Solid performance underpinned by strong cash generation

Issued by Mpact

5 Mar 2021

Mpact, the largest paper and plastics packaging business and recycler in southern Africa, reported a solid set of results for the year ended 31 December 2020.

SALIENT FEATURES FROM CONTINUING OPERATIONS

- Resilient performance and response to Covid-19 lockdown
- Cash generated from operations of R1.9 billion, highest on record (2019: R986 million)
- Net debt down 38.6% to R1.4 billion (2019: R2.3 billion)
- Gearing improved to 26.6% (2019: 38.2%)
- Underlying earnings per share up 4.6% to 201 cents (2019: 192 cents)
- Share buy-back returned R345 million to shareholders (by end Jan 2021)
- Mpact Operations maintained its Level 1 B-BBEE rating

Bruce Strong, Chief Executive Officer of Mpact, commented: "*Mpact delivered a solid performance in a challenging year. The effective response to Covid-19 at all our operations was exceptional, demonstrating the depth of good management, the effectiveness of our safety systems, and the support of our customers, suppliers, and employees. By implementing our proven strategy of securing leading market positions and focusing on customers and performance, we also delivered a strong financial performance with record cash flows from operations of R1.9 billion and a reduction in net debt to R1.4 billion. Underlying earnings per share for the year increased 4.6% to 201 cents while the successful repurchase of 14.5% of the Company's issued shares, returned R345 million to shareholders*."

Strong went on to say that innovation remains a cornerstone of Mpact's business. In 2020 Mpact continued to develop new ways to meet its customers' packaging needs with award-winning innovations that help improve their operations while contributing to the circular economy. Last year the pandemic highlighted risks in the global supply chain and resulted in many customers now preferring local suppliers. As the post-pandemic economy recovers and localisation trends accelerate, Mpact will work closely with its customers and develop new markets for its innovative products. Our responsible approach to managing costs, creating value for shareholders, disciplined capital investment and a strategic commitment to sustainability will ensure our business remains resilient while being well positioned for growth.

The Group's response to the challenges presented by Covid-19 was swift and effective, and fully supported by its employees, suppliers and customers and allowed Mpact to reduce costs and conserve cash. To ensure the safety of its work force, various Covid-19 protocols were implemented, including social distancing measures, the provision of sanitizer and vitamins to staff and their families, and working with the Group's primary healthcare providers to educate employees. Mpact also continued to make a tangible difference in the communities, with Mpact Recycling repurposing some of its collection fleet during the initial lockdown stages to deliver meals, vouchers, face shields and other supplies to many waste reclaimers who were then unable to work.

Mpact's strategy remains consistent and is based on three core pillars: leading market positions, customer focus and a focus on performance. Despite the prevailing trading conditions, Mpact has remained anchored in its purpose of providing customers with innovative and sustainable packaging and giving effect to the circular economy through its integrated business model with state-of-the-art investments in recycling and packaging technologies.

Responding to customer needs, Mpact successfully launched the new Freshpact brand of paper-based fresh produce punnets which were enthusiastically adopted by consumers. The Group's product excellence was again recognised with Mpact winning nine IPSA Gold Pack awards including three for Covid-19 specific product innovations.

Over and above our commitment to the circular economy, the Group has made excellent progress against sustainability targets over the past five years. Against a 2012 baseline, all of the 2020 targets for water, energy and carbon emissions were met by the end of 2019, though the abnormal operating conditions experienced in 2020 due to the lockdown and electricity supply interruptions caused minor setbacks. For the five years ended 2020, Mpact exceeded its water usage target with a reduction of 23%. Energy consumption reduced by 13.7% while the Group also achieved a reduction in scope 1 and 2 carbon emissions of 11.1%.

Several capital projects were successfully completed during the year and the Group acquired three more properties, two of which had previously been leased for Mpact's operations. Construction of Dalisu Holdings' R280 million sodium sulphate processing plant at Mpact's Piet Retief paper mill was completed in December. Dalisu Holdings is a black-owned business in which Mpact has a minority shareholding. The business has developed processes to convert by-products from the paper manufacturing business into commercial products, including dust suppressants. Mpact Operations (Pty) Ltd, the Group's main South African operating entity, retained its level 1 B-BBEE rating.

Group revenue for the year ended 31 December 2020 of R11.1 billion was similar to the prior year, with a 3.5% increase in Plastics offset by a slight decline in Paper.

Gross profit decreased by 4.9% compared to the prior year to R4,007 million with the gross profit margin decreasing 1.8 percentage points to 36.1%. The 1.8 percentage points decline in gross profit margin was mainly attributable to lower average recycled containerboard prices due to a higher proportion of export and rolled pulp sales. Although still down on the prior year, the gross profit margin improved in the second half as a result of increased demand for containerboard in the domestic market during the last quarter of the year, and some recovery in businesses that were affected by strict Covid-19 lockdowns during the first half. The loss in gross profit directly attributable to the Covid-19 lockdowns is estimated to be R70 million for the full year.

