Nampak – FY24 Results

***Key message**: The turnaround process is progressing well and Nampak is strongly positioned for growth in the core divisions.*

- Nampak announced FY24 results. HEPS from continuing operations of 3361c was reported, although a normalised 5295c is more reflective of the underlying performance. The Normalised HEPS excludes the R290m PRMA benefit and adds back R372m in once-off operational issues and costs. Discontinued operations reported a net loss of R1bn, with large losses on disposal (R423m) and goodwill impairment (R661m). Net profit before these items was R77m.
- Nampak has seen a strong turnaround and has taken a firm stance with customers on pricing and payment terms. The asset disposal process is well advanced and underperforming lines in the core businesses have been closed.
- **Beverages South Africa:** While underlying demand for bevcans is positive, challenges in the installation of the 500ml line as Springs resulted in lost demand in 2H. The performance has stabilised in recent months. Relocation of the spare line in Angola to South Africa will support growth. The market remains competitive.
- **Diversified South Africa:** A strong turnaround from a loss was driven by mix management, cost control and reduced conversion costs. Non-contributing products were exited and this improved profitability. Volumes were negatively impacted by a slower customer demand, loss of business, a key customer shutdown and supply chain disruptions.
- **Beverages Angola:** Strong performance with normalisation of trading with a large customer. Plant efficiencies improved with strong cost management. The Beverage category continues to grow, in particular in cans which are well positioned for export growth.
- Asset disposals continue with R720m of proceeds used to pay off debt. Remaining sales include Bevcan Nigeria (R1.2bn), Nampak Zimbabwe (R432m) and I&CS (R143m). The expected R1.8bn of proceeds from these sales will be used to pay down debt.
- In September 2024 debt was refinanced reducing lenders from 16 to one (additional lenders may be introduced). The refinancing yielded lower interest rates. Net debt (excl. lease liabilities) reduced to R4.4bn (from R4.6bn). Net debt should reduce to R2.6bn post the last disposals.
- We adjust our Target Price to R513 (from R380) with Nampak now well positioned for growth in the core divisions.

Financial summary

ZARmn (year to September)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue	9881	9956	11241	11956	12804
EBITDA - operating	799	1478	1564	1644	1750
Net attributable income	-4039	634	474	684	757
Headline EPS (diluted)	**-39008**	**3361**	**5729**	**8258**	**9145**
PE Ratio		12.9	7.6	5.3	4.8
Dividend	0	0	0	0	0
Dividend yield (%)		0.0%	0.0%	0.0%	0.0%

Source: Factset, Company data, Chronux Research estimates

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Price (04/12/2024):	R417.44
Target Price:	R513
Dividend yield:	0%
Total return	23%
Market cap	R3.48bn
Shares in issue	8.28m

