dunhill: Share of Market (%) - Malaysia



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

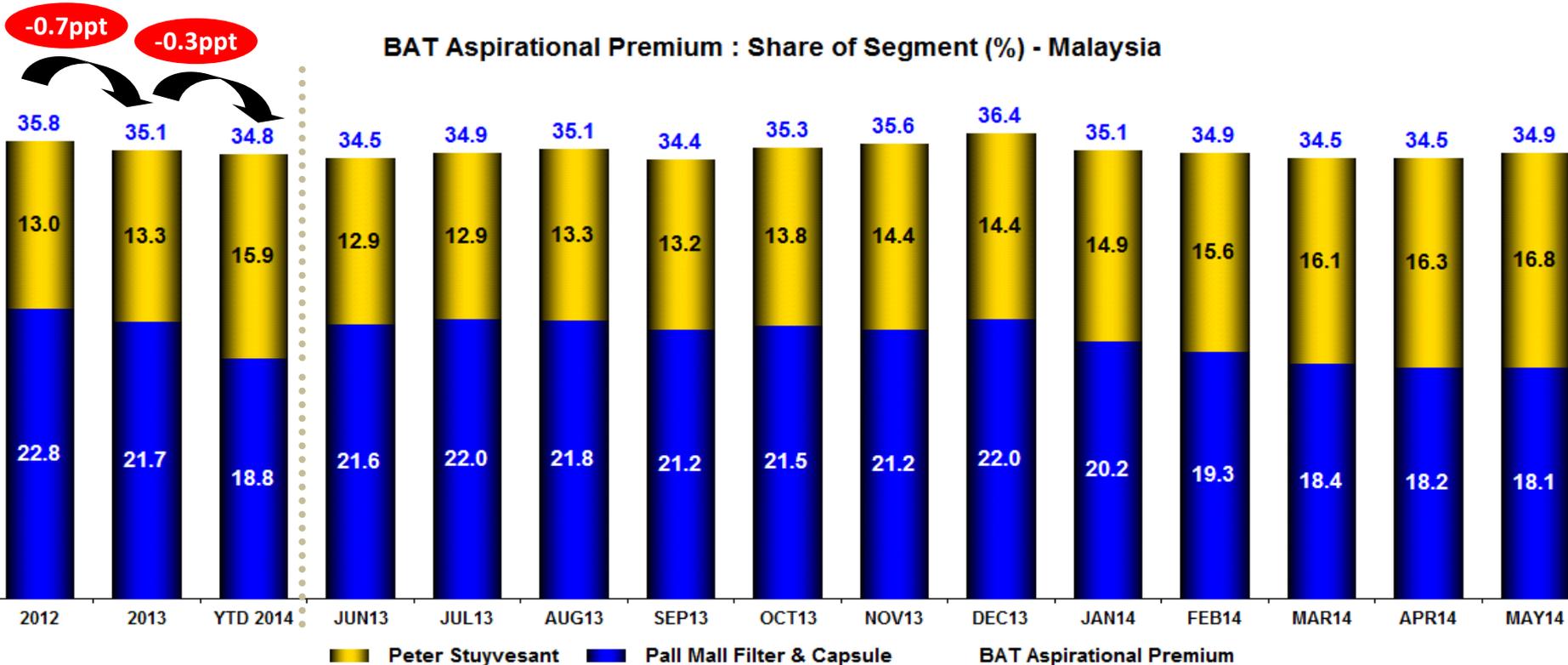
Dec 2013 (Zeus)
Dunhill FF & Lts - Limited Edition Pack
(Nationwide launch)

Apr 2014 (Britannia)
Dunhill FF & Lts - Limited Edition Pack
(Nationwide launch)



