NAMPAK’S INTERIM FINANCIAL RESULTS FOR THE 6 MONTHS ENDED 31 MARCH 2020

SALIENT FEATURES

- Headline earnings per share for continuing and discontinued operations of 0.3c (2019: 115.7c)
- R2bn gross proceeds from asset disposals
- R677m cash generated up 277%
- Strong cash transfers of R1.6bn from Angola and Nigeria

CONTINUING OPERATIONS:

- Revenue down 17% to R6.5 billion
- Trading profit down 39% to R633 million
- R3bn impairments in Nigeria and Angola
- Headline earnings: 7cps
- Loss: 408.9cps

Erik Smuts, Nampak CEO, said, “Overall weaker economic demand in our key markets, continued pressure on consumers’ disposable income and net impairments of R3bn negatively impacted these results. Although the Nigerian outlook has since deteriorated, Bevcan Nigeria enjoyed volume growth, but Divfood, Bevcan Angola and Bevcan SA performed below expectations due to total market contractions and loss of a key customer. The SA Plastics business returned to profitability. While tough economic conditions have inhibited revenue and trading profit growth, cash generation improved. Capital expenditure was tightly controlled, with the most significant expenditure on the conversion of the steel beverage line in Angola to aluminium. The R1.6bn net proceeds from the disposal of non-core assets, and healthy cash transfers from Angola and Nigeria will be used to reduce our debt.”

With regard to COVID-19, Smuts added, “Nampak was designated as an essential services provider under South Africa’s lockdown regulations, with plants continuing to operate in most markets. The health of our employees has been prioritised and appropriate measures introduced. Where possible, employees continue to work remotely. We have been affected by reduced consumer demand, the shift towards preserving cash by customers and the ban on alcohol. Our employees’ contributions, in the form of salary sacrifices and taking leave, while remaining committed and resilient through this difficult time, have not gone unnoticed and we value them greatly.”

Trading conditions for the first six months were challenging as a result of weaker economic conditions and increased competition in key markets. Demand in South Africa was lower than expected over the festive season and weak economic growth continued into 2020. Bevcan Nigeria performed well initially, with good operating efficiencies and pleasing demand for the first quarter, despite a slowing economy. The Angolan economy continued to be materially impacted by currency devaluations, with lagging wage inflation impacting buying power, resulting in significantly lower demand. Hyperinflation, currency shortages and lack of economic growth impacted Zimbabwe’s performance.
Nampak’s portfolio rationalisation raised gross cash proceeds of R2bn – R1.6bn from the sale of Nampak Glass and R0.4bn for Nampak Cartons Nigeria – to be used to reduce US dollar debt. Nampak Plastics Europe was sold for a nominal value. A net profit of R470m was achieved from discontinued operations.

Group revenue dropped 17%, primarily due to weaker economic conditions in South Africa, Angola and Zimbabwe. Operating profit of R287 million fell 68%, due to tough trading conditions, increased competition and foreign exchange movements. Trading profit fell 39% to R633m, as a result of a loss in Divfood, reduced demand in Angola and the overall beverage can market declining in South Africa. Bevcan Nigeria performed well, but the market and the outlook started deteriorating from January 2020 onwards, with US Dollar liquidity becoming constrained. The turnaround in Plastics South Africa gained momentum, but was offset by a decline in profitability from Zimbabwe Plastics. Trading margins declined to 9.7% from 13.1%, primarily due to reduced profitability in Metals for continuing operations.

A detailed review of the value-in-use for the Group’s various cash generating units was performed, resulting in impairments of R2.2bn attributable to Nigerian goodwill and an asset impairment of R0.8bn in Angola.

The net impact of devaluation losses in Zimbabwe was R29m. Foreign exchange losses of R219m, resulting from currency movements in Angola and Nigeria, are primarily due to the significant devaluation in the Kwanza during the period. Retrenchment costs of R52m were incurred and relate primarily to Divfood.

The tax benefit for the period increased to R65m. The effective tax rate of 2.2% has been significantly impacted by the impairment of the Bevcan Nigeria goodwill and the asset impairment in Angola. The normalised tax rate is 20.8%, compared to 19.6% in the prior year.

