

Building A Fair Society
year of transformation

QUARTER 2, 2019 PERFORMANCE

25TH July 2019

AGENDA

01 Key highlights

02 Business review

03 Q2 financial performance



01

Key Highlights

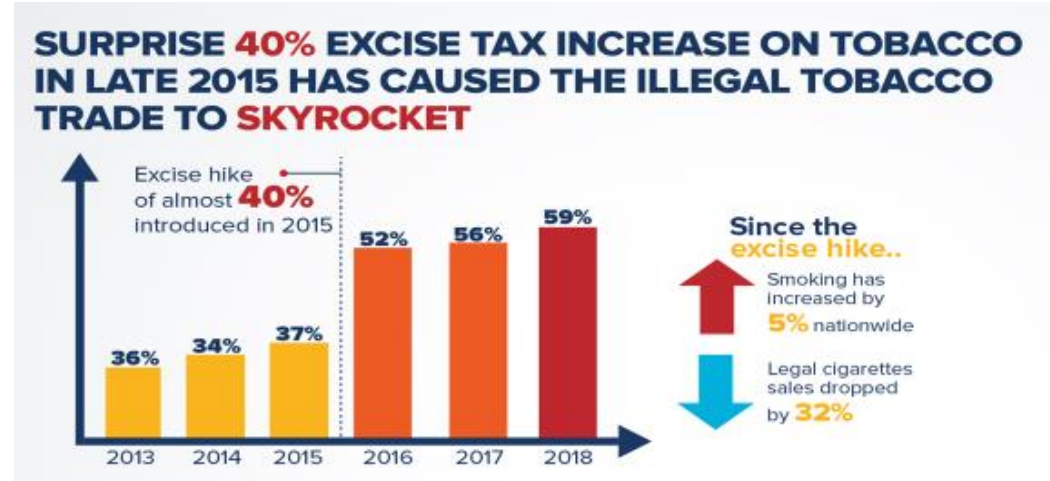
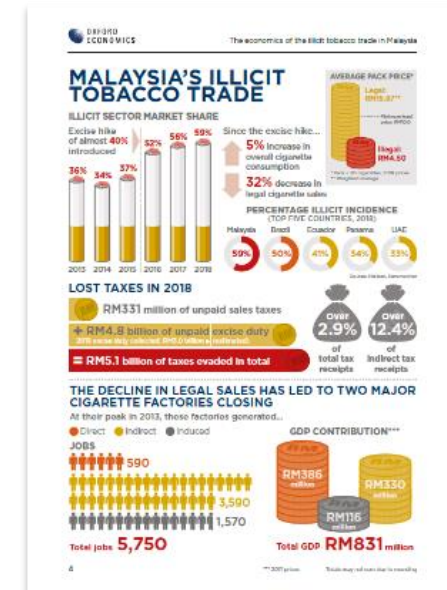
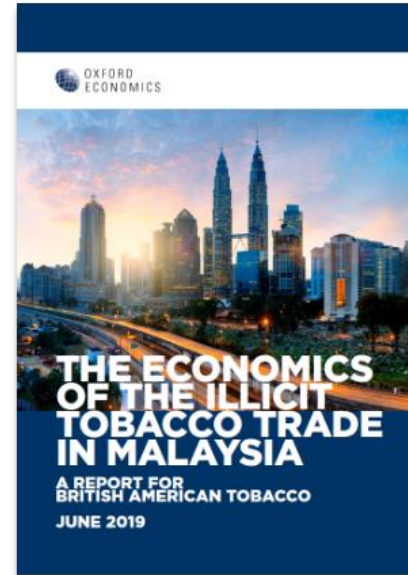
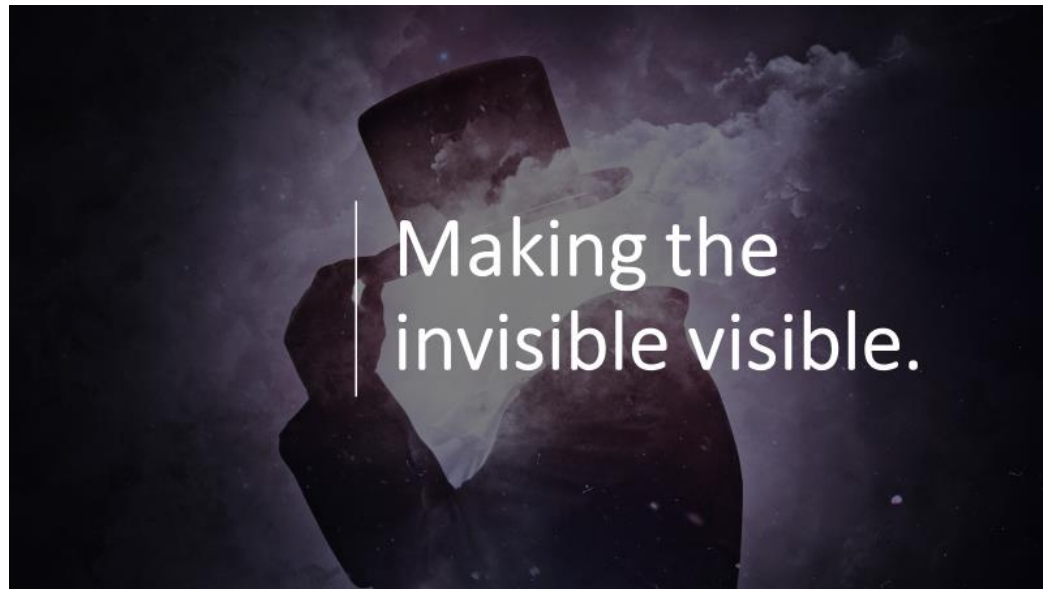
Oxford Economics Report



Illicit tobacco is a burning platform in Malaysia

British American Tobacco commissioned a **report** to study the **social and economic impact** of the illicit tobacco trade in Malaysia.