BAT Aspirational Premium: Share of segment has stabilised in the last 3 months

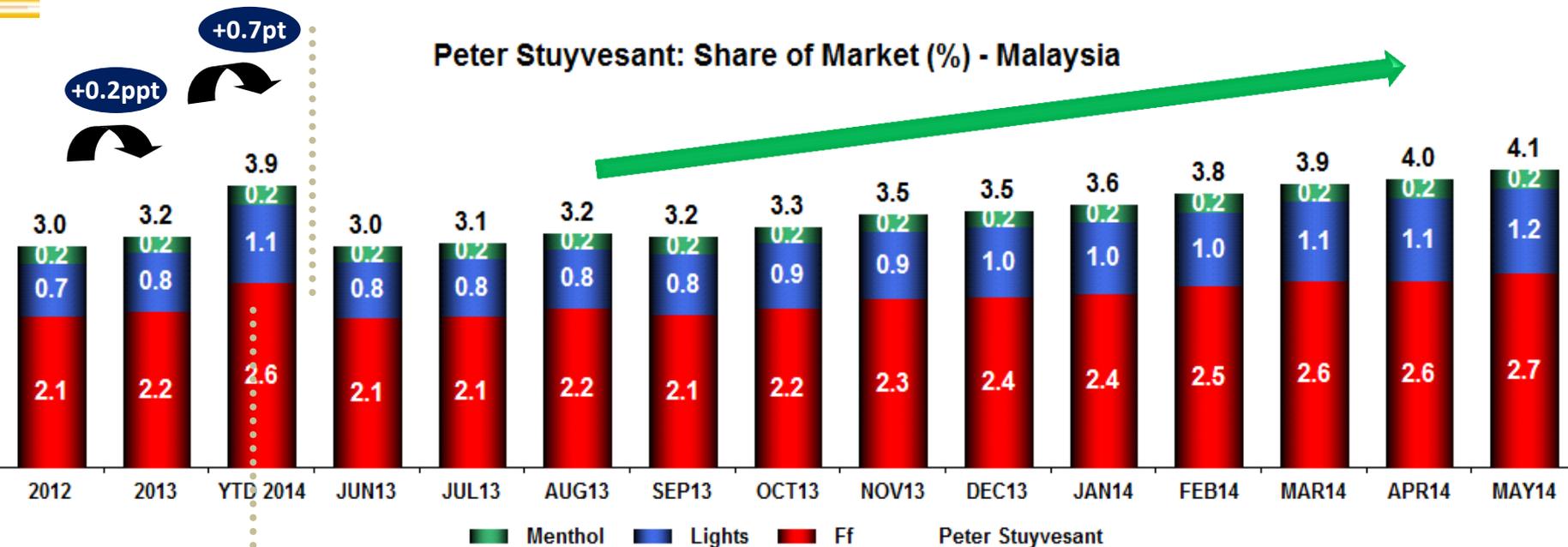
Source: YTD May 14 Malaysia Retail Audit (Base: Total Legal Market – White + Kretek)



Source: Malaysia Retail Audit (Base: Total Whites, YTD MAY14)

Peter Stuyvesant continues to grow since Jul'13, breaking the 4% mark in Apr 2014

Source: YTD May 14 Malaysia Retail Audit (Base: Total Legal Market – White + Kretek)



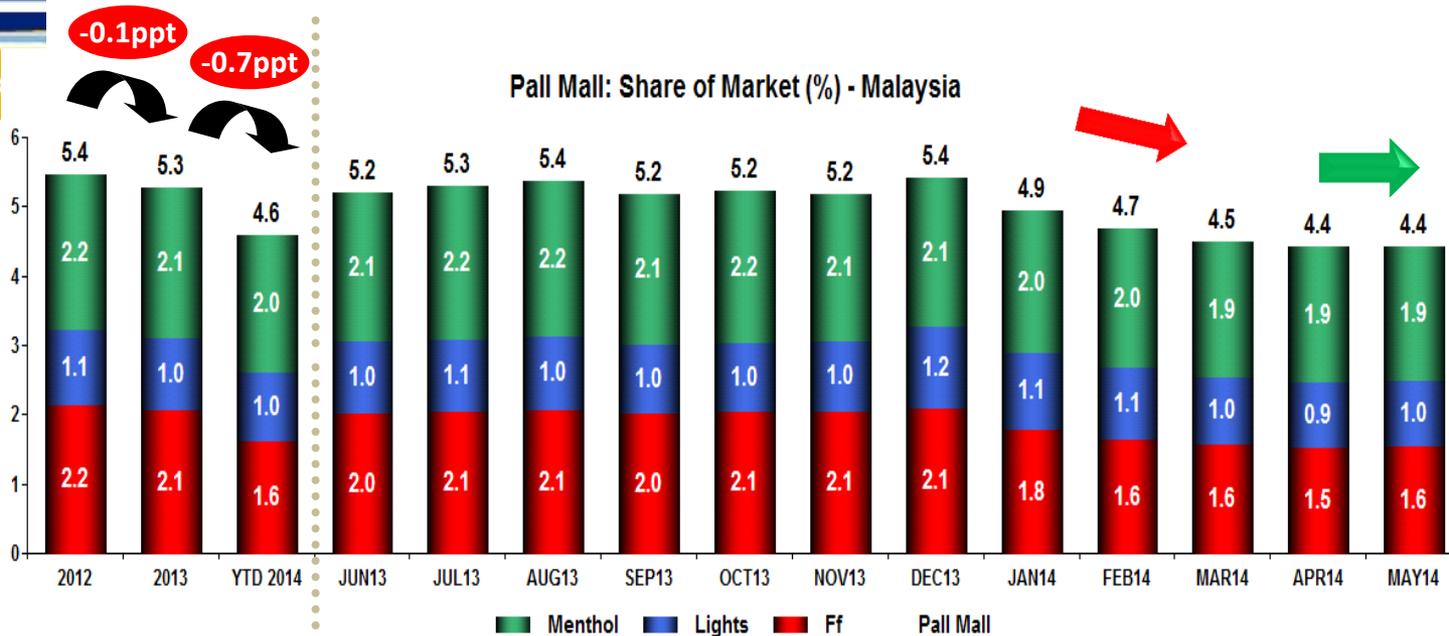
Produk ini mengandung lebih 4,000 bahan kimia termasuk tar, nikotina dan karbon monoksida yang membahayakan kesehatan.

