

26 July 2021

# British American Tobacco (M)

## Gaining Momentum

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BAT's 1HFY21 results are in line with our/consensus expectations. Good progress can be seen from measures introduced in Budget 2021 to control contrabands, with both its sales volume and brands enjoying improvements. We raised our TP to RM15.70 based on revised FY22E PER of 17x. Undervalued at this juncture with an attractive dividend yield (c.6%), we upgrade the stock to **OUTPERFORM**.

**In line.** 1HFY21 CNP of RM135m came in at 54%/49% of our/consensus estimates. The 24.0 DPS declared for the quarter is also in line, bringing DPS declared to date to 45.0 sen (vs. our full-year expectation of 86.0 sen).

**Improvement in all areas despite the FMCO.** YoY, top-line saw a +13% improvement with BAT's domestic volume seeing +14% growth coming from: (i) a low base due to the MCO last year, and (ii) progress in addressing the contraband tobacco market following measures introduced in Budget 2021. The Group's domestic volume has grown in line with industry recovery rate with its June 2021 volume growth trajectory outperforming the legal industry by 2ppt despite the disruption from the FMCO in June 21. Total market share inched up to 52.4%, (+1.5ppt from the same period last year). All segments saw growth - Dunhill (+2.7%) in the Premium segment, Peter Stuyvesant and Pall Mall (+1%) in the Aspirational Premium segment, and Rothmans and KYO (+4.4%) in the VFM (Value-For-Money) segment. EBIT margins saw a 160ppt improvement to 17% as opex fell 9% due to the absence of restructuring costs that were incurred in 1HFY20. With an unchanged ETR, CNP ended 28% higher to RM135m.

**QoQ,** top-line saw a rebound (as seasonally 1Q is a weak quarter) at +5% to RM596m. BAT's domestic volume saw a similar growth at +5% to 845mns (vs. the industry compression of 2%) against the backdrop of the FMCO in June as volume growth for the month fell 55% to 172m/362m for BAT/industry, respectively. Share of the market remained flat at 52% with both its Premium Brand and VFM recording a stable market share at 61% and 10% market share, respectively. EBIT saw a 23% growth as opex declined 24% with EBIT margin improving by 2.6ppt to 17.9%. Despite sharp rise in EBIT, CNP saw a slower pace in growth (+13%) as ETR saw a 6ppt uptick to 30%.

**Supply issues addressed.** Moving into the second half of the year, Budget 2021 looks like a positive one for BAT as industry volumes continue to gain traction on stringent measures imposed to curb rampant contraband cigarettes. Moving forward, we reiterate our view that growth will be sustainable ahead given its introduction of less risky products to consumers, products' household name and strengthening of its VFM products. Supply concerns are minimal given the Group holding five additional weeks of inventories (or +66% coming from its overseas stocks). However, on-going risks remains namely; (i) 58% of the tobacco market is dominated by criminal syndicates and have shifted their operations to coastal smuggling, (ii) over 1m domestic smokers continue to consume unregulated, untaxed nicotine vapour products, compounding further downside risks.

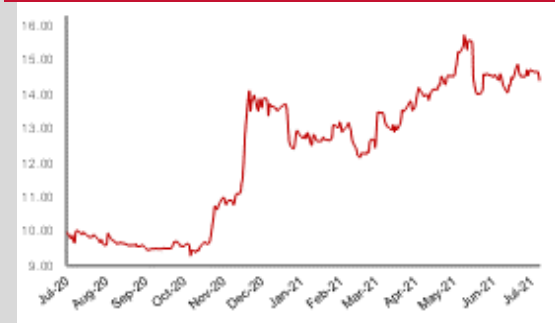
**Post results,** no change to our FY21E earnings as results are in line.

**OUTPERFORM.** We raised our TP to RM15.70 (RM14.80 previously) with a revised PER of 17.0x (from 16.0x) or -0.25SD over its 3-year mean) as we see momentum building up from Budget 2021's effective measures. Upgrade to **OUTPERFORM** given its undervalued proposition at this juncture plus an enticing dividend yield of c.6%.

