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UCT research shows declines in tobacco shares since 2016

A study published in *Tobacco Control* by the University of Cape Town (UCT) academics from the School of Economics has revealed that tobacco shares have substantially underperformed the market since 2016.

The paper, titled "Investigating the financial case for investing in, or divesting from, tobacco investments", is based on Tim Evans's master's thesis, which was supervised by Professor Corné van Walbeek, the director of the Research Unit on the Economics of Excisable Products. Dr Ayesha Sayed, a senior lecturer in the Department of Finance and Tax, also contributed to the study.

In the paper, the authors considered nine of the 10 largest multinational tobacco companies and analysed aspects of their stock market and financial performance between 2008 and 2023. They found that tobacco shares greatly outperformed the market between 2008 and 2016, but this has reversed in the subsequent nine years.

"Cigarette sale volumes have been decreasing consistently over the 16-year period. In the earlier years, the tobacco companies were able to offset the decrease in sales volumes by increasing the average price per stick. However, in later years, this has become increasingly more difficult," the study stated.

Many established tobacco companies are diversifying into novel nicotine products (such as heated tobacco products, e-cigarettes and oral nicotine pouches) to offset the revenue lost from combustible cigarettes. Some, notably Philip Morris, have been more successful at this than others. While these new products will most certainly provide a new and growing revenue stream for established tobacco companies, the authors said that they are likely to cannibalise existing products, especially as competition intensifies with new entrants outside the traditional tobacco industry.

They added: "At the same time, the external environment for novel products is likely to become increasingly challenging through increased regulation, potentially affecting growth prospects and revenue streams of tobacco companies."

While the moral argument for investors to divest from tobacco investments is obvious, the paper only considered the financial case. The authors concluded that "the tobacco industry's growth trajectory is uncertain, and as a consequence, the financial rationale for including tobacco stocks in a portfolio is not readily apparent, especially as the ongoing decline in the cigarette business is expected to persist."

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