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9 HOME BUSINESS

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BAT's launch of heat-not-burn products stalled

It has yet to get price approval from the government

BY SAMANTHA HO

KUALA LUMPUR: British American Tobacco (M) Bhd (BAT) is eager to launch its heat-not-burn (HNB) products in Malaysia, but the plan has been held back by the lack of price approval from the government.

"In December 2018, we submitted the retail price approval (application), which is in essence a technicality. But, for some reasons, we have not received an answer yet," BAT managing director Erik Stoel said at a press conference after the group's annual general meeting yesterday.

He said the group is "fully ready" to begin retailing the products immediately after getting the green light on its pricing.

"We have importers following existing laws in Malaysia, we have the products — we have an excise classification where our product fits — and we have all the licences, in principle, that are required to sell (HNB products)," Stoel said.

Malaysia would be BAT's first East Asia market for its trademark Glo e-cigarettes if its HNB products are launched here.

BAT's competitor, Philip Morris International Ltd, launched its flagship HNB product, iQos, in December last year.

"This will be the first market where our competitor iQos is in the market, and we are not there yet," Stoel noted.

The group is 'fully ready' to begin retailing the products immediately after getting the green light on its pricing.

Malaysian consumers are already familiar with alternative forms of smoking as certain vaping products are "dead cheap", he said.

That being said, such products do not fall under any comprehensive regulation by the authorities. The Malaysian government has yet to table a proposed Tobacco Control Act, which is expected to regulate e-cigarettes, among others.

"We would always like the government to engage with us about [regulating alternative products]. At the moment, we are still in discussions with them, so I can't really say for sure whether it will be in the act or not," Linda Song, BAT's legal and external affairs director said.

Stoel added that BAT is in support of regulation, especially where it sets up a level, legal playing field.

"If the government provides more clarity on what organisations can or cannot do, it would not only help the tobacco trade but also these new categories. Consult us," he urged.

Investment in consumer education more important than margins

On the subject of profit from HBN products, BAT finance director Ricardo Martin Guardo said the margins are expected to be "in line with the current business."

However, it is the cost of educating the public that is the more important figure to him now.

Such investments have been translated into revenue gains at the global level, with BAT's reduced harm products accounting for some 3.7% of its top line.

"We think that in three to four years from now, that could grow to about £5 billion (RM27 billion) — It sounds like a massive number, but it still fades in comparison to our revenues from traditional cigarettes," said Stoel.

"What we're seeing now in many markets is that the consumer is navigating what his future consumer pattern is, and it therefore goes very gradually.

"[But] we think it will get bigger and bigger. It is a genuinely interesting segment to go into. But it will take a lot of effort and investment from not only us, but the entire industry, to build that category," he said.

BAT shares closed up 28 sen or 0.78% at RM36.26 yesterday, giving the group a market capitalisation of RM10.35 billion