These findings were presented in a **roundtable** to members of the media and key stakeholders to **educate** all Malaysians and stakeholders on the **severity** of the issue.





Robust forum discussion headed by high-calibre experts.



Pete Collings

Director of Economic Impact Consulting EME

Author of the report. Present with key findings on the socio-economic impact of the illicit tobacco trade to Malaysia.



Kenneth Head

Former IMF AFRITAC South

International customs expert with a wealth of experience in customs processes, flows and on the topic of best practice approaches from UK and South Africa.



David Lum

Criminal Investigations Attaché, IRS US Consulate General Hong Kong

Organized crime specialist. David lends to the panel a wealth of insights on the inner workings of organized criminal syndicates behind the illegal tobacco.



Dato' Sri Akhbar Sattar

Ex-President, Transparency International Malaysia

Local criminologist, passionate on the topic of the illicit tobacco trade, vocal advocate against corruption, and on integrity in Government. Advises current administration on procurement and Government policies on integrity and anti-corruption.



Dato Charon Wardini

Group Managing Director, Malaysian Industrial Development Finance Berhad

Dato Charon is a well-respected economist whose career across several prominent GLCs and investment bank. He often consults the government on key economic policies.





Members of the Malaysian and regional press were invited to attend a roundtable discussion on the illicit tobacco trade.





Coverage featured from OE

Zero excise duty revenue from cigarettes would be a good thing — Charon

Byong Hin Lee | [TheEdgeMarkets.com](#)
[Twitter](#) [Facebook](#) [LinkedIn](#) [WhatsApp](#)

Alhaji: We have to value the integrity of the law. When you are caught, whether with you have or not, it will not work. When do I start to believe that I'm wrong?

Kenaikan cukai rokok dikaitkan dengan limpahan rokok ilegal di Malaysia

18 Jun 2019, 9:16 pagi

18 Jun 2019, 9:16 pagi

534

KWSP - Survei
 Peningkatan gaji di 11 bank swasta

BRITA TERKINI
 SPRM: 141 pembuat...
 Trump: team boost...
 Mahkamah Rayuan...
 PAS tak berunding...
 Tenggelinya insiden...

18 Jun 2019, 9:16 pagi

Kenaikan cukai rokok sehingga 40 peratus merupakan punca utama Malaysia menjadi 'negara' kepada sindikat penyeludupan

ILLEGAL CIGARETTES - MOVING THE NEEDLE

Erik Steel, Managing Director, British American Tobacco | Pete Collings, Oxford Economics

Search podcasts (e.g. keyword, organisation)

Podcast • Morning News • Morning Brief • Legal Cigarette • Morning The Straits

Latest Podcasts

1. The Preadolescence of Family Businesses
2. Allowing Nature To Take the Centre Stage
3. Economic Populism: Its Both Politics and Genuine Discontent
4. Automotive Industry Driving Forward and Passenger Corp Property Focus
5. Trump - Keeping America Great?

Malaysia rugi lebih RM5.1 bilion pelarian cukai rokok

18 Jun 2019, 10:32 (GMT) | [Sinar](#) | [Kini](#) | [Siak](#)

AWANI 7:45

MALAYSIA RUGI LEBIH RM5.1 BILION PELARIAN CUKAI ROKOK

Untuk mendapatkan maklumat mengenai analisis rasual dalam letirisan cukai rokok, di talian, Datuk Seri Anwar Saad, Presiden Peratuan Perindustri Perupahan Bersatu Malaysia.

Malaysia lost RM5b to illicit cigarette trade last year

Byong Hin Lee | [TheStraitsTimes.com](#)
[Twitter](#) [Facebook](#) [LinkedIn](#) [WhatsApp](#)

Malaysia lost RM5 billion to illicit cigarette trade last year, according to a study by a UK-based advisory firm Oxford Economics.

The study, commissioned by British American Tobacco (BAT), revealed that Malaysia has the highest illegal cigarette incidence in the world and loses almost RM500 million every month to criminal smugglers and millers.

In a joint statement, BAT and Oxford Economics said six out of 10 cigarettes consumed in the country deliver no tax to the Malaysian Government.