The loss of R2.9bn resulted in a loss per share for continuing operations 408.9cps, mainly as a result of impairments, foreign exchange losses and hyperinflation in Zimbabwe. Headline earnings for continuing operations amounted to 7cps.

Nampak negotiated a covenant relaxation for the interim reporting period to accommodate a potential weakening in the Rand to the US Dollar during March 2020, in light of the expected downgrade of South Africa’s sovereign credit rating by Moody’s. Compliance with debt covenants continues to be closely managed with the consortium of the Group’s funders and the US private placement note holders.

The Nampak Group remains well funded with significant headroom in its total banking facilities. Gearing of 82% at 31 March 2020, excluding capitalised finance leases, increased from 68% at September 2019 and was adversely impacted by the sudden weakening in the Rand/USD exchange rate late in the period and the significant impairments in Nigeria and Angola. This resulted in a higher net debt on translation of the US Dollar interest bearing debt. Strong short-term liquidity is reflected in the current and acid test ratios of 1.7 times and 1.1 times respectively.

Nampak transferred R1.6 billion from Nigeria and Angola, representing a cash transfer rate of 124% of the opening cash balances. During the period, Zimbabwe was the only country in which Nampak experienced significant problems with foreign currency liquidity, although liquidity started to become constrained in both Angola and Nigeria towards the end of the period. The Group has not provided further funding to Nampak Zimbabwe as the operations are cash generative and self-funding.

Capital expenditure for continuing operations increased 13% to R407m, mainly for the conversion of the line in Angola from steel to aluminium. The forecast capex for the year is between R650 and R750m and will be kept to an absolute minimum for the short to medium term, without compromising the Group’s asset base.

In line with previous communications the board has decided not to resume dividends to shareholders until debt levels are significantly reduced.

Nampak swiftly implemented measures from the end of March to mitigate some of the COVID-19 impact on the second half of the year. These include a salary sacrifice for all employees for a period of three months, ranging from 30% for executive and non-executive directors, down to 15% for
junior management. Other actions include a freeze on most capital expenditure, optimising working capital by bringing inventory levels in line with reduced demand, optimising trade finance arrangements, extending payment terms with suppliers, the rightsizing of operations in line with reduced demand, assessing alternatives to improve profitability and increased scrutiny of all expenditure. Our unionised employees have also agreed to forfeit their annual salary increase, previously scheduled for 1 July.

Turning to the outlook for the rest of year, Smuts said, “The heightened uncertainty as a result of COVID-19 and the impact of individual country's responses increases the difficulty in predicting the Group's 2020 performance. Nampak has experienced significantly weaker overall demand in SA since the last week of March. Changed consumption patterns during lockdown have resulted in greater demand for food cans, but reduced demand for beverage cans and cartons for alcoholic beverages.”

He added that trading conditions remain weak, while the slowdown in the Angolan economy will also impact sales of beverage can ends to Angola. Gains in the second half, due to stocking up and a general uplift in canned food consumption are expected to benefit Divfood. The rationalisation of the Divfood and Plastics divisions continues and further restructuring costs will be incurred. The Plastics and Paper businesses will continue to focus on cost reduction, maintaining margins and defending their market positions.

Bevcan Nigeria’s volumes and profitability are expected to be negatively impacted by the slowdown in economic activity due to COVID-19, with low oil prices and the devaluation of the Naira affecting foreign exchange liquidity. Future market growth will be lower than previous expectations and demand for general metal packaging will remain under pressure for the rest of the year. In Angola volumes are expected to remain weak and lower oil prices are expected to reduce the availability of foreign exchange currency. Raw materials will only be supplied to Angola and Nigeria to the extent that these businesses obtain the required foreign exchange.

In conclusion, Smuts said, “Nampak’s strategy includes a significant simplification of the business and reducing overall earnings volatility through optimisation of our regional footprint, business portfolio and capital structure. We are prioritising cost saving measures, preserving cash, reducing capital expenditure and are considering fast tracking restructurings to improve profitability.”

ENDS
www.nampak.com

Media and Investor queries:
Nondyebo Mqulwana
Group Investor Relations Manager
Tel: +27 11 719 6326
Email: Nondyebo.Mqulwana@nampak.com