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# BAT Bids \$1.72 Billion to Win Turkey's Tekel Auction

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BAT Bids \$1.72 Billion to Win Turkey's Tekel Auction (Update4) (<http://www.bloomberg.com/apps/quote?ticker°TS:LN>) will buy cigarette maker Tekel from the Turkish government for \$1.72 billion to eat into Philip Morris International's market lead in the nation.

BAT, the maker of Lucky Strike cigarettes, beat Citigroup (<http://www.bloomberg.com/apps/quote?ticker=C:US>) Venture Capital International, private-equity firm Cinven Ltd., and Turkey's Dogan Sirketler Grubu Holding AS in the bidding for Tekel, according to Ahmet Aksu ([http://search.bloomberg.com/search?q=Ahmet+Aksu&site=wnews&client=wnews&proxystylesheet=wnews&output=xml\\_no\\_dtd&ie=UTF-8&oe=UTF-8&filter=p&getfields=wnnis&sort=date:D:S:d1](http://search.bloomberg.com/search?q=Ahmet+Aksu&site=wnews&client=wnews&proxystylesheet=wnews&output=xml_no_dtd&ie=UTF-8&oe=UTF-8&filter=p&getfields=wnnis&sort=date:D:S:d1)) of the state asset-sale agency.

The auction was the third attempt to sell Tekel under a \$10 billion International Monetary Fund loan accord that aims to cut the state's role in the economy. Some 60 percent of Turkish men smoke, enhancing the nation's appeal to BAT, which is raising prices from Brazil to Vietnam and Russia. Emerging markets including Turkey, the world's eighth-largest tobacco market, are drawing investment as developed countries restrict smoking. ``Turkey is an interesting market, as it's one of the world's top 10,`` said Jonathan Fell

([http://search.bloomberg.com/search?q=Jonathan+Fell&site=wnews&client=wnews&proxystylesheet=wnews&output=xml\\_no\\_dtd&ie=UTF-8&oe=UTF-8&filter=p&getfields=wnnis&sort=date:D:S:d1](http://search.bloomberg.com/search?q=Jonathan+Fell&site=wnews&client=wnews&proxystylesheet=wnews&output=xml_no_dtd&ie=UTF-8&oe=UTF-8&filter=p&getfields=wnnis&sort=date:D:S:d1)), an analyst at Deutsche Bank AG in London with a ``buy`` rating on BAT. ``This is a chance to get an equal-ish market share with Philip Morris International. I can see why they're interested.``

The sale price topped the \$1 billion to \$1.6 billion valuation range for Tekel that JPMorgan Chase & Co. analysts estimated last year. BAT rose (<http://www.bloomberg.com/apps/quote?ticker°TS:LN>) 16 pence, or 0.9 percent, to 1,874 pence in trading in London, where the company is based. Altria Group Inc., (<http://www.bloomberg.com/apps/quote?ticker=MO:US>) the parent of Philip Morris International, advanced 21 cents, or 0.3 percent, to \$73.60 in New York. BAT has gained 19 percent in the past year, while Altria is up 15 percent.

## Market Share

``By putting the two companies together, you'll have more clout with the trade, and you'll have a platform on which to grow,`` Chief Executive Officer Paul Adams ([http://search.bloomberg.com/search?q=Paul+Adams&site=wnews&client=wnews&proxystylesheet=wnews&output=xml\\_no\\_dtd&ie=UTF-8&oe=UTF-8&filter=p&getfields=wnnis&sort=date:D:S:d1](http://search.bloomberg.com/search?q=Paul+Adams&site=wnews&client=wnews&proxystylesheet=wnews&output=xml_no_dtd&ie=UTF-8&oe=UTF-8&filter=p&getfields=wnnis&sort=date:D:S:d1)) said on a conference call. He said while he expects Tekel brands to lose share, BAT plans to locally expand its own labels, such as Pall Mall.

Tekel's market share in Turkey, where taxes are lower than in most western European countries, will rise from 7 percent to 36 percent after the sale, compared with the 41 percent held by Philip Morris International. BAT said Turkey's excise tax on cigarettes is about 58 percent. Cigarette tax

in European Union countries is about 62 percent to 83 percent of the retail price, depending on the country, according to the Tobacco Manufacturers' Association.

15,313 Employees

BAT is buying the rights to Tekel's brands, six factories and two years' inventory of tobacco. Tekel employs 15,313 people and posted a loss of 339.7 million liras (\$284 million) in 2006 on sales of 915.8 million liras, according to the sales agency.

Tekel's market share has dropped from an estimated 43 percent in 2003, according to JPMorgan, as smokers cut down on oriental tobacco blends and the country raised taxes.