Figure 1 Financial summary

Financial year to September	FY23A	FY24A	FY25E	FY26E	FY27E
ZAR/USD exchange rate	18.11	18.57	17.68	17.49	17.71
Per share data (cents)					
Earnings (diluted)	(117,301)	(4,500)	5,730	8,259	9,146
Headline earnings (diluted)	**(39,008)**	**3,361**	**5,729**	**8,258**	**9,145**
NAV	55.67	17.17	18.60	20.81	23.32
Dividend	0	0	0	0	0
Valuation ratios					
P/E ratio		12.9	7.6	5.3	4.8
EV/EBITDA		5.6	5.3	5.0	4.7
P/B		2.53	2.34	2.09	1.86
Dividend yield		0.0%	0.0%	0.0%	0.0%
Income Statement (ZARmn)					
Sales	**9,881**	**9,956**	**11,241**	**11,956**	**12,804**
Sales growth	*-38.7%*	*0.8%*	*12.9%*	*6.4%*	*7.1%*
EBITDA - operating	**799**	**1,478**	**1,564**	**1,644**	**1,750**
EBITDA margin	*8.1%*	*14.8%*	*13.9%*	*13.7%*	*13.7%*
Depreciation & Amortisation	265	234	241	247	254
EBIT (Trading Profit)	**438**	**1,048**	**1,324**	**1,396**	**1,496**
EBIT margin	*4.4%*	*10.5%*	*11.8%*	*11.7%*	*11.7%*
Nonoperating Income - Net	(360)	196	0	0	0
Operating Profit (before impairments)	**78**	**1,244**	**1,324**	**1,396**	**1,496**
Net impairments	(1,118)	471	0	0	0
Net Interest Expense	(1,218)	(926)	(673)	(455)	(452)
Equity in Earnings of Affiliates	(6)	(5)	8	8	8
PBT	**(2,263)**	**784**	**659**	**950**	**1,052**
Income Taxes	48	(158)	(185)	(266)	(295)
Tax rate	*2.1%*	*20.2%*	*28.0%*	*28.0%*	*28.0%*
Consolidated Net Income (Continuing)	(2,215)	626	474	684	757
Minority Interest	(81)	9	0	0	0
Net Attributable Income (Continuing)	**(4,039)**	**634**	**474**	**684**	**757**
Headline adjustments	874	(347)	(0)	(0)	(0)
Headline Income	**(1,341)**	**278**	**474**	**684**	**757**
Cash flow statement (ZARmn)					
Cash from operations before WC	**740**	**1,587**	**1,564**	**1,644**	**1,750**
Changes in working capital	905	175	(20)	(296)	(85)
Interest, dividends, tax & other	(1,469)	(1,390)	(895)	(758)	(784)
Cash from operating activities	**186**	**386**	**650**	**590**	**882**
Capital expenditure	(353)	(393)	(450)	(350)	(350)
Other	265	498	1,800	0	0
Investing cash flow	**(88)**	**105**	**1,350**	**(350)**	**(350)**
Changes in borrowings	(447)	(1,433)	(1,800)	0	0
Lease payments	(121)	(145)	(101)	(71)	(50)
Dividend paid	(10)	(14)	(0)	(0)	(0)
Other	770	(242)	(101)	(71)	(50)
Financing cash flow	**313**	**(1,689)**	**(1,901)**	**(71)**	**(50)**
Change in cash	411	(1,199)	98	169	482
Balance sheet (ZARmn)					
Total assets	**13,910**	**11,289**	**8,401**	**8,110**	**8,305**
Cash and equivalents	1,844	521	651	820	1,302
Other current assets	6,042	6,035	2,946	2,375	1,946
Non-current assets	6,025	4,734	4,804	4,915	5,057
Total liabilities	**11,997**	**9,867**	**6,861**	**6,386**	**6,374**
Long-term liabilities	7,608	6,403	4,603	4,603	4,603
Current liabilities	4,388	3,464	2,258	1,784	1,771
Total shareholders' funds	**1,914**	**1,422**	**1,540**	**1,723**	**1,931**
Net debt/(cash) - excl ROU	4,884	4,647	2,716	2,548	2,066

Source: Factset, Company data, Chronux Research estimates

Valuation

- We value Nampak using FY25 EBITDA.

Figure 2 Sum-of-the-Parts Valuation – FY25 EBITDA

Rm	Methodology/ Comment	Normal multiple range	FY25E EBITDA (Rm)	Multiple applied (x)	Value (Rm)
Beverages SA	EV/EBITDA	4-6	895	6.0	5372
Beverages Angola	EV/EBITDA	2-4	270	3.0	811
Diversified SA	EV/EBITDA	3-5	402	5.0	2012
Corporate	EV/EBITDA		(100)	5.0	(500)
			1468	**5.2**	**7695**
Firm value					**7695**
Cash					722
Interest bearing debt					(3438)
Lease liabilities					(730)
Equity value					**4248**
Shares in issue (m)					8.28
Valuation Per share (R)					**513**

