

Mpact Limited
(Incorporated in the Republic of South Africa)
(Company registration number 2004/025229/06)
Income tax number: 9003862175
JSE Share Code: MPT
JSE ISIN: ZAE 000156501
("Mpact" or "the Group" or "the Company")

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

SALIENT FEATURES FROM CONTINUING OPERATIONS

- Strong cash generated by operations of R698 million (June 2019: R101 million)
- Revenue decreased by 1.4% to R5,062 million (June 2019: R5,132 million)
- EBITDA of R396 million (June 2019: R575 million)
- Return on Capital Employed (ROCE) of 9.4% (June 2019: 11.5%)
- Underlying earnings per share of 9 cents (June 2019: 57 cents)
- No interim dividend declared
- Retained Level 1 B-BBEE rating for main operating entity, Mpact Operations (Pty) Ltd

COMPANY PROFILE

Mpact is the largest paper and plastics packaging and recycling business in Southern Africa with customers that include packaging converters, fruit producers and FMCG companies. Mpact's integrated business model is uniquely focused on closing the loop in plastic and paper packaging through recycling and beneficiation of recyclables.

As at 30 June 2020, Mpact employed 5,026 people (June 2019: 5,187 people) and had 40 operating sites, 20 of which are manufacturing operations, located in South Africa, Namibia, and Mozambique. Sales in South Africa account for approximately 86% of Mpact's total revenue for the current period while the balance was predominantly to customers in the rest of Africa.

GROUP PERFORMANCE

The events over the past six months have been unprecedented. The period started with persistent external electricity supply interruptions across the country, exacerbating the effects of an already weak economy and an oversupply of recycled containerboard. Then we faced the outbreak of the coronavirus disease (Covid-19) and the nationwide lockdown imposed by Government, which started on 27 March 2020.

Group revenue from continuing operations for the six months decreased by 1.4% compared to the same period last year to R5.06 billion, due to lower average selling prices in the Paper business, and declines in sales attributable to the lockdown. External sales volumes decreased by 4.7%.

For the duration of the lockdown, all divisions within Mpact have been designated as essential service providers due to Mpact being one of the critical supply chain links in the South African economy, producing paper and packaging for food, pharmaceuticals and other essential products. As such, most of Mpact's facilities have remained operational since the start of the lockdown.

Mpact's first priority is to provide and maintain a safe and healthy work environment for all of its employees. To this end, a comprehensive plan of action with stringent safety and hygiene practices to mitigate the risks associated with the pandemic was implemented across all operations in addition to the strict pre-existing health and safety measures.

Not all packaging manufactured by Mpact is used for purposes of packaging essential goods. Consequently, non-essential production lines, such as those producing packaging for quick-service restaurants (QSR) and alcoholic beverages, did not operate at all times during the lockdown period. Additionally, the lockdown has had a negative impact on demand for other paper and plastics packaging products and for recycled paper, plastic and glass.

As a result, sales volumes from continuing operations for the second quarter (April, May and June 2020), declined by 6.4% when compared to the same prior year period.

In response to these challenges, numerous measures have been implemented to reduce costs and conserve cash. Cash reserves have been closely managed through, inter alia, monitoring available banking facilities, debtors' payments, inventory levels and postponing non-essential capital expenditure. Other cost initiatives included negotiating reduced rentals, employees agreeing to salary reductions, reviewing non-essential contracts and temporarily closing production lines, where necessary.

All employees responded exceptionally well to the changing environment, despite very challenging circumstances. Operations adjusted work schedules to account for reduced demand, with employees taking leave where short-time was necessitated. Covid Compliance Officers have been appointed for each business, and related health and safety protocols have been formalised across the Group through workplace plans, in accordance with government regulations. We have also worked very closely with our primary healthcare providers to educate employees and to increase primary healthcare and employee wellness support at the operations. Employees are provided with family packs, which include sanitizers and vitamins to help protect them and their families at home.

Our interventions have extended well beyond our operations. We have continued to make a tangible difference in our communities through innovation and caring for the less fortunate. Mpact Recycling repurposed some of its collection fleet during the initial lockdown stages to deliver meals, vouchers, face shields and other supplies to many waste reclaimers who were unable to work at that stage.

In April, Mpact Plastics developed, prototyped and produced new face shields in a matter of weeks for

use by health care workers and others, to address the pressing need to reduce the spread of the virus. The shield, produced from polyethylene terephthalate and polypropylene, both fully recyclable materials, was very well accepted in the market, with additional variations for schoolchildren added in May. In June, 25 000 face shields were donated to the Gauteng Department of Health and 6 000 to waste reclaimers, and they have also been provided to all Mpact employees. Demonstrating again that our purpose at Mpact goes beyond making packaging, we make a difference.