MALAYSIA RUGI LEBIH RM5.1 BILION PELARIAN CUKAI ROKOK

RAJAWANG BERNAMA BERSEKUTUAN
 Malaysia rugi lebih RM5.1 bilion pelarian cukai rokok

276 views

Adho Awani @
 Published on Jun 20, 2019

SUBSCRIBED 51K

UTAMA MUTAKHIR GLOBAL ARENA RAI/SELEBRITI BISMETRO TV

BESTARI EKSTRA NUJANS ITAMETRO SANTAI DEKOTAMAN HATI ADDIN RENCANA SIHAT EKSPRESI VROOM GALERI INFOGRAFIK

Malaysia juara pasaran rokok seludup

Info Grafik

DMETROTV

MyMetro: Mutakhir

Rugi RMS billion

Skrued Khawar Harlan Metro
[www.metro.com.my](#)

Jun 21, 2019 00:43 am +08

THE ECONOMICS OF THE ILLICIT TOBACCO TRADE IN MALAYSIA

DATE: 20 JUNE 2019
 VENUE: MALAYSIAN HOTEL, KUALA LUMPUR
 TIME: 10:00AM - 12:00PM

KHAMIS, 20 JUN 2019
Kuala Lumpur

#METRO #METROTV
 Rugi RMS billion

1,506 views

Harlan Metro @
 Published on Jun 20, 2019

Subscreb 35K

Sebanyak 60 peratus pasaran rokok di negara ini dikuasai sindikat penyeludupan membabitkan

Costly puff

Up to five-year jail for mere possession of illicit cigarettes

15 students offer breathalyser for free

15 students offer breathalyser for free

15 students offer breathalyser for free

'I was told SRC belonged to Najib'

Court upholds 20-year jail term for casing maid's death

Worker claims trial to casing death

Govt lost RM5b in tax evasion

Malaysia rugi lebih RM5.1 bilion pelarian cukai rokok

KUALA LUMPUR: Malaysia ditanggalkan membolehkan jumlah pasaran cukai lebih RM5.1 bilion pada 2018 berdasarkan analisis pasaran dan penyeludupan rokok rasual, demikian menurut laporan talian Oxford Economics.

Penggunaan rokok haram menanggung 10 peratus daripada jumlah keseluruhan penghasilan cukai di Malaysia tahun lalu, apabila tiga peratus daripada jumlah rokok rasual bernilai RM5 bilion.

Laporan itu juga menunjukkan jumlah rokok rasual merupakan setiap perangsang menghasil sedek tahunan, menghasil 60 peratus pada tahun 2018.

Study shows Malaysia loses RM5b tax annually due to cigarettes smuggled in

Byong Hin Lee | [TheEdgeMarkets.com](#)
[Twitter](#) [Facebook](#) [LinkedIn](#) [WhatsApp](#)

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During and post OE, the conversation is growing in Malaysia.

Key Spokespeople

FOUR WAYS TO TACKLE SMUGGLING OF CIGARETTES

The country has lost billions to this criminal activity

More than 100 billion cigarettes are smuggled into Malaysia every year, according to a report by Oxford Economics. The economic cost to the country is estimated at RM1.6 billion in excise duties and RM1.6 billion in lost tax revenue.

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Media Champions

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Maksimum guna akta AMLA

Bekas Menteri Kanan, Datuk Seri Anwar Ibrahim, berkata kerajaan harus memastikan Akta Anti-Money Laundering (AML) digunakan sepenuhnya untuk menangani masalah pencucian wang.

Sindiket lagak Al Capone

Polis menahan suspek-suspek yang terlibat dalam sindiket perdagangan rokok seludup yang beroperasi di seluruh negara.

Investigative Pieces

BALACI KARTEL

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Stakeholders

Empat sindiket penyeludup diburu

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Empat sindiket jenayah terancang dikenal pasti dalam seludup barang

SINDIKET JENAYAH: Acryl berucap pada sidang media selepas sidang kabinet KEMKOT di Bukit Aman, Kuala Lumpur, semalam.

Empat sindiket jenayah terancang telah dikenal pasti dalam seludup barang, menurut Datuk Seri Acryl, Menteri Kanan (KEMKOT) Bukit Aman, Datuk Seri Anwar Ibrahim, pada sidang media selepas sidang kabinet KEMKOT di Bukit Aman, Kuala Lumpur, semalam.

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"Mereka juga menggunakan rakat tempatan dan subagian hasil wang asing bagi memungkir wang dengan mudah seperti pengangkutan barang-barang, seludup, pengangkutan udara dan juga pengedaran barangan seludup," katanya.

Acryl berkata, sindiket jenayah terancang terdiri daripada mereka yang ingin mengukir cukai yang dikenakan, selain melibatkan juga barangan-barang terlarang yang disalurkan seperti jenama rokok yang dilorong pengedaran di negara ini.

"Lantas ia menyebabkan kerugian yang besar kepada negara, kerana tidak rokok yang sah tidak jenuh dan mengancam ketahanan cukai kepada negara."

"Bilangkan rokok yang masuk ke negara telah banyak, maka itu memberi peluang kepada mereka untuk mengukir cukai yang sah tidak jenuh dan mengancam ketahanan cukai kepada negara."

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Industry Articles

BAT hails efforts to combat illegal tobacco smuggling

by NG MIN SHEN

BRITISH American Tobacco (BAT) hails the Federal Internal Security and Public Order Department's intensive operations to thwart illegal tobacco smuggling activities, stating that it is "encouraged" by the department's efforts.