Source: Company data, Chronux Research estimates

- With the restructuring of the balance and refocussing to metals packaging, Nampak should reduce the valuation gap relative to peers who trade on an EV/EBITDA ratio closer to 10 times. We believe a 40% discount to global peers is appropriate for the Beverages SA business.
- **Beverages SA (expected multiple range 4-6):** we use a 6 times EBITDA multiple (40-50% discount to global peers) as Nampak refocusses on the core Beverages SA business. Nampak has retained its reputation for quality and reliability in this division and is likely win back market share from competitors, in our opinion. Nampak has the ability to expand production at low cost in the short-term with the relocation of the Angolan line.
- **Beverages Angola (expected multiple range 2-4):** we use a 3 times EBITDA multiple as Angola benefits from growth in the oil industry and general growth can be expected, but volume uncertainty remains and currency liquidity can be a problem. The value ascribed to this business could grow substantially should capacity utilisation improve from the current low 30% level. With two major customers securing distribution rights to global brands (Refriango securing Coca Cola and Castel securing Pepsi) the volume outlook is promising. Sales into the DRC, previously a large market although subject to some manipulation (currency round-tripping), remain well below pre-Covid levels even though the borders have re-opened. A major customer has invested in filling capacity in the DRC.
- **Diversified SA (expected multiple range 4-6):** we use a 5 times EBITDA multiple as the business turnaround has exceeded expectations.
- On a PE basis, Nampak trades at a forward 7.2 times to FY25 and 5.0 times to FY26 as earnings growth is boosted by lower finance costs as the asset sale process completes. We believe that Nampak should trade between an 6-8 times multiple as metal cans are likely to grow market share relative to other packaging and growth rates should exceed GDP in the medium term.
- Our HEPS forecast of 5729c for FY25 is growing on the normalised FY24 HEPS of 5295c, with the benefits of the turnaround boosting the operational performance and lower finance costs expected after the refinancing and expected debt reduction with the asset sales.
- FY26 HEPS gets a large benefit from the lower expected net debt of R2.6bn and the lower finance costs in line with the ratchet mechanism boosting the bottom line.

Fig 3 PE Multiples

	2024A	2025E	2026E
HEPS	3361	5729	8258
NPK PE	12.3	7.2	5.0
TP fwd PE	15.3	9.0	6.2

Source: Factset, Chronux Research estimates

- Our Target Price for Nampak comes out at R513 (from R380) using FY25 numbers. Nampak has been able to engineer a strong turnaround in the business and is well positioned for growth in the core divisions.

Normalised HEPS

- The result was impacted by a number of one-off items and an unpacking of the normalised HEPS is required.
- On the face of it, after reporting 5394c HEPS in 1H and 3361c for the full FY24, there was a loss of 2032c in 2H.
- The normalised HEPS adjustment for 1H FY24 is shown in the following table. The PRMA (post-retirement medical aid) adjustment at R290m (R212m post-tax) is the largest adjustment – this was included in reported HEPS. Normalised 1H FYY24 HEPS was 3158c.

Fig 4 Normalised HEPS – continuing operations

	Headline earnings (R'm)	HEPS (cps)
Reported		
1H24	446	5 393.9
2H24	(168)	(2 032.8)
Full year	**278**	**3 361.1**
1H24 reported	446	5 393.9
PRMA — once off (post-tax)	(212)	(2 557.6)
PSP share-based payment charge	(5)	(57.3)
1H24 once off costs	31	379.1
Retrenchment and restructuring costs	10	123.4
Corporate costs for discontinued operations	21	255.7
1H24 pro-forma	**261**	**3 158.1**

Source: Company data

- Headline earnings adjustments in 2H FY24 totalled R372m as shown in the following table. Operating issues make up R194m of the total (R48m volume related), with refinancing costs (R82m) and once-off tax (R65m) making up the difference.
- Adding this back to the reported R168m headline loss in 2H FY24 gives a normalised headline earnings of R177m (2136c).
- These adjustments result in a normalised HEPS of 5295c for FY24.

Fig 5 Normalised HEPS – continuing operations

	Headline earnings (R'm)	HEPS (cps)
FY24 reported	278	3 361.1
PRMA — once off (post-tax)	(212)	(2 557.6)
Headline earnings FY24 excluding PRMA once off	66	803.5
Add back adjustments for 2H24	341	4 112.4
Operating issues	194	2 340.1
Volume related	48	581.8
Share-based payments and restraints	31	370.3
Disputed utility charges	28	335.0
Forex losses in Angola	27	321.2
Cyber recovery and security costs (direct costs)	21	255.7
Corporate costs for discontinued operations	21	255.7
Retrenchment and restructuring costs	18	220.4
Refinancing and associated costs	82	987.4
Tax — once off	65	785.0
1H24 once off costs	31	379.1
Retrenchment and restructuring costs	10	123.4
Corporate costs for discontinued operations	21	255.7
Pro-forma FY24	438	5 295.0

