

British American Tobacco (ROTH MK)

Recovery in motion

Maintain BUY with unchanged DCF-TP of MYR15.20

4QFY21 results met both our/consensus expectations. As Malaysia gradually emerges from the pandemic, we believe sales volume should see a similar recovery in FY22. However, new regulations would pose a fresh risk to BAT's earnings momentum in the longer-term if added restrictions are imposed on smokers below a certain age. No change to our earnings estimates. Maintain BUY with an attractive dividend yield of >7%. Our DCF-TP of MYR15.20 is unchanged (WACC: 9.5%, LT growth rate: 2.5%).

Within expectations

BAT's 4Q21 core net profit of MYR79m (+1% YoY, -3% QoQ) brought FY21 core net profit to MYR294m (+13% YoY), reflecting 95%/104% of our/consensus full year earnings estimates. A fourth interim DPS of 27sen was also declared which brought FY21 DPS to 98sen (FY21 DPR: 98%).

Sales volume growth is recovering nicely...

FY21 revenue grew 14% YoY on the back of (i) lower illicit share by 6.1ppts YoY (4Q20: c.63%), leading to (ii) volume growth in all its core cigarette segments (Premium: +1.9ppts YoY, Aspirational: +0.7ppts YoY, VFM: +1.5ppts YoY). BAT's market share also grew marginally to 52.4% (+0.8ppts YoY). On a QoQ basis, 4Q21 revenue increased 41% QoQ in tandem with higher sales volume as movement restrictions eased. Pre-tax profit however grew by a narrower 1% QoQ given various significant strategic investments relating to its vape product (*Vuse*), we suspect.

... but potential new industry regulations are a risk

Into FY22, we expect earnings recovery to continue on an upward trajectory in the absence of operational disruption caused by pandemic-led lockdowns. That said, the Health Ministry has publicly shared its intention to table a new Tobacco and Smoking Control Act in the upcoming Parliamentary meeting which will not only regulate e-cigarettes and vaping products, but will also seek to ban smoking for people born after 2005. If this is successfully tabled, this poses a long-term threat to BAT's earnings and may also lead to higher illicit share if enforcement is insufficient.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	2,315	2,637	2,565	2,680	2,757
EBITDA	360	424	439	452	461
Core net profit	261	295	280	308	315
Core EPS (sen)	91.3	103.2	98.1	107.8	110.4
Core EPS growth (%)	(27.8)	13.1	(5.0)	9.9	2.4
Net DPS (sen)	83.0	98.0	96.4	105.9	108.5
Core P/E (x)	15.4	13.5	12.6	11.5	11.2
P/BV (x)	10.8	10.4	9.1	9.0	8.9
Net dividend yield (%)	5.9	7.0	7.8	8.5	8.7
ROAE (%)	63.5	75.6	72.7	78.9	79.7
ROAA (%)	24.0	23.2	20.1	22.1	22.4
EV/EBITDA (x)	12.5	11.2	9.7	9.5	9.3
Net gearing (%) (incl perps)	129.1	196.9	186.4	189.0	189.3
Consensus net profit	-	-	284	304	na
MKE vs. Consensus (%)	-	-	(1.4)	1.1	na

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BUY

Share Price	MYR 12.40
12m Price Target	MYR 15.20 (+30%)
Previous Price Target	MYR 15.20

Company Description

BAT Malaysia distributes and markets tobacco products. The company's product portfolio includes Dunhill, Kent and Pall Mall.

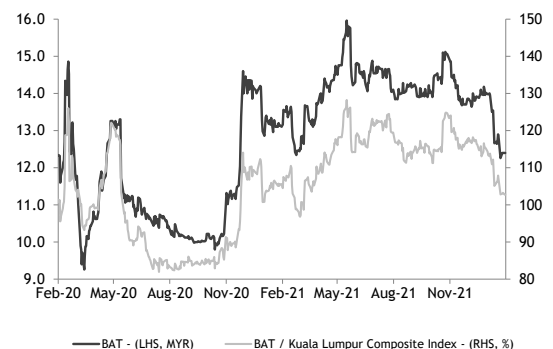
Statistics

52w high/low (MYR)	15.96/12.26
3m avg turnover (USDm)	0.7
Free float (%)	43.3
Issued shares (m)	286
Market capitalisation	MYR3.5B USD846M

Major shareholders:

British American Tobacco plc	50.0%
Eastspring Investments (Singapore) Ltd.	1.7%
The Vanguard Group, Inc.	1.7%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(12)	(17)	(5)
Relative to index (%)	(11)	(17)	(3)

Source: FactSet

Fig 1: BAT(M): Results Summary

FY 31 Dec (MYR m)	Quarterly					Cumulative		
	4Q21	4Q20	% YoY	3Q21	% QoQ	12M21	12M20	% YoY
Turnover	861.9	660.2	30.5	613.0	40.6	2,637.3	2,315.5	13.9
EBITDA	112.9	107.5	5.0	111.2	1.6	424.1	360.2	17.7
Dep & Amortisation	(3.1)	(3.1)	(1.9)	(3.2)	(2.6)	(12.9)	(13.8)	(6.1)
EBIT	109.8	104.4	5.2	108.0	1.7	411.2	346.5	18.7
Interest expense	(4.9)	(3.9)	25.0	(4.5)	10.3	(17.1)	(17.2)	(0.5)
Pre-tax profit	104.9	100.4	4.5	103.5	1.3	394.1	329.3	19.7
Tax	(33.4)	(27.7)	20.8	(24.9)	34.6	(109.3)	(87.4)	24.9
Net profit	71.5	72.7	(1.7)	78.7	(9.2)	284.9	241.8	17.8
E.I.*	7.2	4.9	(34.4)	2.1	n.m.	9.3	18.8	(85.0)
Core net profit	78.6	77.6	1.3	80.8	(2.7)	294.1	260.7	12.8
			+/- p.pts YoY		+/- p.ptsQoQ			+/- p.pts YoY
GP margin (%)	25.6	26.5	(0.8)	26.4	(0.7)	25.6	25.8	(0.2)
EBITDA* margin (%)	13.1	16.3	(3.2)	18.1	(5.0)	16.1	15.6	0.5
EBIT margin (%)	12.7	15.8	(3.1)	17.6	(4.9)	15.6	15.0	0.6
Tax rate (%)	31.9	27.6	4.3	24.0	7.9	27.7	26.6	1.2

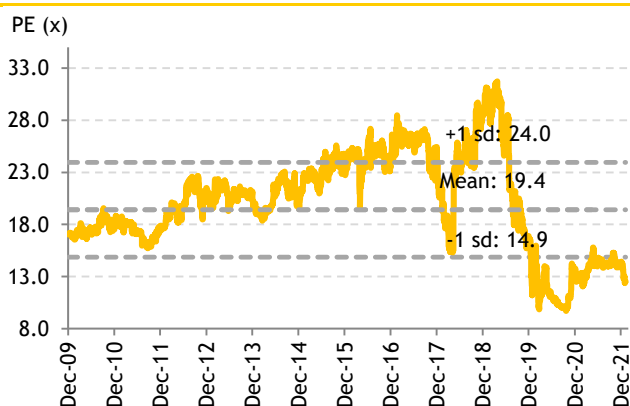
Source: Company, Maybank IBG research

*4Q21: MYR7.2m restructuring expenses; 3Q21: MYR2.1m restructuring expenses; 4Q20: MYR4.9m restructuring expenses; 12M21: MYR9.3m restructuring expenses; 12M20: MYR18.8m restructuring expenses

Potential new tobacco regulations for consumers

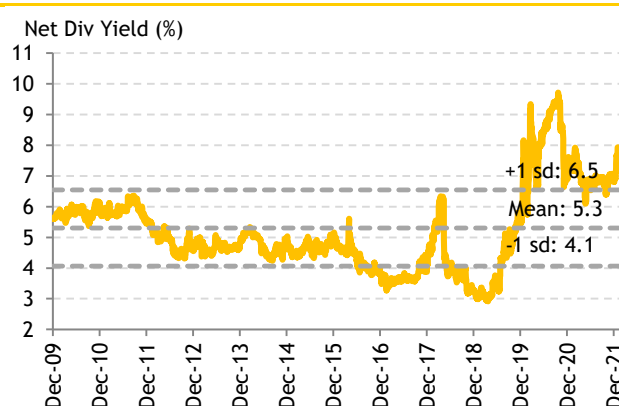
Based on recent news reports, the Health Ministry has publicly shared its intention to table a new Tobacco and Smoking Control Act in the upcoming Parliamentary meeting which will not only regulate e-cigarettes and vaping products, but will also seek to ban smoking for people born after 2005. If this is successfully tabled, this poses a long-term threat to BAT's earnings and may also lead to higher illicit share if enforcement is insufficient. Note that New Zealand has also proposed a similar ban on smoking which would see a raise in minimum age to buy cigarettes every year from 2027 onwards, effectively making cigarettes off-limits for anyone born after 2008.

