

30 April 2015 | 1QFY15 Results Review

British American Tobacco (M) Berhad

Revenue surge attributable to higher sales volume

Maintain NEUTRAL
Revised Target Price (TP): RM72.82
(Previously RM71.85)

INVESTMENT HIGHLIGHTS

- 1QFY15 revenue surged by +10.4%yoy to RM1,274.1m
- Net earnings increased almost in tandem by +8.0%yoy to RM243.4
- Increase in revenue and earnings was mainly contributed by the pre-GST purchases and increase in Peter Stuyvesant's market share
- Declared first interim dividend for FY15 of 78.0sen per share
- We reiterate our NEUTRAL stance with a revised TP of RM72.82 per share

1QFY15 revenue surged by double-digit. British American Tobacco's (BAT) 1QFY15 revenue increased +10.4%yoy to RM1,274.1m. This was mainly due to the pre-GST purchases in March which marked the highest volume of cigarette sales by the Big-3 cigarette companies.

Net earnings rose almost in tandem. BAT's 1QFY15 net earnings also increased by +8.0%yoy to RM243.4m. The higher earnings were attributable to the pre-GST bumper sales and the reduction in finance cost. Finance cost reduced by -14.2%yoy to RM2.8m.

Higher market share for Aspirational Premium segment. The Aspirational Premium segment's market share grew by 0.9ppts compared to full year 2014, mainly driven by Peter Stuyvesant. Peter Stuyvesant's market share continued to grow with its current share of the market at 5.2%. Pall Mall remained stable at 4.5% share of market.


Dunhill is losing market share. Dunhill's market share recorded a decline of -0.6ppts compared to 2014. It was attributable to the -1.1ppts decline in Dunhill Full Flavour franchise's market share. However, overall, Dunhill still maintains its No.1 position in the market with a market share of 46.4%.

Illicit cigarette level increased slightly. Compared to Wave 2 (Jun – Aug), the illicit cigarette level increased slightly by 0.5ppts to 32.8% in Wave 3 of the Illicit Cigarette Study (Oct – Dec 2014). This was attributable to the price hike in November 2014.

RETURN STATS	
Price (28 April 2015)	RM65.94
Target Price	RM72.82
Expected Share Price Return	+10.4%
Expected Dividend Yield	+4.1%
Expected Total Return	+14.5%

STOCK INFO	
KLCI	1,855.06
Bursa / Bloomberg	4162 / ROTH MK
Board / Sector	Main/ Consumer Products
Syariah Compliant	No
Issued shares (mil)	285.5
Par Value (RM)	0.50
Market cap. (RM'm)	18,827.8
Price over NA	168.83x
52-wk price Range	RM60.52 – RM74.40
Beta (against KLCI)	0.77
3-mth Avg Daily Vol	0.18m
3-mth Avg Daily Value	RM12.24m
Major Shareholders (%)	
British American Tobacco Holdings	50.00
Aberdeen	8.21
EPF	7.94

Declared first interim dividend. BAT declared its first interim dividend of 78.0sen per share for FY15. This is higher by 3sen compared to its first interim dividend in FY14. This is also in-line with our FY15 dividend forecast of 317sen accounting for 24.6%.

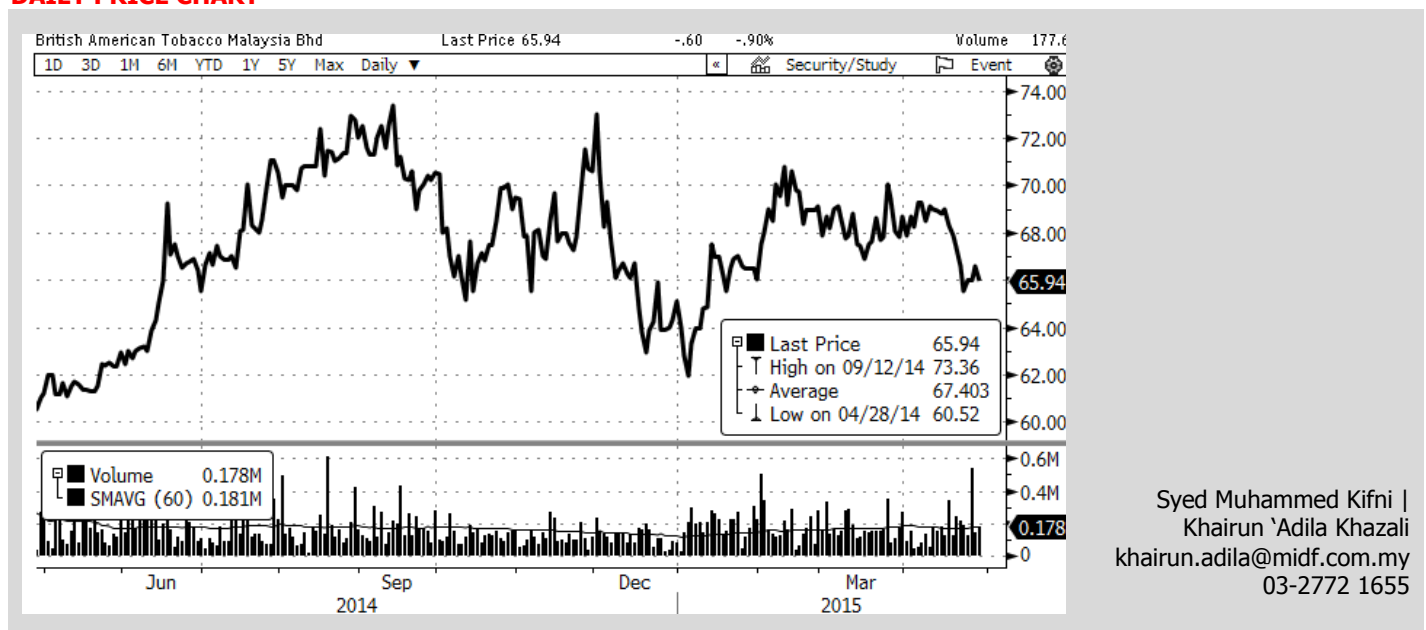
Reiterate NEUTRAL with higher TP of RM72.82. We are retaining our NEUTRAL stance with a revised TP of RM72.82 per share. Our rolled-forward base year valuation is derived from dividend discount model valuation with a cost of equity of 6.5%. Despite the higher TP, we see limited upside to current share price as we believe the stock is currently fully valued. 

INVESTMENT STATISTICS

FYE Dec (RMm)	FY12	FY13	FY14	FY15F	FY16F
Revenue	4364.8	4517.2	4796	4887.7	4987.5
PBT	4054.4	1105.4	1218.8	1348.6	1376.5
Net profit	797.7	823.4	902	1004.7	1032.4
EPS (sen)	279.4	288.4	315.9	351.9	361.6
PER (x)	23.6	22.9	20.9	18.7	18.2
Net Dividend per share (sen)	272	282	309	317	325
Dividend yield (%)	4.1	4.3	4.7	4.8	4.9

Source: MIDFR

DAILY PRICE CHART



Source: MIDFR, Company

British American Tobacco: 1QFY15 RESULTS SUMMARY

FYE December (RMm)	Quarterly results				
	1QFY14	4QFY14	1QFY15	YoY (%)	QoQ (%)
Revenue	1,154.3	1,205.6	1,274.1	10.4	5.7
Cost of sales	(747.3)	(760.6)	(821.1)	9.9	8.0
Gross profit	407.0	445.0	452.9	11.3	1.8
Other operating income	0.5	1.2	0.9	69.8	(27.3)
Operating expenses	(103.1)	(177.6)	(126.3)	22.5	(28.8)
Profit from operations	304.4	268.7	327.5	7.6	21.9
Finance cost	(3.2)	(2.7)	(2.8)	(14.2)	3.5
Profit before tax	301.2	265.9	324.7	7.8	22.1
Tax expense	(75.8)	(78.5)	(81.3)	7.3	3.6
Net profit	225.4	187.4	243.4	8.0	29.9
Basic EPS (sen)	78.9	65.6	85.2	8.0	29.9
				<i>+ / (-) p.p.</i>	
Gross profit margin (%)	35.3	36.9	35.6	0.3	(1.4)
Profit before tax margin (%)	(0.1)	(0.2)	(0.1)	(0.0)	0.1
Net profit margin (%)	(25.3)	(39.9)	(27.9)	(2.6)	12.0
Tax rate (%)	(25.2)	(29.5)	(25.0)	0.1	4.5

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.