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BAT MALAYSIA CALLS FOR GOVERNMENT TO TAKE RADICAL ACTION, REVIEW EXISTING EXCISE FRAMEWORKS TO STUB OUT ILLEGAL CIGARETTES

Bukit Damansara, 20 February 2020 – Amidst another year of declining revenue and profit as illegal cigarettes reached record highs in Malaysia and possibly the world, British American Tobacco (Malaysia) Berhad (BAT Malaysia or the Company) has urged the Government to take radical and out-of-the-box action to safeguard the interest of shareholders, investment community and society at large.

The Company, which today announced its financial results for the fourth quarter ended 31 December 2019 (Q4FY2019), reported that total legal industry volume had declined by 10% against the same period last year. This was primarily attributed to the booming illegal cigarette trade that currently makes up 63% of the total industry volume, rising rapidly from 33.5% in 2015 (source: Illicit Cigarettes Study). This also means that the legal industry has diminished by almost 40% in the span of four years since 2015 due to the illegal cigarettes trade.

The combination of legal market contraction and downtrading led to a decline of 11.7% in BAT Malaysia's volume as well as a decline of 11.1% in the Company's revenue of RM314 million when compared to the same period last year. Consequently, the Company's profit from operations for the 12 months under review fell by 24.9% to RM478 million compared to RM637 million a year ago.

BAT Malaysia's 2019 financial performance marks the fourth consecutive year of declining revenue and profit from operations since the Government's surprise excise hike for tobacco in 2015.

On a quarter to quarter basis, the total legal industry volume increased by 8% during the quarter under review compared with the preceding quarter while the Group's volume also increased by 14%. This led to profit from operations being higher at RM138 million, compared with RM113 million in the immediate preceding quarter. This was primarily the result of a seasonal volume trends and sharp marketing activations at the end of 2019 but does not reflect the underlying external headwinds the entire legal industry continues to face.

The Company's market share stood at 53.7%, a marginal decrease of 0.7ppt, primarily due to the Premium and Aspirational Premium (AP) segment being impacted by the continuous downtrading, whereby consumers switch to cheaper alternatives and illegal cigarettes. However, this was partially offset by ROTHMANS' solid growth of 0.7ppt quarter on quarter.

Q4 2019 Financial Highlights:

- Profit from operations increased by 22.9% in the current quarter compared with the preceding quarter. However, on a year to date basis, profit from operations declined by 24.9% to RM478 million. This decline was mainly attributed to lower volume as a result of severe legal market contraction, market downtrading as well as the absence of one-off factors reported in the same period last year such as GST removal one-off benefit and tax stamps refunds.
- Revenue for the quarter under review increased by 13.4% but declined 11.1% year-on-year.
- Operating expenses continued to decrease in the current quarter by 21.7%, (excluding restructuring expenses) when compared with the preceding quarter – a result of continuous cost rationalisation by the Company.

In spite of the difficult operating landscape and in tandem with the Company's commitment to deliver value to its shareholders, the Board of Directors has declared a fourth interim dividend of 33.0 sen per share.

Erik Stoel, Managing Director of BAT Malaysia said:

“The numbers clearly speak for themselves. Although there was an uptick in enforcement actions over the year, the inconsistent efforts proved insufficient to dent the ultra-high levels of illegal cigarettes and did not translate into volume recovery for legal cigarettes. We anticipate that this will continue to negatively impact BAT Malaysia's financial performance, punishing our shareholders and the investment community.”

“The Company's financial results could be worse if not for the hard calls the Board and the leadership team had to make to rationalise investments and aggressively cut operating cost. We had to reduce headcount, restructure the way we work and free up enough resources to allow us some breathing space as we operate in an untenable environment where 7 out of 10 products belong to the black economy.”

“Moreover, it's clear from our share price evolution that the investment community has lost confidence in the Malaysian Government's resolve and ability to tackle the illegal cigarettes trade problem. This problem has become so large and so endemic that it has impacted all segments of society, from businesses to the lives and health of Malaysians.”

Erik also emphasised that BAT Malaysia's current share price does not reflect the organisation's strength and fundamentals. “Unfortunately, as a corporate entity we cannot go at it alone to resolve the illegal cigarettes trade issue. The Malaysian Government must be held accountable and radical actions such as demand driven solutions that include a review of excise duties must be explored. You need to allow legal players the bandwidth to introduce **illicit fighters** otherwise, we foresee that the entire legal industry will soon give way to illegal cigarette syndicates who do not abide by any laws nor pay taxes.”



Outlook FY2020:

“Moving forward, the industry outlook remains bleak as illegal cigarettes have reached new levels year-on-year. The Malaysian Government’s lacklustre approach in managing this crisis and not treating it like the burning platform it is while selectively persecuting legitimate tobacco industry participants – are clearly counter-productive,” Erik added.

“BAT Malaysia’s trend of declining revenue and profit must be reversed quickly to justify our business here in Malaysia. We have no choice but endeavour to convince, facilitate and drive the Government to adopt a radical plan that addresses affordability in order to shift the needle on this black economy. Beyond that, another strategic area of focus for BAT Malaysia’s 2020 financial year will be to continue optimising on investments that will drive commercial growth within what’s left of the legal tobacco segment and ensuring that key brands like DUNHILL and ROTHMANS do well.”

“While the Company actively competes and considers new approaches within categories like Tobacco Heating Products (THP) and vaping (upon its regulation) – these are ‘long burn’ initiatives that will not have any significant impact to our financial performance in the shorter term,” Erik concluded.

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For more information on British American Tobacco Malaysia’s financial results, please visit www.batmalaysia.com

About British American Tobacco (Malaysia) Berhad

British American Tobacco (Malaysia) Berhad is the leading tobacco company in Malaysia. This strong position is built upon a portfolio of high-quality tobacco products designed to meet diverse consumer preferences. Our portfolio includes world- famous brands like DUNHILL, KENT, PETER STUYVESANT, PALL MALL and ROTHMANS. British American Tobacco Malaysia employs almost 500 employees who are involved in a wide spectrum of disciplines, from generating insights, developing brands and making these available on a national level. In addition, we also set leading edge talent development practices as well as ensure a strong foundation of corporate governance and shareholder relations. The company is part of the British American Tobacco group, which is the world’s most international tobacco group and the second largest stock market listed tobacco group by global market share.

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