Pall Mall: Declined in Q1 '14, but has stabilised in the last 2 months



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Source: YTD May 14 Malaysia Retail Audit (Base: Total Legal Market – White + Kretek)



Dec 2013:
Pall Mall FF & Lts Product Upgrade:
New Blend Plus Capsule

Dec 2013:
Pall Mall FF & Lts Product Upgrade:
New Blend Plus Capsule



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Q2 2014 RESULTS FINANCIAL HIGHLIGHTS

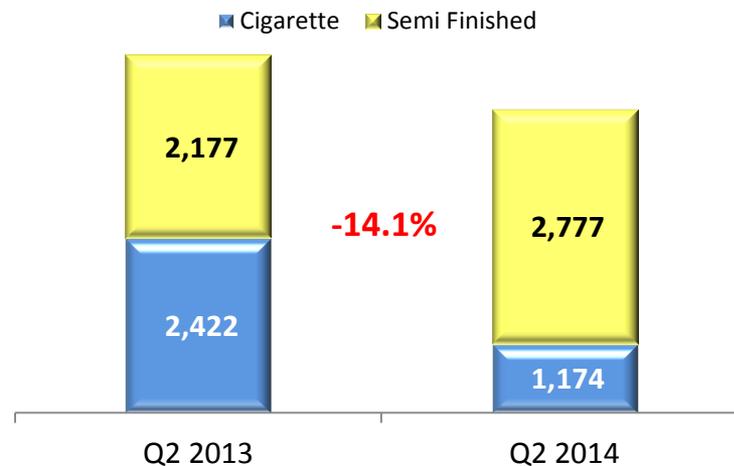


Q2 Discrete: Volume and Revenue

Domestic & DF Volumes (mn stick)



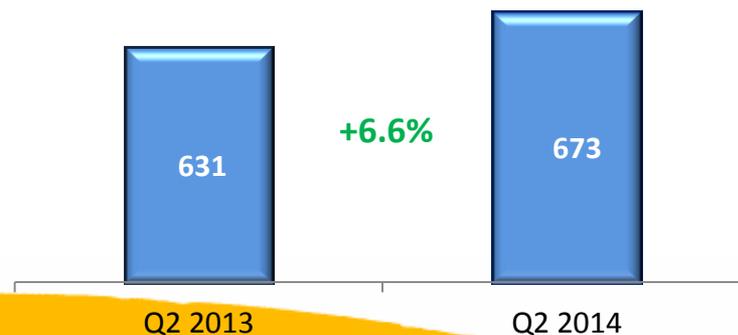
Contract Manufacturing Volumes (mn stick)



Revenue (RM'mn)



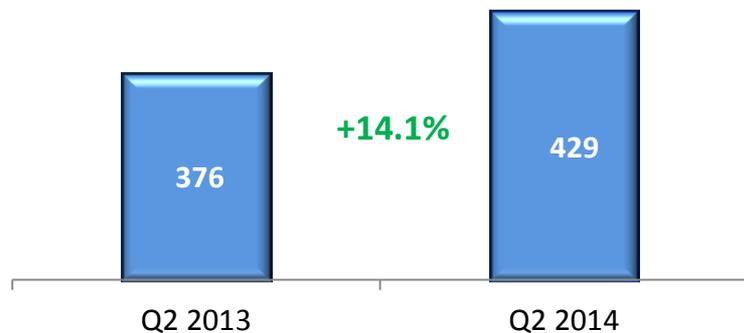
Net Turnover (RM'mn)



