

Able to do stock rotation easily

Maintain the optimal attractiveness of the product

Protect the cigarettes against foreign odours

Reduce the level of cigarettes pilferage (not easily stolen by consumer)

Reinforce the advertising messages.

- **Promotions**

The promotions include:

Indoor: sports, festive promotion, and stadium

Outdoor: set up kiosk at fair

6 THE TOBACCO INDUSTRY

6.1 Consumption & market shares

The Malaysian duty-paid cigarette market is approximately 21 billion sticks. In addition, contraband cigarettes have accounted for 10-15% of Malaysian consumption, according to industry sources. These are mainly *kretek*, clove-flavoured cigarettes from Indonesia, smuggled into East Malaysia.

The Malaysian market can be divided into "premium" and "value" brands. Premium brands are currently selling for retail price of RM4.30 per pack of 20s; value brands are selling for RM3.10 per pack of 20s. Leading premium brands are Dunhill Salem, Marlboro, Benson & Hedges, Peter Stuyvesant and Kent. Leading value brands include Perilly's, Winston and More. Malaysians have been "trading up" to premium brands as income-levels rise. Premium brands account for 75-80% of the total market, up from 60-65% in 1991.

RJR Malaysia enjoys operating margins that are 1.2-2 times fatter than its competitors. Unit costs are lower than the competitors' because each RM spent is spread over a greater volume of sales. The more

RJR Malaysia invests in brand building, the greater its market share. The greater its market share, the greater the economies of scale, the higher the margin, and the more the company can reinvest in its brands!

6.2 Competitors Background

Rothmans of Pall Mall

The Company's tobacco manufacturing operation has now been transferred to its wholly owned subsidiary, Tobacco Importers and Manufacturers Sdn. Bhd. (TIM); a company incorporated in Malaysia on 26th October 1961. Its Marketing operation has been transferred to a wholly-owned subsidiary, Cigarette Importers and Distribution Sdn. Bhd. (CID), a company incorporated in Malaysia on 26th October 1961. Leaf Tobacco Development Corporation (LTDC) was incorporated in March, 1963, to undertake the management of local leaf tobacco growing projects. Rothmans of Pall Mall (Malaysia) Berhad (RPMM) will remain the investment holding company providing administrative and financial services to TIM and CID and to others in the RPMM Group of Companies.

Rothmans of Pall Mall Malaysia's principal activities are concentrated in the manufacturing, importation, distribution, and sale, of cigarettes, pipe tobacco, cigars and other tobacco products in Malaysia. In addition, they are also involved in the printing and packaging industry and travel business through associated and subsidiary companies. Rothmans Malaysia holds 26.2% of Tien Wah Press Holdings, which is in the printing and packaging business. A wholly owned subsidiary, Peter Stuyvesant Travel Services, operates a travel agency. Rothmans Malaysia International holds 50% of the shares outstanding.

Malaysia Tobacco Co. Berhad

MTC manufacturer, import and markets cigarettes and other tobacco product for the Malaysia market. The company also purchases and

processes leaf tobacco for use in its manufacturing operations. Core cigarettes brands are Benson & Hedges and Kent, part of the premium segment of the Malaysia cigarette market, which is growing faster than the overall Malaysia market. In June 1996, the company launched a new Kent Fresh. John Player and State Express 555 are some of the cigarette brand name manufacturer by MTC. Other operations, which include apparel retailing and travel and restaurant services, which account for only a minor amount of the company revenues, and are connected with tobacco product marketing efforts. Apparel retailing is conducted through the Lucky Strike Originals subsidiary; travel services are provided through the Kent Horizon Tours subsidiary; and restaurant services through the contemporary Force/Benson & Hedges Bistro subsidiary. MTC has market share of 18% in Malaysia. Its parent company BAT is the second largest tobacco firm.

Philip Morris Malaysia

All the cigarettes companies are listed in KLSE except Philip Morris. Its strong cigarettes brand name under Marlboro has 12% of market share in Malaysia.

6.3 Trend and Outlook

The Malaysian cigarette market is expected to grow 3-5% per annum for the next few years. Malaysia is still a developing country with a relatively high prevalence of smoking. Regulation appears benign, and excise duties and cigarette prices are relatively low. The tobacco companies are expected to raise approximately 3% per annum without affecting demand. It is believed that strong economic growth and income gains will more than offset the impact of price increases.

