

ANALYST BRIEFING QUARTER 4, 2016

16th February 2017

AGENDA

- **Industry Review**
- **Company Review**
- **Q4 2016 Results: Financial Highlights**


Industry Review




2016 macro environment was challenging



Increase in consumer expenditure



Removal of subsidies & increase in fuel prices



Toll rates hikes in 4 major highways

Low consumer confidence

CCI Q3'16

89 vs ASPAC 109

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





77% consumers believe the nation is in recession



Ringgit depreciation

Lowest against USD since Sep'15

Pressure on disposable income drives illicit

Average consumer daily expenditure (National) RM 35			Average consumer daily expenditure (Low Income) RM 16		
 64% 2x Meals	 22% Transportation	 14% Communication	 78% 2x Meals	 11% Transportation	 11% Communication
 49%	 44%	 13%	 106%	 97%	 28%

Illicit Volume Share

2015 36.9% ➔ Jun'16 51.2%

Pressure on disposable income drives illicit

Legal brands going beyond the reach of lower end consumers

No significant improvement on economy

	Q4'16 (F)	Q1'17 (F)	Annual Avg
GDP	4.1%	4.0%	4.3%
Food Inflation	4.1%	4.5%	2.5%
Unemployment	3.7%	3.8%	3.5%

Challenging indicators likely to persist in Q1 2017 with a gradual expected economic recovery in 2H onwards



Illicit trending in the same direction



There are 3 different methodologies but which clearly indicate illicit trending more than 50% - between 51% to 54% (~10.5 billion sticks)

ICS (RMC methodology)

Litter collection

3x a year

Volume share:
51.2%

TRACK

Consumer survey

Monthly

Volume incidence:
52.5%

Pack Swap

Pack swap

Once off

Volume incidence:
53.6%



Encouraging signs of actions by Government



RMC developed new strategies in 2017

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Monday, 19 December 2016 | MYT 11:23 PM

Customs Dept has new strategies to curb illegal ciggies next year



BUKIT MERTAJAM: In its efforts to smoke out rampant smuggling of contraband cigarettes, the Customs Department has developed several new strategies for implementation next year.

Deputy director-general (enforcement and compliance) Datuk T. Subromaniam believes the implementation of the new strategies would reduce smuggling cases by up to 50 per cent.

RMC COBRA team formed to conduct high profile & dangerous operations

Customs Department Forms Cobra Team To Overcome Threats, Intimidation During Operations

SETIU, Nov 28 (Bernama) -- The Royal Malaysian Customs Department has set up an armed tactical team known as the Customs Operational Battle Force Response Assault (Cobra) to aid its enforcement operations which are often exposed to threats and intimidation.

Its director-general Datuk Seri Khazali Ahmad said currently, a total of 23 officers nationwide had joined the team which also known as field operation combat.

"This team serves as a strike and support team, particularly for the operations by the Enforcement Division to help its officers in dealing with high-profile and high-risk cases.....



MOF & RMC tightened controls at Duty Free Islands

RM5bil tax leakage

Smuggling from duty-free islands of Labuan, Langkawi and Tioman in 2015 has led to:

- loss of RM1.9bil in duties from 22.2million litres of 'missing' alcohol
- loss of RM1.2bil from 3.3bl missing cigarettes
- buyers now required to place deposits for duty-free vehicles below 2,500cc to ensure they are returned to duty-free islands within 90 days
- buyers now required to provide bank guarantees for 50% of the cost, insurance and freight value of duty-free vehicles above 2,500cc

Speaking at the Dewan Negara yesterday, Second Finance Minister Datuk Johari Abdul Ghani said the government lost about RM5 billion in duties from the sale of tax-free cigarettes and alcohol which were not recorded. Transactions of a whopping 3.3billion cigarette sticks and 22.2 million litres of alcohol have gone unrecorded at tax-free islands Labuan, Langkawi and Tioman in 2015.



Encouraging signs of actions by Government



RMC enhanced enforcement at Point of Entries - Ports & Jetties

37 containers of cigarettes, liquor worth RM10.5 mln seized



INILAH kapal dan 37 kontena yang dirampas Kastam kerana digunakan untuk menyembunyikan rokok serta minuman keras di Jeti Bukit Gombak, Pulau Carey



T. SUBROHMAN (tengah) bersama pegawai-pegawainya memaparkan rokok dan minuman keras yang dirampas dalam sidang akhbar di Wharff Maritim Selangor, Pekan Inai, Klang, Selangor, semalam. - UTUSAN KHAZIPUTRIH ABUJALIL