"Following the identification of four syndicates, whose main contraband consists of smuggled cigarettes, we hope that the police continue to apply pressure and deal with a swift and crippling blow to these criminals who have hitherto disregarded the 'rule of law' and fund a culture of organised corruption in the country," BAT MD Erik Steel said in a statement yesterday.

According to an Oxford Economics report, ever since the black trade gained a foothold, Malaysia's GDP, economy, public health agenda, reputation and legal employment opportunities have been undermined.

Steel said the tobacco company has constantly appealed for serious actions to be taken, as the issue can no longer be ignored and it requires a cross-government action plan to be effectively tackled.

All key ministries and agencies have a role to play, he added, stating that the Health Ministry's Tobacco Control Sector, the Domestic Trade and Consumer Affairs Ministry, the Home Affairs Ministry, the central bank, the Malaysian Anti-Corruption Commission, and the National Financial Crime Centre need to lend their expertise and jointly support the ongoing efforts of law enforcement agencies.

"As the legal industry leader, we are very willing to provide our full support to the government effort to curtail this menace — our extensive international experience tells us that a joint collaboration and legal employment opportunities have been undermined."

Big 'C' menace behind rise in illicit tobacco trade

by NG MIN SHEN

Conducting government investigations, enforcement agencies, and law enforcement agencies are working together to combat the rise in illicit tobacco trade.

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Vital to rotate law enforcers

Malaysia's illicit tobacco trade is estimated to be worth RM1.6 billion annually, according to a report by Oxford Economics.

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Government deprived of RM5 bil in taxes

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02

Q2 Business Review

Q2 highlights



Industry volume

-8%

vs SPLY

(-3% vs Q1'19)

Illegal trade

60%

(remained high but
not growing)

BAT volume

-10%

vs SPLY

(+4% vs Q1'19)

Market share

54.8%

-2.5ppt vs SPLY

(+0.1ppt vs Q1'19)

Revenue

-4%

vs SPLY

(+3% vs Q1'19)

Profit from operations

-19%

vs SPLY

(-11% vs Q1'19)

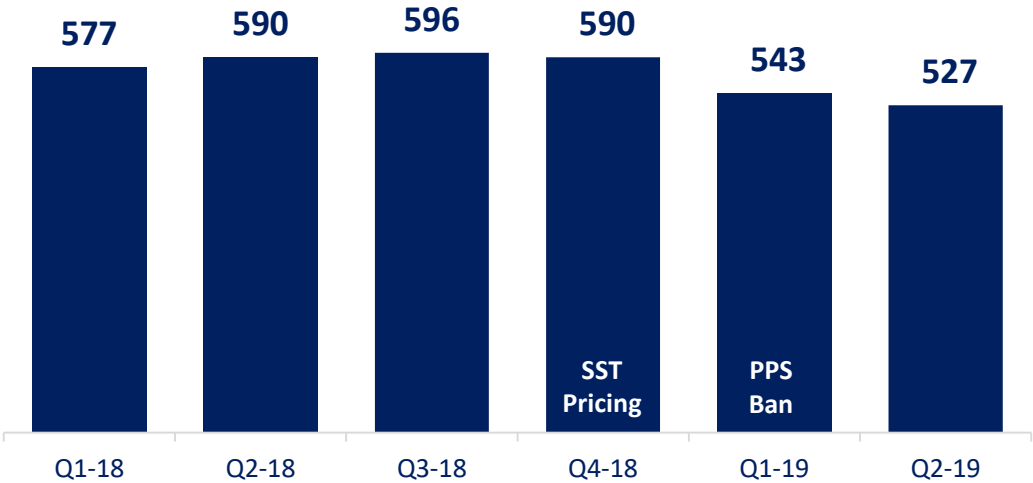
The industry requires structural breakthrough in external environment

Illegal Volume Share (%)



YTD'19 vs SPLY
-2ppt

Legal Volumes Monthly Avg (mns)



YTD'19 vs SPLY
-8%

Mainly driven by:



SST led pricing



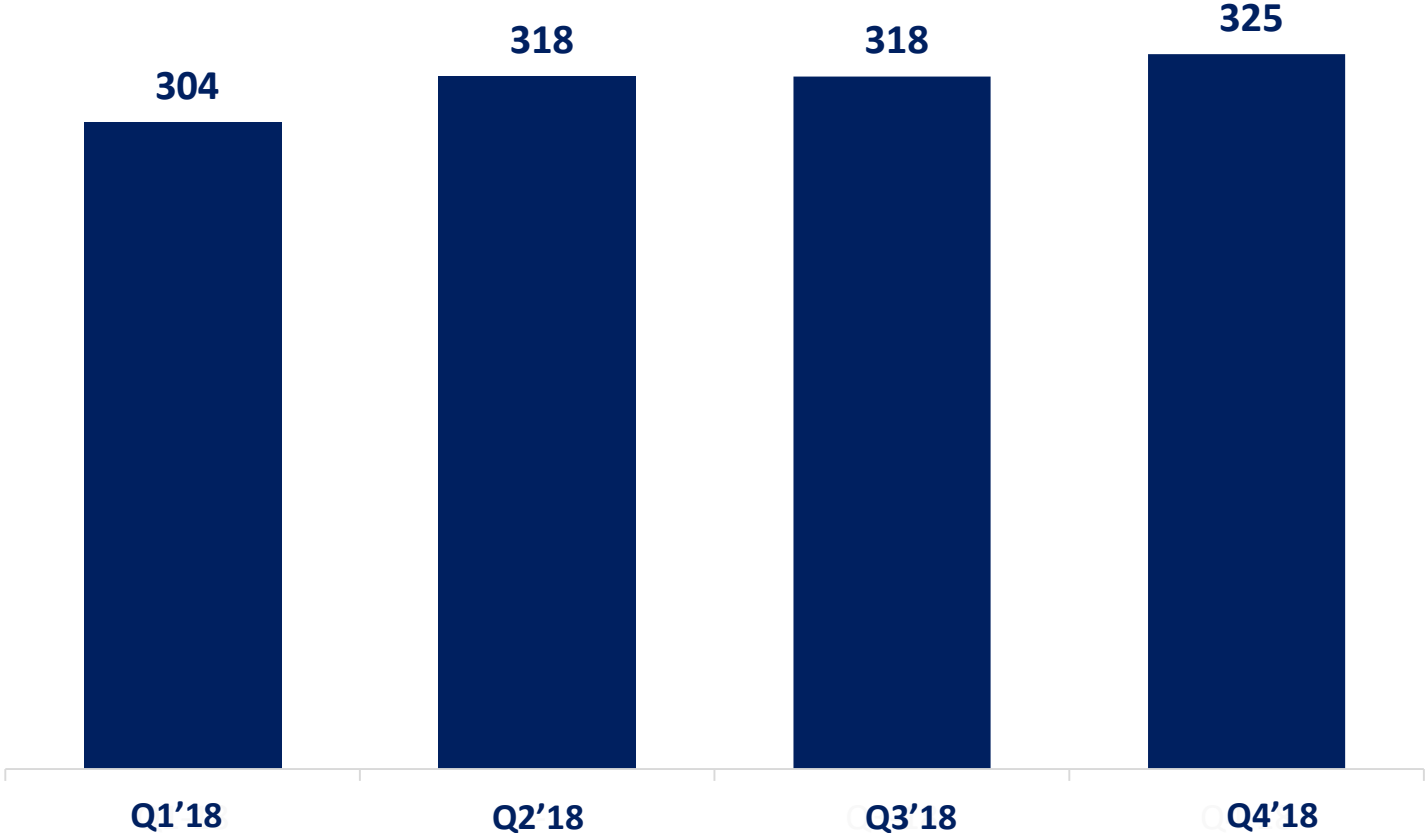
Public place smoking ban



New categories

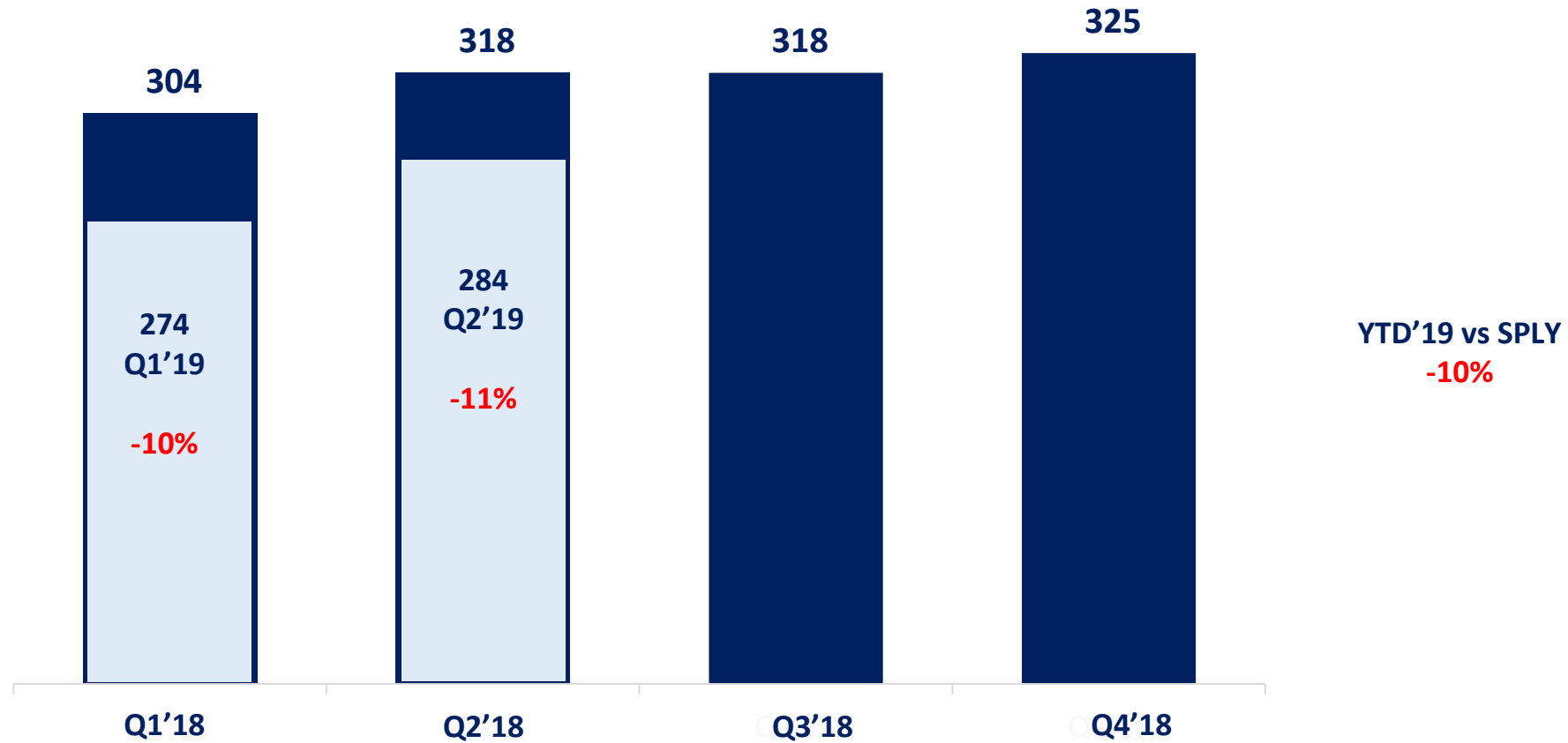
BAT volume holding better in Q2 vs. industry

