Mpact profits soar amid weak economy

MPACT's paper and plastics packaging businesses continue to post stellar profits amid the headwinds of a poor South African economy.

Jean Housen via Wikimedia Commons

The group released "pleasing" interim results for the six months ended June, growing underlying operating profit by 26.8% to R342m, with headline earnings per share in the period up 46.9%.

"Management is outstanding with consistent deliveries, despite the challenging macroenvironment," Ron Klipin, portfolio manager at Cratos Wealth, said yesterday. He said Mpact's business model was based on paper and plastics recycling, and improving output efficiencies and volumes across the board.

Mpact CEO Bruce Strong said yesterday the group had adjusted its product portfolio by closing a plastics factory in Gauteng that had been "unproductive and unprofitable".

The group had undertaken a number of investments in the past few years. Along with its new R350m PET (polyethylene terephthalate) plastic bottle recycling facility in Germiston, helped by Industrial Development Corporation funding, Mpact was spending R765m to upgrade its Felixton paper mill in KwaZulu-Natal.

"We are very pleased with the result. It reflects a number of interventions we have been working on... But we are concerned about the subdued economic conditions in SA and input costs," Strong said.

Enable future volume growth

The fast-moving consumer goods plastics business was restructured last year to enable future volume growth and better operating margins. The paper business delivered steady volume growth, helped by sales growth in the fruit sector.

The paper operation saw revenue growth of 12.1% to R3.3bn, with sales volumes rising 2.4%. Underlying operating profit in the business rose 12.4% to R315m. Plastics revenue rose 7.3% to R1.1bn on the back of good volume growth across all sectors, other than fast-moving consumer goods, which declined following the restructuring. But underlying operating profit in plastics was up 98.9% to R87m, on a favourable product mix and cost savings, Mpact said.

Net overall finance costs were 2.9% lower at R58m compared with in the same period last year. Net debt at the end of June was R1.7bn - an increase of 22.8% from end-June last year - mainly on investments in major capital projects. This pushed the company's gearing ratio to 34.2% from 32.5%.

During the period Mpact had also improved its broad-based black economic empowerment rating to level three.

Source: Business Day