

Headline	BAT downgraded to `neutral`		
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## REVISED TARGET PRICE

# BAT downgraded to `neutral`

**KUALA LUMPUR:** The dip in British American Tobacco (M) Bhd's (BAT) net profit for the second quarter of its financial year 2019 can be attributed to the lower legal industry volume, which contracted 8.0 per cent year-on-year.

In a report, MIDF Amanah Investment Bank Bhd (MIDF Research) said illicit cigarettes volume share had remained stagnant at about 60 per cent since the first quarter of fiscal year 2018.

The challenging operating environment was further exacerbated by the launch of its competitor's tobacco-heated product and the switch from premium and aspiration brands to value for money (VFM) brands, such as Rothmans, which commanded lower margin, it said.

"During the quarter, operating expenses rose 19.5 per cent quarter-on-quarter, which was at-

tributable to the higher marketing expenses in promoting VFM brands."

Consequently, Rothmans continues its uptrend, registering 0.6 per cent quarter-on-quarter growth. This signals a trend shift from premium and aspirational premium to VFM brands.

"Thanks to Rothmans performance, BAT's market share remains stable at 54.8 per cent in the second quarter of this year.

"This will assist in sustaining its position as a market leader in the legal cigarette domain, especially with the switch from premium and aspiration brands to VFMs," it said.

MIDF Research has downgraded BAT to "neutral", with a revised target price of RM28.80, from RM35.50 previously.

"We opine that business environment will continue to remain challenging for BAT in the near term," it added.