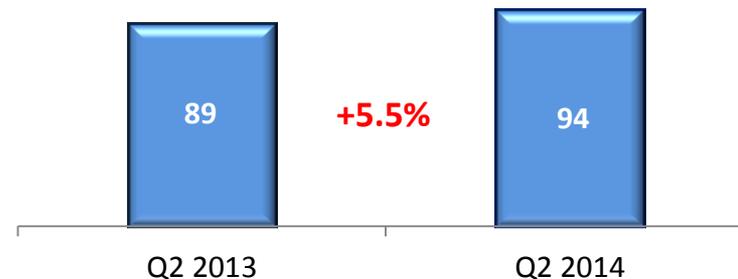


Q2 Discrete: Key Metrics

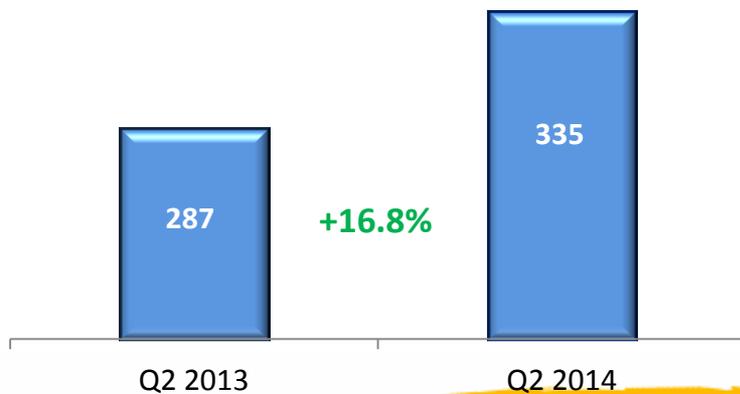
Gross Profit (RM'mn)



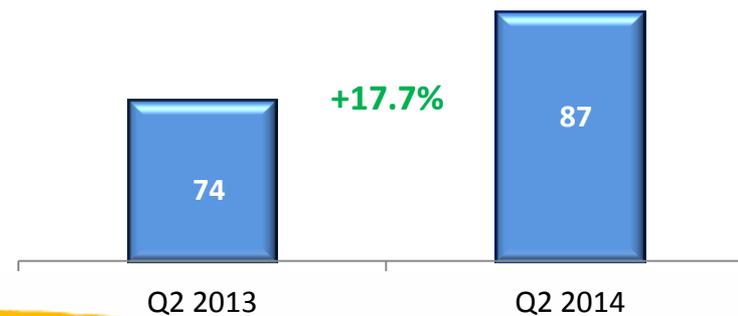
Operating Expenses (RM'mn)



Profit from Operation (RM'mn)



Earning per Share (Sen/share)



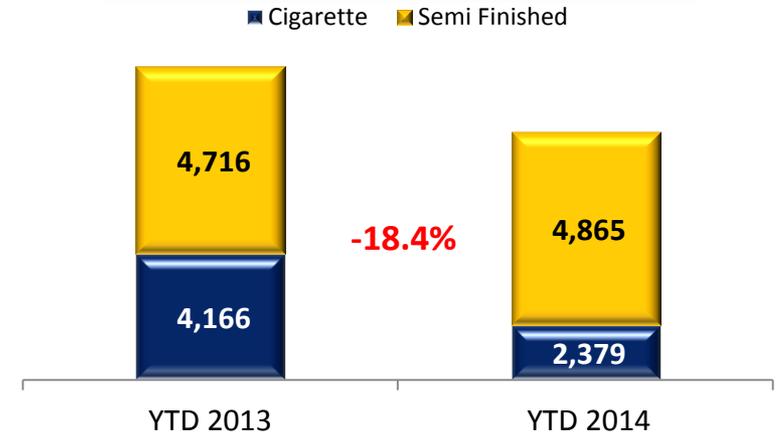


Q2 YTD: Volume and Revenue

Domestic & DF Volumes (mn stick)



Contract Manufacturing Volumes (mn stick)



Revenue (RM'mn)



Net Turnover (RM'mn)





Q2 YTD: Key Metrics

Gross Profit (RM'mn)



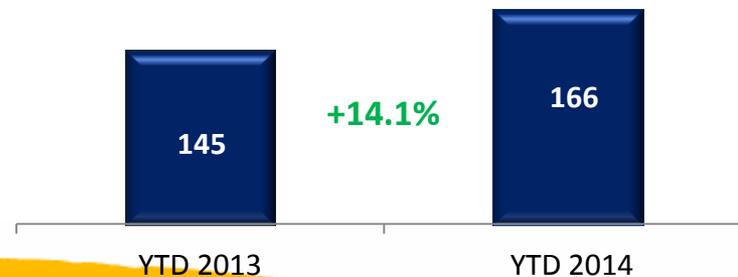
Operating Expenses (RM'mn)



