

British American Tobacco (M) Bhd

(4162 | BAT MK) Consumer Products & Services | Personal Goods

Maintain BUY

Sales volume fell

Revised Target Price: RM15.70

(Previously RM16.00)

KEY INVESTMENT HIGHLIGHTS

- **1QFY20 earnings below expectations**
- **Sales volume contracted by 21.0%yoy and 24.0%qoq**
- **Earnings revised by -16.7% for FY20E and -8.6% for FY21F**
- **Maintain BUY with a revised TP of RM15.70**

1QFY20 earnings below expectations. British American Tobacco (M) Bhd's (BAT) 1QFY20 normalised earnings came in at RM55.0m. This accounts for 15.8% of ours' and 17.4% of consensus full year estimates. The lower than expected core net profit can be attributed to compressed profit margins due to lower sales volume particularly from the duty-free segment. An interim dividend of 17.0sen was announced, which is also below our full year expectation. This implies a payout ratio of 95.5%, which is lower than the 98.0% payout ratio in FY19.

Sales volume contracted by 21.0%yoy and 24.0%qoq. Normalised net profit fell -69.2%yoy to RM55.0m in tandem with revenue that decline -61.9%yoy to RM481.2m. We have excluded a one-off restructuring cost amounting to RM4.2m from our normalised PAT. The cigarette industry continues to be plagued by the illicit products. Moreover, its duty-free segment, which comprises 4% of topline, was adversely impacted by regional and international travel restrictions due to Covid-19. BAT's portfolio which is skewed towards the premium segment experienced steeper contraction of 21.0% in sales volume compared to the legal industry volume of 11.0%yoy during the period. Illicit cigarette and nicotine vaping product sales growth continues to challenge the legal tobacco market despite increased enforcement actions from Government agencies. The illicit cigarettes volume share remains high at about 63.0% but the figure has been stable and unchanged compared to 4QFY19. On a more positive note, the cost restructuring programme that the group has taken in 2019 has resulted in lower operating expenses (19.4%yoy to RM13.0m). Nonetheless, the benefits from this exercise is offset by lower revenue, leading to a decline in profitability.

Earnings revised by -16.7% for FY20E and -8.6% for FY21F. We are turning more cautious with the near-term sales outlook for BAT as we take into consideration of the impact by Covid-19. Other than lower duty-free sales, we also expect some disrupted patterns in sales volume during the movement control order period.

RETURN STATISTICS

Price @ 21 st May 2020 (RM)	13.30
Expected share price return (%)	+26.0
Expected dividend yield (%)	+9.4
Expected total return (%)	+35.4

SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	15.9	10.3
3 months	29.1	-2.2
12 months	-60.2	-56.1

KEY STATISTICS

FBM KLCI	1452.11
Syariah compliant	No
Issue shares (m)	285.53
Estimated free float (%)	45.93
Market Capitalisation (RM'm)	3797.55
52-wk price range	RM9.26 - RM34.0
Beta vs FBM KLCI (x)	0.94
Monthly velocity (%)	0.00
Monthly volatility (%)	30.45
3-mth average daily volume (m)	1.83
3-mth average daily value (RM'm)	22.17
Top Shareholders (%)	
BAT Holdings	50.00
Standard Life Aberdeen	2.78
EPF	1.92

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Maintain BUY with a revised TP of RM15.70 from RM16.00 previously. Our valuation is derived from a dividend discount model valuation with an unchanged cost of equity of 8.5% and a long-term expected dividend growth rate of 0.5%. While we think that industry headwinds may persist in the foreseeable future, management's restructuring exercises that had been implemented will show positive results when the business environment improves. Dividend yield is still deemed attractive, estimated at 7.5%. 

INVESTMENT STATISTICS

FYE Dec (RM'm)	FY2018	FY2019	FY2020E	FY2021F	FY2022F
Revenue	2,822.9	2,508.6	2,020.2	2,227.8	2,453.7
Cost of sales	(1,927.8)	(1,790.9)	(1,414.2)	(1,537.2)	(1,693.1)
Gross profit	895.1	717.6	606.1	690.6	760.6
Finance cost	(13.5)	(16.0)	(15.1)	(15.2)	(15.4)
Profit Before Tax	623.0	462.3	371.7	422.3	466.2
Income tax	(154.5)	(116.6)	(81.8)	(101.3)	(111.9)
Profit After Tax	468.5	345.7	289.9	321.0	354.3
Normalised PAT	433.5	345.7	289.9	321.0	354.3
EPS (sen)	164.1	121.1	101.5	112.4	124.1
EPS Growth (%)	(4.9)	(26.2)	(16.1)	10.7	10.4
PER (x)	8.1	11.0	13.1	11.8	10.7
Dividend Per Share (sen)	155.0	118.0	99.5	110.2	121.6
Dividend yield (%)	11.7	8.9	7.5	8.3	9.1

Source: Company, MIDFR

Table 1: BAT's quarterly earnings review

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	1QFY20	4QFY19	1QFY19	YoY (%)	QoQ (%)	3MFY20	3MFY19	YoY (%)
Revenue	481.2	2,508.6	1,261.8	(61.9)	(80.8)	481.2	1,261.8	(61.9)
Cost of sales	(358.1)	(1,790.9)	(897.5)	(60.1)	(80.0)	(358.1)	(897.5)	(60.1)
Gross Profit	123.1	717.6	364.3	(66.2)	(82.8)	123.1	364.3	(66.2)
Other operating income	0.5	5.6	4.9	(90.6)	(91.8)	0.5	4.9	(90.6)
Operating expenses	(52.2)	(245.1)	(142.1)	(63.3)	(78.7)	(52.2)	(142.1)	(63.3)
EBIT	71.4	478.2	227.1	(68.6)	(85.1)	71.4	227.1	(68.6)
Finance cost	(4.4)	(16.0)	(7.8)	(43.7)	(72.3)	(4.4)	(7.8)	(43.7)
Profit Before Tax	66.9	462.3	219.3	(69.5)	(85.5)	66.9	219.3	(69.5)
Income tax	(16.2)	(116.6)	(54.4)	(70.3)	(86.1)	(16.2)	(54.4)	(70.3)
Profit After Tax	50.8	345.7	164.9	(69.2)	(85.3)	50.8	164.9	(69.2)
EI	(4.2)	-	-	nm	nm	(4.2)	-	
Normalised PAT	54.8	345.7	164.9	(66.8)	(84.2)	54.8	164.9	(66.8)
EPS (sen)	17.8	121.1	57.7	(69.2)	(85.3)	17.8	57.7	(69.2)
DPS (sen)	17.0	118.0	56.0	(69.6)	(85.6)	17.0	56.0	(69.6)
				(+/- ppts)				ppt
Gross profit margin (%)	25.6	28.6	28.9	(3.3)	(3.0)	25.6	28.9	(3.3)
EBIT margin (%)	14.8	19.1	18.0	(3.2)	(4.2)	14.8	18.0	(3.2)
PBT margin (%)	13.9	18.4	17.4	(3.5)	(4.5)	13.9	17.4	(3.5)
PAT margin (%)	10.6	13.8	13.1	(2.5)	(3.2)	10.6	13.1	(2.5)
Normalised PAT margin (%)	11.4	13.8	13.1	(1.7)	(2.4)	11.4	13.1	(1.7)

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.