Despite our best efforts, it was not possible to reduce costs in proportion to the decline in gross profit.

Earnings before interest, taxation, depreciation and amortisation (EBITDA) decreased by 31.1% to R395.7 million (June 2019: R574.5 million) mainly attributable to the weak economic conditions combined with lower margins in the Paper business due to subdued international demand for recycled containerboard and lower average selling prices, which were already evident at the beginning of the period. Profits were also adversely impacted by persistent external electricity supply interruptions at several operations since the beginning of the year. Underlying operating profit (EBIT) of R126.9 million was 50.3% lower than the prior period (June 2019: R255.2 million).

Notwithstanding the difficult trading conditions, Mpact generated strong cash flow from operations of R698 million (June 2019: R101 million), and met all its debt covenants. The Group's net debt as at 30 June 2020, which includes lease liabilities, was R1.94 billion (30 June 2019: R2.70 billion) while total borrowing facilities amount to R2.8 billion.

The Group once again achieved a level 1 B-BBEE rating for its main operating entity, Mpact Operations (Pty) Ltd.

Paper business

Revenue in the Paper business of R4.0 billion was 1.7% lower than the same prior year period (June 2019: R4.1 billion). Sales volumes decreased by 4.8%, with lower domestic sales volumes offset by a 66.3% increase in exports at lower average prices.

Sales volumes in the Paper Converting business declined by 6.7% with good growth in the fruit sector offset by declines in the other sectors due to the lockdown. Paper Mill sales volumes increased by 15.8% due primarily to exports of rolled recovered paper pulp. Excluding rolled pulp, mill sales increased by 1.9%, with a decline in the domestic market offset by an increase in exports of containerboard. Recycling sales volumes including rolled pulp declined by 11.8%. Imports of containerboard by customers increased during the six-month period.

Second quarter sales volumes for the Paper business decreased by 6.5% due to lockdown related declines in the QSR, beverage, tobacco and recycling sectors. Paper Converting and Recycling volumes declined by 13.1% and 37.4% respectively, while Paper Mill sales increased by 26.7% due to exports.

Underlying operating profit of R184.0 million was 37.8% below the prior period (June 2019: R295.9 million) mainly due to lower Paper Mill margins, the effects of lockdown and electricity supply interruptions. The Springs paper mill lost 22 production days in the period at a cost of approximately R27 million due to the catastrophic failure of a municipal sub-station in Ekurhuleni. While an insurance claim has been submitted, no insurance proceeds have been received or accounted for in the interim results.

Plastics business

Revenue of R1.1 billion was in line with the prior period with higher average selling prices offset by a 3.9% decline in sales volumes. Good volume growth in Bins & Crates and FMCG was offset by declines in Preforms & Closures and Trays & Films.

Lower demand from the beverage and QSR sectors during the lockdown led to volume decreases of 22.3% and 15.2% respectively in Preforms & Closures and Trays & Films in the second quarter, when compared to the same prior year period. FMCG volumes increased by 15% in the second quarter on the back of robust demand for pharmaceutical, food, homecare and personal care packaging. Growth in Bins & Crates was underpinned by a new contract for beverage crates secured during the course of last year.

The Plastics business made an underlying operating loss of R17.7 million compared to a break-even in the same period last year. This is due primarily to provisions for inventory and bad debt write-downs of R37 million and R5 million respectively, and a sharp contraction in sales of preforms and closures during the second quarter. Of the inventory provision, R27 million is for slow moving regrind raw material in Trays & Films with the balance attributable to exported jumbo bins. The restructuring of the Trays & Films business has been completed with the inventory provisions detracting from an otherwise good year-on-year improvement in EBITDA, despite lower volumes. The sale of face shields, a development that was completed in record time in order to assist in the fight against the virus, also contributed positively. Underlying operating profits improved in FMCG and Bins & Crates.

Net finance costs

Net finance costs from continuing operations decreased by 22.8% to R94.8 million (June 2019: R122.8 million) due to lower interest rates and a lower average net debt.

Tax

The effective tax rate was 28.6% (June 2019: 29.1%).

Earnings per share

Basic earnings per share (EPS) and headline earnings per share (HEPS) for the period were 9.0 cents (June 2019: 57.8 cents) and 8.4 cents (June 2019: 56.6 cents), respectively. Underlying EPS decreased by 84.2% to 9.0 cents (June 2019: 57.0 cents).