Longer-term, I expect cigarette demand to slow down. Government anti-smoking measures may become stricter as Malaysians become more health-conscious. While there are fears that tobacco companies in Malaysia may face damage claims for treating smoking-related

illnesses and/or higher excise duties, it is believed that the risks are manageable. The companies could make up for any potential claims from the government or private individuals by raising prices or cutting back on advertising. Unlike most developed countries, cigarette consumption in Malaysia is still growing.

6.4 Competitors' Performance Analysis

Business Segment Breakdown

Rothmans of Pall Mall (Malaysia) Bhd (RPMM) -all figures in RM millions

	1998	1997	1996	1995	3-Year Average
Revenues Tobacco	N/a	1764.5	1597.4	1445.1	1602.3
Operating Income	N/a	518.6	481.1	408.7	469.5

RJ Reynolds Tobacco Co. Berhad (RJR) -all figures in RM millions

	1998	1997	1996	1995	4-Year Average
Revenues Tobacco	641.6	649.2	604.7	569.25	616.2
Operating Income	101.6	137.3	141.9	133.8	128.7

Malaysian Tobacco Company Berhad (MTC) -all figures in RM millions

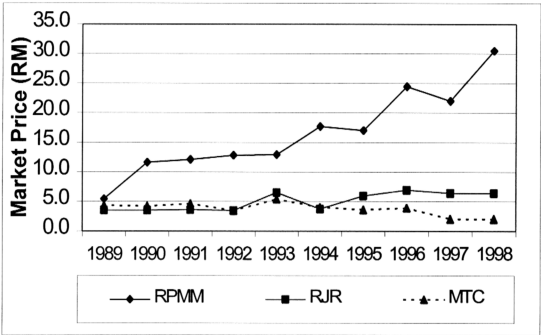
		1997	1996	1995	3-Year Average
Revenues Tobacco	N/a	525.8	538.1	537.6	533.8
Operating Income	N/a	N/a	37.4	62.7	50.1

N/a : data not available

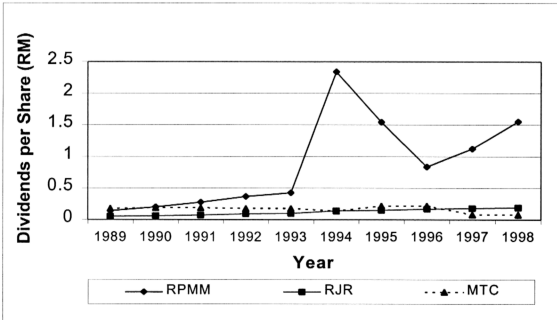
General Financial Highlights of KLSE- Listed Tobacco Companies

	RPMM	RJR	MTC
Common Shares	285,530,000	261,534,406	202,500,000
Current Market Capital	5,910,471,000	1,063,428,312	392,850,000
Share Type	Ordinary	Ordinary	Ordinary
Major Industry	Tobacco	Tobacco	Tobacco
Sub-Industry	Miscellaneous Tobacco	Miscellaneous Tobacco	Cigarette
Products	Consumer Expendables	Consumer Expendables	Consumer Expendables
PE Ratio	12.90	15.5	53.2
Current Price @ 23.12.99 (RM)	28.50	4.38	3.78

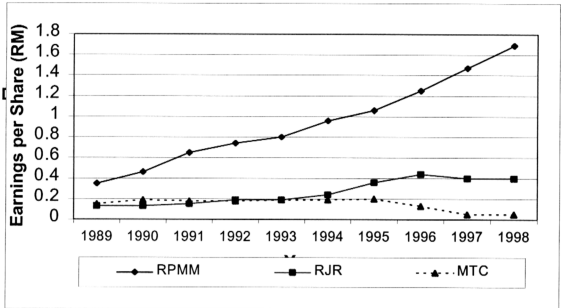
Price Analysis



Dividends per share



Earnings per share



In general, tobacco companies have long been favourites of investors, as they are well known for being cash rich. Their large cash piles will enhance investment income in the current high interest rate environment. Investors are also assured of sustainable high dividend income from their investment.

From the above analysis and comparison among the three major cigarette companies, obviously RJR Malaysia is the 2nd. largest tobacco companies in Malaysia and has a tremendous edge over its competitors. It enjoys economies of scale, which allow it to achieve high profit margins and its strong brand help it to maintain its market share