



Research Report September



Highlights

- Market share of cigarettes selling below minimum tax owed up from 33.4% to 41.8% in the informal trade in three months;
- RG now the biggest-selling brand in the country overall, having cut price from R10.50 to R10 a pack and expanded distribution;
- Cigarettes selling below minimum collectable tax (MCT) now more widely distributed than most legal brands.



Methodology

The methodology used was a retail audit (mobile hawkers, taverns and shebeens were excluded from the retail universe in scope). Ipsos first conducted a retail census to estimate the size of the retail universe and then selected a representative sample from that universe to audit. It audited 2058 outlets and each one was audited twice, initially in June of this year and again in September/ October.

The research methodology has been peer reviewed by local and international research experts and academics. The research was commissioned by the Tobacco Institute of Southern Africa (TISA).

The study aims to examine sales in the retail universe below the minimum collectable tax (MCT) owed to SARS on each pack, which is R17.85 per pack of 20 or 90c per single cigarette.



Findings

Sales of tobacco products below the minimum tax due in the informal market have increased 25% - from 33.4% in June to 41.8% in October. This leap in sales has lifted Gold Leaf Tobacco Corporation's RG brand to the number 1 spot in sales, outselling all other brands in the market, including legal brands. We also examined sales below R22 per pack, which according to TISA is a more realistic benchmark for the break-even point on tax-paid packs of cigarettes. Some 47% of all sales in the informal trade are below R22. Full details of sales below and above MCT are disclosed in the Table below for all manufacturers and importers.

Sales below MCT are sold almost exclusively in the informal trade, which accounts for 82% of all tobacco sales.

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Packs retailing for as little as R5 can still be found in the market. Loose sticks going for just R0.50 are increasing in availability, as those selling at the R1.00 price point become less popular. The shift to below minimum tax products is more pronounced in table tops (hawkers) and independent superettes - where stick sales account for 90% and 70% respectively, as consumers are lured by ultra-cheap pricing and ready availability.

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This sales growth has been achieved by a major increase in the distribution of product selling below MCT, with RG and Best Tobacco's Caesar showing significant distribution gains. RG expanded distribution in 5 of our 9 provinces. It tripled its distribution in the Northern Cape and doubled in KwaZulu Natal, whilst maintaining strong distribution in other provinces. The effects of expanded distribution are largest in the Western Cape and North West provinces, where sales below MCT in informal shops have now overtaken tax-paid sales, exceeding 50% of overall sales in both provinces.

Gold Leaf Tobacco Corporation remains the dominant company by portfolio sales within the below-MCT trade, maintaining its leadership with 73% of total below-MCT sales. 89% of RG is still retailing for less than the R17.85 minimum tax due per pack, the MCT, and it is now averaging R10 per pack, R7.85 below the tax due. Best Tobacco Company's Caesar, also selling at R10 a pack on average, has made the second-biggest gain among brands selling below MCT by increasing its sales in the Eastern Cape. As a consequence of this, Best Tobacco's national share grew from 6.2% to 9.5%. 96.6% of Best Tobacco Company's sales are below MCT.



Conclusion

From the latest set of results, GLTC continues to grow rapidly and is on track to become the biggest tobacco company in South Africa off the back of a brand portfolio selling below MCT. RG sales growth in the past 3 months can be attributed to increased distribution of RG, which sells at an average of R10 for a pack of 20. 89% of RG retails below the MCT of R17.85.

It is clear from the latest set of results that consumption of products sold for less than the tax due has increased significantly in the last 3 months. These brands are investing heavily in distribution and stabilising supply into the market. GLTC and RG continue to dominate sales below MCT,

accounting for 73% of sales below R17.85, with RG now the biggest-selling brand in the country. The second-fastest growing brand in the market for below MCT cigarettes is Caesar from Best Tobacco, which has increased its share from 6.2% to 9.5% during the period, largely driven by its expansion into the Eastern Cape.