Fig 2: One-year forward PER



Source: Bloomberg, Maybank IBG Research

Fig 3: One-year forward dividend yield



Source: Bloomberg, Maybank IBG Research

Risk statement

There are several risk factors for our earnings estimates, price target and rating for BAT. Regulatory risk (eg. introduction of plain packaging and display bans at point of sale) could dampen sales volume. Any excise tax shocks will also adversely impact our earnings estimates. Additionally, consistently high illicit incidence will be a barrier to future volume driven earnings recovery.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	13.5	14.0	12.6	11.5	11.2
Core P/E (x)	15.4	13.5	12.6	11.5	11.2
P/BV (x)	10.8	10.4	9.1	9.0	8.9
P/NTA (x)	(103.1)	(137.2)	nm	nm	nm
Net dividend yield (%)	5.9	7.0	7.8	8.5	8.7
FCF yield (%)	4.8	0.7	9.3	8.6	9.1
EV/EBITDA (x)	12.5	11.2	9.7	9.5	9.3
EV/EBIT (x)	13.0	11.5	9.9	9.7	9.5

INCOME STATEMENT (MYR m)

Revenue	2,315.5	2,637.3	2,564.8	2,679.5	2,756.7
EBITDA	360.2	424.1	439.1	452.0	461.4
Depreciation	(13.8)	(12.9)	(10.5)	(9.0)	(7.9)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	346.5	411.2	428.6	443.1	453.5
Net interest income / (exp)	(17.2)	(16.5)	(24.5)	(23.8)	(24.3)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	(9.3)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	329.3	394.7	404.2	419.2	429.3
Income tax	(87.4)	(109.3)	(124.1)	(111.3)	(114.0)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	241.8	285.5	280.1	307.9	315.3
Core net profit	260.7	294.7	280.1	307.9	315.3

BALANCE SHEET (MYR m)

Cash & Short Term Investments	29.0	21.8	52.7	32.2	20.8
Accounts receivable	396.5	723.0	703.2	734.6	755.8
Inventory	229.9	177.6	170.2	178.1	183.5
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	57.5	46.4	39.8	34.9	31.2
Intangible assets	411.6	411.6	411.6	411.6	411.6
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	19.4	11.5	11.5	11.5	11.5
Total assets	1,144.0	1,392.0	1,389.0	1,403.0	1,414.3
ST interest bearing debt	510.0	775.0	775.0	775.0	775.0
Accounts payable	205.8	191.8	183.8	192.3	198.1
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	55.0	43.0	43.0	43.0	43.0
Total Liabilities	771.3	1,009.5	1,001.5	1,010.1	1,015.8
Shareholders Equity	372.6	382.5	387.5	392.9	398.5
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	372.6	382.5	387.5	392.9	398.5
Total liabilities and equity	1,144.0	1,392.0	1,389.0	1,403.0	1,414.3

CASH FLOW (MYR m)

Pretax profit	329.3	394.7	404.2	419.2	429.3
Depreciation & amortisation	13.8	12.9	10.5	9.0	7.9
Adj net interest (income)/exp	17.2	16.5	24.5	23.8	24.3
Change in working capital	(109.3)	(288.3)	19.3	(30.8)	(20.7)
Cash taxes paid	(67.6)	(106.4)	(124.1)	(111.3)	(114.0)
Other operating cash flow	12.7	0.0	0.0	0.0	0.0
Cash flow from operations	196.1	29.5	334.3	309.9	326.6
Capex	(1.8)	(1.5)	(3.8)	(4.0)	(4.1)
Free cash flow	194.3	28.0	330.4	305.9	322.5
Dividends paid	(254.1)	(279.8)	(275.1)	(302.4)	(309.7)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	89.0	265.0	0.0	0.0	0.0
Other invest/financing cash flow	(20.5)	(25.7)	(24.5)	(23.8)	(24.3)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	8.6	(12.5)	30.8	(20.4)	(11.4)

