MEDIA RELEASE

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NAMPAK ANNOUNCES GOOD OPERATING PERFORMANCE – RAISES R1.9bn FROM ASSET SALES, R3.2bn TRANSFERRED FROM ANGOLA AND NIGERIA

Substantial impact from currency devaluation in Zimbabwe

Nampak yesterday released its results for the 2019 financial year. The company announced that it was expecting the sales of Nampak Glass and Nampak Nigeria Cartons to raise a total of R1.9bn, which would be applied to reducing debt, and in particular dollar-denominated debt. In addition, the company has made good progress toward selling its troubled European plastics business, which will remove a pension liability of R0.5bn from the balance sheet.

André de Ruyter, CEO of Nampak, commented: “We continue to implement our strategy of right-sizing our portfolio by exiting non-core assets, to ensure that we are able to generate better returns from a lean and focused asset base.” While the company has met its loan covenants, it intends further to deleverage its balance sheet using sales proceeds and enhanced cash generation from operations. It is pleasing that cash generated from operations before financing activities has increased to R1.1 billion from R0.3 billion in the prior year.

Its core Bevcan business continued to perform well in Nigeria, with double digit market share gains and increased sales volumes. The company indicated that a decision on expanding its production facility in West Africa was imminent, which would further increase its ability to tap into the fast-growing Nigerian demand for cans.

In South Africa, Nampak managed to retain a market share in excess of 80% in the beverage can market, despite the entry of two new competitors. The market itself grew by more than 6%, a strong performance in an otherwise constrained consumer environment. “Not only was Bevcan SA able to deliver stable profits for the year thanks to cost saving and efficiency gains, but we also successfully developed new market categories in wine, water and craft beer”, De Ruyter noted. Nampak has achieved a Level 2 B-BBEE contributor rating, which it regards as a key competitive advantage in gaining market share from competitors in South Africa.

Cash balances in Angola and Nigeria have reduced significantly, with a total of R3.2bn transferred for the year; R1.7bn from Angola and R1.5bn from Nigeria. Hedging instruments have been highly effective during the devaluation of the kwanza, and have protected Nampak shareholders against potential losses of some R1.9bn since the inception of the hedging programme. “Angola and Nigeria are now effectively unconstrained from a cash transfer perspective, and the businesses are delivering solid cash flows back to Nampak”.

The availability of foreign currency in Zimbabwe remains challenging and only R43m was transferred for the period. Owing to the depreciation of the Zimbabwe dollar to the US dollar from 2.54 to 15.20, Nampak had a net devaluation loss of R1.0bn. Nampak has not extended any further credit to Zimbabwe since April 2018, and the Zimbabwe businesses are self-funding through prepayments from customers and exports to other African countries. De Ruyter commented: “The hyperinflationary environment in Zimbabwe, coupled with the rapid depreciation of the Zimbabwe dollar by more than 100% in just nine months, has created an environment where the remaining cash balances had to be written down to reflect the new reality of a much weaker currency. We put in place a hedging agreement with the Reserve Bank of Zimbabwe to protect some R800m of the cash balances, but took a prudent view on this hedge and have provided for an expected loss on this amount of 85%. If we recover more than this, shareholders will benefit in future years.”

Cost containment was a major focus for the year, with savings of R412 million delivered, and a cash release of R200 million from supply chain optimisation. “We have focused on operational efficiencies, cost containment and right-sizing of divisions, as part of an ongoing programme which is targeting a minimum of a further R150m over the next eighteen months.”

Revenue from continuing operations decreased 8% to R14.6bn with Bevcan SA performing commendably, despite new competitors in SA and Bevcan Nigeria delivering a stellar performance, with double digit volume and revenue growth. The Nigerian pack share for cans is still very low, which creates substantial upside for growth in spite of a moribund Nigerian consumer sector. This partially offset the impact of consumers’ reduced purchasing power in Angola following a currency devaluation, as well as increased competition in Divfood and Plastics SA.

Trading profit declined 21% to R1.6bn and margins dropped from 12.3% to 10.6%, due to weaker performance in Metals and Paper divisions. Softer demand at Divfood SA and Bevcan Angola impacted overall profitability. Various operations in rest of Africa also reported lower trading profits due to challenging economic conditions. These were partially offset by improved profits at Megapak in Zimbabwe.

Operating profit of R2.1bn, before the net foreign exchange losses in Zimbabwe, increased by 35% assisted by sound management of employee costs and other overheads and active management of controllable items.

The net devaluation losses of R1.0bn in Zimbabwe led to reported operating profit declining by 84% to R254m. Profit before tax fell to R6m for the same reason. A change in tax law in Angola in the second half of the year limited the deductibility of foreign exchange losses to 7% significantly impacting the group’s tax charge and consequently the effective tax rate leading to a net loss for the year of R390m. The tax provision is not expected to translate to a cash liability and therefore will have no effective bearing on cashflows either now or in future.

Basic earnings were 76% lower at R272m and earnings per share reduced 76% to 42.2c. Headline earnings and headline earnings per share both fell 69% to R349m and 54.1c respectively. Removing the impact of net foreign exchange losses in Zimbabwe, normalised earnings per share were down 17% to 146.4c while normalised headline earnings per share were down 9% to 158.3c.

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

De Ruyter concludes: “Nampak remains Africa’s pre-eminent packaging manufacturer, with significant competitive advantage and a strong and stable customer base. Our factories have operated well, and we have managed to mitigate the impact of weak macro-economic conditions and increased competition by managing factors within our control and produced good results while faced with protracted sub-par economic growth and intensified competition in South Africa.”

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Media and Investor queries:

Nondyebo Mqulwana

Group Investor Relations Manager

Tel: +27 11 719 6326

Email: Nondyebo.Mqulwana@nampak.com

About Nampak

Nampak is Africa's largest diversified packaging manufacturer by volume and revenue. We leverage the skills of our 5 641 people and capitalise on our substantial investment in state-of-the-art facilities to produce world-class metal, glass and rigid plastics packaging from facilities in 11 countries across Africa, and in the United Kingdom as well as Ireland. Our customers – many of them large fast-moving consumer goods companies – benefit from our extensive research and development services, which provide them with innovative solutions that promote their own products while keeping their impact on the environment in check. www.nampak.com