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 2017 AND DECLARATION OF SCRIP DISTRIBUTION WITH A CASH DIVIDEND ALTERNATIVE

SALIENT FEATURES

- *Revenue increased by 3.1% to R4.8 billion (June 2016: R4.7 billion)*
- *EBITDA of R433 million (June 2016: R552 million)*
- *Underlying operating profit of R169 million (June 2016: R322 million)*
- *Underlying earnings per share of 34.3 cents (June 2016: 95.2 cents)*
- *Return on Capital Employed ("ROCE") of 10.6% (June 2016: 16.7%)*
- *Gearing at 36.3% (June 2016: 33.8%)*
- *Interim gross dividend of 15 cents per share (June 2016: 30 cents per share)*

COMPANY PROFILE

Mpact is one of the leading paper and plastics packaging businesses in southern Africa, listed on the JSE's Main Board in the Industrial - Paper and Packaging sector. The Group has leading market positions in southern Africa in recovered paper collection, corrugated packaging, recycled-based cartonboard and containerboard, polyethylene-terephthalate ("PET") preforms and trays, recycled PET ("rPET"), styrene trays and plastic jumbo bins. These leading market positions allow Mpact to meet the increasing requirements of its customers and achieve economies of scale and cost effectiveness at the various operations.

Mpact has 42 operating sites, of which 21 are manufacturing operations, in South Africa, Namibia, Mozambique and Botswana. Sales in South Africa account for approximately 89% of Mpact's total revenue for the current period while the balance was predominantly to customers in the rest of Africa.

As at 30 June 2017 Mpact employed 4,994 people. (December 2016: 4,998 people)

COMMENTARY

Mpact's results for the six months ended 30 June 2017 reflect challenging trading and macro-economic conditions. When compared to the same period last year, profitability was negatively impacted by lower sales volumes in both the Paper and Plastics businesses and higher recovered paper costs. In addition, the scheduled downtime for the R765 million Felixton paper mill upgrade project, which is due to be completed as planned during the second half of 2017, resulted in lost contribution of R24 million for the period.

GROUP PERFORMANCE

Group revenue of R4.8 billion was 3.1% higher than the comparable prior year period. Excluding Remade, which was acquired in May 2016, Group revenue increased 0.3% with external sales volumes declining 1.8% on the back of lower domestic demand and increased competition, partially offset by increased exports.

Earnings before interest, tax, depreciation and amortisation (EBITDA) of R432.6 million declined by 21.7% due to lower domestic sales volumes in the Paper and Plastics businesses and higher recovered paper costs.

Underlying operating profit of R169.1 million declined by 47.4% on the back of higher depreciation when compared to the prior year period.

Return on Capital Employed of 10.6% (June 2016: 16.7%) reflects the weaker trading environment and recent capital investments which have not yet contributed to profitability.

Paper business

Revenue in the Paper business grew 7.4% to R3.7 billion. Revenue excluding Remade increased 3.7% while external sales volumes declined 1.7%.

A combination of increased competition, the effects of drought on fruit packaging and subdued consumer demand resulted in lower domestic sales volumes compared to the prior year period. Lower domestic containerboard sales were offset by increased exports.

Higher international recovered paper prices and increased local demand resulted in higher recovered paper costs which could not be recovered in the selling prices of containerboard or cartonboard.

Underlying operating profit of R177.0 million was down 39.4%, on the back of lower domestic sales volumes, higher recovered paper costs and R24 million lost contribution related to the planned project downtime at the Felixton paper mill.

Plastics business

Revenue in the Plastics business decreased by 8.5% to R1.2 billion due to lower sales volumes and lower average selling prices.

Total external sales volumes declined 1.3% due to subdued consumer demand, the closure of the Zimbabwe operation in December 2016 and increased competition, particularly in the trays and films sector. Plastic Converting business sales volumes declined 5%. Despite Mpact Polymers' throughput being constrained during the first five months as a result of insufficient grinding capacity, 3,896 tonnes of Savuka™ PET (June 2016: 2,361 tonnes) were sold during the six months ended 30 June 2017 of which 2,393 tonnes was to external customers (June 2016: 643 tonnes).

Underlying operating profit of R27.2 million declined 61.0% from the comparable prior year period due to lower volumes and average prices.

Net finance costs

Net finance costs increased by 9.7% to R99.7 million (June 2016: R90.9 million) due to higher interest rates on higher net debt during the period. Interest capitalised on Phase 2 of the Felixton mill upgrade amounted to R12.6 million.

Tax

The effective tax rate for the period was 29.8% (June 2016: 34.4%) which is higher than the statutory rate of 28%, mainly due to the non-recognition of deferred tax on certain tax losses in Mpact Polymers.

In deriving the effective tax rate, Mpact has not included any recognition of the Section 12i tax incentive relating to the Felixton mill upgrade project, which is conditional upon meeting certain requirements following commissioning. It is estimated that once recognised, the Section 12i tax incentive would increase earnings per share by 70 cents. The recognition of these benefits will be reconsidered during the second half of the financial year.

Earnings per share

Basic and headline earnings per share for the period were 34.3 cents (June 2016: 95.2 cents) and 33.9 cents (June 2016: 94.9 cents), respectively.

Net debt

Net debt increased to R2.3 billion (June 2016: R1.9 billion) after investing R411 million in property, plant and equipment and utilising R141 million to fund working capital. The gearing ratio was 36.3% (June 2016: 33.8%).

Mpact has successfully refinanced R950 million of committed interest-bearing borrowings, which were to fall due in December 2017, for an additional four years.

OUTLOOK

Prevailing trading conditions indicate that consumer spending will remain subdued for the second half of the reporting period and competition will remain intense across most of the Group’s product segments. The effects of the prolonged drought in several fruit growing regions will also continue to negatively affect the Group’s fruit packaging volumes.

Mpact Polymers is expected to show an improved full year trading performance compared to the prior year with improved quality, increased throughput and products which are well accepted in the market.

The R765m Felixton paper mill upgrade project is progressing well. The paper machine was successfully commissioned as scheduled during July 2017. Initial indications regarding quality, throughput and cost are encouraging with the mill planning to ramp up to full capacity by the end of 2018. The final major construction concerns the automated finished goods warehouse which is planned for completion in December 2017.

The Group is nearing the end of an extensive capital investment program with many of the investments expected to reflect positively in the Group’s earnings and returns from 2018. We remain confident in our ability to weather the storm and to realise profitable growth over the medium term.