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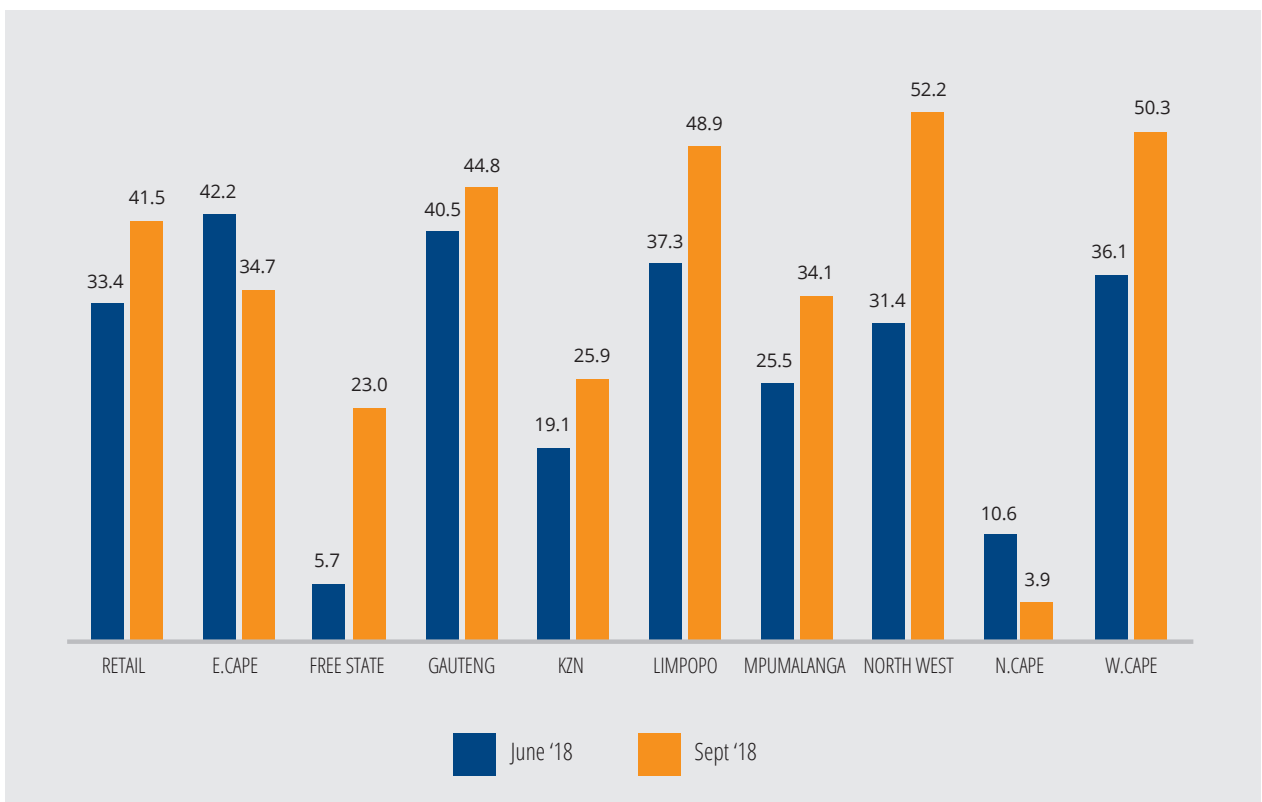


