

Mpact invests over R500 million in growth projects after returning R257 million to shareholders

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Mpact, the largest paper and plastics packaging business and recycler in southern Africa, reported the results for the six months ended 30 June 2021 today. Bruce Strong, Mpact Chief Executive Officer said: "Mpact continues to show tremendous resilience, firmly anchored in our purpose of making a difference, providing our customers with sustainable packaging and giving effect to the circular economy through our integrated business model.

SALIENT FEATURES

- Revenue increased by 16.3% to R5.9 billion (June 2020: R5.1 billion)
- Underlying operating profit increased by 165% to R337 million (June 2020: R127 million)
- Underlying earnings per share up 13 times to 120.8 cents (June 2020: 9.0 cents)
- Successfully repurchased 10% of issued shares during the period returning R257 million to shareholders
- Return on Capital Employed (ROCE) improved to 15.6% (June 2020: 9.4%)
- Gearing improved to 27.6% (June 2020: 34.8%)
- Retained B-BBEE Level 1 rating for Mpact Operations (Pty) Ltd
- Investments of over R500 million approved to support customer focused growth, innovation and sustainability

This is demonstrated by the pleasing financial results for the first half of the year announced today. The Group's operating profit increased 165% to R337 million and ROCE increased to 15.6%. Underlying earnings per share increased to 121 cents from 9 cents in the same period last year.

Strong cash flow from operations resulted in net debt decreasing to R1.47 billion (30 June 2020: R1.9 billion) despite returning R257 million to shareholders in January 2021 through a successful share buy-back.

Our strong financial position and proven strategy enables us to take advantage of the significant changes in the global economy as it begins to recover from last year's slump. Customers continue to look to more sustainable solutions sourced locally, instead of relying on imports and unsustainable packaging formats. They are also demanding even higher environmental, social and governance standards from their suppliers, which positions Mpact extremely well as a customer-focused business that is resolute, trustworthy and responsible.

To take advantage of this increase in customer demand, the Board recently approved over R500 million in investments to support our growth and innovation, improve margins, and ensure the resilience and sustainability of our operations."

Mpact's trading for the six months ended 30 June 2021 was robust, with underlying profit exceeding pre-pandemic comparatives in both the Plastics and Paper businesses.

Group revenue for the six months increased by 16.3% compared to the same period last year to R5.9 billion. The Paper business benefited from improved global containerboard prices and increased local sales at higher average prices while the Plastics business also experienced increased demand in most sectors.

Supply chain constraints across most sectors put pressure on raw material availability and costs. Recovered paper costs increased dramatically during the period, partly offsetting the benefits of higher containerboard prices. Similarly, the Plastics business was negatively impacted by higher polymer costs and the timing of passing these cost increases to customers

Paper business

Revenue of R4.6 billion was 15.8% higher than the same period last year (June 2020: R4.0 billion), with sales volumes increasing by 12.7%. Paper manufacturing benefited from strong local containerboard demand during the period, improved production performance and a favourable product mix due to low margin rolled pulp not being produced nor sold in the current period.

The recovery in the industrial and Quick Service Restaurant sectors and the continued growth in the agricultural sector benefited the Paper Converting business. Good growth in citrus volumes is anticipated in the second half, despite the late start to the season.

Underlying operating profit of R347.1 million was up 88.6%, due to improved trading and operational efficiencies. A second interim payment of R25 million relating to the Springs Mill electricity supply interruption in 2020 has been approved by insurers and included in the interim results as sundry income.

Plastics business

Revenue in the Plastics business increased by 18.3% to R1.3 billion with a strong recovery in sales volumes. Gross profit increased by 23% due to improved sales and a stock write-down in the prior comparable period which was not repeated.

Plastics showed a significant improvement in profitability, with underlying operating profit increasing to R34.6 million from a loss in the prior period of R17.7 million due to good improvements in most businesses.

Net finance costs of R67.8 million (June 2020: R94.8 million) was lower by 28.5% compared to the prior comparable period year due to lower interest rates and average net debt over the period.

Headline earnings per share increased by 112.1 cents to 120.5 cents (June 2020: 8.4 cents) while basic and underlying earnings per share increased by 111.8 cents to 120.8 cents (June 2020: 9.0 cents).

Robust demand experienced in the first half is expected to continue across most businesses but may be partially offset by the recent unrest experienced in KwaZulu-Natal (KZN) and parts of Gauteng as well as supply chain constraints across most sectors. Margins are expected to improve as raw material cost increases are recovered through increases in selling price.

Strong concluded: "Decisive actions were taken by management and staff of operations who were affected by the unrest in July 2021. There were no injuries to employees and nor any damages to assets during the unrest. All of the KZN operations were closed for up to 8 days which resulted in lost gross profit due to reduced production of approximately R20 million, in addition, current indications are that gross profit may be negatively affected by a further R20 million due to lost sales which may be partially recovered by year-end.

The third wave of the Covid-pandemic which started early in June has had limited impact on business continuity to date. Relevant health and safety protocols are well entrenched and upheld across all of the Group's operations.

Mpact has a proven strategy, substantial financial capacity and an experienced management team to navigate and build on our integrated business model which is uniquely focused on closing the loop in paper and plastic packaging, contributing to the circular economy, and benefiting society. We remain committed to delivering shareholder value over the long-term."

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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.

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