

Smokers push BAT's profits to £2.94bn

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British American Tobacco, the world's second-largest tobacco group by market share, reported a 4% rise in first-half revenue to £7.57bn on Wednesday (31 July), as price increases helped offset falling consumption.



"The business performance was affected by industry volume contraction in some parts of the world and fragile economic conditions persisting, notably in Europe," the owner of Dunhill, Lucky Strike and Pall Mall brands said.

The group, like rivals Imperial Tobacco and Philip Morris, is also battling the tough consumer environment and tax increases in Europe.

Adjusted diluted earnings per share increased 10% to 111.1p for the six months to June and BAT declared an interim dividend of 45.0p, up 7% on 2012.

Operating profit rose 4% to £2.94bn and pretax profit increased to £3bn from £2.8bn.

Sales volumes were down in the first half - BAT sold 332bn cigarettes, down from 344bn previously as a strong performance in Asia was outweighed by a fragile European market and tough one-off trade comparatives in Brazil and the Middle East.

The majority of the group's profit come from emerging markets and to arrest declines in recession-hit Western markets - where regulatory constraints on smoking are increasing - the group is expanding its electronic cigarette market. BAT this week launched its first such product, Vype, in Britain.

Growth of e-cigarettes

According to Euromonitor International, the market for electronic cigarettes - or e-cigarettes, as they are more commonly known - is already worth more than US\$2bn globally.

In April Imperial Tobacco said it had set up a venture to develop electronic cigarettes, while Philip Morris will, in August,

begin selling its e-cigarette line, MarkTen, in Indiana in the US.

Popular among smokers who are trying to quit, e-cigarettes are non-combustible battery-powered cigarettes that contain no tobacco and work by vaporising nicotine liquid.

BAT is the JSE's largest company with a market capitalisation of more than R1trn.

According to Aslam Dalvi, an equity analyst at Kagiso Asset Management, tobacco companies have sufficient pricing power to manage the challenges of a weaker volume outlook and uncertainty over regulation, while still growing earnings.

"BAT benefits from pricing power and is reasonably well positioned from a regulatory and volume decline point of view. We estimate that 70% of BAT's profit comes from emerging markets, where regulatory pressures are lower and volume decline prospects are less severe. In a market where the broader consumer staples universe is expensive, tobacco stocks remain attractive," he said.

In the first half, Dunhill increased volumes by 6%, while Kent-branded cigarette volumes dipped 3% due to declines in Russia and Romania, partially offset by growth in other Eastern European markets.

Lucky Strike volumes were down by 7% but Pall Mall volumes rose by 8%.

Chairman Richard Burrows said: "The business is performing well and we are confident of another year of good earnings growth."

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