

# BAT FULL YEAR 2014 RESULTS ANALYSIS

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Princess Mazumba +263-771-030-198

## Market Data

Current Share Price( Usc)	1170
Shares in Issue	20,633,517.00
Market cap(US\$)	241,412,149.00
YOY high	1400
YOY Low	930
YTD	4.46
YOY	(12.69)
Total Dividend( USc)	80.00
EPS	65.00
P/E	18.00

Income Statement	FY2014 (000)	FY 2013 (000)	% Change
Revenue	44,562.00	44,597.00	0%
Operating profit	17,824.00	9,815.00	82%
Profit After tax	13,453.00	3,773.00	257%
Operating margin	0.40	0.22	82%
Net Profit margin	0.30	0.08	257%

## Financial Position

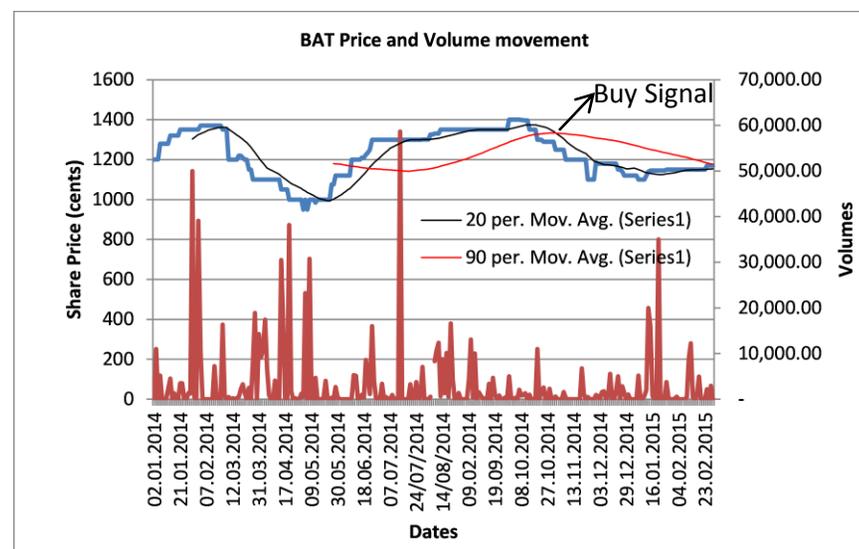
Total Assets	27,622.00	30,539.00	-10%
Total Liabilites	11,584.00	19,761.00	-41%
Total equity	16,038.00	10,868.00	48%

## Cashflows and Ratios

Cashflows from Operations	8,503.00	17,647.00	-52%
Cashflows from Financing	(8,283.00)	(12,717.00)	-35%
ROE	0.84	0.35	142%
ROA	0.49	0.12	294%
Current Assets to Current liabilities	1.78	1.19	49%

## BAT Posts \$13.3 million Profit

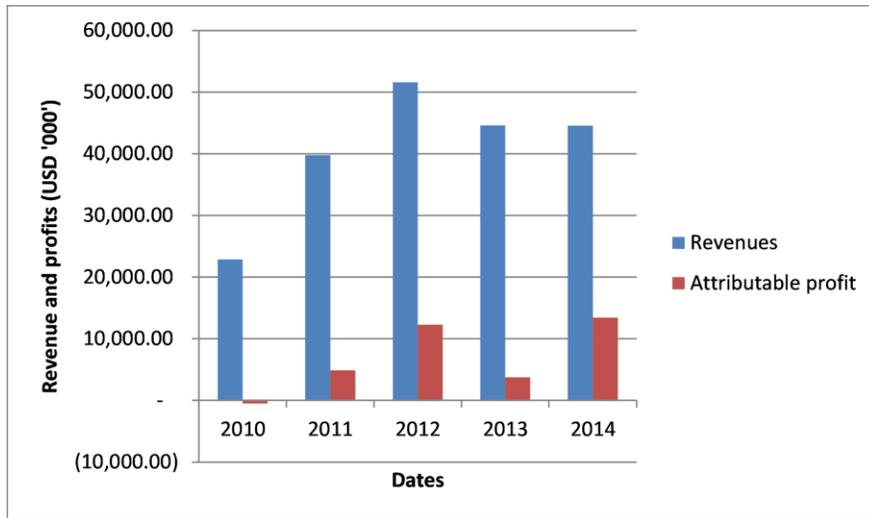
BAT indicated strong resilience in its financials and managed to maintain previous year revenues of \$44.6million. These were supported by a volume growth of 4% and an excise driven price increase in December 2014. The growth in cigarette revenues was offset by the impact of the discontinuation of non-core cut rag sales in 2013. Operating Profit got an 82% boost from a reduction in operating expenses driven by strong management focus on cost control. Previous year results were heavily impacted by a once off expense of the Employee Share Ownership Trust expenses. There were no finance costs in 2014 due to the company having paid off its all interest bearing debt in the previous year. Margins also gained significant support from this substantial reduction in expenses. Total liabilities fell by 41% due to elimination of interest bearing debt and a noteworthy reduction in current liabilities whilst cashflows from operations suffered a 52% decline due to a termination of cut rag exports.