During the year, the Springs paper mill lost more than 50 production days due to the catastrophic failure of a municipal sub-station in Ekurhuleni, which resulted in a loss of gross profit of approximately R91 million and other related direct costs of R9 million. An insurance claim has been submitted and an interim settlement of R35 million has been approved by the insurers. The proceeds, net of insurance deductibles, amounting to R25 million have been included in the results as sundry income. The balance of the claim has not yet been settled or accounted for. The Springs paper mill operation is currently stable.

Earnings before interest, tax, depreciation and amortisation (EBITDA) for the last quarter of the year was the highest on record, resulting in EBITDA for the full the year of R1,170 million (2019: R1,374 million). Underlying earnings before interest and tax was R631 million (2019: R724 million).

Paper business

Revenue of R8.7 billion was marginally lower when compared to the prior year. External sales volumes decreased by 3.3% with a decline in paper converting and recycling partly offset by an increase in containerboard exports. Demand for containerboard and cartonboard improved in the fourth quarter and remains strong.

Underlying operating profit for the Paper business declined to R578 million (2019: R716 million) due to lower containerboard margins, the electricity supply interruptions at the Springs paper mill and the effects of lockdown in the paper converting business.

Plastics business

Revenue in the Plastics converting business was up 3.5% to R2.5 billion (2019: R2.4 billion) due to increases in the Bins, Crates and FMCG businesses partially offset by declines in Preforms & Closures and Trays & Films. Overall volumes decreased 2.7% with average prices up 6.2% due primarily to product mix.

The Covid-19 lockdowns had mixed impact across this business segment with sectoral declines in some areas offset by robust growth in others. The performance in trays and films reflected a more profitable mix in line with the successful restructuring of the business during 2019.
Underlying operating profit increased 44% to R119 million (2019: R83 million) with most businesses reporting good improvements, especially in the second half of the year. Included in the result is a non-recurring inventory write-off of R29 million.

Net finance costs of R169.3 million (2019: R245.3 million) decreased by 31% when compared to the prior year mainly due to lower interest rates and lower average net debt.

The effective tax rate before special items was 18.4% (2019: 25.7%). The low effective tax rate was as a result of the S12I and S12L capital investment and energy efficiency incentives.

Headline earnings per share (HEPS) increased 5.5% to 196.1 cents (2019: 185.8 cents) while underlying basic earnings per share (EPS) increased 4.6% to 200.6 cents (2019: 191.8 cents). The weighted average number of shares used in the calculation of EPS, HEPS and underlying EPS for the year ended 31 December 2020 was 169,322,144 compared to 171,030,378 for the prior year. The total number of shares in issue at the date of this announcement is 148,175,363.

The Company received 99.9% support for the decision to buy back shares at the special general meeting held on 11 December 2020. During the period September 2020 to January 2021, Mpact repurchased 25,129,154 of its shares at an average purchase price of R13.71 per share, which equates to a 38% discount to the Group's net asset value per share as at 31 December 2020 and at a greater discount to its intrinsic value. The total cash outflow for the shares repurchased was R345 million, of which R87.5 million relates to the year ended 31 December 2020.

The total number of shares in issue as at 31 December 2020 was 164,639,292 (2019: 173,304,517). The total number of shares in issue at the date of this announcement is 148,175,363.

The Board reviews capital allocation for the Group on an ongoing basis. Given the discount of Mpact's share price to intrinsic value, the Board's view is that the substantial share repurchase programme enhances value creation for shareholders over a cash dividend. The Board has therefore resolved not declared a dividend for the financial year ended 31 December 2020. The Board will continue to focus on driving long-term value for shareholders. This is done through prudent capital allocation in the context of growth opportunities, which do exist, and cash returns to shareholders by dividends, share buybacks or a combination thereof

"*Mpact has had a positive start to the 2021 financial year and is well positioned despite a weak economy. There are indications of good fruit crops and a gradual recovery in the FMCG and Quick Service Restaurant sectors. Mpact is also expected to benefit from an improved global outlook for containerboard and cartonboard. Working capital management will remain a key focus area, but it is anticipated that working capital levels will increase in the current period to ensure continuity of supply*," stated Strong.

Strong concluded by reiterating that Mpact's integrated business model continues to be uniquely focused on closing the loop in paper and plastic packaging, contributing to the circular economy, and benefiting all stakeholders. The Group's focus on innovation and sustainability provides our customers with packaging solutions that ensure product quality whilst reducing the environmental impact. The Group has a robust strategy and substantial financial capacity, as well as an experienced management team to navigate and prosper in the current volatile trading environment

- **The value of plastic waste** 24 Apr 2024
- **The relationship between packaging and food waste** 26 Mar 2024
- **Innovative PET packaging clinches top accolade at IPSA Gold Pack Awards** 27 Nov 2023
- **Smart sustainable packaging solutions demonstrated** 24 Nov 2023
- **Shifting perceptions** 17 Nov 2023

Mpact

Mpact is the largest paper and plastics packaging and recycling business in Southern Africa. Our integrated business model is uniquely focused on closing the loop in plastic and paper packaging through recycling and beneficiation of recyclables.

Profile | News | Contact | Twitter | Facebook | RSS Feed