MEDIA RELEASE

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NAMPAK LIMITED
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("Nampak" or "the group" or "the company")

NAMPAK ANNOUNCES 2022 ANNUAL RESULTS

Nampak announced its annual financial results for the 12 months ended 30 September 2022.

Salient features

- Revenue up 21% to R16.9bn
- Trading profit 13% higher to R1.6bn
- Operating profit before net impairments down 4% to R1.2bn
- Headline earnings of R229m (35.9cps) compared to R402m (62.3cps)
- Loss of R147m (23.1cps) compared to profit of R207m (EPS 32.1cps)
- Cash generated before working capital changes down 11% to R1.5bn
- Covenants complied with: net debt:EBITDA 2.85x and EBITDA:Interest 3.94x

Says Erik Smuts, CEO of Nampak, "In 2022 we faced some operational headwinds while leveraging the available tailwinds. The SA beverage can market experienced unprecedented growth; and volumes in Angola during the last quarter grew by almost 30%, exceeding our expectations."

He added, "Revenue increased by 21%, lifted by higher volumes and unusually high commodity prices. Despite the strong contributions from our beverage cans and liquid paper businesses to a pleasing trading profit, an increase in foreign exchange losses, higher interest rates and increased impairments contributed to a lower net profitability."

Smuts noted that efforts to dispose of certain assets yielded no tangible results preventing Nampak from reducing debt and required the extension of certain maturity dates and relaxation of covenants. Nampak will approach shareholders for approval for a rights issue. He said, "With a strengthened balance sheet, we can focus on our operations to leverage growth opportunities for the benefit of our stakeholders."

In the 2022 financial year, Nampak delivered strong revenue growth of 21% (R16.9bn), underpinned by stronger volumes in our SA beverage can market, Angola, Nigeria and Zimbabwe. Despite challenging trading conditions green shoots of recovery were evident in some markets. Trading profit improved 13% to R1.6bn as the pass-through pricing mechanisms in most of our businesses allowed for the recovery of increased input costs, but without the recovery of the incremental cost of funding the higher working capital, group trading margins declined to 9.5% from 10.2% in the prior year.

Stringent overhead management was applied in an inflationary environment. We focused on improving our trading performance and were pleased with the strong recovery in the beverage can operations, however these were diluted by a disappointing result from DivFood and the impact of the depreciation of the Zimbabwe dollar on the rand-reported results of our Zimbabwe operations.

Cost of sales was impacted by high metals prices, due to challenging supply chains with concomitant increases in logistics and shipping costs. Operating profit was assisted by a moderate 1% decrease in core employee costs, complemented by strong trading results from Bevcan SA and Nigeria, and a recovery in Bevcan Angola. Our Zimbabwe operations continued to perform well and remained self-funding. A once-off insurance loss of R50 million was incurred.

Nampak incurred net forex losses of R542 million, primarily from Nigeria. In Angola, US dollar availability was good and the kwanza strengthened by 28%.

Operating profit before net impairments of R1.2bn decreased 4% due to capital and other items of R459m, inclusive of forex losses and the R70m net impact of Zimbabwe's currency devaluation. Operating profit of R640m declined 31% from R931m, having absorbed net impairment losses of R512m, with R392m attributable to the impact of increased global risk premiums and higher interest rates on Nampak's weighted average cost of capital (WACC). Net impairment losses related mainly to DivFood SA, Rigid Plastic, Bevcan Angola and Metals Nigeria. Net finance costs increased by 21% to R586m from R485m due mainly to the higher investment in net working capital, interest rate increases and interest costs of R64m.The effective tax rate was 143.7% compared to 15.2% in 2021 with tax primarily impacted by hyperinflation in Zimbabwe and the utilisation of tax losses in Angola.

A loss of R26m was incurred compared to a profit of R377m in the prior year. EPS swung to a loss of 23.1 cents from a profit of 32.1 cents and HEPS declined by 42% to 35.9 cents. Cash generated from operations before working capital changes decreased 11% to R1.5bn from R1.7bn due to significantly higher forex losses. Increased commodity pricing, higher revenues, increased funding of receivables and trade creditor limits that did not fund increased inventory holdings, required an investment of R659m in working capital. This compared to utilisation of R621m from working capital in the prior year. Capex remained a key focus area, with replacement capex reflecting most of the Group's spend. In 2022, capex reduced to R208m from R313m.