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(7.7)	13.9	(2.7)	4.5	2.9
EBITDA growth	(26.8)	17.7	3.5	2.9	2.1
EBIT growth	(27.6)	18.7	4.2	3.4	2.4
Pretax growth	(28.8)	19.9	2.4	3.7	2.4
Reported net profit growth	(30.0)	18.0	(1.9)	9.9	2.4
Core net profit growth	(27.8)	13.1	(5.0)	9.9	2.4
Profitability ratios (%)					
EBITDA margin	15.6	16.1	17.1	16.9	16.7
EBIT margin	15.0	15.6	16.7	16.5	16.5
Pretax profit margin	14.2	15.0	15.8	15.6	15.6
Payout ratio	98.0	98.0	98.2	98.2	98.2
DuPont analysis					
Net profit margin (%)	10.4	10.8	10.9	11.5	11.4
Revenue/Assets (x)	2.0	1.9	1.8	1.9	1.9
Assets/Equity (x)	3.1	3.6	3.6	3.6	3.5
ROAE (%)	63.5	75.6	72.7	78.9	79.7
ROAA (%)	24.0	23.2	20.1	22.1	22.4
Liquidity & Efficiency					
Cash conversion cycle	56.9	77.3	97.4	94.0	94.8
Days receivable outstanding	62.1	76.4	100.1	96.6	97.3
Days inventory outstanding	34.4	37.4	33.3	31.9	32.1
Days payables outstanding	39.7	36.5	36.0	34.4	34.7
Dividend cover (x)	1.0	1.0	1.0	1.0	1.0
Current ratio (x)	0.9	0.9	0.9	1.0	1.0
Leverage & Expense Analysis					
Asset/Liability (x)	1.5	1.4	1.4	1.4	1.4
Net gearing (%) (incl perps)	129.1	196.9	186.4	189.0	189.3
Net gearing (%) (excl. perps)	129.1	196.9	186.4	189.0	189.3
Net interest cover (x)	20.2	25.0	17.5	18.6	18.7
Debt/EBITDA (x)	1.4	1.8	1.8	1.7	1.7
Capex/revenue (%)	0.1	0.1	0.2	0.2	0.2
Net debt/ (net cash)	481.0	753.2	722.3	742.8	754.2

Source: Company; Maybank

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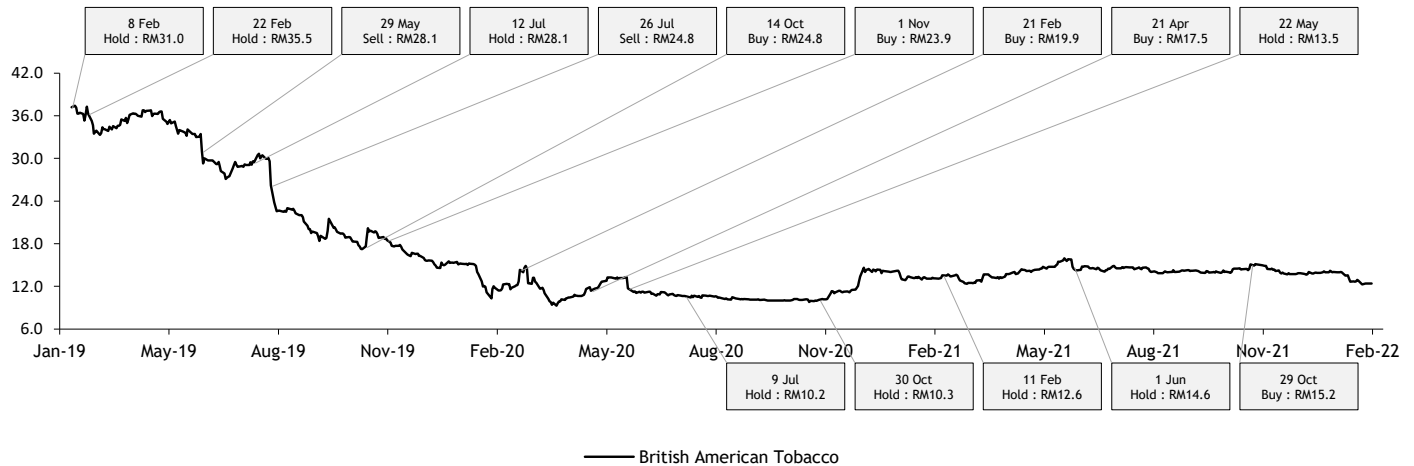
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