Profit from Operation (RM'mn)



Earning per Share (Sen/share)



Dividend payout

2012

RM 2.72

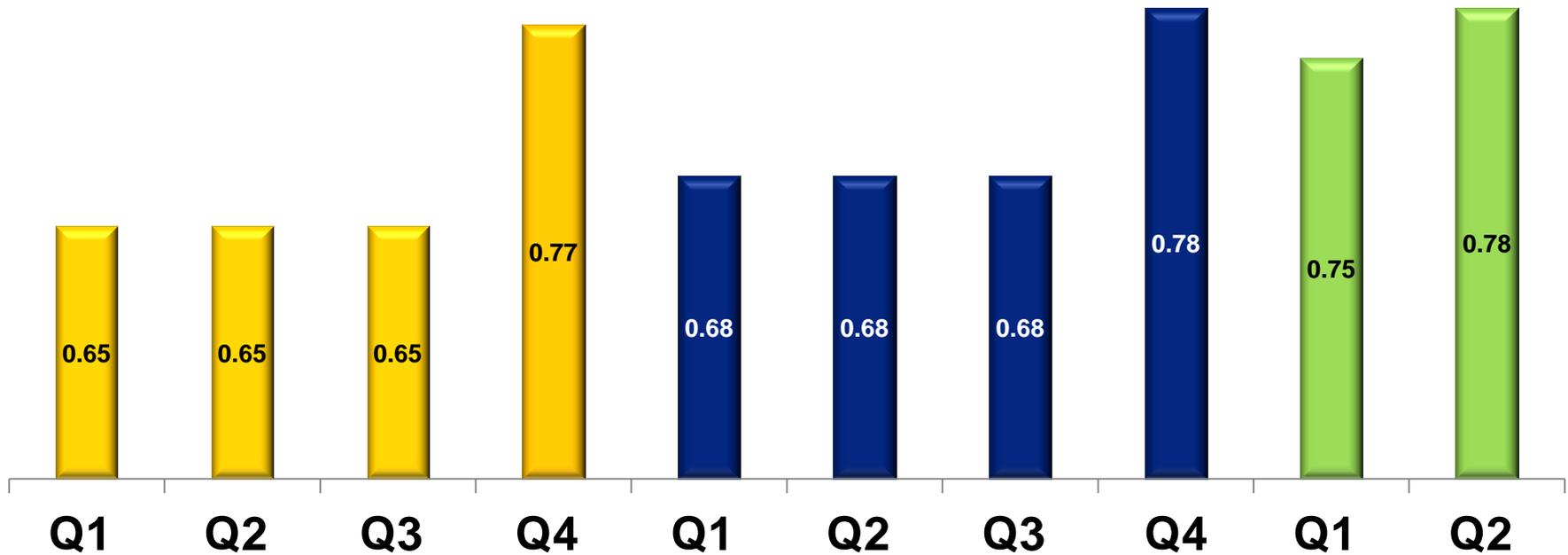
97.4% Payout

2013

RM 2.82

97.8% Payout

2014 YTD





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OTHER HIGHLIGHTS

Widespread practice of retailers selling illegal brands at RM3.50–RM4.00 below total tax and the mandated minimum price making it very affordable and accessible



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Illegal cigarettes available at pocket money price (RM2.50-RM3.50) – encourages the underage to smoke

Illegal cigarettes are more harmful



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NATION

Bestselling contraband

MULTILEVEL OFFENCE: Unregulated contents make kretek extra harmful to health, says ministry

ELVINA FERNANDEZ
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THE Health Ministry has warned that smoking illicit clove cigarettes, or kretek, is an offence for a number of reasons, besides being dangerous to one's health.

Possessing illicit cigarettes alone is an offence, but owning contraband kretek is especially so, as they also come in packs of less than 20 sticks, which is illegal in Malaysia.

Smuggled kretek pose a danger because there are no controls over their contents, which are subject to regulation in the country.

Thus, they can have higher levels of tar and nicotine, besides other chemicals normally found in cigarettes and those not usually found in tobacco products.

Contraband kretek may also be contaminated by other chemicals or non-tobacco products, which may have been smuggled in with them, said the ministry's Disease Control Division director, Dr Chong Chee Keong.

He said illicit kretek had unregulated substances and those who smoked it could be fined.

