| Stock Data | |
|---|---|
| Price: | 1,325 |
| 52 Wk High: | 1,475 |
| 52 Wk Low: | 760 |
| 20 Day VWAP: | 1,300 |
| Current Price | 1,325 |
| Price Performance YTD | 13.30% |
| Shares Outstanding (millions) | 20 |
| Market Capitalisation (US$ 000) | 268,442 |
| P/E (X) | 71.2 |

| Financial Data | 30-Jun-13 | 31-Dec-13 | 30-Jun-14 | 31-Dec-14 |
|---|---|---|---|---|
| | US$000's | US$000's | US$000's | US$000's |
| Revenues | 23,137 | 44,597 | 20,334 | 41,794 |
| Gross Profit | 15,969 | 30,123 | 13,805 | 28,374 |
| Operating Income | 2,405 | 9,833 | 7,006 | 15,429 |
| PAT | -1,439 | 3,774 | 5,330 | 11,701 |
| NAV | 4,259 | 9,472 | 11,028 | 17,399 |
| EPS (US$) | -0.09 | 0.18 | 0.26 | 0.57 |
| Dividend Per Share | -11.20 | 13.10 | 0.30 | 0.59 |
| RoE | -33.79 | 39.84 | 48.33 | 67.25 |
| P/E (X) | (111.11) | 66.67 | 50.00 | 22.92 |
| Div Yield | -1.12% | 1.09% | 0.02% | 0.05% |
| Earnings Yield | -0.01% | 0.02% | 0.02% | 0.04% |
| Closing Share Price | 1000 | 1200 | 1300 | |
| **EFE Target Price** | | | | **1,412.29** |

## Results for the year to June 2014

Total interim revenues amounted to $20.3m and this was down $2.8m or -12% compared with the same period last year. At gross profit level performance went down 14% or $2.2 million to $13.8 million. Reported operating profit increased by 191% to $7.0m, primarily as a result of a reduction in expenses associated with the Employee Share Ownership Trust (“ESOT”) charged in the prior period. Operating profit was broadly in line with profits before tax after adding a marginal $22,000 in finance income. The group then posted earnings of $5.3m reflecting an EPS of $0.26 while a dividend per share of $0.30 was awarded to the company’s shareholders inclusive of an additional $0.04 from retained earnings. The group’s balance sheet stood at $29.7m down 3% from its year opening level with $13.0m representing the company’s equity.

## Operations review

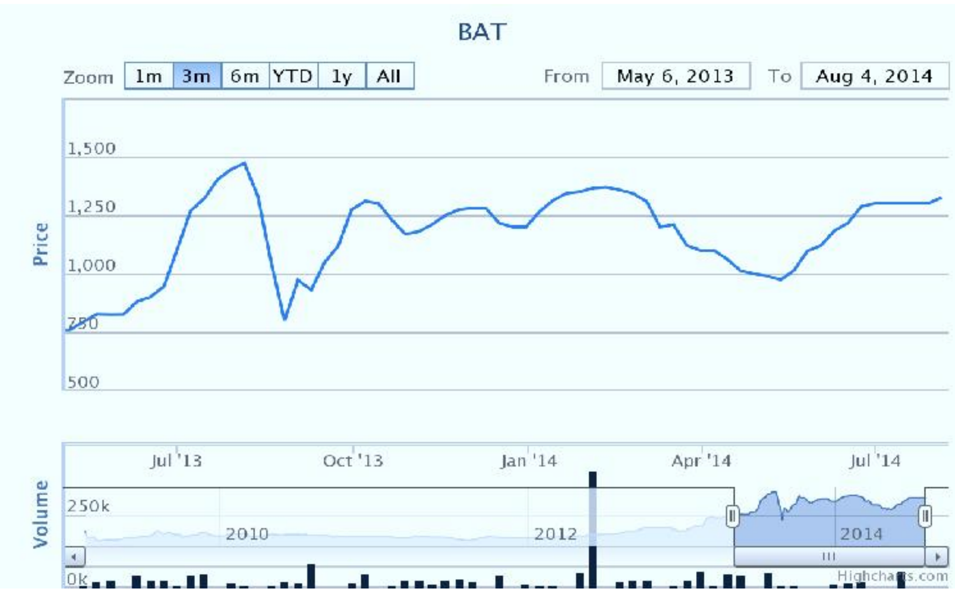
The 12% drop in revenues relates to the discontinuation of non-core cut rag sales in June 2013 while revenues from sales of manufactured cigarettes were broadly in line with the previous period. GP margins decline were a result of increased depreciation charges and after capitalized refurbishment costs of upgrades to manufacturing equipment. Costs of packaging were also higher due to growth in sales of 10s-format brands while salary awards to employees and higher utilities charges also depressed margins. Cigarette sales volumes were in line with the same period last year as the group’s leading brands Madison and Everest maintained sales volumes while premium international brand offering, Dunhill, exhibited growth with volumes increasing 65%.

## Valuation

BAT’s interim numbers continues to reemphasize the company’s solid footing in the cigarette industry in Zimbabwe and we believe the same strength should be exhibited in future performances. Following the stoppage of Cutrag export the two recently reported successive halves indicate an almost flat topline performance and we do not expect much change going into the second half of the ensuing year to leave us with a forecast of $41.8m in revenues. H1 margins should be sustainable in the second half to leave the group with expected gross profit and profit after tax at $28.4m and $11.7m respectively. The stock is currently trading at an adjusted twelve months trailing P/E multiple of 25.5x, while our

| | BAT.ZI | Industry | Sector |
|---|---|---|---|
| P/E (TTM): | 111.98 | 27.18 | 33.78 |
| EPS (TTM): | 0.12 | -- | -- |
| ROI: | 26.13 | 69.41 | 60.1 |
| ROE: | 30.39 | 75.02 | 66.71 |

SOURCE:REUTERS

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forecast place them at a P/E+1 of 22.9x, both of which compare quite favorably for valuations against Industry average pegged at 27.18x. Based on the industry average PE discounted 10% we arrived at a target value of $286.1m on BAT, (Target Price 1412.29c), implying an upside of 7%. BAT established itself as one of the top performers on the ZSE supported by some solid financial performances capped with attractive dividend rewards to shareholders.

Despite the economy wide weak demand we remain bullish on the company's potential to continue rewarding shareholders evidenced by almost flat performances by the group in the recent successive half year periods. Clearly the potential for capital gains on the stock are now limited but the attraction to BAT lies in the generous dividend pay-out. This quality should be sustained as the company rides on the strong brand equity and market leadership of their products that has seen them being pegged at a market share in excess of 75% which is an impressive feat for a company operating in a mature market. Resembling this maturity is the customer loyalty, both to the products and to the group brands that should see British American Tobacco maintain or even improve performances irregardless of the the challenging economic environment. **BUY**



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