



## BAT sees stable revenue this year

### BAT hopes to maintain RM4b revenue

*The country's largest cigarette maker has had to contend with illicit*

# BAT maintains dividend payout despite higher taxes

*The company says the trade of illicit cigarettes could affect the performance of its brands*

BRITISH American Tobacco (Malaysia) Bhd, the nation's biggest cigarette maker, said it's losing the fight against the illegal tobacco trade after government tax increases drove a record number of smokers to contraband products.

"If there continues to be an increase in tax to the level that we have seen in the last two years, that is kind of a self-fulfilling prophecy," managing director Jack Bowles said yesterday after the company's annual meeting in Petaling Jaya.

Illicit tobacco "is a major concern," he said.

Consumption of contra-



**'If there continues to be an increase in tax to the level that we have seen in the last two years, that is kind of a self-fulfilling prophecy,' Bowles said**

band cigarettes grew to 27.5% of all sticks sold in Malaysia in the final quarter of 2008 from about 25% in the previous three months, British America said. The govern-

ment in August increased taxes on cigarettes by 20% to help counter a widening budget deficit and is facing the weakest economy since the Asian financial crisis more than a decade ago.

In Singapore, the sale of illicit cigarettes stabilised at 18% of total sales after the government froze taxes, according to British American.

The company, which sells the Dunhill and Pall Mall brands, will at least maintain last year's sales and profit, though further tax increases and growth in illegal tobacco sales may derail the estimate, finance director Steve Rush said.

In 2008, sales rose 7.9% to RM4.14 billion (US\$1.1 billion) and net income grew 11% to RM811.7 million. Annual profit has grown three straight years.

The government last month forecast economic growth

could rise by 1% at most or shrink by as much as 1% this year. The slowdown could lead to a drop of more than 2% in cigarette sales, Rush said.

British American lost 1.1% to RM45.5 yesterday. The stock has gained 2.3% this year, trailing the 10% advance on the benchmark Kuala Lumpur Composite Index.

"There's no quick fix" to the trade in illegal cigarettes, Rush said. The illicit trade in Malaysia is "higher than most other countries and therefore we have to start doing things a little differently," he said, without elaborating.

Malaysian Marine police arrested eight suspected smugglers and confiscated 23,300 packets of cigarettes over the weekend after seizing a boat off the coast of the southern state of Johor, a local newspaper reported yesterday. — Bloomberg

PETALING JAYA: British American Tobacco (M) Bhd (BAT) sees its revenue remaining stable this year despite an expected decline in sales volume caused by high levels of illicit tobacco trade, tighter tobacco regulations and greater "price sensitivity" among consumers, said man-

aging director Jack Bowles. BAT also expects the volume to decrease by 1% and the annual rate of economic slow-

down. "There are a lot of things we need to anticipate that. We need to see as I think it will be the full impact of the slowdown yet," he said at the company's AGM yes-

terday. "The company's revenue is basically stable. We have the strongest price points to cushion the value of our shares to cushion the

slowing down of the market when it happens."

When asked if the company would introduce new products, he said: "We believe that innovation is important to consumers and we will continue to sell to consumers as best as (we) could."

On plans to increase its cigarette prices, BAT finance director Steve Rush said: "We do not anticipate any increase for other brands besides the 14-stick premium packs, which was increased this month."

Bowles said the 20% increase in cigarette excise duty last year had led to a large tax-led price increase in cigarettes that further fuelled the growth of illicit trade.

Based on the latest study that reflects the illicit trade level for the period of September to December last year, illicit trade had reached 27.5%, against an average of 25.6% for the whole of 2008.

"We are losing the battle and it

has a big impact on the company. However, there is no quick fix to it because this is not something we can control," said Bowles. "We hope the Government would increase the excise duty on cigarettes in a gradual manner as steep increases would spur the lucrative illicit trade."

According to Bowles, Malaysia has a higher illicit trade compared with other countries and the Government was estimated to have lost over RM1.2bil in tobacco taxes yearly.

Meanwhile, shareholders agreed yesterday to the recommended final dividend of 76 sen net per share for the financial year ended Dec 31, 2008, which brought total dividend payout for the financial year to RM2.65.

Bowles said the group would continue to maintain its 90% dividend payout policy amid the challenging business environment.

BAT is expected to release its first quarter results this Thursday.



**Jack Bowles ... We do not anticipate any price increase**



**Bowles says tobacco volumes in the lawful trade are falling**