BAT Volumes Monthly Avg (mns)

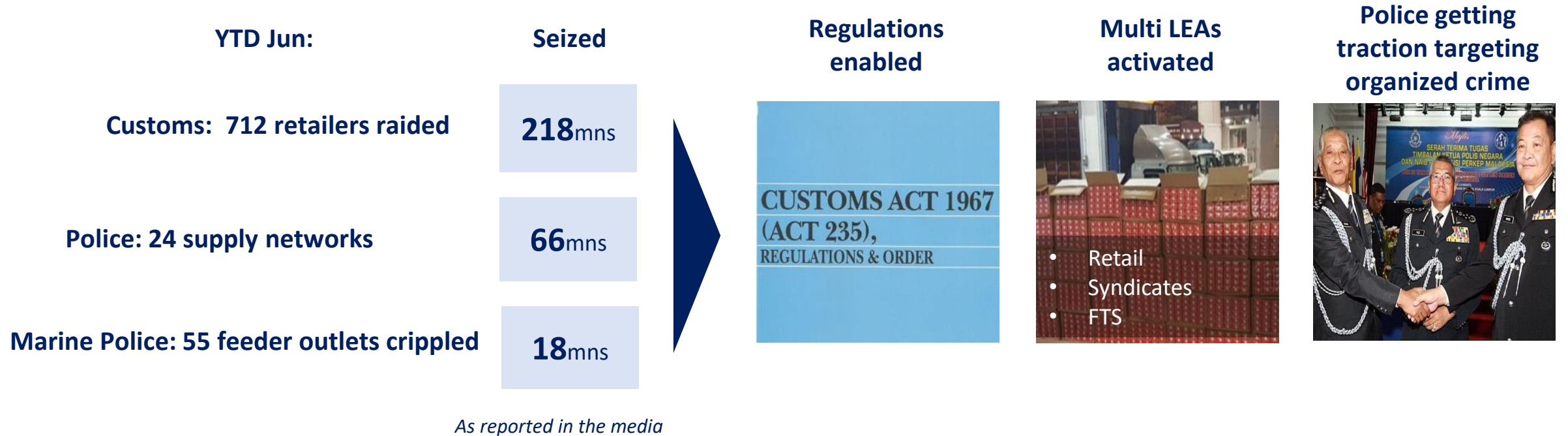


BAT volume holding better in Q2 vs. industry

BAT Volumes Monthly Avg (mns)



Illegal Trade enforcement: gradual increase in coordinated approach



Lacks intensity and speed

Illegal cigarette with fake tax stamps on the rise

Illicit Cigarette Study (ICS) - Wave 1, 2019

Total Illegal cigarette incidence:

59.7%

▼ 1.5ppt vs W3'18

Smuggled Cigarettes:

52.3%

▼ 4.1ppt vs W3'18

Fake Tax Stamps:

7.4%

▲ 2.6ppt vs W3'18

Top 3 states with smuggled cigarettes:

Sarawak
Sabah
Kelantan

Top 3 states with fake tax stamps:

Melaka
Negeri Sembilan
Penang

Source: Nielsen Illicit Cigarette Study W1, Mar'19-May'19 versus W3, Oct'18 – Dec'18

Key Takeout

- Sizeable drop of 4.1ppt in Smuggled cigarettes
- Good results were partially offset by fake tax stamps that gained 2.6ppt
- Holistic approach to cripple illegal cigarettes trade needed

Vaping should be legalised as alternative to smoking



- Progressive harm reduction agenda
- Sustainable revenue growth
- Reduction of illegal (FMC & Vaping)

THP – New investment and technology for long term sustainability



- Approved by MOH
- Launch Q4 2019
- New capability for Malaysia



Continued recognition of good corporate governance and contribution to the nation

Sustained corporate governance standard



- Excellence Award for CG Disclosure
- Excellence Award for Long Term Value Creation