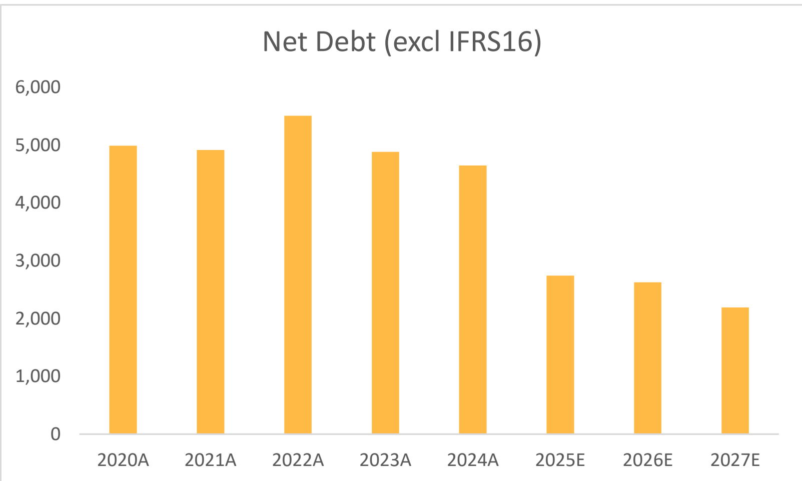
	Headline earnings (R'm)	HEPS (cps)
Pro-forma split as follows		
1H24	261	3 158.1
2H24	177	2 136.9
FY24	438	5 295.0
Share price (29 November 2024) — rands		448
Implied PE multiple (times)		8.5

Source: Company data

Debt

- Debt was refinanced in September 2024, reducing the number of lenders from 16 to one (with options to introduce additional funders by 25 March 2025). All debt was converted to long-term debt and 98% of debt is Rand denominated – reducing exposure to forex movements.
- The refinancing yielded lower interest rates, with a ratchet resulting in lower funding costs as leverage declines.
- Net interest-bearing debt (excluding lease liabilities) declined to R4.4bn (from R4.6bn). Our forecast of net debt is shown below. We assume the asset sale process is finalised by the end of FY25. Disposals so far have yielded R743m of which R720m has been used to pay down debt.
- The remaining asset sale process should yield a net R1.8bn which will be used to pay down debt. This includes the sale of Bevcan Nigeria (R1.2bn), Nampak Zimbabwe (R432m) and I&CS (R143m).

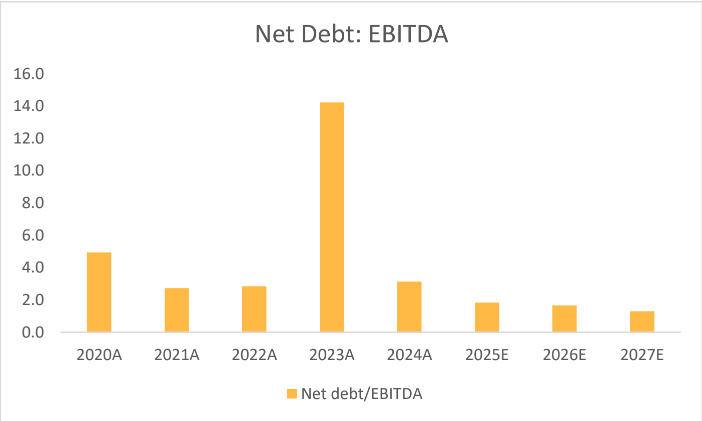
Fig 6 Net Debt



Source: Company data, Chronux Research estimates

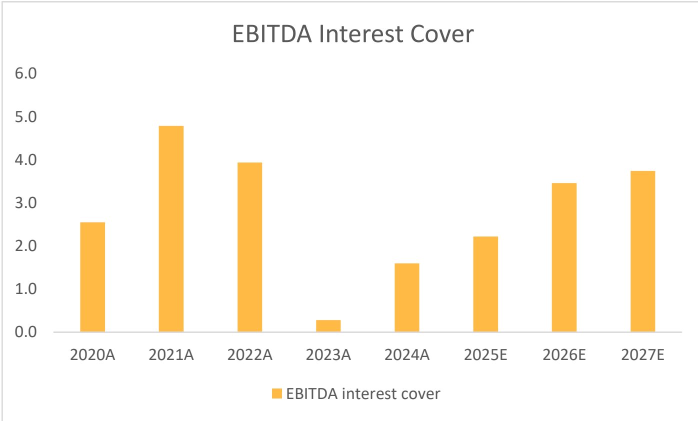
- Nampak has a target debt:equity ratio of 2 times. The pro-forma ratio (EBITA less the R290m PRMA) was 2.3 times in FY24. Net debt;equity should fall below 2 times in FY25/FY26.

