

British American Tobacco (M) Berhad

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

Maintain BUY

Staying relevant

Revised Target Price: RM16.00

(Previously RM25.90)

KEY INVESTMENT HIGHLIGHTS

- **4QFY19 earnings came in at RM97.7m, in line with our expectation**
- **Sales volume declined due to the persistent high level of illegal cigarettes consumption**
- **Nevertheless, BAT's overall market share within the legal market remain stable**
- **Current valuation is not reflective of the organisation's strength and fundamentals**
- **Maintain BUY with a revised TP of RM16.00**

Earnings met expectation. British American Tobacco (M) Bhd's (BAT) 4QFY19 normalised earnings came in at RM97.7m. This brought its full year FY19 earnings to RM345.7m which met ours and consensus' full-year FY19 earnings estimates at 100.7% and 103.6% respectively. Comparing against 4QFY18, 4QFY19 revenue dipped by -14.0%yoy resulting from a lower sales volume. However, normalised earnings staged an encouraging +20.1%yoy growth driven by aggressive cost cutting measures e.g. reduction in headcount.

Continue to be impacted by legal market contraction. The dip in BAT's 4QFY19 sales volume of -11.7%yoy was mainly attributed to the lower legal industry volume which contracted by a similar quantum of -10.0%yoy. The illicit cigarettes volume share remains high at about 63.0%. Additionally, the rapid increase on unregulated vaping products will continue to impact the tobacco industry. Currently, unregulated vapour accounts for about 10.0% of total market share. The Ministry of Health (MoH) announced that a bill on the usage of tobacco, vape, electronic cigarettes and shisha is expected to be table in parliament next month. We opine that regulation on vaping will present an opportunity for a new revenue pool for the group.

Market share remain stable. BAT's total market share year-to-date within the legal market declined marginally by -1.8ppt to 54.7% in 4QFY19 despite a significant contraction in the legal industry volume. Currently, Rothmans remains the fastest growing brand within the Value For Money (VFM) segment with a market share of 6.7% against last quarter's of about 4.1%. This has enabled the group to achieve about 32.0% market share in the VFM segment which was line with our expectations. Meanwhile, Dunhill held a commendable market share of 35.5% in the premium segment (vs 37.5% in 4QFY18) despite the pressure from Value For Money (VFM) segment.

Declared 33sen dividend for 4QFY19. BAT declared a fourth and final dividend of 33sen per share for 4QFY19 (vs 4QFY18 of 47sen). Cumulatively, dividend declared for FY19 is of RM1.18 per share (vs FY18 of RM1.55). This brings its dividend payout ratio to 98.0% of earnings.

RETURN STATISTICS

Price @ 20 th February 2020 (RM)	12.70
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	0.0	3.5
3 months	-15.8	-18.8
12 months	-64.9	-60.5

KEY STATISTICS


FBM KLCI	1,534.98
Syariah compliant	No
Issue shares (m)	285.53
Estimated free float (%)	42.34
Market Capitalisation (RM'm)	3,626.2
52-wk price range	RM10.20 – RM36.6
Beta vs FBM KLCI (x)	0.76
Monthly velocity (%)	33.24
Monthly volatility (%)	21.41
3-mth average daily volume (m)	1.07
3-mth average daily value (RM'm)	13.6
Top Shareholders (%)	
BAT Holdings	50.00
Standard Life Aberdeen	5.01
EPF	3.86

ANALYST

NABIL Zainoodin, CFA, CA
nabil.zainoodin@midf.com.my
 03 -2772 1663

Impact to earnings. We maintain our forecasts as our estimates are still within expectation.

Target price. We revised our TP downward to **RM16.00** (previously RM25.90) per share. Our valuation is derived from a dividend discount model valuation with a cost of equity of 8.5% (previously 7.0%) and a long term expected dividend growth rate of 0.5% (previously 1.0%). We update our cost of equity assumption as we take into account a higher required rate of return on equity and dividend growth rate given the insufficient efforts taken by the government to tackle the illicit cigarettes trade which contract the legal cigarettes market.