**OUTPERFORM** ↑

Price: RM14.42  
Target Price: RM15.70 ↑

### Share Price Performance



KLCI	1,523.44
YTD KLCI chg	-6.4%
YTD stock price chg	2.4%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	ROTH MK Equity
Market Cap (RM m)	4,117.3
Shares Outstanding	285.5
52-week range (H)	16.20
52-week range (L)	9.80
3-mth avg daily vol	485,715
Free Float	46%
Beta	1.0

### Major Shareholders

BAT Holdings (Malaysia) B.V.	50.0%
Blackrock	2.3%
Oversea Chinese Bank	1.9%

### Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Turnover	2,315	2,131	2,081
EBIT	339	360	378
PBT	329	343	359
<b>Net Profit</b>	<b>242</b>	<b>252</b>	<b>264</b>
<b>Core Net Profit</b>	<b>261</b>	<b>252</b>	<b>264</b>
Consensus (NP)	-	<b>273</b>	<b>281</b>
Earnings Revision	-	-	-
Core EPS (sen)	91.3	88.1	92.5
Core EPS growth (%)	-27.8	-3.5	5.0
NDPS (sen)	83.0	86.0	90.0
BVPS (RM)	1.5	1.5	1.6
PER (x)	15.8	16.4	15.6
PBV (x)	9.5	9.3	9.2
Net Gearing (x)	0.6	0.6	0.6
Net Div. Yield (%)	5.8	6.0	6.2

26 July 2021

## Result Highlight

Y/E : Dec (RM m)	2Q21	1Q21	QoQ Chg	2Q20	YoY Chg	6M21	6M20	YoY Chg
<b>Turnover</b>	<b>595.8</b>	<b>566.6</b>	5.2%	<b>546.6</b>	9.0%	<b>1,162.4</b>	<b>1,027.7</b>	13.1%
<b>Gross Profit</b>	<b>149.8</b>	<b>142.5</b>	5.1%	<b>139.9</b>	7.0%	<b>292.3</b>	<b>263.0</b>	11.1%
Opex	(40.0)	(52.6)	-24.0%	(53.7)	-25.5%	(92.6)	(102.2)	-9.4%
<b>EBITDA</b>	<b>109.9</b>	<b>90.2</b>	<b>21.9%</b>	<b>86.5</b>	<b>27.0%</b>	<b>200.1</b>	<b>161.5</b>	<b>23.9%</b>
<b>EBIT</b>	<b>106.6</b>	<b>86.8</b>	<b>22.9%</b>	<b>83.0</b>	<b>28.5%</b>	<b>193.4</b>	<b>154.3</b>	<b>25.3%</b>
Interest Expense	(4.0)	(3.7)	7.4%	(4.9)	-18.3%	(7.7)	(9.3)	-17.3%
<b>PBT</b>	<b>102.6</b>	<b>83.1</b>	<b>23.6%</b>	<b>78.1</b>	<b>31.4%</b>	<b>185.7</b>	<b>145.0</b>	<b>28.0%</b>
Tax Expense	(31.0)	(19.9)	55.4%	(23.5)	32.0%	(51.0)	(39.7)	28.5%
<b>Core Net Profit</b>	<b>71.6</b>	<b>63.1</b>	13.5%	<b>54.6</b>	31.1%	<b>134.7</b>	<b>105.4</b>	27.9%
Core EPS (sen)	<b>0.3</b>	<b>0.2</b>	13.5%	0.2	31.1%	0.5	0.4	27.9%
DPS (sen)	<b>24.0</b>	<b>21.0</b>	14.3%	18.0	33.3%	45.0	35.0	28.6%
Gross Margin	25.1%	25.2%		25.6%		25.1%	25.6%	
Opex Margin	-6.7%	-9.3%		-9.8%		-8.0%	-9.9%	
EBITDA Margin	18.4%	15.9%		15.8%		17.2%	15.7%	
EBIT Margin	17.9%	15.3%		15.2%		16.6%	15.0%	
PBT Margin	17.2%	14.7%		14.3%		16.0%	14.1%	
Core Net Profit Margin	12.0%	11.1%		10.0%		11.6%	10.3%	
ETR	30.2%	24.0%		30.1%		27.4%	27.3%	