Figure 7 Net debt: EBITDA



Source: Company data, Chronux Research estimates

Figure 8 EBITDA: Interest cover

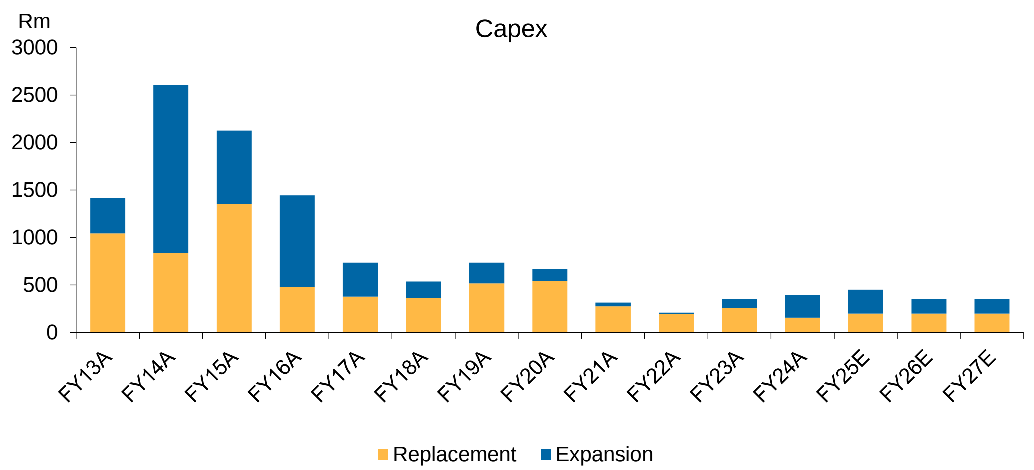


Source: Company data, Chronux Research estimates

Capex

- Capex has declined substantially over recent years as cash preservation has out shadowed expansion ambitions. There have been no major acquisitions since the R3.5bn Nigerian bevcan purchase in 2014.
- Capital expenditure remains low. Total capex guidance is for R450m in FY25 and R350m thereafter. Included in the FY25 number is the relocation of the Angolan line (R150m) and the remaining R30m on the Springs Line 2 conversion (although this may be smaller with the improved performance of the line of FY25 so far). A further R30m is earmarked to convert the Springs Line 3 to 500ml cans.
- Capex for the Springs Line 2 has been R301m so far.
- R111m of replacement capex in FY24 was for discontinued operations.

Fig 9 Capex



Source: Company data, Chronux Research estimates

Notes from the Results

Beverages SA

- Profits were boosted by improved product mix, increased scrap sales, significant cost reductions and improved plant efficiencies.
- However, challenges with the installation of the Springs Line 2 for the 500ml cans resulted in lost sales and customers were put on allocation. Nampak has brought in experienced people and expert help to get the line up and running, and the performance since September has much improved. The final R30m cost to get the line operating at the required efficiency may not be required. The capital cost so far has been R301m.
- Springs Line 3 may be modified to produce 500ml cans at a cost of R30m.
- The increased EBITDA margin (13.2%) is at the upper end of the MT target range of 11-13%.
- Volumes should improve into FY25 with Springs Line 2 being operational for the full year and demand for the 500ml can format remaining strong.
- The market remains competitive, with Nampak having approx. 60-65% market share in the bevcan market, with competitors GZI and Golden Era (Kingsley has installed a can line for internal consumption and is not a direct competitor).
- Nampak expected to get to full capacity in approx. 12 months and is looking at capacity expansion as the market grows. Moving of the second Angolan line to South Africa (R150m) is planned – this would provide capacity growth at a cost competitors would not be able to match. This could be operational by the end of CY26. GZI can expand on a modular basis but GE would need to invest in a new line (which costs approx. US$60m).