JB plant recognized for business contribution



High achiever in local excise duties payment

Strategic business partnering - Shell, Eraman & Pernama










03

Q2 Financial performance

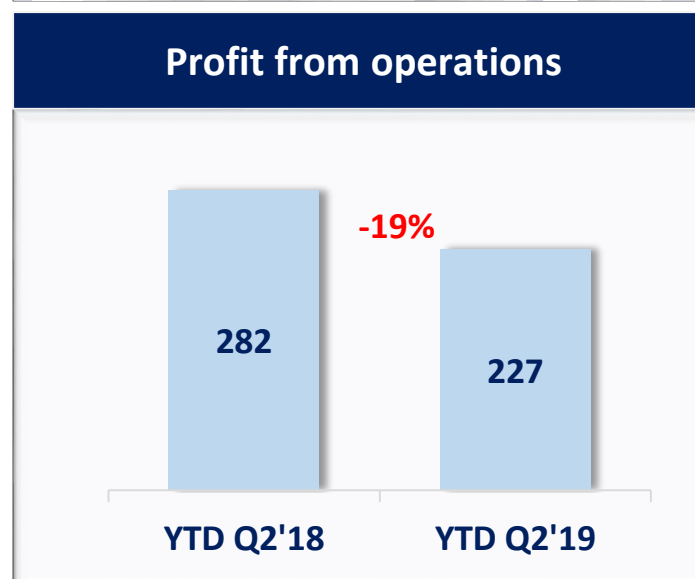
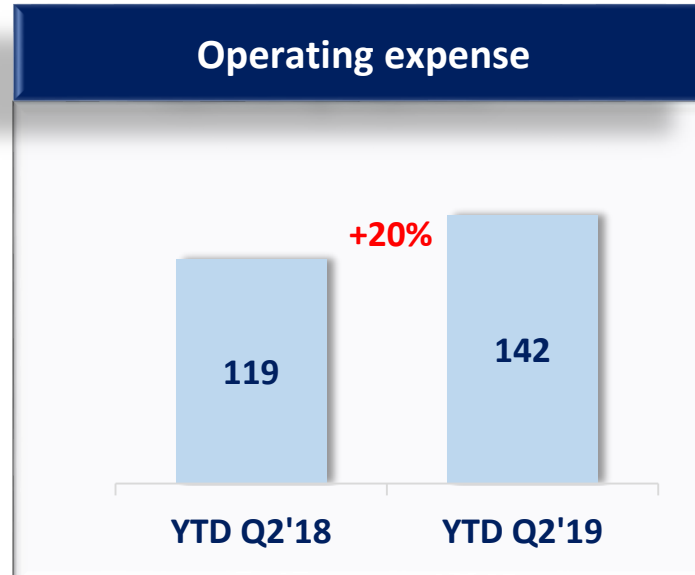
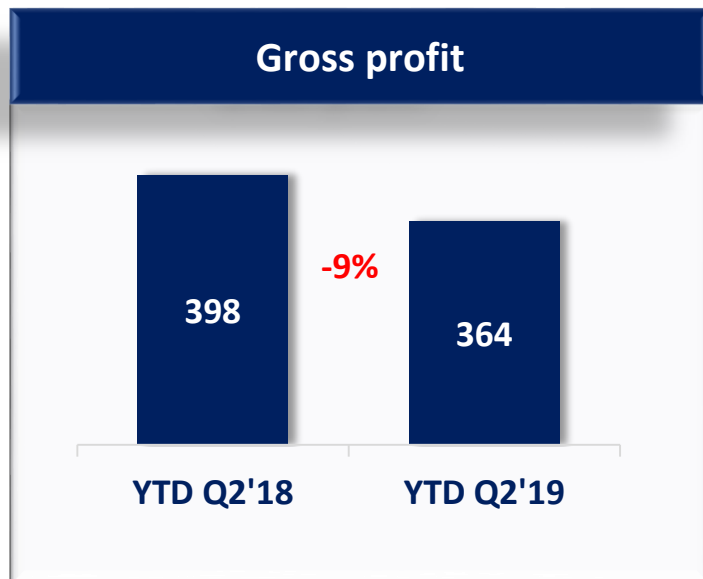
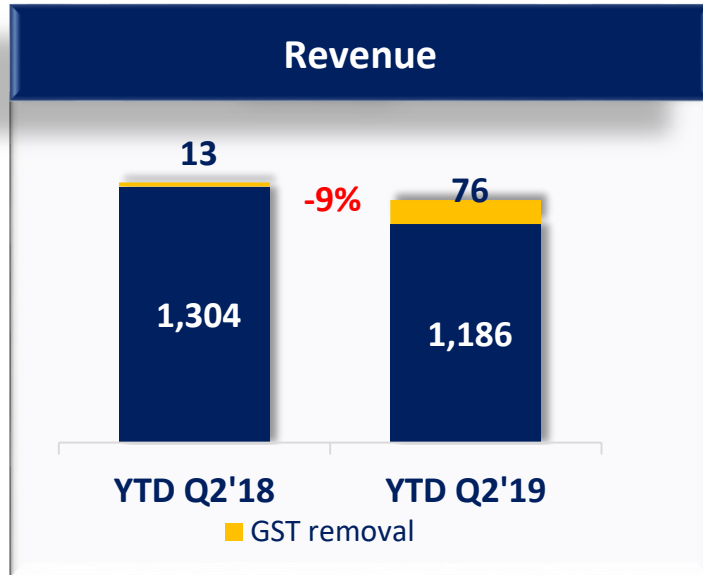
Key financial highlights