Net debt

Despite the challenging trading conditions, Mpact generated R417 million of cash before the repayment of borrowings compared to a cash outflow of R301 million in the prior period, through strict working capital management, postponing non-essential capital expenditure and stringent cost-containment initiatives. Cash generated by operations was R698 million (June 2019: R101 million). The Group's net debt as at 30 June 2020, which includes lease liabilities, was R1.94 billion (30 June 2019: R2.70 billion; 31 December 2019: R2.29 billion). In July 2020, Mpact secured an additional R210 million general banking facility from Nedbank, bringing the Group's total borrowing facilities to approximately R2.8 billion.

The Group met all of its debt covenants.

OUTLOOK

The outlook for the remainder of the financial year remains uncertain given the extent of the lockdown measures imposed by Government in an already fragile economy, coupled with ongoing power outages.

There was some recovery in QSR demand in July, but the beverage and tobacco sectors remain weak. We expect good demand for fruit packaging in the second half and improved demand in other sectors as lockdown regulations are eased.

While global containerboard and cartonboard prices appear to be rising off a low base, the market remains in oversupply.

Mpact's strong balance sheet and experienced management team gives us confidence that the Group will be able to navigate these challenges. Our focus will continue to be on cash preservation through strict working capital management, the postponement of non-essential capital expenditure and implementing additional cost-containment initiatives to mitigate the effects of the weak market.

Mpact's integrated business model is uniquely focused on closing the loop in paper and plastic packaging. We will continue with product innovation initiatives and work with our customers to develop new markets to ensure that our business is well positioned for any recovery.

Cash dividend

The Board has resolved to preserve cash resources, given the uncertainty of the impact of the lockdown and Covid-19 pandemic. As a result, no interim dividend for the six months ended 30 June 2020 was declared.

The final cash dividend of 42 cents (33.60 cents net of dividend withholding tax) per ordinary share for the year ended 31 December 2019 will be paid on 7 September 2020, in accordance with the details announced on SENS on 30 April 2020.

Financial summary

	Six months ended 30 June 2020	Six months ended 30 June 2019	Change %
Continuing operations			
R'million			
Revenue	5,062	5,132	(1.4%)
EBITDA	396	575	(31.1%)
Underlying operating profit(1)	127	255	(50.3%)
Underlying profit before tax(2)	25	130	(80.3%)
Net debt	1,938	2,695	(28.1%)
Return of capital employed (%)	9.4%	11.5%	(2.1)
Basic earnings per share (cents)	9.0	57.8	(84.4%)
Basic underlying earnings per share (cents)	9.0	57.0	(84.2%)
Basic headline earnings per share (cents)	8.4	56.6	(85.2%)
Total operations			
Basic earnings per share (cents)	9.0	40.2	(77.6%)
Basic underlying earnings per share (cents)	9.0	39.4	(77.2%)
Basic headline earnings per share (cents)	8.4	39.0	(78.5%)

(1) Underlying operating profit is the Group operating profit before special items.

(2) Underlying profit before tax is the Group profit before tax and before special items.

This short-form announcement is the responsibility of the directors and is only a summary of the information in the full unaudited announcement. Any investment decision should be based on the full unaudited announcement which is available on our website <https://www.mpact.co.za/investor-relations/financial-results/2020/HY2020.pdf>, and on <https://senspdf.jse.co.za/documents/2020/JSE/ISSE/MPT/HY2020.pdf>

The full unaudited announcement is also available at our registered offices at no charge during office hours.

AJ Phillips
Chairman
5 August 2020

BW Strong
Chief Executive Officer

DIRECTORS

Independent Non-Executive:

AJ Phillips (Chairman), NP Dongwana, NB Langa-Royds, PCS Luthuli, M Makanjee, TDA Ross, AM Thompson

Executive:

BW Strong (Chief Executive Officer), BDV Clark (Chief Financial Officer)

Company secretary:

DM Dickson

Registered office:

4th Floor, No.3 Melrose Boulevard, Melrose Arch, 2196
(Postnet Suite #179, Private Bag X1, Melrose Arch, 2076)

Transfer secretaries:

Link Market Services South Africa Proprietary Limited
13th Floor, Rennie House, 19 Ameshoff Street, Braamfontein, 2001
(PO Box 4844, Johannesburg, 2000, South Africa)

Sponsors:

Rand Merchant Bank (a division of FirstRand Bank Limited)
1 Merchant Place, corner Fredman Drive and Rivonia Road, Sandton, 2196
(PO Box 786273, Sandton, 2 146)

Auditors:

Deloitte & Touche
5 Magwa Crescent, Waterfall City, Waterfall, Docex 10, Johannesburg
(Private Bag X6, Gallo Manor, 2052)