The assets being bought had earnings before interest, tax, depreciation and amortization of \$151 million last year, BAT said. The company expects cost savings of 30 million pounds in the third year after the deal and will have related costs of 50 million pounds in 2008. The deal should boost profit from 2009.

The sale follows a record year for foreign direct investment in Turkey, which drew in \$21.9 billion in 2007, helping finance a record current-account deficit of \$38 billion.

Local anti-smoking laws may converge with western Europe's in time. The government in January passed legislation giving bars, cafes and restaurants have 18 months to become smoke-free.

Population

Population growth in Turkey will make up for any slowdown in consumption per capita, Adams said. He said Turks smoke an average of 19 cigarettes a day and expects the market to remain "pretty stable" by shipments, excluding a possible one-time drop of 5 percent over 12 to 15 months due to the smoking ban.

BAT, which was advised by Deutsche Bank AG, will pay in one single installment and will have support from banks, investment director Richard Hodgson

(<http://search.bloomberg.com/search?q=Richard+Hodgson&site=wnews&client=wnews&pro>

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s&sort=date:D:S:d1) told reporters in Ankara.

Tekel is BAT's first major acquisition since it bought Italy's former state tobacco company in 2003. BAT plans to seek loans or sell bonds in the next six to 18 months to refinance the purchase, Chief Financial Officer Paul Rayner

(<http://search.bloomberg.com/search?q=Paul+Rayner&site=wnews&client=wnews&pro>

[xystylesheet=wnews&output=xml\\_no\\_dtd&ie=UTF-8&oe=UTF-8&filter=p&getfields=wnni](http://search.bloomberg.com/search?q=Paul+Rayner&site=wnews&client=wnews&pro) is&sort=date:D:S:d1) said. BAT will maintain its current share buyback program, he added.

BAT said it would be interested in the Egyptian and Algerian cigarette monopolies. Adams last year repeatedly said prices of publicly traded cigarette makers were too high. It sat out a recent merger wave as Japan Tobacco Inc. bought Gallaher Group Plc and Imperial Tobacco Group Plc (<http://www.bloomberg.com/apps/quote?ticker=IMT:LN>) bought Altadis SA.

The British company said it expects to complete the purchase later this year, as it's subject to approval from competition regulators and Turkey's privatization council.

BAT said it will make an announcement about Tekel's employees later. Unions fear the sale may lead to closures.

`We think the sale of Tekel is a mistake,' said Mustafa Turkel ([http://search.bloomberg.com/search?q=MustafaTurkel&site=wnews&client=wnews&proxystylesheet=wnews&output=xml\\_no\\_dtd&ie=UTF-8&oe=UTF-8&filter=p&getfields=wnnis&sort=date:D:S:d1](http://search.bloomberg.com/search?q=MustafaTurkel&site=wnews&client=wnews&proxystylesheet=wnews&output=xml_no_dtd&ie=UTF-8&oe=UTF-8&filter=p&getfields=wnnis&sort=date:D:S:d1)) , head of the Tek-Gida union. `After the handover, do you think the factories in Tokat or Bitlis will continue operating? We will continue our opposition to privatization until the state provides guarantees to address workers' concerns.'`  
The government rejected a \$1.15 billion offer for Tekel from Tokyo-based Japan Tobacco (<http://www.bloomberg.com/apps/quote?ticker=2914:JP>) in 2003.  
To contact the reporter on this story: Ali Berat Meric ([http://search.bloomberg.com/search?q=Ali+Berat+Meric&site=wnews&client=wnews&proxystylesheet=wnews&output=xml\\_no\\_dtd&ie=UTF-8&oe=UTF-8&filter=p&getfields=wnnis&sort=date:D:S:d1](http://search.bloomberg.com/search?q=Ali+Berat+Meric&site=wnews&client=wnews&proxystylesheet=wnews&output=xml_no_dtd&ie=UTF-8&oe=UTF-8&filter=p&getfields=wnnis&sort=date:D:S:d1)) in Ankara at americ@bloomberg.net (<mailto:americ@bloomberg.net>) ;  
Thomas Mulier ([http://search.bloomberg.com/search?q=Thomas+Mulier&site=wnews&client=wnews&proxystylesheet=wnews&output=xml\\_no\\_dtd&ie=UTF-8&oe=UTF-8&filter=p&getfields=wnnis&sort=date:D:S:d1](http://search.bloomberg.com/search?q=Thomas+Mulier&site=wnews&client=wnews&proxystylesheet=wnews&output=xml_no_dtd&ie=UTF-8&oe=UTF-8&filter=p&getfields=wnnis&sort=date:D:S:d1)) in Geneva at tmulier@bloomberg.net (<mailto:tmulier@bloomberg.net>) . Last Updated: February 22, 2008 16:13 EST

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