Net interest-bearing debt of R5.2bn, excluding capitalised leases, was 12% higher than the comparative period. Net gearing of 108%, excluding capitalised leases, increased from 105%.

Divisional review

Revenue from our Metals division increased by 30% to R12.9bn and trading profit grew by 17% to R1.3bn as demand increased in all key markets — South Africa, Nigeria and Angola. Revenue for our Plastic division decreased by 1% to R3.0bn, largely due to lacklustre economic activity, prolonged strikes at our major customers and ad hoc raw material shortages. In our Paper division, revenue increased by 3% to R1.1bn. Overall profit for the Paper division decreased by 2% to R183m. Corporate services was impacted by the R36m decrease in the gain on forex transactions relating to currency and aluminium hedge movements.

Proposed capital raise

Smuts explains that historic and recent impairments, together with the net effects of hyperinflation in Zimbabwe and an expected credit loss raised in 2019 against the debt from the Reserve Bank of Zimbabwe, have resulted in elevated gearing levels. The historical decisions to fund the African expansion mainly with US dollar debt has placed significant strain on the balance sheet and required the Group to seek covenant relaxations. This has resulted in an increase in funding costs, which have been more acute in the context of the rising commodity prices and interest rate environment since the onset of the war in Ukraine.

As pressure on the Group’s fiscal position increased, Nampak has increased its focus on deleveraging the balance sheet and improved capital allocation, resulting in the company becoming a smaller and more focused business. There is still a high level of complexity as the Group operates in 10 countries across the African continent, many of which are dependent on commodities and therefore vulnerable to price changes, currency instability (including the pegging of currencies to the dollar) and a general lack of availability of foreign exchange. The Group is also being disproportionally funded by a complex consortium of lenders with gearing levels exceeding shareholders’ equity.

Nampak is required to refinance its debt package before 31 March 2023, raising capital of no less than R1.35bn (net of fees and expenses) to repay debt. However, due to the current economic environment, self-help measures have not fully yielded the required results. According to Smuts, “Nampak will convene an extraordinary general meeting seeking all relevant authorisations required to enable the company to proceed with a potential rights’ offer of up to R2bn during the first quarter of 2023, which, if successful, will enable management to focus on delivering on Nampak’s growth strategy and result in a simplified, more robust capital structure.” The circular will be issued around 15 December 2022.

Outlook

Erik Smuts says, “In SA, we expect robust demand for environmentally friendly beverage can packaging from customers and consumers, which will support sales volumes in the new financial year. Safety, customer service and operational efficiency will remain a focus while we consider further expansionary investment in one of our beverage can lines in South Africa.”

He adds “DivFood is now in a better position to return to profitability with improved raw material inventory and increasing efficiencies to service the market. With a strong base of innovation, in 2023 we will improve competitiveness in select categories of plastic packaging and launch new internally developed lightweight PET bottles which reduce environmental impact.”

Smuts concludes “Economic growth in Angola is expected to gather further momentum in the year ahead, benefiting from an uptick in consumer demand. In Nigeria, we will consider manufacturing bigger can sizes, such as 500ml, to service the changing market demand. Consumer demand may be negatively impacted by increases in inflation and a weakening local currency. We expect general metal packaging in Nigeria to be impacted by lower demand amid higher inflation in a constrained economic climate. We are reassessing the future viability of this business.”

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About Nampak www.nampak.com

Nampak Limited is Africa's largest diversified packaging manufacturer and has been listed on the JSE Limited since 1969. As a market leader in the supply of beverage cans in South Africa and Angola and a major player in the supply of beverage cans in Nigeria, Nampak operates in 10 countries, with 33 manufacturing operations of which 19 are in South Africa and 14 in the rest of Africa. We leverage the skills of our 4 314 people and capitalise on our substantial investment in state-of-the-art production facilities. Our world-class research and development facility based in Cape Town, South Africa, provides technical and innovative product development support to our businesses, as well as to our customers – many of which are among the world's largest fast-moving consumer goods companies.