

Why BAT is confident of market gain

Cigarette group British American Tobacco (BAT) says it expects robust volume growth and further market share gains in the half-year to June. A trading update issued on Wednesday before the closed period indicated BAT was trading in line with expectations with continued market share gains driven by the company's Global Drive Brands (GDBs). The GDBs comprise Lucky Strike, Pall Mall, Dunhill and Kent.



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BAT emphasised, however, that profit growth was expected to be weighted to the second half of the year. This is due to the phasing of volume shipments, new generation products (NGP) investments as well as spending on marketing.

First-half earnings were expected to benefit from a substantial currency translation tailwind of about 14%. BAT directors also said that first-half revenue was expected to benefit from good pricing.

They said first-half volumes were lapping a strong comparative figure in the previous financial year and would be affected by the phasing of shipments in a number of key markets, including Pakistan. "Full-year volume is expected to outperform the industry, which we anticipate will be down about 4%."

BAT directors disclosed that key markets, such as Canada, Romania, Bangladesh and Ukraine, were performing well. But conditions remained challenging in Brazil, SA, Malaysia, France and the UK.

In terms of NGPs, BAT said the performance of the glo tobacco range in Sendai, Japan, continued to beat expectations. "We are on track for further Japanese and international rollout in the second half."

In the vapour market, BAT said market share growth in Western Europe was extended and encouraging progress was being made with the roll-out of Vype Pebble. "A city test of Vype e-Pen III is on track for the fourth quarter."

BAT said if exchange rates stayed the same for the rest of the year, there would be an adverse transactional effect on operating profit of 2% for the first half and for the full year.

BAT said there would be a tailwind on operating profit of about 13% for the half-year and 7% for the full year. BAT estimated that first-half earnings would be boosted by a hefty translational foreign exchange push of about 14%.

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