Diversified SA

- DivFood swung to a R301m operating profit on the back of portfolio rationalisation (the loss-making paint can business was closed – this was losing R60m per annum). The metals closures business was also closed as customers switch to PET bottles.
- An extended shutdown at a fishing customer for 2 months did impact volumes. Port issues impacted customers.
- New customers were acquired, including the canning operations of Langeberg and Ashton to add to the Giants canning business.
- The EBITDA margin at 11.3% is sustainable with a MT target of 10-12%. Further benefits are expected from the ongoing efficiency improvements.

Beverages Angola

- The macro-environment is improving with increased oil output. Working capital management has been a focus.
- Nampak has taken a tougher stance with customers, suspending sales if necessary if payment is not received. A payment issue with a large customer was resolved with the customer (Refriango) refinancing and in better financial shape. This impacted volumes in 1H FY24 with sales suspended for 3-4 months. Refriango has been given the Coca Cola rights in Angola and this caused some temporary balance sheet strain.
- Refriango has invested in filling capacity in the DRC and this should stimulate more demand (historically the DRC has been a source of bevcan demand from Angola).
- The second line in Angola will never be used and it will be moved to South Africa.
- The first line in Angola is operating at 33% of capacity (the highest it has ever operated is 66%).
- All customers have been moved to 30-day payment terms.
- Nampak has been able to purchase US$ bonds to be able to hedge currency in country. US$3.3m has been purchased so far. The bonds have a 7-year tenor but are liquid and can be traded.

- The EBITDA margin is at 28.4% with a MT target of 23-25%.

Asset sales

- R743m has been received from asset sales so far (with R720m used to pay down debt) and a further R1.8bn is expected by September 2025. This will be used to pay down debt.
- The sale of Bevcan Nigeria has been approved by the Federal Competition and Consumer Protection Commission. There are conditions to the approval and the potential buyer is working through these.
- Should the Nigerian sale fall through management do have a Plan B – there are other potential buyers and the last resort would be to sell of the land the equipment.

Divisional Forecast

Figure 10 Divisional Forecast

(Rm)	2021A	2022A	2023A	2024A	2025E	2026E	2027E
Revenue	**13326**	**16126**	**9881**	**9956**	**11241**	**11956**	**12804**
Beverages SA	5168	6656	5830	6106	6887	7200	7597
Beverages Angola	2203	3001	915	972	1001	1096	1212
Diversifed SA	2557	3258	3000	2876	3354	3660	3995
Corporate	-408	-528	0	0	0	0	0
Revenue growth		**21%**	**-39%**	**1%**	**13%**	**6%**	**7%**
Beverages SA		29%	-12%	5%	13%	5%	6%
Beverages Angola		36%	-70%	6%	3%	10%	11%
Diversifed SA		27%	-8%	-4%	17%	9%	9%
Corporate							
EBITDA			**343**	**1478**	**1564**	**1644**	**1750**
Beverages SA			583	806	895	936	988
Beverages Angola			43	276	270	274	291
Diversifed SA			15	325	402	439	479
Corporate			-298	71	-4	-5	-7
EBITDA margin			**3.5%**	**14.8%**	**13.9%**	**13.7%**	**13.7%**
Beverages SA			10.0%	13.2%	13.0%	13.0%	13.0%
Beverages Angola			4.7%	28.4%	27.0%	25.0%	24.0%
Diversifed SA			0.5%	11.3%	12.0%	12.0%	12.0%
Corporate							
Operating profit	**824**	**895**	**78**	**1244**	**1324**	**1396**	**1496**
Beverages SA	553	456	467	691	777	814	862
Beverages Angola	321	398	9	260	254	258	275
Diversifed SA	-1	-84	-6	301	378	414	453
Corporate	-49	125	-392	-8	-85	-89	-94
Operating Profit margin	**6.2%**	**5.6%**	**0.8%**	**12.5%**	**11.8%**	**11.7%**	**11.7%**
Beverages SA	10.7%	6.9%	8.0%	11.3%	11.3%	11.3%	11.3%
Beverages Angola	14.6%	13.3%	1.0%	26.8%	25.4%	23.5%	22.7%
Diversifed SA	0.0%	-2.6%	-0.2%	10.5%	11.3%	11.3%	11.3%
Corporate							

Source: Company data, Chronux Research estimates

Appendix: Core Divisions

Bevcans SA

- Key features:
  - Leading market position (60-65% market share).
  - Well-capitalised asset base with scope for further capital expansion.
  - Moderate future replacement capital requirements.
  - High levels of cash conversion.
  - Local and multinational customer base built on trust and service excellence.

