

29 June 2015 | Corporate Update

British American Tobacco (M) Berhad

Price hike to pass-on the GST

Upgrade to BUY
(previously NEUTRAL)
Unchanged Target Price (TP): RM72.82

INVESTMENT HIGHLIGHTS

- **British American Tobacco (BAT) is raising the price of all its cigarette brands by 30sen starting today**
- **According to the management, the price hike is due to the Goods and Services Tax (GST)**
- **We are upgrading our stance to BUY with an unchanged TP of RM72.82 per share**

Price of six cigarette brands will be raised by 30sen starting today. The brands involved in the price hike are Dunhill, Kent, Benson & Hedges, Lucky Strike Plain, Pall Mall, and Peter Stuyvesant. This was announced by BAT in a statement yesterday for the increase of its premium and sub-premium cigarettes. The new prices are stated in Table 1.

Table 1: Cigarette price increase

Cigarette Brand	Price (RM)	
	Previous	New
Lucky Strike Plain	14.00	14.30
Dunhill, Kent, and Benson & Hedges	13.50	13.80
Pall Mall and Peter Stuyvesant	12.00	12.30


Source: MIDFR, Bernama

The price hike is due to the GST. According to the management, the main reason of the price hike is to take into account the GST as the company has been absorbing it for the past three months (April to June). This represents between 2.5-2.1% increase from its previous price.

Slight impact to earnings. We expect this price hike to slightly impact its earnings for 2015 as due to the possibility of a drop in near-term volume to competitors. As such, we revise the revenue and earnings for FY15 downwards by 1.1% and 3.4% to factor in the above. However, we expect this price hike coupled with the strong enforcement against the illicit cigarettes by the Royal Malaysian Customs to enable the volume to rebound in due course.

RETURN STATS	
Price (26 June 2015)	RM60.50
Target Price	RM72.82
Expected Share Price Return	+20.4%
Expected Dividend Yield	+5.4%
Expected Total Return	+25.8%

STOCK INFO	
KLCI	1,710.47
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)	17,274.6
Price over NA	132.13x
52-wk price Range	RM58.86 – RM74.40
Beta (against KLCI)	0.75
3-mth Avg Daily Vol	0.20m
3-mth Avg Daily Value	RM13.21m
Major Shareholders (%)	
British American Tobacco Holdings	50.00
Aberdeen	8.57
EPF	8.19

Upgrade to BUY with TP of RM72.82. Due to the implementation of the GST, BAT has been absorbing the cost which might have impacted its earnings in 2QFY15. However, with the increase in price, we expect BAT to be able to obtain the lost profit as well as to eventually recover the expected loss in volume. Pursuant to the recent price weakness, we are upgrading our stance to BUY with a TP of RM72.82 per share. Our valuation is derived from dividend discount model with a cost of equity of 6.5%. 

INVESTMENT STATISTICS

FYE Dec (RMm)	FY12	FY13	FY14	FY15F	FY16F
Revenue	4364.8	4517.2	4796.0	4830.7	4987.5
PBT	4054.4	1105.4	1218.8	1302.6	1376.5
Net profit	797.7	823.4	902.0	970.4	1032.4
EPS (sen)	279.4	288.4	315.9	347.8	361.6
PER (x)	22	21	19	17	17
Net Dividend per share (sen)	272	282	309	317	325
Dividend yield (%)	4.5	4.7	5.1	5.2	5.4

Source: MIDFR

DAILY PRICE CHART



Source: MIDFR, Company

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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.