BATU net profit drops to Shs20b

The company continues to shed off its leaf buying business.

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KAMPALA. As it had warned shareholders in December last year, British American Tobacco Uganda (BATU) revealed that net profit in 2015 had declined by 56.5per cent to Shs20.3billion.

In its audited financial results released last week, the company could not repeat the record net profit of Shs36.7billion it realised in 2014. The fall in net profit was due to a drop in revenues as the company continues to shed off the tobacco leaf buying business.

"Cigarette revenues increased by 6 per cent mainly driven by higher prices in the second half of 2015. However, total revenues were 26 per cent lower as a result of lower leaf export volumes following the discontinuation of leaf business in 2014," a statement released with the financial results reads.

The drop in profitability is not surprising. The tobacco company issued a profit warning in November 2015 telling shareholders that profit would "significantly lower than last year's (2014)." Adding that the "exceptional profits obtained from the sale of Kampala's green leaf threshing at the end of 2014," were responsible for the record profit at the time.

Additionally, the company shed the leaf buying business, meaning that revenue from that segment was expected to drop.

The result was revenue dropping to Shs249.3 billion in 2015 from Shs338 billion in 2014.

TOBACCO CONTROL LAW

BATU faces a new challenge. In September 2015, President Museveni assented to the Tobacco Control Act 2015, a law that had been opposed by tobacco companies. The law bans all forms of advertising, sponsorship and promotion of tobacco products.

The company financials reveal a low impact of the rise in taxation on the cigarette sales.

Notably, even with a 29 per cent increment in excise duty at the start of the financial year in July 2015, cigarette sales in terms of volume only dropped by 2 per cent.

BATU's board maintained its 100 per cent dividend policy for yet another year. The board recommended that the entire net profit will be paid out to shareholders for Shs413 per share down from Shs749 per share in 2014.

The market has been largely positive even after a profit warning was issued, with BATU's share price rising from Shs8475 in September 2015 to Shs30,000 by the end of trading on Friday.