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JTI increases market share and revenue during the first nine months of the year

By **Ryan White** on November, 6 2013 | Spirits & Tobacco

Japan Tobacco International (JTI) recently announced in its nine-month earnings that year-on-year market share continued to grow in most key markets, including France, Italy, Spain, Taiwan, Turkey and the UK. Furthermore, in Russia, share of value and global flagship brand (GFB) share of market continued to increase.

From July to September 2013, JTI reports that core revenue at constant rates of exchange grew 5.7% driven by strong price/mix and compensating for the volume decline. Core revenue on a reported basis grew 3.3%. Nonetheless, the total pie is clearly shrinking and JTI isn't immune. The company reports that total and GFB shipment volume declined 5.1% and 1.8% respectively due to significant industry contraction in several key markets. A bright spot, however, lies in fine cut tobacco, with volume having grown 23.4% for the period.

In terms of the dollar figures for the period, core revenue at constant rates of exchange grew US$175 million, driven by US$262 million (+8.6%) in price/mix improvement, partially offset by negative volume. Adjusted EBITDA at constant rates of exchange increased US$211 million (+18.9%), driven by US$255 million (+22.9%) in price/mix improvement and cost phasing between the second and third quarter.

Adjusted EBITDA (at constant rates of exchange) for the period of January to September grew 11.1% driven by solid revenue growth. Core revenue at constant rates of exchange increased 4.6% for the nine months, driven by strong price/mix. Core revenue on a reported basis grew 2.4%, but again total and GFB shipment volume declined (5.1% and 2.1%, respectively). This was mainly due to continued industry contraction and trade inventory adjustments in a number of markets. Fine cut volume increased 27.6%.

Speaking of the first nine months in dollar figures, core revenue at constant rates of exchange increased US$404 million, driven by positive price/mix of US$737 million (+8.5%), more than compensating for a negative volume contribution. Adjusted EBITDA at constant rates of exchange grew US$356 million, driven by US$722 million (+22.6%) in price/mix improvement.

The Middle East falls under JTI's Rest-of-the-World business segment, where total and GFB shipment volume declined 7.8% and 4.6%, respectively. The company specifically mentions ongoing political instability in the Middle East, combined with general economic conditions, as factors contributing toward the results. The Rest-of-the-World volume decrease was partially offset, though, by positive performance in Canada, Taiwan and Tanzania. Notably, market share grew in Malaysia, Taiwan and Turkey.

With regard to the GFBs specifically, JTI reports that Winston shipment volume declined 1.0% due largely to ongoing political instability in the Middle East despite growth in the Caucasus markets, Germany, Italy, Romania, Russia and Taiwan. Camel shipment volume decreased 1.1% due to industry contraction in France, Italy, Spain and the Ukraine. This was partially offset by growth in the Benelux and Caucasus markets, Germany, Poland and Russia.

Mevius/Mild Seven shipment volume declined 1.1% mainly due to down-trading from the premium-price segment in Taiwan and industry contraction in Korea. Finally, LD shipment volume growth in the Caucasus markets, the Czech Republic, Hungary, Kazakhstan, Poland and the Ukraine did not fully offset a decline in Russia and Turkey, resulting in a 2.3% decrease in shipment volume.

Compared to the first nine months of 2012, total shipment volume declined 5.1% to 311.2 billion cigarette equivalent units, mainly due to industry contraction and trade inventory adjustments in several markets. Total shipment volume grew in the Benelux and Caucasus markets, the Czech Republic, France, Germany, Hungary and certain Middle East & Africa markets, including the Sudan.

GFB shipment volume decreased 2.1% to 198.2 billion cigarette equivalent units due to industry contraction, despite GFB shipment volume growth in Austria, the Benelux and the Caucasus markets, the Czech Republic, Germany, Hungary, Kazakhstan and Romania.

At constant rates of exchange, core revenue grew 4.6% to US$9,095 million driven by strong price/mix, more than compensating for a volume decline. Core revenue increased 2.4% to US$9,067 million on a reported basis.