



British American Tobacco

Half-year results 2015

Ben Stevens, FD

Earnings

Q: What's your take on these numbers? And can you run through the financials?

A: Yes, I think these are a very good set of results for the first half of 2015. We always said it would be a difficult first half, given the strength of the comparator we had with the first half of 2014, and indeed, some of the market conditions in markets like Australia. But despite that, we've delivered revenue growth of 2.4%, we delivered operating profit growth of 1.3% and EPS growth of 3.9%. And the strength of the pound I think disguises the underlying performance of that, because if you add back transactional FX into those numbers, then you'll see that our operating profit growth was in excess of 5%, and our EPS growth was in excess of 8%, which I think is a very strong performance for BAT.

Margins

Q: What impact did transactional FX then have on margin?

A: We've managed to hold our operating margin flat for the first half of the year, which is a strong performance, when you think of the size of the transactional headwinds we've had, and we still hope to be increasing operating margin for the full year of 2015.

Q: Now, you're approaching 40% margins. Can you grow margins still further, beyond 40%?

A: Well, we've always seen 40% as a milestone, not as a destination in terms of operating margin growth. We've said that when we cross 40%, we will pause and give further guidance about how we see operating

margin growing. But operating margin was 38.7% for the full year last year, so we've still got some way to go before we cross that 40% line. However, I'm confident that we can continue to increase margins beyond that figure.

Balance sheet

Q: And you've been quite acquisitive on a few fronts. Where does this leave the debt and where does this leave gearing ratios?

A: Yes, net debt to EBITDA will be slightly higher than the 2.5 upper boundary we set ourselves if we complete the acquisition in Brazil of the shares in Souza Cruz that we don't own, and of course, we've got the acquisition of TDR as well to complete in the second half of the year. But we expect those net debt to EBITDA figures to come back down in line with the 1.5 times to 2.5 times guidance within two years.

Q: And when might you restart your share buyback programme?

A: We've said that we have a priority in terms of growing the dividend, and we grew the dividend last year despite the fact that our earnings were significantly affected by FX. And we've always said that the second priority would be to make financially and strategically attractive acquisitions, and that's exactly what we've done with the deal in America; deals we hope to do in Brazil; deals in Croatia. So I think those are the first two priorities. But to the extent that we have spare balance sheet capacity after growing the dividend and after making attractive acquisitions, then we'll reconsider restarting the buyback. And I think that would be not before 2017.

Financial outlook

How do you view the financial outlook?

I think the financial outlook is going to be affected by FX. The pound is strengthening as we speak, so the transactional FX, which was around 4% of operating profit level in the first half of the year, will probably be something like 8% in the second half of the year, probably around 6% for the full year. And then on translational FX, if that was 7% in the first half of the year, we think that'll be something like 11% in the second half of the year, and around 9% for the year as a whole. So FX will play a

major factor in our reported results going forward during the course of this year.

[End]