

# Investing in British American Tobacco South Africa

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## Abstract—

### I. INTRODUCTION

The ability to invest in stocks is an advantageous one for students. This is because early investing allows the investor to reap the full benefits of compound interest. The investment can be allowed to mature for years in the case of students thus giving them a financially stable start to life after university [7]. In the modern day, as technology has availed a wealth of information and digital platforms to make investing easier, investing has become less strenuous to learn.

This report presents the details of a R100 000 investment into the British British American Tobacco South Africa (BATSA) company. This company is chosen because...

This paper first presents a background of the project followed by a discussion of the *Consumer goods and services* sector of the Johannesburg Stock Exchange (JSE). A quarterly analysis of the BATSA company is then presented followed by a description of its future prospects that prove it to be an attractive investment. The report then concludes with a short summary and a conclusion on the chosen company.

### II. BACKGROUND

A group of four students has been tasked with investing R100 000 into a sector(s) in the JSE. The money is to be invested in such a way that the capital growth is maximized over the next twelve months. An analysis of the sectors of the JSE is to be done so as to select the most stable sector to invest in thus maximizing the probability of capital growth. Analysis tools such as the JSE's All-share index (ALSI), economic outlook reports from various sources and companies' financial reports for the past year are used to select a stock that is predicted to maximize the capital growth of the investment over the next twelve months. The process used in selecting the stock involves selecting a well performing sector followed by selecting a well performing company in that sector then only investing in the company after confirming its stability and positive economic outlook for the next twelve months. Appendix A presents a flow chart of how the investment is selected. This project aims to give the students experience in using available tools to investigate the stability of a sector in the JSE, understand the effects of macroeconomic events on the value of stock, understand how to use a company's financial reports to determine its stability and also to use a company's financial outlook to determine

the likelihood of capital growth should an investment be made in it.

### III. CHOOSING AN INVESTMENT IN THE JSE

In order to make an investment, the sectors of the JSE are first analysed so as to assess their stability and growth. This analysis narrows the search for a stable share that has a high likelihood of capital growth as the share will most likely exist in the most stable sector that has grown consistently over the past year. The stability of a company is an important factor as the more stable companies are easier to analyse with a comfortable level of certainty. A more confident analysis gives the investor peace of mind on the truthfulness of a prediction. This section discusses the reasoning behind the choosing the *Consumer goods and services* sector and also the BATSA company.

According to the 2017 budget review [10] released by the Department of the National Treasury South Africa, the *Consumer goods and services* sector was the main contributor to economic growth and job creation in 2016. This is found not to be a recent trend as an economic output presentation by STANLIB in 2013 [11] claims that although the South African economy had recovered after the 2008 crash, the recovery was mostly consumer based rather than production based. Consequently the *Consumer goods and services* sector had outperformed all the other sectors and accounted for 70% of the economy. This leads to the observation that the *Consumer goods and services* sector and has grown steadily over the past year and is likely to continue to do so for the next year as the Department of the National Treasury South Africa predicts an economic growth of 1.3% in 2017 and 2% in 2018.

To further the investigation into the stability of the *Consumer goods and services* sector the closing prices for the past year of four large companies in the sector are investigated. The stability of these companies further suggests the stability of the sector and presents four potential shares to invest in. Appendix B presents the closing prices for BATSA, Capevin Holdings Ltd, Anheuser-Busch InBev SA NV and Tiger Brands Limited. Although some of the shares have decreased in share price over the past year the closing prices show a trend of stability from the four companies thus further confirming the stability of the sector. BATSA tops the charts in the JSE top 40 [5] and its current drop in share price provides an opportunity to potentially buy and profitable

share for a cheap price. BATSA is thus further investigation as a potential investment.

#### IV. FUTURE PROSPECTS OF BRITISH AMERICAN TOBACCO(BAT)

BAT is responsible for the sale of 90% of the cigarettes sold to around 6.5 *million* adult smokers in South Africa. BAT also possesses around 200 trademarks which has resulted in it being one of the biggest marketshares worldwide [12]. South Africa currently holds the third largest share of the profits generated by BAT worldwide with a percentage figure of 8% [12]. Since the majority of their profits are generated internationally, BAT has reduced risk on political and economic events that take place in South Africa.

It has been reported that their volume of cigarettes drops by 1.2% annually as a result of a decrease in the number of smokers [9]. This results in less cigarettes sold and a decrease in cost of production. The company growth also does not benefit from advertising due to the regulations in South Africa.

The company still experiences growth since the price of cigarettes increases annually by 4% – 6% [12] which provides a potential sales growth of 3%–4%. The acquisition of 57.8% of Reynolds American Inc [6] also suggests that more growth can be expected from BAT in the next couple of years especially in the electronic cigarette market where they are planning on increasing their presence from 15 to 40 markets by the year 2020. The electronic cigarettes, which trade under the Vype trademark, include non-warming and non-burning cigarettes that provide less risky alternative to smoking.

The future venture of BAT into a sustainable pipeline of products while maintaining their high quality distribution shows a good deal of innovation and will play a very key role in their future growth. The BAT has also invested \$1 billion in the research and development of these next generation products which could possibly give them an edge over their closest competitor Phillips Morris due to the expected rise in e-cigarettes demand [8][9]. The above evidence leads to a reasonable expectation that BAT will outperform markets in the future.

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## APPENDIX

### A. Flow diagram of investment selection

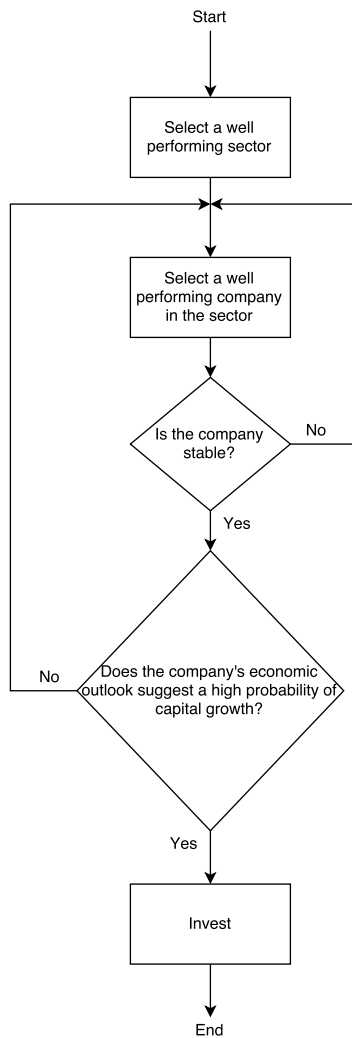


Fig. 1. Flow diagram of investment selection

### B. Closing prices of shares from the Consumer goods and services sector



Fig. 2. Closing prices for BATSA [2]



Fig. 3. Closing prices Capevin Holdings Ltd [3]



Fig. 4. Closing prices for Anheuser-Busch InBev SA NV [1]



Fig. 5. Closing prices for Tiger Brands Limited [4]