RMC going after Warehouse Owner & Forwarding Agent



Warehouse owner, company director charged with customs duties evasion

KLANG: A warehouse owner and a forwarding company director were yesterday charged with evasion of customs duties totaling RM2.07 million involving more than 10 million sticks of cigarettes. Lui Poh Hong, 35, and Tan Siew Ping, 33, pleaded not guilty to committing the offence at Gudang CFS2, West Port, Port Klang here, around 11.30am on 13 July. Magistrate Mariam Maran Abdullah set RM10,000 as bail with one surety each, and 23 February for re-mention. Prosecuting officer Abdul Rasyiddi Ab Drahman appeared for the Selangor Royal Customs Department while counsel Datuk Ismail Badiuzzaman represented the two accused. - Bernama

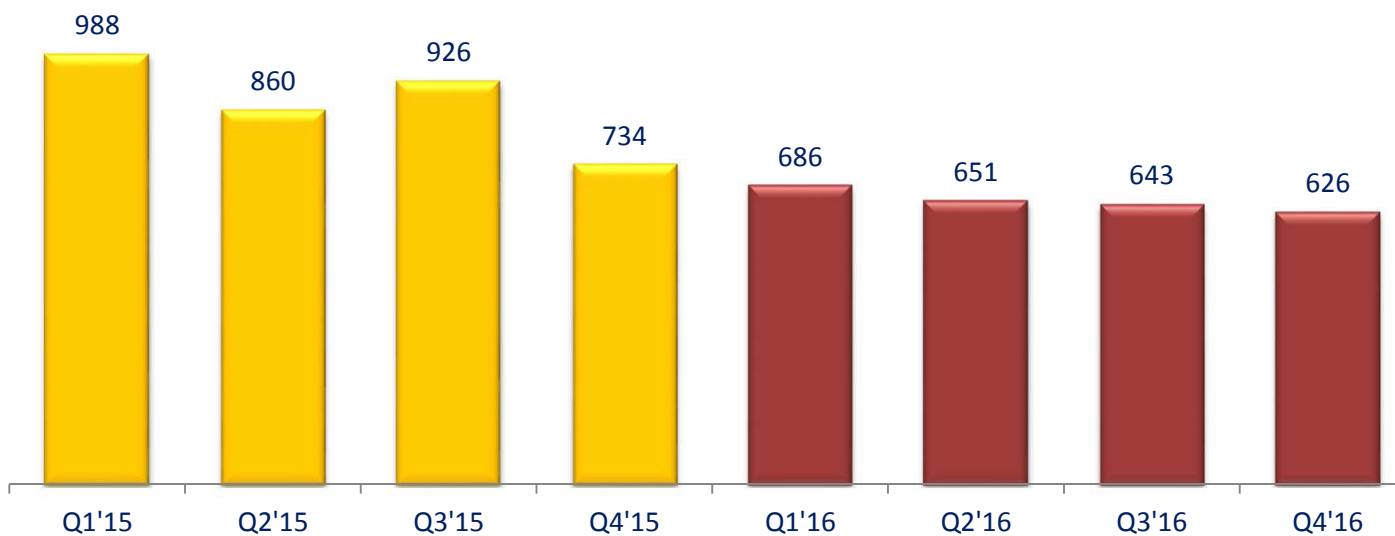


Market update

Legal market declined **-25.7%** vs SPLY



Big-3 IMS (mns)



2016 vs. 2015:

Monthly Avg.	2015	2016	Change
Industry	925	651	-25.7%
BAT	584	389	-29.7%

Source : In-Market Sales (Sales to retail outlets) & not Excise/Invoice Data

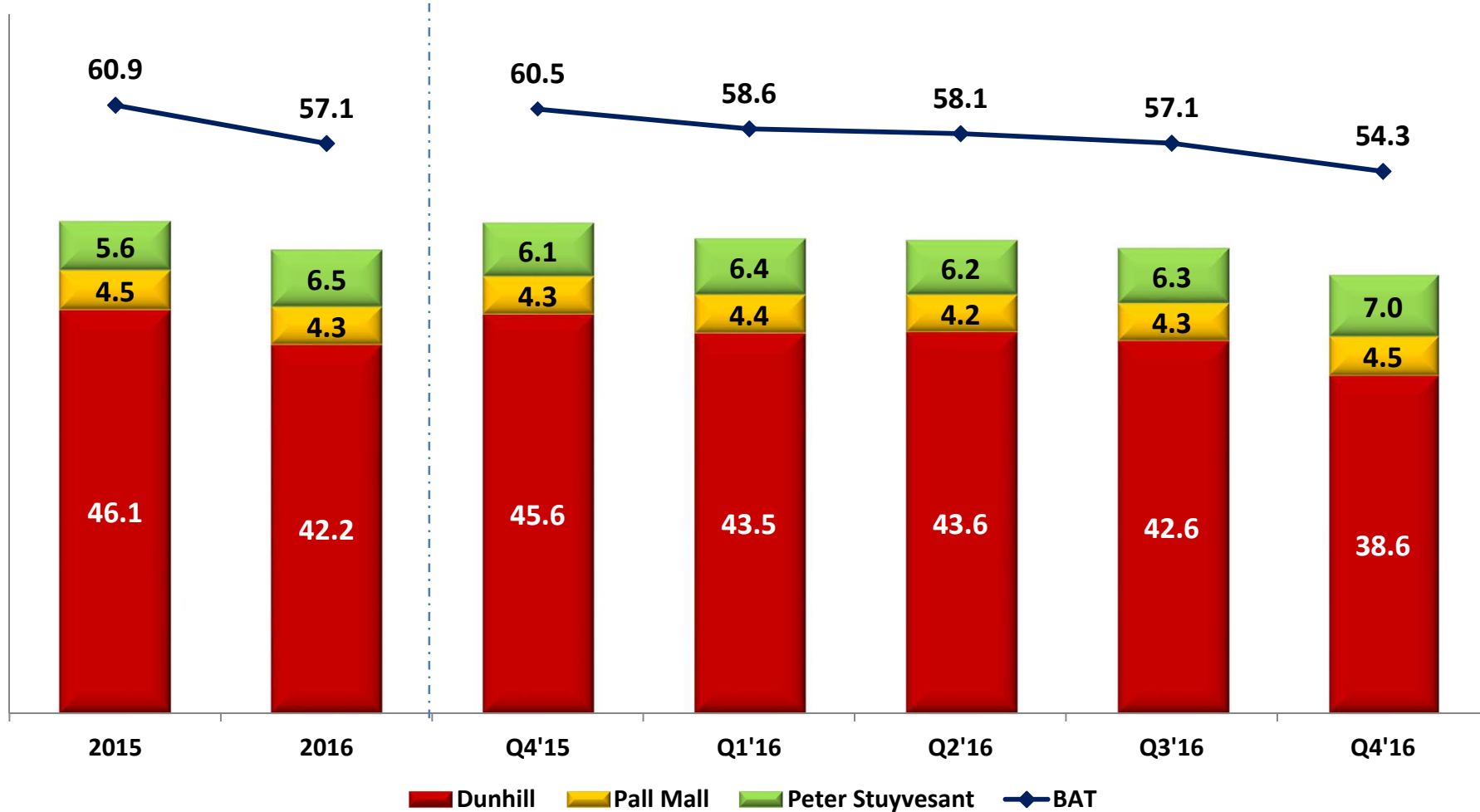
Company Review



Dunhill decline as a result of illicit, however good performance in Peter Stuyvesant



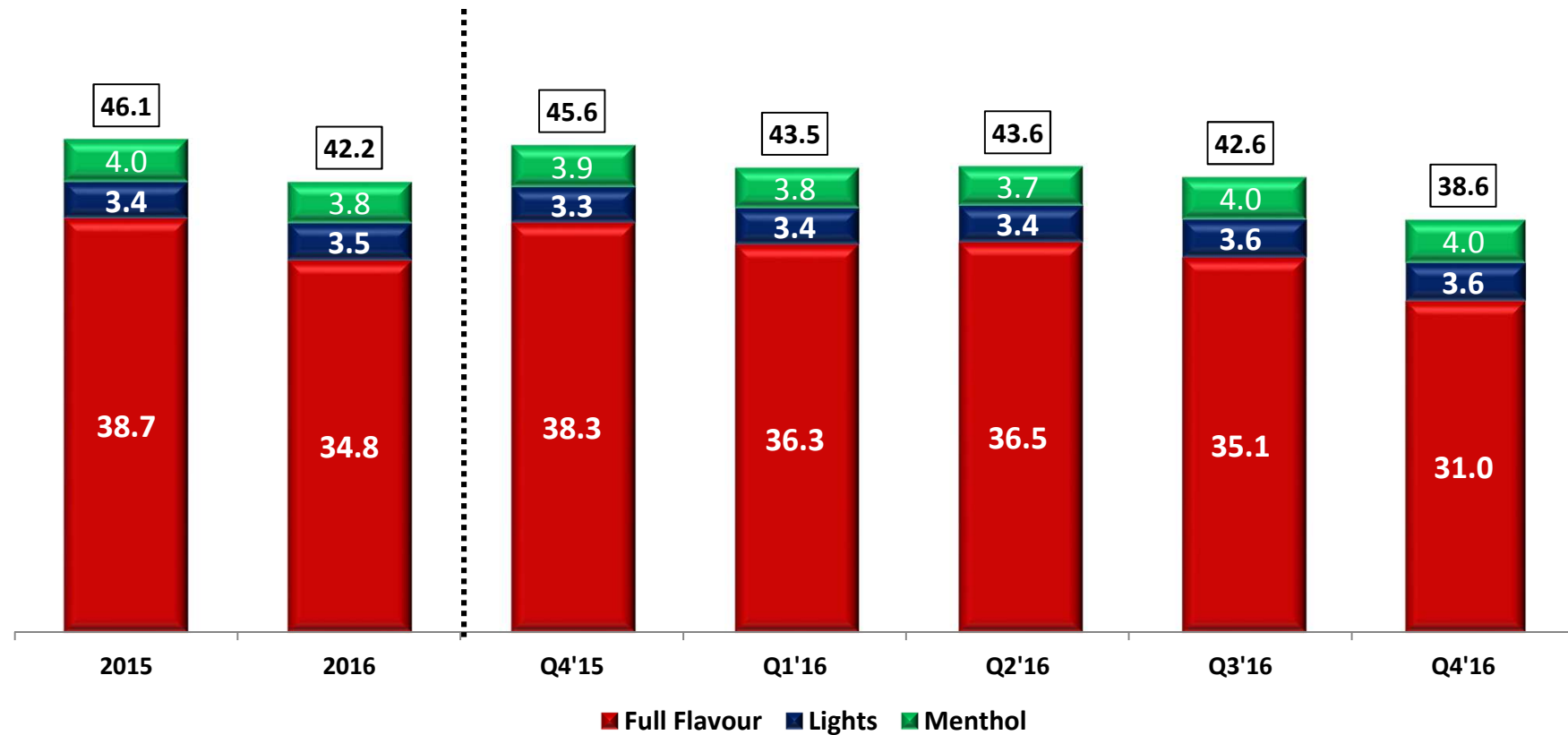
Share of Market – Malaysia (%)



