Imperial Brands takes hit to annual earnings from Russia exit

T
obacco giant Imperial Brands has revealed a steep fall in annual profits after taking a £463 million hit from its move to pull out of Russia.

The group behind brands such as blu, Gauloises cigarettes and Rizla posted a 14.7% drop in operating profit to £2.7 billion for the year to September 30, with earnings sent lower by the Russian exit as well as a boost to the previous year's figures after the sale of its cigar business.

Reported pre-tax profits fell to £2.6 billion from £3.2 billion the previous year.

Imperial added that earnings will continue to be weighed down from the impact of its Russian withdrawal at the start of the new financial year, with first-half underlying operating profits expected to largely remain flat.

But the group said it was well set to face wider economic woes in the UK and worldwide and that growth in underlying earnings should rise within a "mid-single digit" range over the next three years.

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The group is also set to be buoyed by the weakness of the pound, which will see it benefit from exchange rates on its international earnings, with foreign exchange movements expected to flatter sales and earnings by 5% to 6% over the year ahead.

The pound hit an all-time low against the US dollar in September amid concerns over former prime minister Liz Truss's economic plans, and while it has clawed back some lost ground it is still down heavily this year.

Chief executive Stefan Bomhard said: "Looking ahead, we are well positioned to deliver against the next phase of our five-year strategy.

"The additional investment and the actions we have taken during the initial two-year strengthening phase have built stronger foundations as we face into a more challenging macro-economic environment."

Imperial raised its shareholder dividend payout by 1.5% to 141.7p a share in a further boost to investors after it last month announced the launch of its share buyback programme.

It will buy back up to £1 billion of shares until the end of September next year, bringing total capital returns over 2022-23 to more than £2.3 billion.

The group cheered 11% growth in net revenues for its vaping and heated tobacco products – so-called next generation products (NPS) – for helping underlying earnings rise 1.8% over its past year.

It is investing heavily in these alternatives to traditional tobacco products, which is increasing costs, but the group hopes they will be a key driver for future earnings.

The group is facing cost inflation amid wider inflation affecting all parts of the economy, though it has been increasing prices and making savings, which is helping offset this.