"It is an offence for anyone to sell, offer, buy or have in his possession any illicit cigarette," he told the *New Straits Times*.



Some of the illicit kretek and cigarettes seized in Pekan Nenas Outlet recently. Pic by Zulkarnain Ahmad Tajuddin



OP OUTLET

Dr Chong said this was a new regulation that came into force under regulation 15(4A) of the Control of Tobacco Product Regulations 2004.

"Illicit kretek do not comply with the minimum price per pack and minimum number of sticks allowed to be sold in a pack, which is 20 sticks."

Among the most popular contraband cigarettes are kretek from brands like Gudang Garam, Surya and Nusantara, which

are smuggled from other countries. The ministry's recommended tar ceiling of 15mg per stick.

The packs have no pictorial health warnings on them and do not comply with the law, as they are sold in packs of 12 or 16 sticks.

It is said that the higher tar and nicotine levels in illicit kretek make them more addictive, making it difficult for those who smoke them to kick the habit.

**MOH Disease Control
Division Director:**
Unregulated content of
Smuggled Kretek extra
harmful to health. Illegal
kretek is **MORE
ADDICTIVE @ 40mg tar**
and does not comply with
minimum pricing and
sells less than 20 sticks in
the market

Illegal cigarettes are more harmful



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Rokok seludup dua kali ganda bahaya

SEGAMAT - Kementerian Kesihatan meminta orang ramai supaya tidak membeli rokok haram yang diseludup masuk ke negara ini kerana implikasinya memudaratkan kesihatan perokok.

Menterinya, Datuk Seri Dr S Subramaniam berkata, perokok kini lebih cenderung untuk mendapatkan rokok seludup kerana harganya yang jauh lebih murah berbanding rokok dikenakan cukai.

"Bayangkan jika harga bagi sekotak rokok seludup adalah di antara RM2.50 hingga RM3, manakala harga bagi sekotak rokok yang dikenakan cukai pula berharga di antara RM10 hingga RM12.

"Maka tidak hairanlah sekiranya perokok tegar ini lebih suka memilih rokok seludup. Kemasan rokok seludup

yang tidak terkawal ini dibimbangi akan meningkatkan aktiviti jenayah dan menyebabkan negara hilang pendapatan.

"Ini kerana rokok seludup ini tidak dikenakan sebarang cukai dan tahun lalu, kerajaan mengalami kerugian sehingga RM3 juta akibat rokok seludup ini," katanya, di sini.

Subramaniam yang juga Ahli Parlimen Segamat berkata, perokok juga mengalami risiko dua kali ganda jika menghisap rokok seludup kerana kandungan bahan kimia beracun lebih tinggi seperti arsenik dan kadmium.

Katanya, sebagai contoh, arsenik merupakan bahan kimia yang biasanya digunakan sebagai pengawet kayu dan didapati kandungan bahan itu tiga kali ganda lebih tinggi di

dalam rokok seludup.

"Jika dahulu tindakan hanya dikenakan kepada peniaga yang menjual rokok seludup. Kini mereka yang memiliki atau menghisap rokok seludup akan dikenakan tindakan dan semua agensi penguatkuasaan seperti Pejabat Kesihatan Daerah boleh mengambil tindakan.

"Ini kerana ramai yang bertanya bagaimana langkah yang diambil Kementerian dalam menangani kemasukan rokok seludup dan langkah tersebut adalah mengenakan denda RM10,000 atau dua tahun penjara kepada perokok. Hal ini telah dibincangkan di Parlimen," katanya.

Beliau berkata, kebanyakan rokok seludup juga mempunyai bungkus yang tidak berkualiti selain kod bar

yang terdapat pada kotak rokok juga tidak berdaftar seperti kebanyakan rokok yang sah.

"Tetapi mesej yang ingin disampaikan kepada orang ramai adalah jangan membeli sebarang rokok haram kerana tindakan undang-undang boleh diambil sekiranya didapati bersalah," katanya.



SUBRAMANIAM

Health Minister : Illegal cigarettes are twice as dangerous

Youth & Sport minister : Government increases price of legal cigarettes to curb smoking amongst youth. But cheap price of illegal cigs negates this and drives youth smoking incidence up

Khairy risau isu rokok



Khairy meluangkan masa melihat pelajar mengemaskini maklumat peribadi di komputer riba pada Karnival Kerjaya Universiti Nilai, semalam.

HAMIZAH BASIR

NILAI - Kementerian Belia dan Sukan meminta pihak berkuasa meningkatkan penguatkuasaan terhadap penjualan rokok di kalangan remaja di negara ini.