Source: FY 2016 Malaysia Retail Audit (Base: Total Legal Market – White + Kretek)



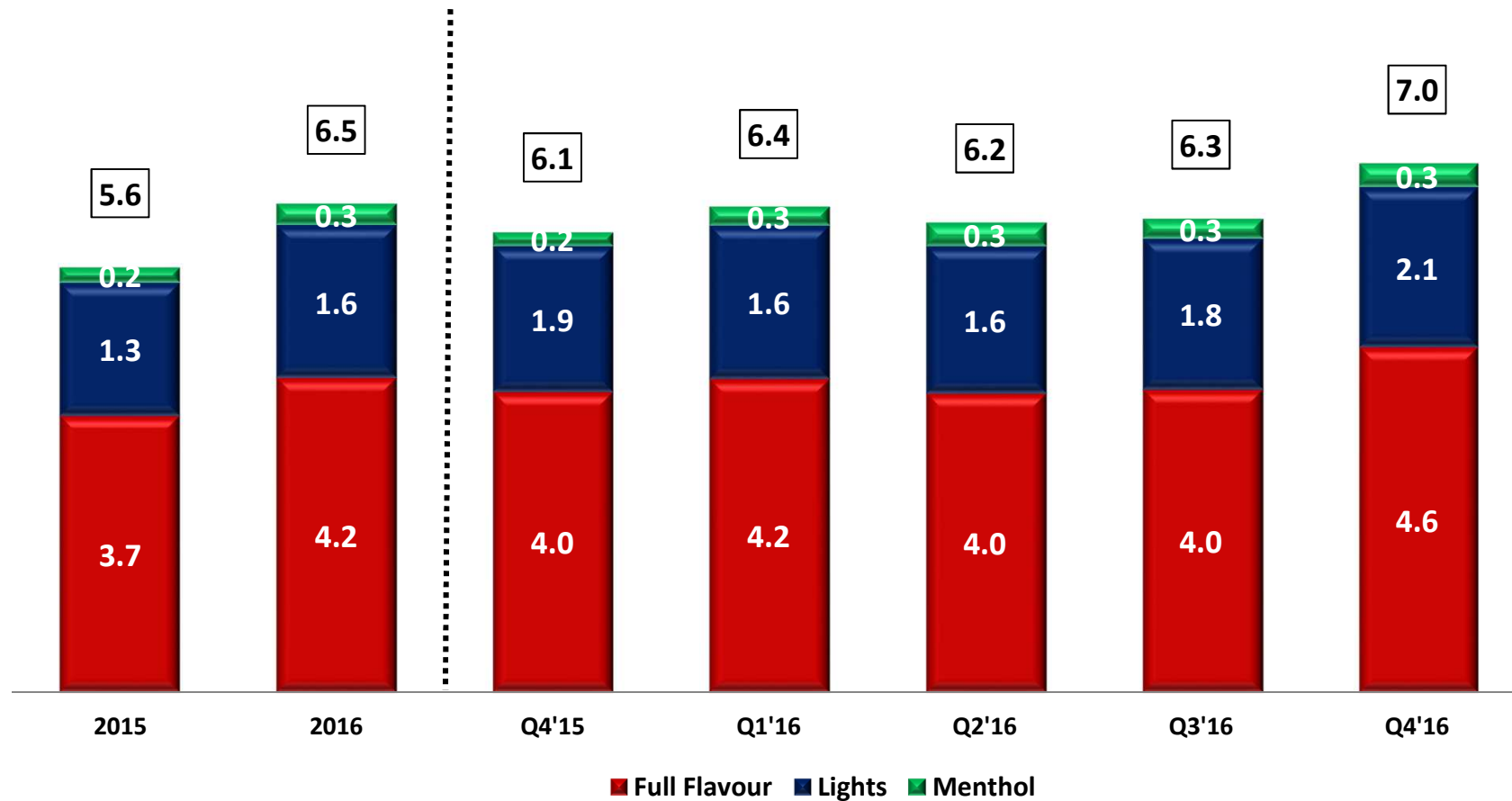
Dunhill: Menthol and lights showed resilience and growth when compared to full flavour



