

MARCH 2023

ORBIT SECURITIES
COMPANY LIMITED



ANALYST'S NOTES ON

TCC's UNAUDITED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

PERFORMANCE OVERVIEW

Tanzania Cigarette Company (TCC) has demonstrated impressive financial performance in 2022, with its revenue increasing by 8.9% from TZS 312.9 billion in 2021 to TZS 340.6 billion in 2022.

This growth can be attributed to TCC's successful implementation of its route-to-market strategy, which has resulted in a 17.6% increase in total sales volume, both domestically and for export.

This is a remarkable achievement, considering the challenges faced by the tobacco industry, including high taxes and increasing health concerns.

TCC's profit margin has also seen a significant improvement, increasing by approximately 375 basis points to reach an impressive 31%.

Current Price On-Board (TZS)	17,000
Current Price Off-Board (TZS)	6000-7000
Date Established	1961
Year Listed	2000
IPO Price	410
Historical Price Range (TZS)	410-18,000
Market Cap (TZS)	1,700 Bln
Issued Shares (Mln)	100,000,000
Market Symbol	TCC
PE (x) * (Based on off-market price)	8.67*
PB (x) * (Based on off-market price)	3.75
ROE	43%
Net Profit Margin	20.32%



Cigarette companies enjoy significant cost advantages due to the low production costs of tobacco, which allows them to earn high profit margins. Tanzania Cigarette Company (TCC), like other cigarette manufacturers, benefits from brand loyalty and addiction, which makes the demand for their products relatively inelastic, giving them pricing power and further increasing their profits.

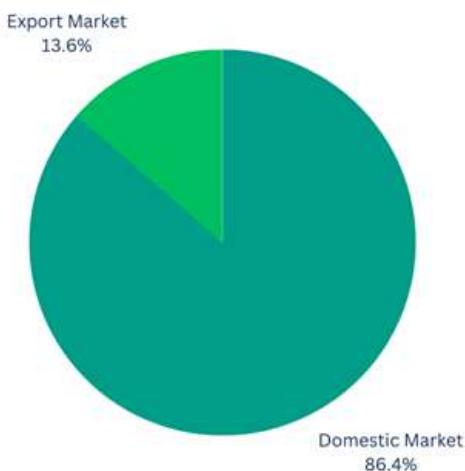
Tanzania Cigarette Company (TCC) has demonstrated impressive financial performance over the past five years, with a Compound Annual Growth Rate (CAGR) of 7.6% despite the challenges faced by the tobacco industry.

While the cost of sales has increased by 6.3%, which is typical of a growing business, TCC has successfully managed to decrease its operating expenses by 1.8%. As a result of its cost-efficient strategy, TCC's operating profits have grown by an impressive 24%, reaching TZS 106.8 billion.

Tanzania Cigarette Company (TCC) has delivered impressive financial results in 2022, with a 16% increase in its profit after tax to TZS 69 billion, compared to TZS 59.6 billion in 2021.

TCC's earnings per share have also increased to TZS 692. Moreover, the company has proposed a final gross dividend payment of TZS 370 per share, subject to approval at the annual general meeting in April 2023. Combined with the interim dividend paid in November, the total dividend paid will be TZS 670 per share. Although this is a lower amount than the total dividend paid in 2021, which included a special dividend of TZS 250 per share.

Disaggregation of Company Revenues (2021)



PERFORMANCE OVERVIEW

In 2022, Tanzania Cigarette Company (TCC) traded a total of 438,658 shares, with a total value of TZS 2.4 billion. The average traded price of TZS 6,000 per share was significantly lower than the closing price of TZS 17,000 per share. It is important to note that most of TCC's shares were traded on the pre-arranged board, in blocks.

OUTLOOK

Tanzania Cigarette Company (TCC) delivered impressive financial results in 2022, thanks to its management's efforts to enhance operational efficiency. The company implemented significant cost-cutting measures while simultaneously increasing its revenue, resulting in improved efficiency and profitability.

This success was partly due to TCC's ability to adjust its product mix and distribution in response to changing customer consumption patterns, such as the growing demand for more affordable brands like Sportsman.

TCC holds the largest market share in the domestic market, estimated to be between 65% and 80%, due to its long-standing relationships with customers and ability to deliver high-quality products. This has secured near-future sales and provided a stable foundation for long-term improvement in efficiency and profitability. TCC's export business to the Republic of Congo has also contributed to strengthening the market for its products.

However, the tobacco industry faces significant challenges from heavy global taxation aimed at discouraging tobacco production. This has squeezed margins for companies and created uncertainties for the future of the industry.

Therefore, TCC's future growth and profitability may depend on government policies on the conduct of the tobacco industry in Tanzania.

Despite these challenges, there may be opportunities for growth in emerging markets like the Democratic Republic of Congo and with alternative products. TCC's focus on operational efficiency, innovation, and customer satisfaction will be crucial in navigating these challenges and capitalizing on growth opportunities.



FOR MORE INFORMATION

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