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")

PRELIMINARY ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019 AND DECLARATION OF A CASH DIVIDEND

SALIENT FEATURES FROM CONTINUING OPERATIONS

- Revenue increased by 5.1% to R11.1 billion (2018: R10.5 billion)
- Underlying EBITDA up 7% to R1,374 million (2018: R1,284 million)
- Underlying operating profit down 3.7% to R724 million (2018: R752 million)
- Underlying earnings per share of 192 cents (2018: 248 cents)
- Return on Capital Employed (ROCE) of 11.8% (2018: 11.9%)
- Total gross cash dividend of 60 cents per share (2018: 70 cents per share)
- Mpact Operations (Pty) Ltd achieved Level 1 B-BBEE (2018: Level 4 B-BBEE)

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 31 December 2019, Mpact employed 5,142 people (2018: 5,062 people) and had 41 operating sites, 20 of which are manufacturing operations, located in South Africa, Namibia, and Mozambique. Sales in South Africa account for approximately 90% of Mpact's total revenue for the current year while the balance was predominantly to customers in the rest of Africa.

GROUP PERFORMANCE

The Group's financial results for the year ended 31 December 2019 reflect very tough trading conditions, with reduced local and export demand coupled with lower profit margins. Benefits from recent capital investments such as the Felixton paper mill upgrade and the new corrugator in Port Elizabeth partially offset the effects of the challenging trading environment.

During the year the Group's polyethylene terephthalate (PET) recycling operation, Mpact Polymers (Pty) Ltd (Mpact Polymers), was closed and it is therefore reported as a discontinued operation. The reason for the closure is that the recycled PET selling price was below Mpact Polymers' cash cost of production and was expected to remain so for the foreseeable future.

Group revenue from continuing operations of R11.1 billion was 5.1% higher than the prior year.

Effective 1 January 2019, Mpact adopted the new IFRS 16 Lease standard (IFRS 16) which decreased profit before tax by R33 million and underlying earnings per share by 14.0 cents.

Underlying earnings before interest, tax, depreciation and amortisation (Underlying EBITDA) from continuing operations increased 7.0% to R1,374 million (excl. IFRS 16, R1,276 million), while underlying operating profit (EBIT) of R724 million decreased by 3.7%. ROCE at 31 December 2019 was 11.8% (2018: 11.9%).

Paper business

The Paper business reported a 5.4% increase in segment revenue for the year to R8.7 billion (2018: R8.3 billion) due to higher average selling prices. External sales volumes decreased due to lower export and local demand, particularly for containerboard and cartonboard.

Mpact increased its shareholding in West Coast Paper Traders (WCPT) to 60% (December 2018: 49%) effective 1 January 2019 which increased revenue by 1%.

Working capital at the end of the period remained high due to sales not meeting expectations. The paper mills took commercial downtime equating to approximately 10% of their annual capacity (2018: 0%).

Underlying operating profit increased by 3.1% to R716 million (2018: R694 million) due to the consolidation of WCPT and higher gross margin.

Plastics business

Revenue in the Plastics converting business was up 3.2% to R2.4 billion (2018: R2.3 billion) due to higher sales volumes of preforms and closures.

Underlying operating profit of R83 million (2018: R130 million) declined from the prior year due to lower margins realised in the trays and films and FMCG businesses. The operating profit margin was 3.5% (December 2018: 5.6%).

Discontinued operation

On 14 November 2019, the Board of Mpact approved a decision to discontinue its PET recycling operation, Mpact Polymers, which was previously included in the Plastics reporting segment. In December 2019, Mpact Polymers commenced voluntary business rescue proceedings and was deconsolidated from the Group. Its profit and loss statement for the reporting period is disclosed separately as a discontinued operation. The net effect of deconsolidation is that the Groups balance sheet as at 31 December 2019 does not reflect any assets and liabilities attributable to Mpact Polymers. The basic and headline loss per share attributable to Mpact Polymers as a discontinued operation, were 37.1 cents (2018: 39.7) and 36.7 cents (2018: 39.7), respectively.

Impairment of goodwill, plant and equipment

Deteriorating market conditions, together with Mpact's share price trading below its net asset value during most of the past year has resulted in an impairment of R1.3 billion, comprising R549 million of goodwill and R742 million of plant and equipment, raised against the Springs and Piet Retief paper mills as well as the trays and films business. This non-cash charge equates to approximately 633.2 cents per share and is excluded from headline and underlying earnings per share. Notwithstanding the impairments these businesses remain operational.