Menterinya, Khairy Jamaluddin berkata, tindakan itu perlu berikutan peningkatan remaja merokok kini semakin membimbangkan.

"Angka terkini remaja merokok didedahkan Menteri Kesihatan amat membimbangkan. Kita lihat ramai remaja mula merokok dan beri kesan negatif terhadap gejala sosial.

"Merokok merupakan permulaan kepada gejala tidak sihat selain kesan kepada kesihatan negara. Sebab itu penguatkuasaan perlu ditingkatkan termasuk kesedaran dan pendidikan," katanya.

Menurutnya, untuk memastikan keberkesanan dalam pengawalan, penjualan rokok di kedai harus dipantau sepenuhnya

agar peniaga tidak menjualnya kepada remaja bawah umur.

"Saya tahu, banyak peniaga kedai tidak kisah langsung dari sanggup menjual rokok kepada remaja bawah umur.

"Rokok seludup dijual di kedai dan warung tidak mempunyai lesen. Rokok haram ini dijual murah dan menjadi tarikan kepada remaja kerana tidak mampu beli rokok sah," katanya selepas merasmikan Karnival Kerjaya Universiti Nilai, di sini, semalam.

Semalam, Menteri Kesihatan, Datuk Seri Dr S Subramaniam berkata, kira-kira 500,000 remaja merokok di negara ini dengan membelanjakan jutaan ringgit membeli rokok setiap hari.

Kajian Kementerian Kesihatan mendapati, sebanyak 23 peratus remaja berusia antara 15 dan 18 tahun di negara ini merokok dengan jumlah perokok dalam kalangan gadis remaja meningkat pada kadar amat membimbangkan.

Ops Outlet – RMC’s robust enforcement against errant retailers selling illegal cigarettes (raid and remand and jail by courts)



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MOH 's enforcement against Illegal Cigarettes



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Serbu rokok haram

Kuala Lumpur: "Saya tidak tahu mengenai perkara itu. Harga rokok kini mahal dan lebih baik saya menghisap yang haram (tidak sah) kerana lebih murah dan rasanya juga hampir sama dengan rokok sah." Itu antara alasan seorang lelaki warga asing berusia 30-an yang dikenali kompaun kerana memiliki rokok tidak sah.

Lelaki itu dikompaun selepas ditahan dalam operasi bersepadu dijalankan sepasukan 55 pegawai dan anggota Jabatan Kesihatan Wilayah Persekutuan Kuala Lumpur dan Putrajaya dengan kerjasama Jabatan Kastam Diraja Malaysia (JKDM) dan Kementerian Perdagangan Dalam Negeri Koperasi Dan Kepenggunaan (KPDNKK) di sekitar Kampung Baru di sini, semalam.

Dalam 'Ops Serbu' bermula kira-kira jam 10 pagi itu, sebanyak 24 kedai runcit dan makanan diperiksa manakala 10 kesalahan direkodkan membabitkan nilai kompaun berjumlah RM3,750.

Selain itu, sebanyak 829 kotak rokok pelbagai jenama yang melanggar peraturan ditetapkan dirampas untuk tindakan lanjut mengikut Peraturan-Peraturan Kawalan Hasil Tembakau (PP-KHT) 2004.

Timbalan Pengarah Kawalan Penyakit Kementerian Kesihatan Dr Zainal Arifin Omar berkata, operasi itu dijalankan bertujuan memastikan pematuhan Peraturan 15 (4A) yang diwar-



PETUGAS khas Kementerian Kesihatan merampas rokok seludup selepas serbuan di premis perniagaan runcit.

takan pada 11 Jun tahun lalu dikuatkuasakan.

Katanya, peraturan itu memperuntukkan larangan menawarkan untuk menjual, membeli atau memiliki paket rokok tidak dicetak dengan amaran kesihatan bergambar.

Menurutnya, perokok yang memiliki rokok tidak sah ini kini turut berisiko dikompaun sehingga RM10,000 dan dipenjarakan sehingga dua tahun atau kedua-duanya sekali selepas peraturan baru itu berkuat kuasa sejak Rabu lalu.

"Sebelum ini, kita semestinya mengalami kesukaran untuk mengambil tin-

dakan berikutan perlu mempunyai bukti pembelian untuk mengambil tindakan kepada penjual rokok terbabit.

"Kita cuma mahu memberi pendedahan kepada orang ramai bahawa memiliki rokok tidak sah adalah salah sebelum operasi menyeluruh dijalankan ke seluruh negara dalam tempoh terdekat," katanya yang turut menyertai operasi itu.