Charts

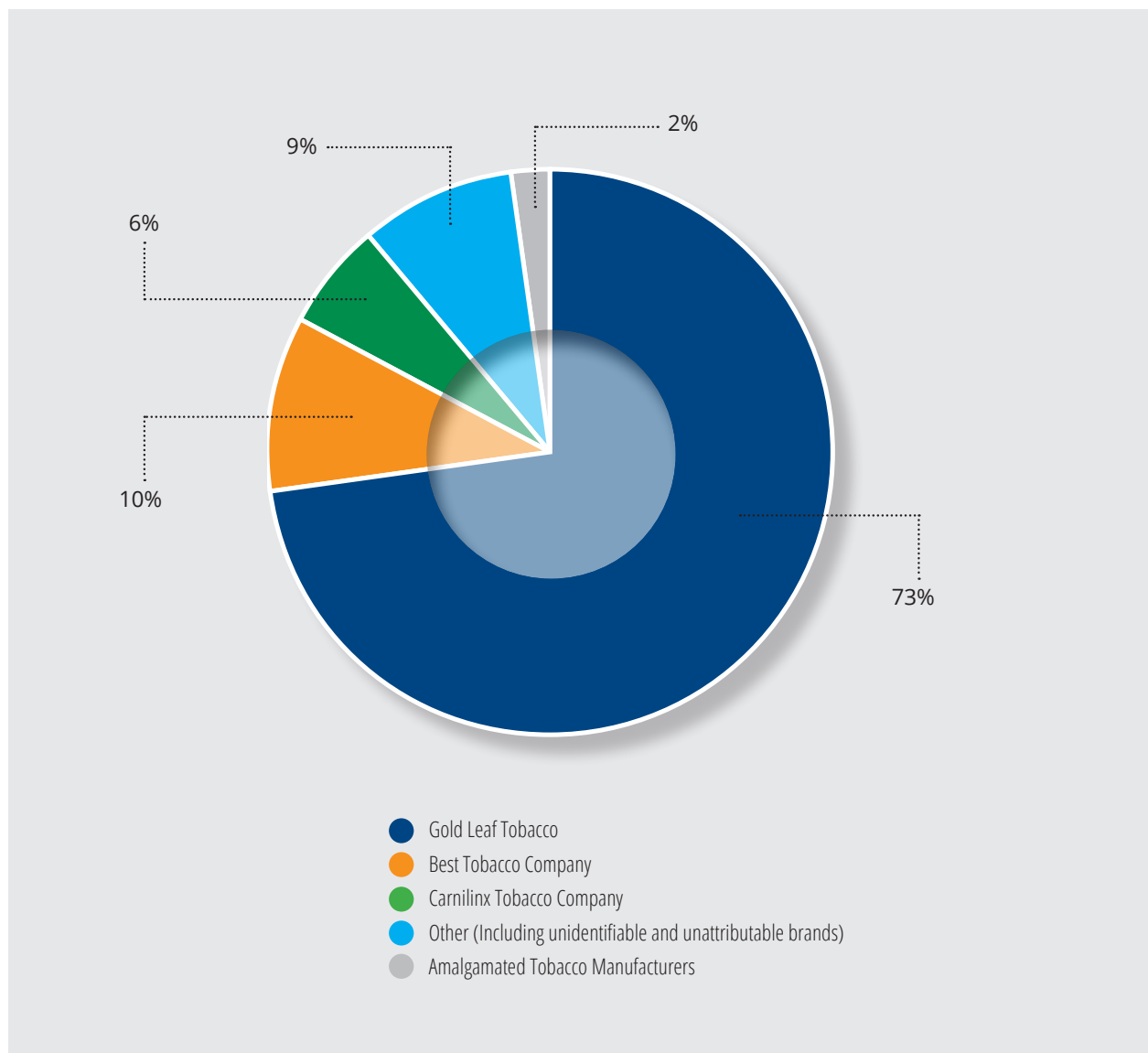
Incidence of below MCT products

	June - Wave 1	September - Wave 2	% Increase
Total Market	26.8 %	33.1 %	24%
Informal Market	33.4 %	41.8 %	25%

Sale of below MCT by Provincial Split (June vs Sept)



Wave 2 - Share of sales below MCT by brand owner



Top 10 brands – Market share of sales below MCT

#	Manufacturer/ Brand owner	Brand	Share of Illicit Wave 1	Share of Illicit Wave 2	Average Price (PACK PRICE)
1	Gold Leaf Tobacco	RG	50.5	55.4	R10.00
2	Gold Leaf Tobacco	Savannah	8.9	10.4	R15.00
3	Best Tobacco	Caesar	6.2	9.5	R10.00
4	Gold Leaf Tobacco	Chicago	5.8	4.6	R15.00
5	Carnillinx	Derby	0.8	3.0	R10.00
6	Savanah (Zim)	Pacific	2.3	2.2	R12.00
7	Carnillinx	JFK	1.8	2.2	R10.00
8	Amalgamated Tobacco	Carvela	1.7	1.8	R10.00
9	Protobac	Bastille	1.1	1.8	R10.00
10	Unspecified	Admiral	0.7	1.3	R10.00

All manufacturers - Percentage of manufacturer sales which are below MCT

	Total Monthly Sales in Wave 1 (June)	% of sales below MCT	Total Monthly Sales in Wave 2 (September)	% of sales below MCT
BAT	1 297 616 604,15	1,2%	1 094 508 462,25	0,9%
Gold Leaf Tobacco Company	635 384 563,49	77,8%	732 994 068,69	76,1%
JTI	210 683 721,36	0,3%	137 451 738,82	0,3%
PMI	137 151 228,90	1,7%	131 069 537,37	1,1%
BEST TOBACCO	44 206 269,44	93,1%	75 822 747,96	96,6%
Other*	62 504 801,12	61,6%	72 552 673,22	90,5%
SAVANAH ZIMBABWE	22 592 123,91	65,8%	23 279 517,47	71,4%
Carnilinx Tobacco Co	15 170 714,05	82,2%	19 400 635,19	91,9%
Almalgamated Tobacco Company	17 405 177,29	64,0%	17 771 439,31	78,3%
Middle East Tobacco Co	18 276 805,79	61,8%	12 100 191,46	78,7%
Mastermind TOB	17 637 965,07	80,9%	2 305 588,42	52,0%
Vawda Holding Co	1 633 830,76	80,5%	589 545,18	78,3%
Mccroft Tobacco Co	529 665,15	99,9%	227 128,51	98,8%
AFROBURG	519 246,91	55,8%	226 378,00	92,1%

Note: MCT defined at R17.85

*Other smaller brands or brands where manufacturer / origin cannot be identified.