Maintain BUY. We opine that business environment will continue to remain challenging for BAT in the near term. Nonetheless, we are comforted by the group rationalisation effort and continuous investment to develop new product categories such as "Glo". We also anticipate that the government consideration on regulating the vaping industry will bode well to the legal tobacco players. Following on this, the group will continue to work closely with the government on setting up a comprehensive and sustainable total regulatory and fiscal framework for the industry. Due to the recent decline in share price, we believe the risk-reward profile has become attractive as the stock offers an attractive dividend yield of +9.4%. Furthermore, the current valuation does not reflect the organisation's strength and fundamentals. All factors considered, we maintain our **BUY** recommendation on the stock. 

INVESTMENT STATISTICS

FYE Dec (RM'm)	FY2018	FY2019	FY2020E	FY2021F	FY2022F
Revenue	2,822.9	2,508.6	2,412.5	2,431.8	2,453.7
Cost of sales	(1,927.8)	(1,790.9)	(1,688.8)	(1,678.0)	(1,693.1)
Gross profit	895.1	717.6	723.8	753.9	760.7
Finance cost	(13.5)	(16.0)	(15.1)	(15.2)	(15.4)
Profit Before Tax	623.0	462.3	446.3	462.0	466.2
Income tax	(154.5)	(116.6)	(98.2)	(110.9)	(111.9)
Profit After Tax	468.5	345.7	348.1	351.2	354.3
Normalised PAT	433.5	345.7	348.1	351.2	354.3
EPS (sen)	164.1	121.1	121.9	123.0	124.1
EPS Growth (%)	(4.9)	(26.2)	0.7	0.9	0.9
PER (x)	7.7	10.5	10.4	10.3	10.2
Dividend Per Share (sen)	155.0	118.0	119.5	120.5	121.6
Dividend yield (%)	12.2	9.3	9.4	9.5	9.6

Source: Company, MIDFR

Table 1: BAT's quarterly earnings review

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	4QFY19	3QFY19	4QFY18	YoY (%)	QoQ (%)	FY19	FY18	YoY (%)
Revenue	662.4	584.3	770.6	(14.0)	13.4	2,508.6	2,822.9	(11.1)
Cost of sales	(470.6)	(422.8)	(547.4)	(14.0)	11.3	(1,790.9)	(1,927.8)	(7.1)
Gross Profit	191.8	161.5	223.3	(14.1)	18.8	717.6	895.1	(19.8)
Other operating income	0.5	0.2	19.7	(97.7)	94.5	5.6	22.2	(74.7)
Operating expenses	(53.9)	(49.1)	(80.5)	(33.1)	9.7	(245.1)	(280.8)	(12.7)
EBIT	138.4	112.6	162.4	(14.8)	22.9	478.2	636.5	(24.9)
Finance cost	(4.3)	(3.8)	(3.5)	23.2	12.2	(16.0)	(13.5)	18.0
Profit Before Tax	134.1	108.8	159.0	(15.6)	23.3	462.3	623.0	(25.8)
Income tax	(36.4)	(25.7)	(42.6)	(14.4)	41.8	(116.6)	(154.5)	(24.5)
Profit After Tax	97.7	83.1	116.4	(16.0)	17.5	345.7	468.5	(26.2)
EI	-	-	35.0	nm	nm	-	35.0	(100.0)
Normalised PAT	97.7	83.1	81.4	20.1	17.5	345.7	433.5	(20.3)
EPS (sen)	34.2	29.1	40.8	(16.1)	17.6	121.1	161.8	(25.2)
DPS (sen)	33.0	29.0	47.0	(29.8)	13.8	118.0	155.0	(23.9)
				(+/- ppts)				(+/- ppts)
Gross profit margin (%)	29.0	27.6	29.0	(0.0)	1.3	28.6	31.7	(3.1)
EBIT margin (%)	20.9	19.3	21.1	(0.2)	1.6	19.1	22.5	(3.5)
PBT margin (%)	20.2	18.6	20.6	(0.4)	1.6	18.4	22.1	(3.6)
PAT margin (%)	14.7	14.2	15.1	(0.4)	0.5	13.8	16.6	(2.8)
Normalised PAT margin (%)	14.7	14.2	10.6	4.2	0.5	13.8	15.4	(1.6)

Source: Company, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878 – X)).
 (Bank Pelaburan)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

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.