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Imperial Tobacco

PRESS RELEASE:

First-Time Ratings Assigned to SITAB S.A.

WARA assigns first-time ratings to SITAB at BBB+/Stable/w-3

WARA's long-term rating on the Ivorian leader of the tobacco industry, a member of the Imperial Tobacco Group, is BBB+. The outlook is stable. It is the first time the African rating agency assigns a credit rating to SITAB.

Abidjan, 07/10/2016 — **West Africa Rating Agency** (WARA) has assigned its first-time ratings to Société Ivoirienne des Tabacs (**SITAB S.A.** or **SITAB**) On WARA's regional rating scale, the long-term rating of SITAB stands at "**BBB+**", in the investment grade category, and its short-term rating is "**w-3**". SITAB is the leader of Ivory Coast's tobacco industry. The outlook attached to these ratings is **stable**.

Simultaneously, on its international rating scale, WARA has assigned SITAB the following ratings and outlook: iB+/Stable/iw-5.

The ratings primarily reflect SITAB's position as the historical leader of the tobacco industry in Ivory Coast and the West African region, since 1956: the company indeed commands a market share of 60.5% at the end of May 2016. In addition, it is the only Ivorian player capable of manufacturing its own cigarettes locally, while its contenders import their products. SITAB can also rely on the most powerful cigarette brand in Ivory Coast: Fine is indeed the reference brand of domestic customers, as it controls 57% of the market at the end of May 2016. SITAB's financial position remains very healthy, although some pressure is arising due to the incremental decline of its market share: profitability is robust, asset turnover is high, leading to abundant liquidity and low levels of debt. The operating support provided by the Imperial Tobacco Group is a clear advantage, via brand and technical assistance agreements. On the other hand, SITAB is a "monoline" company relying essentially on price competition: the company's operating profile concentrates on one single line of business, for which price is a key driver of competitiveness, itself dependent on a tax structure that has become unfavorable. The Ivorian market's increasing attractiveness fuels the appetite of importers: the country is growing fast and, since 2015, imported brands benefit from a tax regime that is favorable to them, leading to a fast compression of SITAB's market share. Within Ivory Coast's tobacco industry, tax volatility has become a material source of risk: since 2012, tobacco taxes are neither stable nor satisfactory for all players, creating distortions capable of deeply reshaping the entire sector. In addition, like all other countries in the world, Ivory Coast faces increasing regulatory and sanitary pressure on the tobacco industry. Such constraints lead to declining volumes: the Ivorian market for cigarettes fell by 2.9% between May 2015 and May 2016. Logically, a market facing both regulatory pressure and price hikes attracts more fraudulent imports: in West Africa, cigarette smuggling accounts for 6% to 15% of volumes, which is a cost of opportunity for the sector's leading player.

SITAB's ratings do not incorporate any external support factors. Nevertheless, the ratings explicitly account for the continuous assistance and the brand advantage brought to SITAB by its reference shareholder, the Imperial Tobacco Group.

An upgrade of SITAB's ratings would depend on: i) improvements in the macroeconomic environment of the region in general, and that of Ivory Coast in particular, where purchasing power and consumption are growing sharply ; ii) the success of the company's revised commercial and marketing strategy, supposed to compensate, or at least slow down customer's increasing taste for imported cigarettes, as a result of the price distortion generated by the 2015 tax reform; and iii) the price hierarchy returning to normal, in line with the differences in cigarette quality, either because better quality products are unilaterally repriced upwards (which looks unlikely), or because the tax regime is once again amended in favor of local manufacturers.

A downgrade of SITAB's ratings would result from: i) another political, economic or health crisis affecting Ivory Coast; ii) a decline in market shares worse than WARA's expectations, which would in turn mean a material deterioration of its brand capital or a durable weakening of Fine's market position ; iii) regulatory risks quickly materializing, as a result of further sanitary pressure leading to a brutal drop of volumes; or iv) tax volatility worsening, making the market even less predictable and players' medium-term strategies more difficult to define and execute.

With a **stable** outlook, WARA signals that the probability of favorable scenarios is equivalent to that of unfavorable ones in the medium term, which means in other words that SITAB's ratings carry as many chances of an upgrade as risks of a downgrade, under the constraint of Ivory Coast's country ceiling, which WARA currently keeps at 'A'.

The methodology used by WARA to rate SITAB is the credit rating methodology for the industrial and commercial companies, which was published on 15 July 2012 and revised in September 2016, and is available on WARA's website (www.rating-africa.org).

Information sources used by WARA to perform credit ratings on SITAB are mainly private information collected during discussions with the company's management team from June to August 2016. This information, together with publicly available sources, is considered by WARA as relevant and sufficient for carrying out the credit ratings of SITAB.

Finally, WARA emphasizes that the credit ratings of SITAB were solicited and participating, meaning that the rating process was performed upon a request of the company, and that SITAB's management actively participated in the discussions with WARA's analytical team.

SITAB's first-time long-term, regional-scale rating of "**BBB+**" is 2 notches above the minimum credit rating accepted by the CREPMF to issue debt without a guarantee.

The comprehensive credit rating report is available upon request by e-mail at: infos@rating-africa.org

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