



Stock SINvesting Made Simple

In the recent annual Budget presentation for Trinidad & Tobago, the Minister of Finance announced increases in the excise and import duties on cigarettes, tobacco and alcohol. For local drinkers it's been tough news to swallow and has left smokers fuming as chances are manufacturers of these products will pass on the increased cost to consumers. Not only the government and producers however, can profit from the increased 'price of vice'. Investors who are so inclined can benefit from these industries via various international and local equities commonly dubbed 'sin stocks'.

The tobacco and alcoholic beverage sectors have been historically less dependent on economic growth than others and generally offer earnings stability, dividend security, high visibility and reasonable valuations in an otherwise uncertain market environment.

Global cigarette demand is proving to be exceptionally resilient as prices are still relatively cheap compared to other consumer goods like toiletries or fast food. The trends within the international tobacco industry are extremely favourable, with pricing power strong and major competitors focusing on revenue as opposed to fighting over market share. The operations within international tobacco companies remain sound, with currency fluctuations being the principal risk. Foreign exchange risk has been reduced somewhat however, with the rebound in many emerging-market currencies. On the international front, for the most part, regulatory, legislation and excise-tax risk has not been major issue except in the case of some disruptive tax hikes in the Ukraine.

Philip Morris International (PM) is the second-largest tobacco company in the world behind only China National Tobacco, and commands almost 16% of the non-U.S. market. The firm owns seven of the leading 15 international brands, including Marlboro, the company's flagship brand that accounted for around 36% of total volume in 2008. Philip Morris has in fact improved its focus on innovation around the Marlboro brand with various line extensions and new packaging. Other key brands include L&M, Philip Morris, Bond Street, Chesterfield, Parliament, and Lark.

Philip Morris is the industry price leader with broad, geographic exposure and robust, relatively low-risk earnings growth. Moreover, the company is also cutting costs and aggressively buying back stock. Additionally, it boasts a dividend yield of over 4.5%, which is likely to increase going forward.

Philip Morris USA is the largest manufacturer and distributor of cigarettes in the U.S. and is a subsidiary of Altria Group Inc. (MO) which also holds Middleton, and Philip Morris Capital. John Middleton is the second-largest maker of machine-made cigars. Additionally, Altria has a 28.6% stake in SABMiller, the world's second largest brewer. Altria is also the world's leading manufacturer of moist smokeless tobacco products after acquiring UST. Shares of Altria (MO) may thus be a good investment to consider as well. MO currently boasts a fantastic dividend yield of 6.9%.

Another noteworthy tobacco-related stock is British American Tobacco PLC (BTI). The firm sells more than 300 tobacco brands in 180 countries and holds leadership positions in 50 of its markets, making it the third-largest global cigarette player behind China National Tobacco and Philip Morris International. British American's cigarette brands include Dunhill, Kent, Pall Mall, and Lucky Strike. The firm also sells roll-your-own and smokeless tobacco products. British American holds a 42% stake in Reynolds American. BTI has a dividend yield of 4.2%.

With regards to those wishing to take a shot in alcohol investments, brewers are poised to experience significant margin relief as costs such as barley and aluminum that were skyrocketing last year have fallen sharply. Anheuser-Busch InBev SA (AHBIY) is the largest brewer in the world, controlling about 25% of global volume, and owns four of the top 10 selling beers in the world. Its brands include Budweiser, Bud Light, Stella Artois, and Beck's. Anheuser-Busch InBev was created by the 2008 merger between Belgium-based InBev and U.S.-based Anheuser-Busch. InBev was formed in 2004 when Interbrew bought a majority stake in Brazil-based AmBev. The firm operates in major markets like Canada, Brazil, the U.S. and Western Europe. Investors should be wary though as the firm remains highly leveraged, with debt standing at more than 70% of capital plus they have currency risk exposure in the emerging markets.

Diageo PLC (DEO), which was formed from a merger between Grand Metropolitan and Guinness in 1997, is the world's leading producer of branded premium spirits. It also produces and markets beer and wine. Brands include Guinness stout, Smirnoff vodka, Tanqueray and Gordon's gins, Captain Morgan rum, Baileys Irish Cream, and Johnnie Walker scotch. Diageo also owns 34% of upscale champagne and cognac maker Moët Hennessy, a subsidiary of French luxury goods maker Moët Hennessy-Louis Vuitton. The company's competitive advantages have allowed it to maintain a 19% net profit margin and strong Return on Invested Capital (ROIC) of 18%. It has great cash flow, plus it has increased shareholder equity year over year. That aside, DEO's great dividend yield of 5.5% also makes it a worthwhile investment.

In terms of local equities, investors can purchase shares of West Indian Tobacco Co. Ltd. (WITCO) which has an attractive dividend yield of 9.4%. Investors can also consider shares in AnsaMcCal (AMCL) the makers of popular local beers Carib and Stag. AMCL has a dividend yield of 2.5%. Alcohol and tobacco can therefore truly yield 'high' results- in more ways than one.

Table 1: Regional Market Performance (as at 10 September 2009)

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
TTSE Composite	786.44	0.29	0.15	-6.70	-29.35
All Trinidad	1,099.11	0.30	-0.25	-4.82	-26.25
JSE Index	80,248.24	0.26	0.45	0.12	-24.25
JSE Select	1,805.57	1.18	-0.27	-9.03	-38.72
All Jamaica	65,588.56	0.60	-0.67	-11.36	-38.84
BSE Composite	847.81	0.12	0.63	-7.83	-20.85

Table 2: International Market Performance (as at 10 September 2009)

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
S&P 500	1,044.14	4.08	3.68	15.60	-15.25
Nasdaq Composite	2,084.02	5.08	4.61	32.15	-6.49
Dow Jones Industrial	9,627.48	3.03	3.10	9.70	-14.57
German Dax	5,594.77	5.53	3.26	16.31	-9.91
FTSE 100	4,987.68	3.98	5.62	12.48	-7.05
Nikkei 225	10,513.67	2.93	-0.10	20.20	-14.85
Hang Seng	21,069.56	6.62	0.67	46.44	5.35
DJ Eurostoxx	2,817.50	4.38	4.60	14.93	-13.09

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