MEDIA RELEASE

Nampak
packaging excellence

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Nampak operating capability sustained despite COVID-19

KEY FINANCIAL INDICATORS

- Revenue R11.3bn, down 23%
- EBITDA R1bn, down 48%
- Trading profit R682m, down 56%
- Operating loss R283m
- Loss for the year R4.3bn
- Impairments of R4bn
- Headline loss of 78cps for continuing operations; headline loss of 88cps for total operations

HIGHLIGHTS

- Operating capability sustained despite significant impact of COVID-19
- R1.1bn cash generated from operations
- R2bn proceeds from disposals reduce US$ debt
- Group funding covenants renegotiated and complied with

Erik Smuts, CEO, commented, “reduced economic activity across all geographies due to COVID-19, coupled with an already weak economic climate and pressure on consumers’ disposable income, adversely impacted the group’s performance and profitability. In response, we optimised working capital and reduced capital expenditure, ensuring positive cash generation.”

Impact of COVID-19

Smuts says, “we continued to operate as allowed by regulations and implemented safety measures to mitigate the impact of COVID-19. We had 291 employees infected by the virus and sadly, two employees passed away; we extend our sympathies and condolences to their families.”

He noted that lockdowns impacted all divisions across all the geographies where we operate and limited the progress in restructuring initiatives. In South Africa the ban on alcohol products for three months negatively impacted the sale of beverage cans, paper conical cartons, closures for wine and spirits, and other products deemed as non-essential during this period. As consumer patterns changed due to restrictions on social events there was a secondary impact on associated products.

Nampak’s cash generation from operations was marginally below the prior year due to good working capital management despite a significant decline in group EBITDA from the impacts of COVID-19; decreased economic activity and lower demand resulted in reduced profitability, which placed the group’s gearing and covenants under pressure.

Performance

Group revenue declined by 23%, with an overall decline of 28% in the Metal division, 6% in Plastics and 10% in Paper. Profitability was negatively impacted and trading profit declined by 56%.

Swift management action was taken to address employee costs and other operating costs, in response to the decline in revenue as consumer demand fell sharply. Despite salary sacrifices and various restructuring initiatives yielding positive outcomes, operating profit declined from R1.4bn to an operating loss of R19m, primarily due to lost gross margin on reduced volumes.

The group results were adversely affected by the significant currency devaluation of the Zimbabwe dollar and hyperinflation. Total impairments of R4.0 billion included an impairment of R2.2bn (US$130.4m) of Bevcan Nigeria’s goodwill – and an asset impairment of R1.2bn in Angola due to depressed consumer demand, resulting from the significant fall in the oil price, lagging wage inflation, changes in pricing dynamics, COVID-19 and other risks as well as an increased weighted average cost of capital. In South Africa, lower expected cash flows and a higher weighted average cost of capital resulted in asset impairments of R187m in DivFood and R423m in Plastics and an impairment of R37 million of goodwill attributable to DivFood.

Net finance costs amounted to R448m, including R129m for first-time capitalisation of leased assets and liabilities in terms of IFRS16. Excluding the impacts of IFRS 16, interest paid was 5% up on the prior year. The 29% increase in net finance costs is primarily due to lower profitability, reduced interest earned on US dollar linked kwanza bonds and the requirement to fund all imports into Angola with cash backed letters of credit.

Basic losses per share of 595 cents and 538 cents from continuing operations and total operations respectively, compare to basic earnings per share of 42.2 cents and a loss per share of 132.1 cents in the prior year. Nampak recorded headline losses per share of 78 cents and 88 cents from continuing operations and total operations respectively, compared to a headline earnings per share of 54.1 cents and a headline loss per share of 19.4 cents in the prior year.

Total gross debt (excluding IFRS16 lease liabilities) reduced by 14% to R6.8bn. Net proceeds of R2.04bn from the disposal of Glass and Cartons Nigeria, as well as proceeds from liquid bonds, were used to reduce US dollar denominated debt by US$123m, which now comprises 66% of total gross debt. The group's covenants were renegotiated and were complied with at the year-end. Nampak is required to reduce net interest-bearing debt by R1bn by 30 September 2021. The group has identified potential assets for disposal and plans to minimise the need for supplemental capital raise. Internal budgets indicate the return to previous covenant levels by 30 September 2021, with asset sales providing further deleveraging opportunities.

Capital expenditure reduced by 9% to R666m as the group adopted a cash conservation approach.

The implementation of profitability improvement measures reduced operating costs and resulted in the group remaining net cash positive. Measures included salary sacrifices, a freeze on new capital expenditure for non-essential projects, improved working capital management and asset disposals.

Cash of R720m was generated from operations before working capital changes, a decline of 61%. Working capital was well managed, with a net inflow of R367m due to the timely optimisation of inventory levels as a consequence of the reduction of demand due to the COVID-19 restrictions.

The board has decided not to resume dividends to shareholders until debt levels are reduced.

Divisional highlights

The Metal division's revenue and profitability decreased. Bevcan SA defended its strong market share successfully and renewed a large supply agreement for a further three years. Operations are gearing up ahead of the December/January peak period and the sizable export contract secured will improve its production utilisation and profitability in the coming year.

Bevcan Nigeria performed relatively well despite a tough operating environment and secured a multi-year supply agreement with a major customer for a 100% volume allocation from July 2020. Since August, sales volumes have exceeded pre-lockdown levels.

Bevcan Angola experienced low consumer spending. Management reduced the business's fixed cost structure and headcount by 60% to keep the business cash positive. Volume trends have been positive since July and are slowly recovering from a low base. We will complete the conversion of the steel line to aluminium, after concluding a contract to export cans to supplement capacity shortages in key international markets.

Significant restructuring was implemented in DivFood SA to streamline the business and rebase its fixed cost structures. This restructuring will be completed during FY21 and will allow the business to return to sustainable profitability in FY21.

Plastics performed satisfactorily as revenue from the Rest of Africa grew and offset weak consumer spending in SA. Plastics SA reduced its footprint and will continue to consolidate volume to improve production efficiencies and further expand margins in FY21.

The Carton business expects to benefit greatly in future from a new joint venture with Elopak, to grow the footprint of gable top cartons for fresh and aseptic beverages in sub-Saharan Africa.

The Zimbabwe operations continue to self-fund operational and capital requirements. With experienced and stable management teams and good production capabilities, they are expected to respond positively to improved demand when the economic climate improves.

While revenue in the Paper division reduced 10%, profitability was stable and the trading margin improved, boosted by Zambian and Zimbabwean operations.

Outlook

Smuts notes, "given a well-capitalised asset base and to assist our deleverage plan, we plan to keep capital expenditure to a minimum without compromising our ability to produce high quality products for our customers." The renewal of major long-term supply contracts will assist Nampak to defend our market share in key markets, while large export contracts will boost profitability in FY21.

He says, "our strategic initiatives are on track - site consolidations in Plastics SA and the restructuring of DivFood will be completed in FY21 and should enable these businesses to return to profitability."

He concludes that the key objectives driving the strategy are to reduce risk and grow profits. The strategic building blocks – a strengthened capital structure, simplification, optimisation, innovation and growth – will reshape Nampak into a sustainably profitable and appropriately capitalised company to exploit future investment opportunities.

ENDS

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