Source: FY 2016 Malaysia Retail Audit (Base: Total Legal Market – White + Kretek)



Peter Stuyvesant: Solid growth trajectory across the range



Source: FY 2016 Malaysia Retail Audit (Base: Total Legal Market – White + Kretek)



Business transformation updates



Factory closure

- Land sale completed with sale proceeds received in Nov 2016.
- Export business ceased in Dec 2016
- Released 70 people in factory in 2016

New Office

- Relocate by Aug 2017

New Business Operating Model

- New business transformation progress well and on track to be completed by 2H 2017



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Q4 2016 Results Financial Highlights



2016 Full Year Performance - Headlines



Business Performance (full year 2016 vs. SPLY):

- Volume: Legal market declined by -25.7% vs. SPLY. (BAT volume declined -29.7% vs SPLY)
- Revenue: -18.0%
- Profit from Operations: -25.9% (excl. one-off restructuring income: -29.5%)

Illegal cigarettes: continue to grow, impacting legal demand

- Latest reading for 2016 FY : 51.2% of total market (2015 FY: 36.9%)

Market Share: BAT registered a decline of 3.8ppt FY 2016 vs. FY 2015

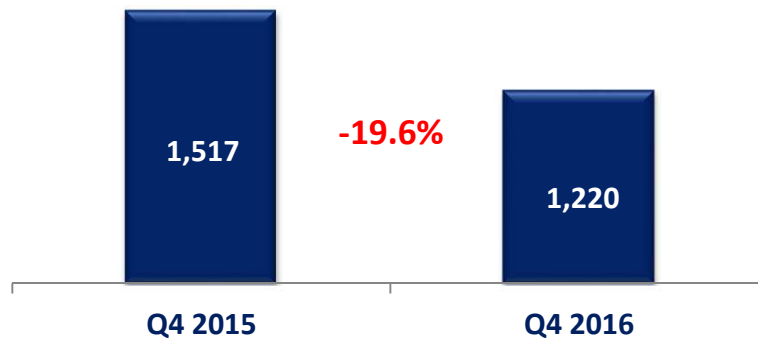
- Dunhill is exposed to growing illicit cigarettes
- Industry shrinkage disproportionately impacting BAT



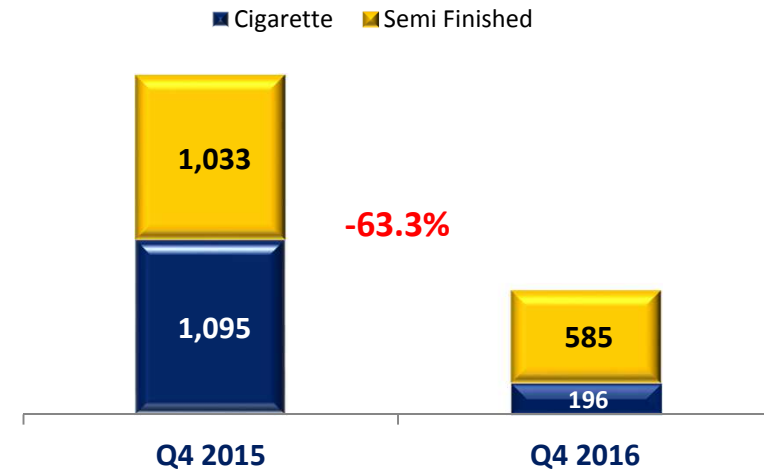
Q4 2016 continue to be impacted by illicit trade growth. Restructuring Income offsetting revenue decline