	Q2'19	vs preceding quarter	
LEGAL INDUSTRY VOL	1,582 mns	-3%	
VOLUME	853 mns	+4%	
REVENUE	RM641 mil	+3%	
GROSS PROFIT	RM184 mil	+2%	
PROFIT FROM OPERATIONS	RM107 mil	-11%	

Key financial highlights

	Q2'19	vs preceding quarter		YTD vs SPLY	
LEGAL INDUSTRY VOL	1,582 mns	-3%	↓	-8%	↓
VOLUME	853 mns	+4%	↑	-10%	↓
REVENUE	RM641 mil	+3%	↑	-4%	↓
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PROFIT FROM OPERATIONS	RM107 mil	-11%	↓	-19%	↓

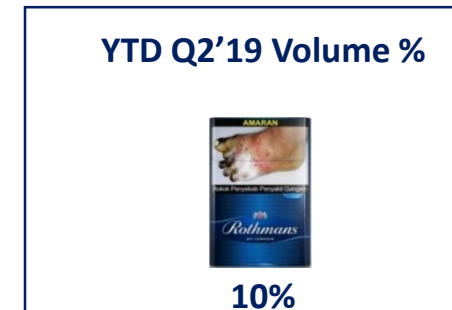
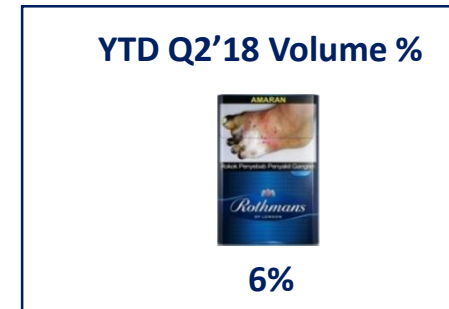
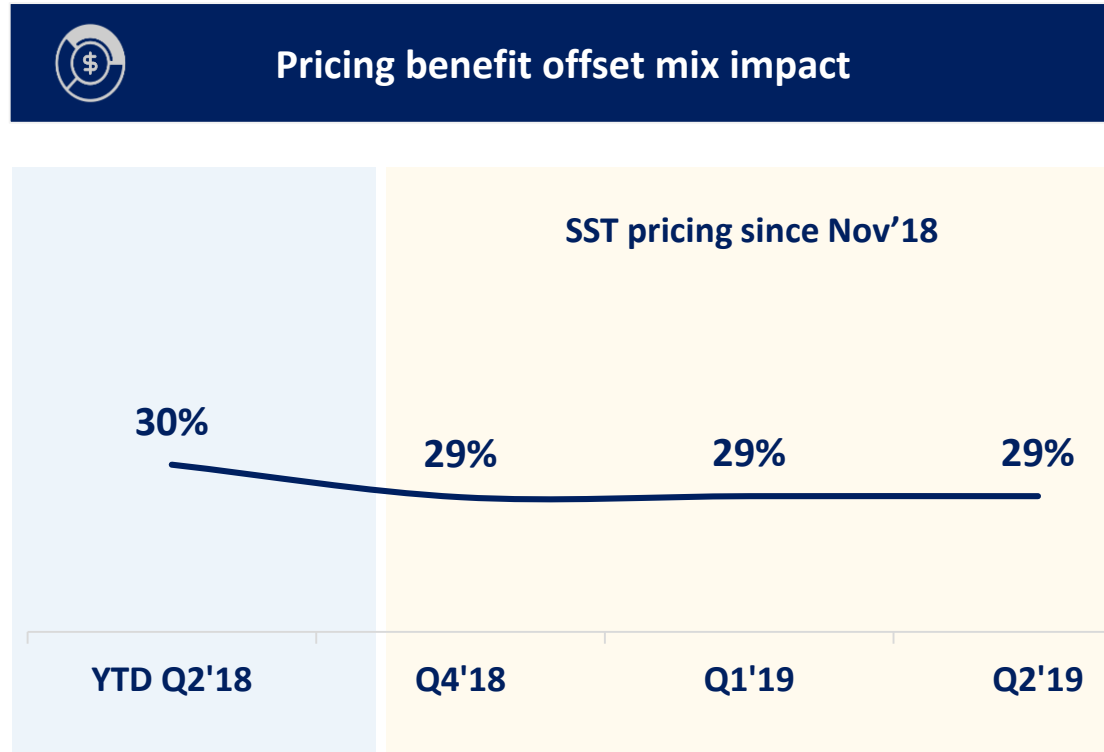
Financials impacted by volume decline and expenses phasing



Increase in operating expenses mainly due to :

- Investment in new categories
- Phasing of operating costs

Gross profit margin stable



Outlook of 2019

- **Deeply concerned with continued high level of illegal cigarettes**
- **Lack of progress on efforts to reduce the problem**
- **Emerging new categories which is not regulated is a threat to the legal industry**
- **Second half focus will be to work with authorities and rationalise expenses**

THANK YOU