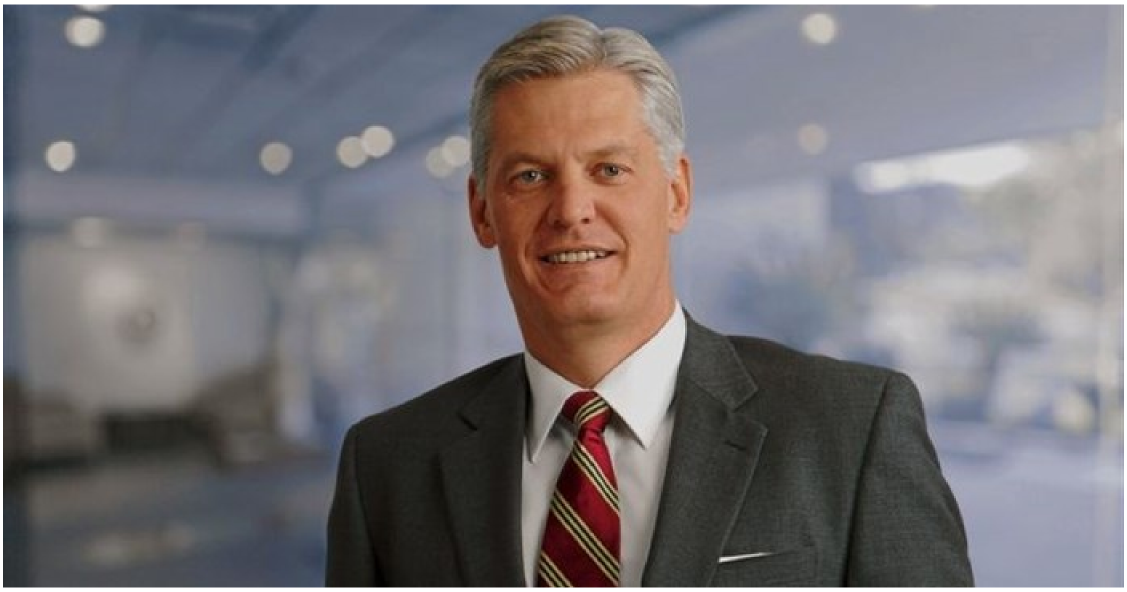
Nampak: pessimism overdone

It takes just a hint of bad news to send a highly rated company's shares sliding. It is a reality that has seen Nampak's rating slump over 40% from a 20-year high in late 2014.



Andre de Ruyter.
Photographer: Geoff Brown

Image source: Financial Mail

But just as enthusiasm for a share can be way overdone, so too can pessimism. Nampak appears to fit this bill.

Some asset managers who sold Nampak shares at around their highs are already nibbling. "We bought a few back recently," says 36One Asset Management's Evan Walker "It is a small start but you can never pick the exact low point."

Nampak's share price could come under more pressure ahead of the release of its annual results in mid-November. They won't make good reading, but they are likely to mark the end of an earnings slide which began with an 8% fall at the March interim stage.

"We are on track to deliver significantly improved financial performance in 2016," says Nampak CE André de Ruyter

In the post since March last year, De Ruyter has a focus: "We must unlock operating leverage from assets in which we have recently invested."

Nampak has a lot to digest. On its plate are its Nigerian beverage and food can operation, acquired in late 2013 for R3,3bn, and the second line at its Angolan beverage can plant, built at an estimated cost of US100m.

In SA a third glass furnace has just been completed at a cost of R1,2bn, and the disruptive conversion of beverage can plants from tin plate to aluminium set the group back R2,4bn.

The new glass furnace has hit Nampak hard, plunging its glass division's trading profit at the March interim stage into a loss of R70m, from a R16m profit a year earlier.

Central to the problem was the choice of unproven technology. "It has been replaced with proven technology," says De Ruyter. "Early in my tenure I also appointed new top management at the division."

De Ruyter is positive on prospects for glass. "When you get things right, glass produces a fantastic gross margin," he says. "We can also sell all the bottles we can produce."

He is also upbeat on SA beverage can operations. "Volume growth is running at double digits," says De Ruyter.

Across Nampak there is now a focus on basic business principles of operational discipline, safety, cost control and efficiency, says De Ruyter. Steps taken include cutting the head office staff count by 48%, slashing transport suppliers from 382 to 18 and harshly rationalising product lines.

Also weighing on Nampak's rating is its big exposure to Africa, source of 38% of its trading profit. The focus of concern is on its two key markets, Angola and Nigeria, both hit by the oil price slump and the slide in the value of their currencies.

By and large, currency falls are not a big issue for Nampak. Beverage can prices are adjusted monthly based on the previous month's US dollar exchange rate, says De Ruyter.

The big problem is a shortage of dollars in both countries. "We can't repatriate dividends and loan repayments to SA," says De Ruyter. Nampak also faces currency translation losses.

Undeterred, Nampak is pressing ahead with its African ambitions, aimed at lifting the nonSA African contribution to group trading profit to 50% by 2020. Nampak is armed with R2bn in proceeds from recent sales of low-margin SA businesses.

On the cards is a glass bottle production facility in Ethiopia, where Nampak has a ready market in SABMiller, Heineken and Diageo It is looking for beer volume growth of 11%/year up to 2025. Also on the horizon are glass bottle plants in Angola and Nigeria.

Nampak is not a share for the faint-hearted. But for those willing to back the experienced De Ruyter and the African expansion vision, it worth a look at current levels.

Source: Financial Mail