Zainal berkata, pesalah yang melakukan kesalahan memiliki atau membeli rokok tidak sah akan dikenakan kompaun minimum RM250 manakala RM500 bagi kesalahan menjual.

Health Ministry to stub out illegal cigs

Other agencies to join forces in enforcement activities, says division director

BY TEH ENG HOCK

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PETALING JAYA: The Health Ministry will be carrying out a series of integrated enforcement activities to clamp down on the sale or purchase of illicit cigarettes.

The ministry's disease control division director Dr Chong Chee Kheong said to circumvent the shortage of manpower in enforcing the amendment to the Control of Tobacco Product Regulations 2004, they would work together with agencies such as the Customs Department, Domestic Trade, Cooperatives and Consumerism Ministry and the Malaysian Maritime Enforcement Agency.

"The enforcement activities will be conducted thoroughly at the state

and district level with the collaboration of these inter-agencies," said Dr Chong in an e-mail interview.

Effective Jan 1, Regulation 15(4A) states that no person shall sell or offer for sale, buy or has in his possession any packet or carton of cigarette that is not printed with the text required and health warning images as specified in this regulation.

"Regulation 15 is the requirement for the labelling and packaging for the packet or carton of cigarettes. Any packets or cartons of cigarettes

which do not comply with this requirement are considered as illegal or contraband cigarettes," he said.

To date, the Health Ministry has conducted a briefing session with all

personnel from the non-communicable disease section, inspectorate and legal officers to ensure that everyone is familiar with this requirement, he said.

He added that integrated and routine enforcement activities were part of the National Strategic Action Plan on Tobacco Control, which was developed by the ministry and would be carried out between 2014 to 2018.

Dr Chong said the police and local authorities would also assist in activities targeting illegal or contraband cigarettes, cigarettes sold below the retail selling price, and cigarettes without the pictorial health warning.

17,159 booked over illegal ciggies

Summonses issued to those selling, buying or possessing illicit cigarettes

BY FARIK ZOLKEPLI

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KUALA LUMPUR: A total of 17,139 summonses nationwide have been issued by the Health Ministry and other government agencies to those caught selling, purchasing or possessing illicit cigarettes under the amended Control of Tobacco Product Regulations (CTPR) 2004.

CTPR, which came into force on Jan 1, states that no person shall sell or offer for sale, buy or has in his possession any packet or carton of cigarette that is not printed with the required text and health warning images as specified in the regulation.

According to the ministry's disease control division director Dr Chong Chee Kheong (pic), the offence notices were issued following 3,493 enforcement operations up until May.

Regulation 15 is the requirement for the labelling and packaging for the cigarette packet or carton, and any packaging which does not com-

ply with this requirement are considered as illegal or contraband, added Dr Chong.

"This regulation complements the Customs Act 1967 when it comes to curbing illicit cigarettes, and the enforcement of this regulation has been always been carried out together with other enforcement agencies focusing on tobacco control regulations," he said.

The other agencies are the Customs Department, the Domestic Trade, Cooperatives and Consumerism Ministry, as well as the Malaysian Maritime Enforcement Agency.

"As the Health Ministry has a limited jurisdiction under the CTPR 2004, which is only at the seller and consumer level, the (interagency) cooperation has enabled the Government to identify and combat the entire supply chain right up to the suppliers," said Dr Chong, who added that public awareness is just

as important as enforcement.

"We hope smokers understand that buying or possessing even one stick of illicit cigarette is an offence," he said.

On another front, which focused on vendors, the Customs Department has seized more than RM7 million worth of illicit cigarettes with unpaid duty totalling RM66.57 million under Ops Outlet.

Customs director-general Datuk Seri Khazali Ahmad said under Section 135(1)(d) of the Customs Act 1967, those caught selling the contraband item face a maximum three years imprisonment or a fine of up to 20 times the value of the seized items, or both.

"Currently, 35% of the cigarettes on sale in the country are contraband, and we aim to reduce the number to at least 30% this year," he said.

Those with information on the sales of illegal cigarettes can call 1-800-888-855.





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External Recognition

BATM in the top ten list of blue chip companies in Bursa Malaysia that excelled in governance and transparency

July 2014 – A recent assessment conducted by Focus Malaysia placed **BATM in the top ten list of blue chip companies in Bursa Malaysia that excelled in governance and transparency.**

- BATM scored top marks in the quality of our Chairman's statement in our 2013 Annual Report.
- Assessors applauded BATM's Chairman's statement, noting that it was thorough and included disclosures on business and financial risks, in addition to a detailed picture of its domestic and global business landscape.





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