## Technical Analysis

The graph above indicates price and volumes movements of BAT from the beginning of 2014. Moving average lines were used to make changes in the trend of the share price movement easier to see. In this instance a combination of a short term and a long term moving average was used to indicate a buy or a sell signal. The graph indicates that the short term moving average was cutting the long term average from above at the beginning of Q4'14, which was an indicator of an emerging uptrend or a **BUY** signal.

## Revenue and Profitability trends



Revenues have basically been trending upwards since 2010 and have grown by 95% since 2010. Profits have subsequently followed the same trend although there was a dip in 2013 due to Indigenous expenses. BAT is one of the few listed companies that have managed to show resilience in its performance despite the adverse operating environment.

## Investment Case

- BAT has managed to maintain its revenues in an environment that is characterized with shrinking revenues and margins due to the depressed economic environment.
- An impressive bottom line of \$13million after tax profit leading to a remarkable return to equity holders.
- Very good return for equity holders, the current payout ratio is 77%.
- Strong management focus on cost control.
- An impressive looking balance sheet characterized by reducing liabilities.
- The company has managed to clear up its interest bearing debt thus leaving less fixed obligations.
- Tobacco is the highest export earning agricultural produce in the country.
- Strong cash generating ability.
- Tobacco has a highly inelastic demand.

## Investment Concerns

- Re-introduction of a tobacco levy by the government which was pegged at 1.5% is likely to put pressure on expenses.
- A very tightly held counter as can be seen by the low volumes traded.
- The 2015 tobacco yields are expected to reduce from 216 million kgs in 2014 to 180million kgs in 2014 due to erratic rains that affected the crop.
- The company appears to have reached maturity stage due to its high payout ratios therefore presenting muted growth prospects.

## Recommendation

BAT currently trades at a P/E of 18x whilst the sectorial average is 16.7x. In light of this the P/E Multiple earnings approach suggests a forward fair value of **\$11.74** which is almost similar to the current price of \$11.70. The recommendation given in light of this valuation is a **HOLD** at the current prices. The upside potential inherent in this stock comes from a consistent company performance, the inelastic demand nature of tobacco and its unswerving high dividend payout ratio. We also recommend a **Watch to BUY** strategy on account of favourable technical indicators such as the one indicated in Q4'14.

**SALES TEAM:****Fidelis Chimhuka +263-774-412-693**

(Securities Trader/Stockbroker)

[fidelis@platinumgroupe.com](mailto:fidelis@platinumgroupe.com)**Tonderai Marira +263 -772-627-782**

(Securities trader/Stockbroker)

[tonderaim@platinumgroupe.com](mailto:tonderaim@platinumgroupe.com)**Don Masaiti +263-772-768-363**

(Securities trader/Stockbroker)

[don@platinumgroupe.com](mailto:don@platinumgroupe.com)**RESEARCH TEAM:****Tonderayi Mapika +263-773-863-402**

(Research Analyst)

[tonderai@platinumgroupe.com](mailto:tonderai@platinumgroupe.com)**Princess Mazumba +263-771-030-198**

(Research Analyst)

[princess@platinumgroupe.com](mailto:princess@platinumgroupe.com)**DISCLAIMER:**

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