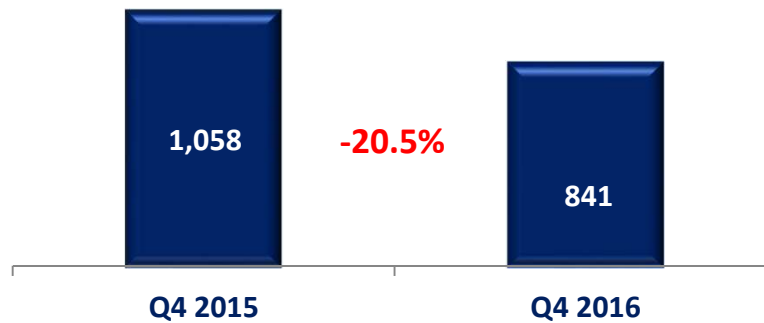
Domestic & DF Volumes (mn stick)



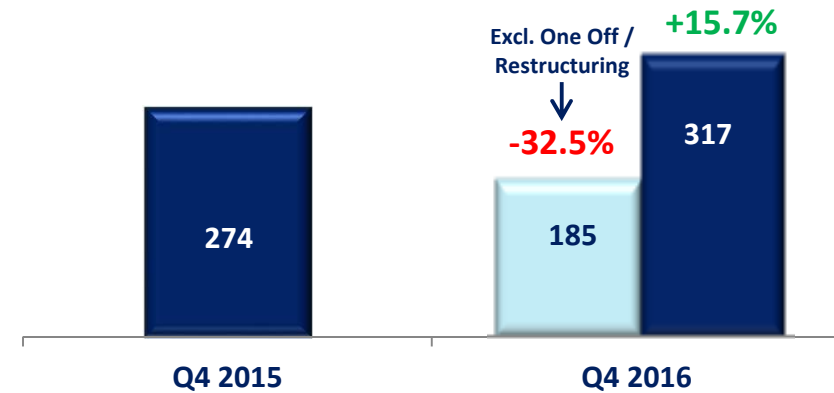
Contract Manufacturing Volumes (mn stick)



Revenue (RM'mn)



Profit from Operation (RM'mn)

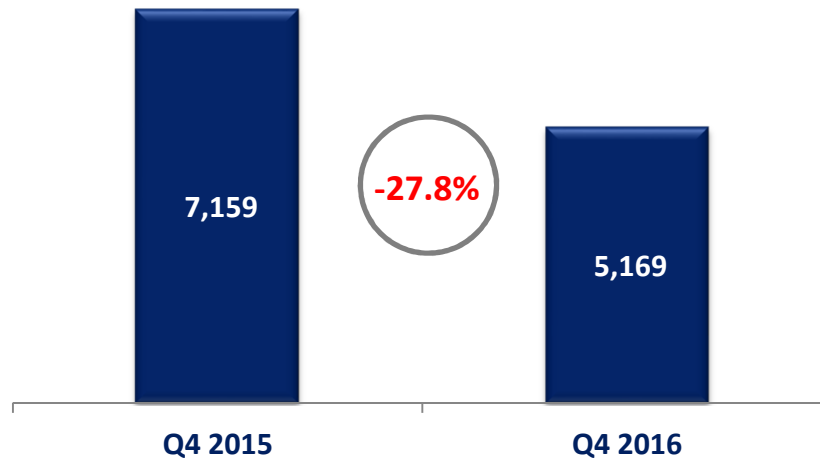




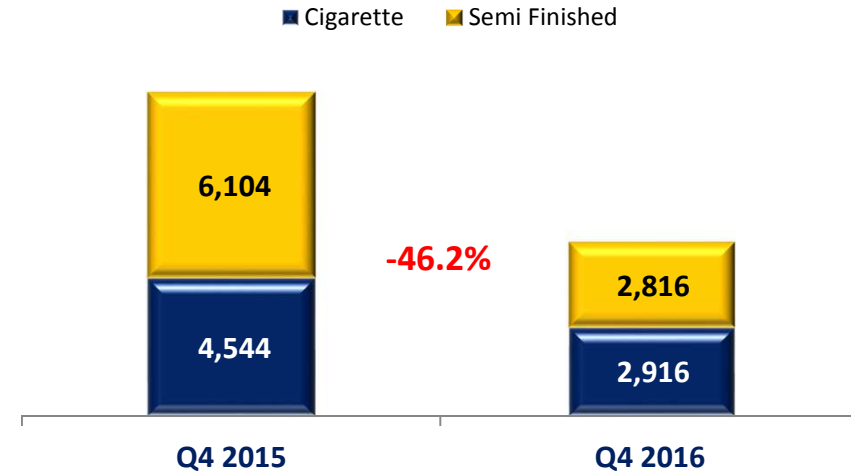
2016 Full Year Review: Volume & Net Turnover decline by >25% due to legal market contraction



