Asia-Pacific and Middle East

“Growth was driven by volume recovery in Pakistan as well as strong performance of glo in Japan”

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Key markets
Australia, Bangladesh, Cambodia, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, New Zealand, Pakistan, Sri Lanka, Taiwan, Vietnam

Volume and Market Share
In 2018, volume was up 0.7% at 228 billion sticks driven by the recovery in the combustibles volume in Pakistan (following the revision to the excise structure that negatively impacted the equivalent period in 2017) and the performance of glo in Japan and South Korea with sales of 6.5 billion sticks in the period. This growth in volume was partly offset by lower volume in the Middle East, largely due to the impact of a 2017 excise-led price increase in Saudi Arabia and the difficult trading environment in a number of countries in the Middle East. Volume was lower in Bangladesh due to higher illicit trade following an increase in excise, with Indonesia lower due to market contraction. Volume decreases have slowed in Malaysia after a period of accelerated decline following the excise changes in prior years.

Market share in the region was up 110 bps. Kent (including THP sticks) was up in Japan (which was partly due to a growing share of glo, up 340 bps), with Dunhill and Lucky Strike higher in Indonesia. Pall Mall grew in Pakistan, Australia and particularly in Saudi Arabia, where the Group became market leader. The Group also grew Rothmans in Malaysia and increased total market share in Bangladesh. This growth was partially offset by lower market share in South Korea, due to a reduction in Dunhill partly driven by the growth of the THP segment and a reduction in Taiwan driven by Dunhill and Pall Mall.

Volume was lower in 2017 (down 1.0% at 226 billion). glo was launched nationally in Japan and South Korea, performing well with national market share in Japan reaching 3.6% in December 2017. Volume from glo and cigarette volume growth in Bangladesh and Gulf Cooperation Council countries (GCC) was more than offset by the lower combustible volume in Japan and industry volume decline in Malaysia, Pakistan and South Korea. Market share was higher, up 50 bps, with growth in Bangladesh, Japan, Pakistan and Australia, driven by Lucky Strike, Pall Mall and Rothmans, more than offsetting lower market share in Malaysia and Indonesia, which was due to down-trading.

Revenue
In 2018, revenue declined 1.8% to £4,882 million, as pricing, higher volume (discussed earlier) and the positive mix effect, largely in Japan through the growth in glo, was offset by a combination of inventory movements in the prior year, down-trading in Saudi Arabia and by the foreign exchange headwinds related to the relative strength of sterling. Excluding the translational foreign exchange headwind, constant currency, adjusted revenue, on a representative basis grew 5.7%.

In 2017, revenue was up by 4.3% at £4,973 million due to the combination of volume and pricing, notably in Bangladesh, Australia and New Zealand, revenue from glo following the roll-out and subsequent growth in Japan and South Korea, and the positive impact of the devaluation in sterling on the reported results. This more than offset the impact of down-trading in Malaysia and Saudi Arabia, and the industry contraction combined with growth in illicit trade in Pakistan. Excluding the positive currency effect, on a constant exchange rate basis, adjusted revenue was marginally higher than 2016, up 0.2% to £4,776 million.

In 2018, profit from operations declined 2.3% to £1,858 million, as the performance was negatively affected by foreign exchange headwinds and adjusting items related to the ongoing costs of the Group’s restructuring programme. Adjusted profit from operations on a representative constant currency basis grew 1.2% to £2,099 million driven by an improvement in Japan, where the performance of both combustibles and THP more than offset the higher marketing investment, and increases in Australia, Pakistan and Bangladesh. These were partly offset by Saudi Arabia which was negatively impacted by down-trading, described above, and South Korea.

Profit from operations was 7.2% higher in 2017 at £1,902 million, as the growth in revenue, and transactional foreign exchange tailwinds notably due to the relative movements in the US dollar and euro against the Japanese yen, were partly offset by the investment behind glo in Japan and South Korea and negative mix effects from down-trading in Malaysia and Saudi Arabia. Before adjusting items, which mainly related to the Malaysian factory closure and the amortisation of trademarks, and the impact of exchange rate movements on the reported results, adjusted profit from operations on a constant currency basis was down 0.5% at £1,962 million.