

Mpact Limited
(Incorporated in the Republic of South Africa)
(Registration number 2004/025229/06)
JSE share code: MPT ISIN: ZAE000156501
("Mpact" or "the Company" or "the Group")

VOLUNTARY BUSINESS UPDATE FOR THE FIVE MONTHS ENDED 31 MAY 2021 AND TRADING STATEMENT FOR THE SIX MONTHS ENDING 30 JUNE 2021

Trading for the first five months of the financial year has been strong, with underlying profit exceeding pre-pandemic comparatives in both the Plastics and Paper businesses. Mpact has continued to operate effectively under Covid-19 related protocols and conditions, and remains vigilant, upholding the highest standards of health and safety at our operations.

Unless indicated otherwise, all commentary below refers to the Group's performance for the five months to 31 May 2021 (5M21). The prior period is the five months to 31 May 2020 (5M20).

Group Revenue for 5M21 of R4.8 billion exceeded the prior period by 16%, while underlying operating profit more than doubled to R240 million. The Paper business benefited from improved global containerboard prices, increased local sales and higher average prices. The benefits of higher containerboard prices were partly offset by higher waste paper costs which have increased dramatically since the end of 2020, along with a general increase in demand and pricing for commodities. Sales of plastic packaging products benefitted from increased demand in most sectors, but the benefit of increased sales was partially offset by significant increases in polymer prices.

Paper business

Revenue for 5M21 in the Paper business increased by approximately 15% when compared to the prior period.

Paper manufacturing benefitted from strong local containerboard demand during the period, improved production performance and a favourable product and market mix. While low-margin rolled pulp was produced to utilise excess capacity in the prior period, no rolled pulp was produced nor sold in the current period. Demand for our regular product remains strong across all of Mpact mills.

Paper Converting sales volumes benefitted from the recovery in the industrial and Quick Service Restaurant (QSR) sectors. Growth in the agricultural sector was partly offset by a later start to the citrus season compared to the prior period. Nevertheless, the 2021 citrus crop is still predicted to be up by as much as 8% on prior year.

Since the successful 2020 commercial launch of the "Freshpact" range of fresh produce paper trays and punnets, sales volume of these products have grown significantly. Other successful recent innovations include paper grape bags and paper courier bags.

A second interim payment of R30 million has been approved by insurers relating to the Springs Mill electricity supply interruption in 2020, of which the net proceeds of R26 million will be included in the interim results as sundry income.

Plastics

Revenue for 5M21 in the Plastics business increased by approximately 20% when compared to the prior period, with good growth across all businesses. While Plastics showed a significant improvement in profitability, higher polymer prices have not yet been fully recovered in selling prices.

Finance costs, effective tax rate and shares repurchased

Net finance costs for the six months are estimated to be lower by approximately 25% (June 2020: R95 million) attributable to lower average net debt and interest rates and the effective tax rate is estimated at approximately 28%.

Shareholders are referred to the Company's announcements on SENS dated 20 October 2020 and 27 January 2021, in which the Company gave notification that it had repurchased 5% and 10% respectively of its issued share capital. In total, 25,129,154 shares were repurchased at an average purchase price of R13.71 per share. The total cash outflow for the repurchase was R344 million of which R257 million was in 5M21. The total number of shares in issue at the date of this announcement is 148,175,363 shares.

Cash flow and financing activities

Cash generated from operating activities during the six months is expected to be offset by higher working capital, due to increased stockholdings of raw materials to ensure continuity of supply. This, together with the payment made for shares repurchased will result in net debt increasing from the December 2020 levels, but end of June 2021 net debt is expected to be well below the net debt of R1,938 million at 30 June 2020.

Investment for growth and sustainability

Innovation and investing to strengthen our leading market positions is the cornerstone of our growth strategy.

Mpact is investing to take advantage of the significant structural shifts in the global economy as it rebounds from the Covid-19 slump, re-orientates itself towards investing in green-growth, and prioritises ESG standards. These shifts have increased demand for our range of products and seen both new and existing clients, as well as the financial markets taking a keen interest in our circular economy business model.

To ensure we are well positioned to take advantage of a sustained increase in customer demand across our business segments, the board has recently approved over R500 million in investments to support growth and innovation, improve margins, and ensure the resilience and sustainability of our operations. Over the next 24 months, we are building new purpose-built facilities while investing in new technology, plants, equipment, and solar power production that will improve efficiencies and expand our capacity to meet growing customer demand.

The key projects include:

1. Mpact Plastic Containers' (MPC) establishment of two new operating sites: a food-approved factory in Gauteng to grow our injection moulded bins and crates product offering; and a second facility, located in Brits, which will house MPC's recycling operation and increase its recycling capacity by more than 100%, providing further security of supply of recycled raw material used by MPC. In order to fund the above projects, MPC is finalising a R200 million debt facility.
2. Mpact Recycling's development of a new purpose-built facility in KZN that is well situated to supply our Felixton Mill. It will deliver improved operational efficiencies and accommodate anticipated volume growth to supply a greater proportion of the mill's recycled paper requirements from the area.
3. Investments in Mpact Corrugated and Detpak's paper converting capabilities, including a new customer service centre in Limpopo, to meet growth in demand for paper bags, punnets and corrugated boxes, particularly in the fresh produce sector.

4. Expansion of the Group's solar PV generation portfolio by constructing more than 6 MW of solar generation capacity at five plants. This will increase Mpact's total installed renewable energy generating capacity to over 10 MW by the end of 2022 and deliver environmental and social benefits essential to our sustainability.

Collectively these new capex projects allow us to take advantage of our unique circular economy business model while positioning Mpact to deliver sustained revenue and margin enhancing growth. The Group has a strong balance sheet and has sufficient debt facilities to implement Mpact's strategy.

Trading Statement

In terms of the JSE Listings Requirements, a listed company must publish a trading statement once it is satisfied that a reasonable degree of certainty exists that the financial results for the period to be reported on next will differ by at least 20% from reported financial results for the previous corresponding period.

Shareholders are advised that Mpact's earnings per share ("EPS"), headline earnings per share ("HEPS") and underlying EPS for the six-month period ending 30 June 2021 are expected to be more than 90 cents per share (cps) (June 2020: EPS 9.0 cps; HEPS 8.4 cps; and underlying EPS 9.0 cps).

A further trading statement will be issued to provide specific guidance once there is further reasonable certainty regarding to the range of the increase in earnings.

Shareholders are advised that the financial information on which this voluntary business update and trading statement is based has not been reviewed and reported on by the Company's external auditor.

Mpact's unaudited interim results for the six months ending 30 June 2021 will be released on SENS on or about 5 August 2021.

Melrose Arch

15 June 2021

Sponsor

The Standard Bank of South Africa Limited