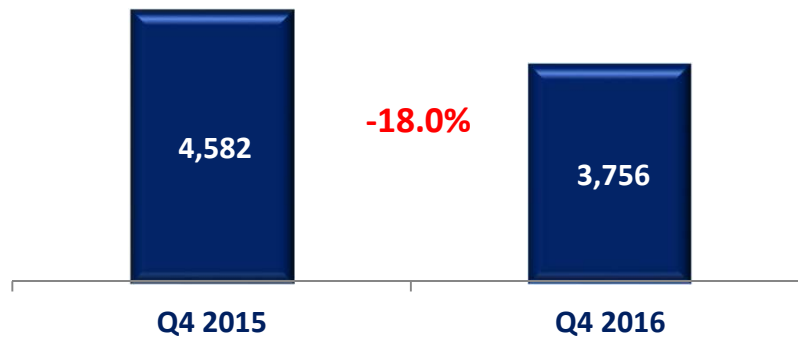
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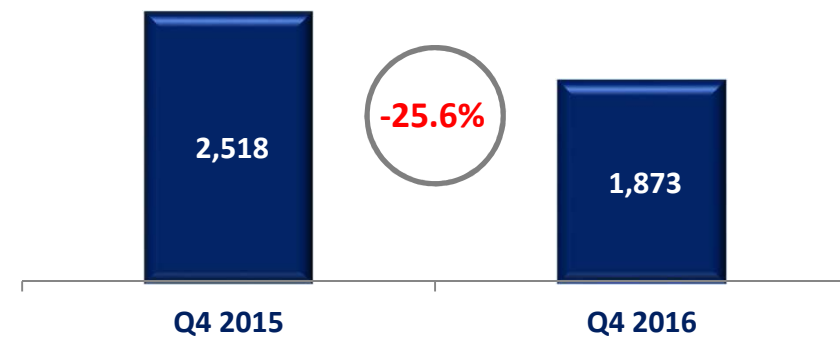
Contract Manufacturing Volumes (mn stick)



Revenue (RM'mn)



Net Turnover (RM'mn)

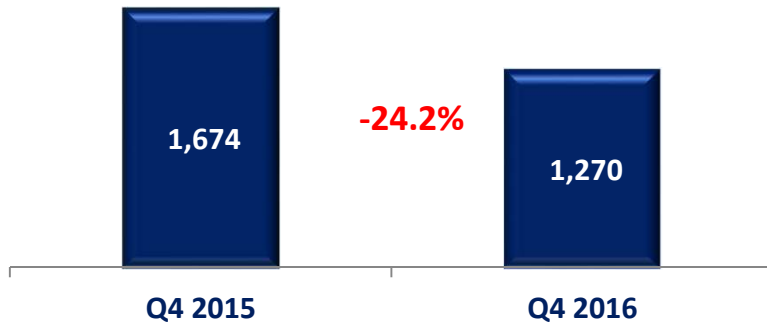




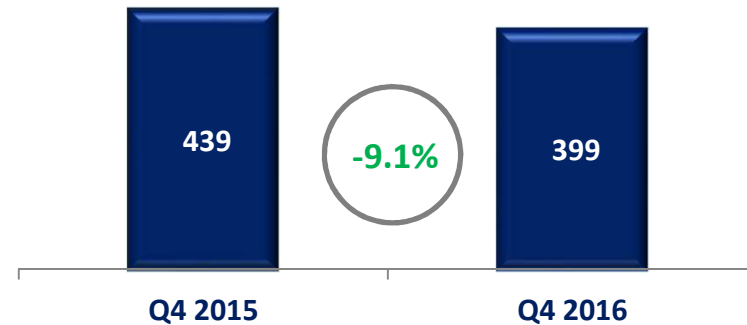
2016 Full Year Review: Operating Expenses reduction and land sale income partially offsetting EPS decline



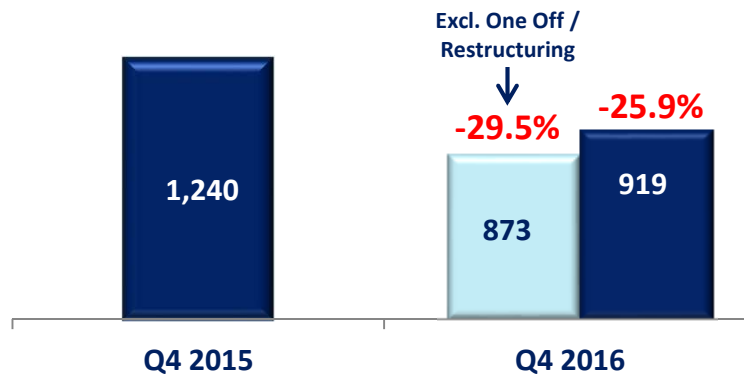
Gross Profit (RM'mn)



