

## **Pre-closed period update - Nampak first half impacted by slower growth in home market, but rest of Africa delivered on promise**

Nampak group performance for the first half of the 2015 financial year benefited from the continued growth and strong performance of our businesses in the rest of Africa, while the challenging South African trading environment kept the pressure on the performance of Nampak businesses in our home market.

In 2014, Nampak launched various programmes and initiatives aimed at stringent cost management and business process improvement. These progressed well and promise to contribute modestly to performance in the financial year to the end of September 2015. Working capital management also remained a focus, with recent performance better than it has been historically.

### **South Africa**

In the first half of Nampak's 2015 financial year, South Africa experienced significant economic headwinds. Both business and consumer confidence were impacted negatively as the unfavourable exchange rate as well as power cuts ('load shedding') offset the benefits of lower oil prices and slowing inflation. Nampak's home business performance was not immune to this.

The South African Reserve Bank expects the economy to grow at an average rate of 2.2% for 2015, although this might be lower given the challenges around electricity supply.

**Nampak Bevcan's** volumes continued to expand at rates above GDP growth, with the conversion of tinplate lines to aluminium going well with a short term impact on margins. All three aluminium lines at the Springs site ramped up capacity. The installation of the new one billion can line at the Rosslyn site also progressed well and is on track for commissioning towards the end of the second quarter of calendar year 2015. The Cape Town tinplate line will be converted to aluminium in due course.

Progress, albeit at a much slower pace than anticipated, was made at **Nampak Glass**. The key contributors to production inefficiencies and technical issues were inadequate technical skills, hiccups in the ramp-up of

the new third furnace as well as human resource issues. These are being addressed through keen management focus and the implementation of a comprehensive plan which should help the business report a profit for the full year 2015. The pack-to-melt ratio is improving steadily. A new technical services agreement is being finalised and a recently introduced operations excellence initiative will also contribute towards an improvement in business performance. Furnace 3 is ramping up, the pre-heater has recently been installed and full furnace benefits should be reflected in performance in the 2016 financial year.

In the first half, **Nampak DivFood** did well, thanks to a good fishing and fruit harvest season, but margins remain under pressure. Lower oil prices (and hence lower polymer prices) had a positive impact on **Nampak Plastics**; however, this was offset by the loss of some liquid packaging customers that will be replaced with new customers towards the end of the year. Megapak returned to profitability.

## Rest of Africa

### › Nigeria

During the six months to the end of March, the naira depreciated against the US dollar mainly due to the sharp decline in oil prices. Inflation remained within the target range of 6%-9% set by the Central Bank of Nigeria. The impact of these changes on consumer spending varied from sector to sector.

**Nampak Bevcan Nigeria** continued ramping up production, supported by strong demand from the beverage sector. The business has little operational exposure to the naira/US dollar exchange rate since invoice prices are adjusted monthly based on the previous month's naira/US dollar exchange rate. The **cigarette carton** business, which is 30% exposed to changes in Nigerian foreign exchange rates, experienced similar volumes to those in the previous first half as demand was not significantly impacted by the flagging economic conditions. The **general food canning** business, however, was negatively affected by the unfavourable exchange rate, as well as by lower consumer spending.

The consensus outlook for economic growth in Nigeria in 2015 is between 5% and 6%, which is higher than the global average forecast of around 3%. Therefore, we remain positive about the long-term growth prospects and robustness of the Nigerian economy. The relatively peaceful conclusion of the national election in Nigeria has added to the attractiveness of the country.

## › **Angola**

GDP growth rate estimates for Angola in 2015 have been revised downwards mainly because of falling oil prices, as almost half of Angola's economy depends on oil. Inflation, although high, is still below the Monetary Policy Committee benchmark of 9%. Angola's kwanza started weakening in September 2014 and kept to a depreciating trend, negatively affecting the supply of foreign exchange. However, this is not expected to be a matter for long-term concern.

**Nampak Bevcan Angola** continued to operate above design capacity supported by strong growth in demand. Sales volumes grew unabated and exports from South Africa continued. The construction of the second line (that will use aluminium as a substrate) progressed well and the line will be commissioned in April 2015. The business, however, experienced difficulty in sourcing foreign currency and we are working very closely with our commercial bank to minimise delays.

GDP growth forecasts for the rest of the year range from 5% to about 7% and inflation is likely to remain below the Monetary Policy Committee's benchmark of 9%.

## **Active portfolio management**

On 25 March 2015, Nampak announced a series of transactions to deliver on the strategic objective to unlock further value from our base business through active portfolio management. These include:

- The completion of the sale of the Corrugated and Tissue divisions to Ethos Private Equity. Following unconditional approval by the Competition Tribunal, the sale of these divisions will take effect on 1 April 2015 and Nampak will receive a purchase consideration of R1.53 billion.
- The sale of Nampak Recycling to Ethos for R76.3 million subject to approval by the competition authorities. The sale is expected to be completed early in the second half of 2015. Nampak Recycling is an important provider of raw material to the Corrugated and Tissue divisions. A supply agreement will be signed with Ethos for the supply of recycled glass to Nampak Glass.
- The sale of Nampak Flexible, a low-margin business, to Amcor for a maximum target price of R300 million, subject to approval by the competition authorities.

The disposal of these businesses forms part of Nampak's portfolio optimisation strategy to unlock cash from low-margin divisions and redeploy it into high-yield and high-growth opportunities in the rest of Africa.

## **Update on key projects**

### **› Ethiopia glass furnace**

In line with strategy, Nampak concluded a memorandum of understanding for the potential acquisition of a majority stake in a proposed greenfield glass furnace in Ethiopia, some 120 kilometres north of the capital Addis Ababa. This project has the potential to meet significant demand for glass in the fast-growing Ethiopian beer market. To date, the land for the works of the greenfield furnace has been secured on a long-term lease and a source of sand has been identified.

### **› Nigeria and Kenya glass acquisitions**

Nampak is evaluating the acquisition of operational glass operations in both Nigeria and Kenya. Significant progress has been made on both projects and announcements will be made in due course.

### **› Angola glass furnace**

A significant proportion of beer consumed in Angola is imported. Recent customs tariffs on glass bottles are driving investment in brewery capacity, with beer growth rates expected to be above GDP in the long term. Nampak is considering building a glass furnace in Angola. The project is still in the concept development stage and announcements will be made as the project progresses.

## **Key challenges facing Nampak**

Nampak has identified project execution as a key challenge to the implementation of its strategy to accelerate growth in the rest of Africa. The company will continue to draw from the experience and expertise of its long standing management in the rest of Africa and will supplement this with the recruitment of highly experienced project execution individuals.

## **Outlook**

Trading conditions in South Africa are expected to remain challenging and management are therefore focusing on cost discipline and manufacturing excellence to maintain Nampak's competitiveness.

The group's operations in the rest of Africa are expected to continue generating growth in revenue and profit, while the relatively peaceful outcome of the Nigerian elections is seen as a positive development in a key market for Nampak. Our strategy to accelerate growth in the rest of Africa and to focus on core substrates – namely glass, metal and plastic, remains intact and is supported by a pipeline of growth opportunities.

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01 April 2015

Sponsor: UBS (South Africa) (Pty) Ltd

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**Disclaimer:**

The information provided in this report has neither been reviewed nor reported on by the Company's external auditors.

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**Details of Nampak's Pre-closed period conference call for the 6 months ended 31 March 2015 to be held on 01 April 2015:**

**Scheduled Time:** 3:00 PM (GMT +2:00) Harare, Johannesburg, Pretoria

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