Source: Company, Kenanga Research

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26 July 2021

## Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net DivYld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
<b>F&amp;B AND RETAIL</b>																	
7-ELEVEN MALAYSIA HOLDINGS BHD	1.49	1,678.2	N	12/2021	4.4%	30.5%	-19.8%	29.8%	24.7	30.8	23.7	10.6	13.5	38.6%	3.4%	1.50	MP
AEON CO. (M) BHD	1.33	1,867.3	Y	12/2021	2.8%	6.2%	81.4%	22.4%	45.1	24.9	20.3	1.1	1.1	4.4%	1.1%	1.20	MP
AMWAY (MALAYSIA) HOLDINGS BHD	5.53	909.1	Y	12/2021	11.7%	3.7%	33.3%	-13.9%	19.4	14.5	16.9	4.1	4.0	27.6%	6.3%	5.90	OP
DUTCH LADY MILK INDUSTRIES BHD	33.52	2,145.3	Y	12/2021	5.0%	1.0%	9.0%	0.5%	29.2	26.8	26.7	12.9	10.3	42.7%	1.8%	35.65	MP
FRASER & NEAVE HOLDINGS BHD	26.18	9,602.3	Y	09/2021	5.0%	2.1%	3.9%	1.5%	23.8	22.9	22.5	3.6	3.3	15.0%	2.3%	33.15	OP
MR D.I.Y.	3.49	21,905.3	Y	12/2021	27.4%	37.6%	33.9%	56.6%	65.0	48.6	31.1	25.0	18.8	44.2%	0.8%	4.10	OP
MYNEWS HOLDINGS BHD	0.860	586.7	N	10/2021	-12.2%	52.8%	-82.6%	1000%	N.A.	366.7	33.3	2.0	2.0	0.5%	0.0%	0.950	MP
NESTLE (MALAYSIA) BHD	133.30	31,258.9	Y	12/2021	1.1%	2.2%	14.4%	2.4%	56.6	49.4	48.3	56.1	55.0	112.4%	2.0%	142.90	MP
PADINI HOLDINGS BHD	2.86	1,881.6	Y	06/2021	-21.4%	32.4%	-22.6%	102.4%	25.0	32.3	16.0	2.5	2.4	7.6%	2.6%	3.60	OP
POWER ROOT BHD	1.35	575.7	Y	03/2022	10.0%	15.2%	17.6%	41.3%	20.3	17.3	12.2	2.1	2.0	11.9%	5.6%	1.45	MP
QL RESOURCES BHD	5.63	13,701.5	Y	03/2022	14.0%	18.3%	-0.5%	12.9%	44.0	44.2	39.1	5.4	5.1	12.3%	0.6%	6.90	OP
<b>Simple Average</b>					<b>4.3%</b>	<b>18.4%</b>	<b>6.2%</b>	<b>114.2%</b>	<b>35.3</b>	<b>61.7</b>	<b>26.4</b>	<b>11.4</b>	<b>10.7</b>	<b>28.8%</b>	<b>2.4%</b>		
<b>SIN</b>																	
BRITISH AMERICAN TOBACCO (M) BHD	14.42	4,117.3	N	12/2021	-8.0%	-2.4%	-3.5%	4.9%	15.8	16.4	15.6	9.5	9.3	57.4%	6.0%	14.80	MP
CARLSBERG BREWERY MALAYSIA BHD	22.00	6,726.5	N	12/2021	19.9%	5.3%	52.8%	9.1%	38.3	25.1	23.0	34.5	25.3	120.1%	3.0%	24.10	OP
HEINEKEN MALAYSIA BHD	22.38	6,761.0	N	12/2021	16.1%	6.1%	54.1%	14.0%	38.5	25.0	21.9	17.2	17.2	68.7%	4.0%	25.15	MP
<b>Simple Average</b>					<b>9.4%</b>	<b>3.0%</b>	<b>34.5%</b>	<b>9.3%</b>	<b>30.9</b>	<b>22.1</b>	<b>20.2</b>	<b>20.4</b>	<b>17.3</b>	<b>82.1%</b>	<b>4.3%</b>		

Source: Bloomberg, Kenanga Research

26 July 2021

**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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