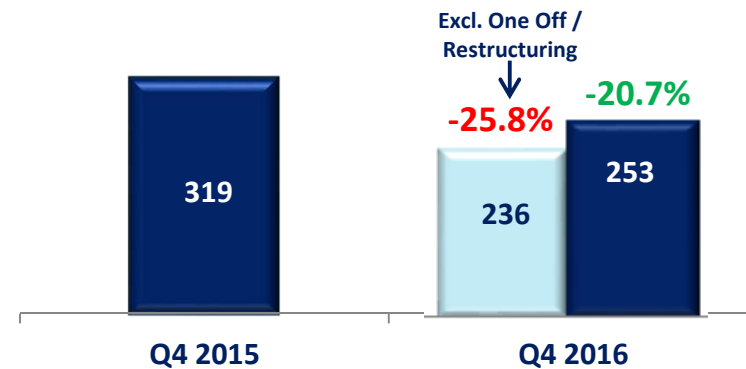
Operating Expenses (RM'mn)



Profit from Operation (RM'mn)

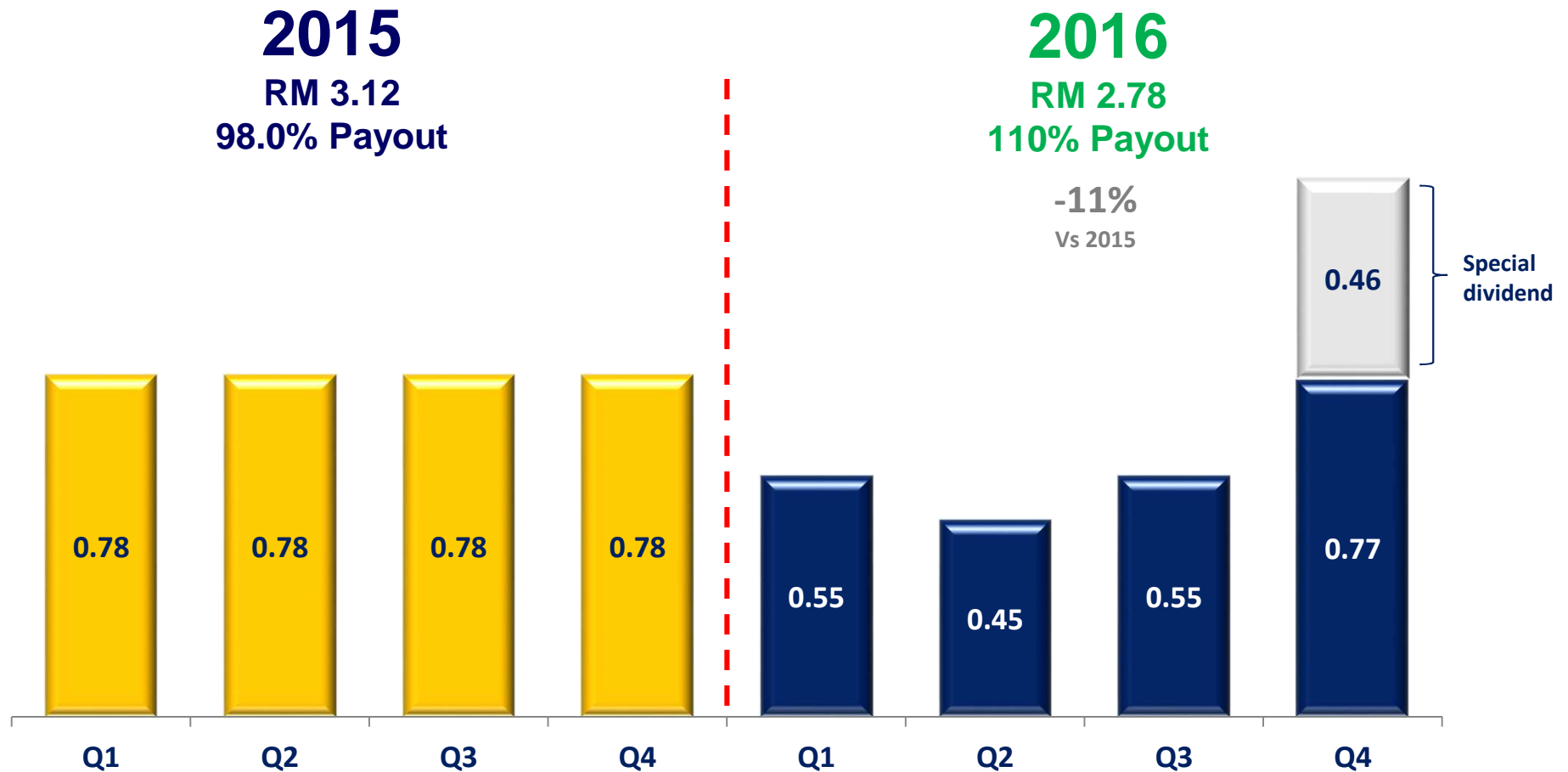


Earning per Share (Sen/share)





2016 dividends payout of 110% (-11% vs 2015), driven by the special dividend related to proceeds from land sale





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THANK YOU