Net finance costs

Net finance costs from continuing operations increased to R245 million (2018: R209 million) mainly due to interest charged on lease liabilities of R38 million following the adoption of IFRS 16.

Tax

The effective tax rate before special items was 25.7% (2018: 20.3%). In the prior year, the Group benefited from S12I allowances which resulted in a lower effective tax rate.

Earnings per share

Underlying basic earnings per share and headline earnings per share for the year were 191.8 cents (2018: 247.7 cents) and 185.8 cents (2018: 235.3 cents), respectively.

Net debt

Mpact successfully concluded the refinancing of its bank facilities during 2019. Net debt at the end of the year from continuing operations was R2.3 billion (2018: R1.8 billion). The increase in net debt is primarily due to the adoption of IFRS 16 lease liabilities of R321 million. This has resulted in a gearing ratio of 38.2% (2018: 27.9%). The gearing ratio excluding IFRS 16 is 32.8%.

OUTLOOK

There is still no indication of any meaningful improvement in the South African economy, which is aggravated by debilitating power outages.

The global oversupply of containerboard and cartonboard persists while we expect the dynamics supporting recycled fibre availability to continue for the remainder of the year. We will prioritise cash preservation and mitigating the effects of the weak economy through cost savings, efficiency gains and product innovation.

To date, there has been no discernible impact on the Group's sales or supply chains from the current coronavirus outbreak. We continue to monitor the potential impact and will take steps where possible to mitigate the effects.

Mpact's integrated business model is uniquely focused on closing the loop in paper and plastic packaging. Through our increased focus on innovation and the introduction of new product offerings, we will continue to work with our customers to develop new markets.

Cash dividend

Notice is hereby given that the Board has declared a final gross cash dividend of 42 cents for the year ended 31 December 2019 (33.60 cents net of dividend withholding tax) per ordinary share. The dividend has been declared from income reserves. A dividend withholding tax of 20% will be applicable to all shareholders who are not exempt.

The Company's total number of issued ordinary shares at the date of this announcement is 173,304,517.

Mpact's income tax reference number is 9003862175.

Salient dates for the cash dividend distribution

	2020
Publication of dividend declaration	Wednesday, 4 March
Last day of trade to receive a dividend	Tuesday, 31 March
Shares commence trading "ex" dividend	Wednesday, 1 April
Record date	Friday, 3 April
Payment date	Monday, 6 April

All times provided are South African local times. The above dates and times are subject to change. Any material change will be announced on the SENS.

Share certificates may not be dematerialised or rematerialised between Wednesday, 1 April 2020 and Friday, 3 April 2020, both days inclusive.

Financial summary from continuing operations

R'million	Year ended 31 December 2019	Year ended 31 December 2018 Restated	Change %
Revenue	11,076	10,543	5.1%
Underlying operating profit(1)	724	752	(3.7%)
Underlying profit before tax(2)	495	571	(13.5%)
Net debt	2,292	1,830	25.3%
Return of capital employed (%)	11.8	11.9	(0.1)
Total gross dividend for the year (cents)	60	70	(14.3%)
Basic earnings per share (cents)	(443.7)	224.8	(>100%)
Basic underlying earnings per share (cents)	191.8	247.7	(22.6%)
Basic headline earnings per share (cents)	185.8	235.3	(21.0%)

(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 audited announcement and itself is not audited. Any investment decision should be based on the full audited announcement which is available on our website https://www.mpact.co.za/investors-relations/financial-results/2020/FY2019.pdf, and on https://senspdf.jse.co.za/documents/2020/JSE/ISSE/MPT/FY2019.pdf

Deloitte & Touche, the Group's independent auditor, has audited the consolidated annual financial statements of Mpact Limited and has expressed an unmodified audit opinion on the consolidated annual financial statements.

The auditor's report (with Key Audit Matters) issued on the Consolidated Annual Financial Statements ('AFS') and the actual Consolidated Annual Financial Statements can be accessed at:
https://www.mpact.co.za/investor-relations/financial-results/2020/AFSFY2019.pdf

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

AJ Phillips
Chairman

BW Strong
Chief Executive Officer

4 March 2020

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:
Karen Waldeck
CorpStat Governance Services (Pty) Ltd

CorpStat Governance Services (Pty) Ltd was appointed on 26 November 2019 following the passing of the Group's previous company secretary, Mrs MN Sepuru.

Registered office:
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Transfer secretaries:
Link Market Services South Africa Proprietary Limited
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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, 2146)

Auditors:
Deloitte & Touche
Deloitte Place, The Woodlands, Woodland Drive, Woodmead, Sandton, 2196 (Private Bag X6, Gallo Manor, 2052)