Fig 11 Bevcan – Key Customers

Products	Key Customers
Regular cans	ABInbev
Slimline cans	Castel
Slender cans	Coca-Cola
Can ends	Diageo
	Distell
	Heineken
	Refriango

Source: Company data, Chronux Research estimates

- Bevcans SA has two manufacturing sites across South Africa:
  - Springs (3 lines)
  - Rosslyn (2 lines)
- Key raw materials:
  - Aluminium
    - Sourced locally
- After being the only bevcan producer in South Africa, two new competitors have built bevcan lines in recent years.
- Although nameplate capacity is high at approx. 7bn cans per annum, the normal operating capacity factor of 90% needs a further 40% adjustment for the switching of can sizes on lines. This reduces the South African bevcan capacity to closer to 3.8bn cans.
- Nampak has an advantage over its competitors having multiple lines as it can run dedicated can size runs for longer.

Fig 12 South Africa – Bevcan Capacity

South African Bevcan Capacity

m cans

		Capacity factors		
	Nameplate	Normal	Change can size	Actual capacity
Nampak	5000	90%	60%	2700
GZI	1000	90%	60%	540
Golden era	1000	90%	60%	540
Total	**7000**			**3780**

Source: Company data, Chronux Research estimates

- While the new competitors did reduce Nampak's market share and expedited the closure of the Durban and Cape Town lines, Nampak has continued to be a reliable producer and customers are starting to come back after disappointments with the new entrants.
- Nampak is the only producer with spare capacity and can respond the market growth better than its peers. At present the conversion of Springs Line 2 has been done given the shortage of supply currently for that type of can.

Bevcans Angola

- Key features:
  - Underutilised production capacity exists: leverage excess capacity as overall economy improves.
  - Long-standing relationships with major clients and suppliers.
  - Re-opening of borders (DRC) expected to significantly increase demand for cans.
  - Notable multinational companies expanding their operations into the region, fuelling imminent growth.
  - High barriers to entry decrease prospects of competition in short-medium term.
- Bevcan Angola is the only producer of beverage cans in Angola, supplying the country's key beverage producers. The Group has a state-of-the-art facility in Viana, Luanda capable of manufacturing standard 330ml and slender 330ml beverage cans.
- Bevcans Angola has one manufacturing sites in Angola:
  - Viana (2 lines)
- Key raw materials:
  - Aluminium
    - Sourced internationally (Asia)
- Selling price mechanisms remain in place to recover from all our customers, on a monthly basis, the impact of currency movements on price. The Angolan government allows the kwanza rate to float according to the market. As a result, there is limited additional currency exposure that needs to be recovered from customers due to differences between official and parallel rates. Historically the Angolan government's Kwanza-linked US Dollar bonds offered protection against currency depreciation.

Divfood

- Key features:
  - Well-established, longstanding relationships with its key customers.
  - Supplier rationalisation with aim of cost improvement.
  - Addressing working capital cycle whilst exiting unprofitable and complex product categories.
  - Product reengineering initiatives to lower cost of goods.
  - Price agility to deal with foreign exchange volatility.
  - Improved sales penetration in non-core sectors.

Fig 13 Divfood – Key Customers

Products	Key Customers
Broad range of two- and three-piece food cans	Diageo
Aerosol cans in both aluminium and tinplate	Distell
ROPP and twist-off metal closures	Lucky Star
	Nestle
	Oceana
	Rhodes Food Group
	Tiger Brands

Source: Company data, Chronux Research estimates

- DivFood has four manufacturing sites across South Africa
    - Vanderbijlpark
    - Mobeni Durban
    - Paarl
    - Epping, (Cape Town).
- Key raw materials:
    - Tinplate and aluminium
        - imported mostly from Europe, Japan and China, with a relatively long supply chain.
- Production consists of multi-stage manufacturing processes:
    - coil shear, coating, printing, componentry and assembly.
- Two can types (monobloc aerosols and two-piece cans) are produced in a single continuous process.

Disclaimer: