

Malaysia may raise tobacco taxes 11pc

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Tuesday, 08 September 2009 14:57 - Last Updated Tuesday, 08 September 2009 15:40

Published: 2009/09/08
The Malaysian government may raise tobacco taxes by at least 11 per cent as it takes steps to discourage smoking and cut its budget deficit, according to Maybank Investment Bank Bhd.

The excise duty on cigarettes may be increased by 2 sen to 20 sen (5.7 cents) a stick when the government unveils next year's budget on October 23, Khair Mirza, a Maybank analyst in Kuala Lumpur, said in a report today. He kept a neutral rating on Malaysia's tobacco stocks.

The government plans to narrow its 2010 budget shortfall to less than the 7.6 per cent of gross domestic product projected for this year, Second Finance Minister Ahmad Husni Hanadzlah said August 18. Malaysia raised the tax on cigarettes sold by companies including British American Tobacco (Malaysia) Bhd by 20 per cent in August 2008 to help offset its widening deficit.

Whilst sales have dipped as excise duties on cigarettes are raised, neither consumption, excise duties collected nor corporate profits have dipped, Khair said. The increase next month could be higher if the government chooses to simplify the masses of duties and taxes on cigarettes to lower import duties under a regional free trade agreement next year, he said.

JT International Bhd, the country's second-largest publicly traded cigarette maker, has climbed 6.8 per cent this year to RM4.74, compared with a 36 per cent increase in the benchmark FTSE Bursa Malaysia KLCI Index.

Maybank has a buy rating on the company that sells Winston and More cigarettes, with a target price of RM5.30.

Ban on Small Packs

The bank has a hold rating for British American, the country's biggest cigarette maker, with a target price of RM44.75. British American, which sells the Dunhill, Benson & Hedges and Pall Mall brands, has risen 2.3 per cent this year to RM45.52.

Malaysia will impose a ban on the sale of cigarettes packs of less than 20 sticks in the first quarter of 2010, after making companies put graphic health warnings on all cigarette packs this year, Khair said.

We expect JTI's prospects to be largely unencumbered by the impending changes, Khair said. British American, which is more reliant on the higher-margin smaller packs, might fare less well, he added.

British American had its stock rating cut to hold from buy last month by HWANGDBS Vickers Research Sdn Bhd, which said a possible increase in taxes in the upcoming budget may hurt earnings.

We would consider any sell-down in the tobacco counters due to a larger-than-expected excise duty hike as a buying opportunity, Khair said. -- Bloomberg

Source: <http://www.btimes.com.my/articles/20090908133902/Article/>