

Mpact-ed by everyday events

The investment team has frequently communicated through our media channels our core investment themes as well as the economic and financial market topics of the day. Sometimes we come across companies who experience all of these - they fit some or a few of the themes and are facing the challenges hands-on. The latest results from a listed recycling company on the JSE caught our attention. They are coping through these cycles and are still confident to invest substantially for the future, not just for the years ahead but also into “new” technologies in terms of both alternative energy and “green” products.



**Willie
Pelsner**

Readers, listeners and attendees of our seminars will remember that the HH investment team has written extensively in **Intuition**, spoken on **Money Morsel** and presented at **Insight** seminars on our core investment themes. These themes form the base for our current research endeavors and how we think economic trends will influence financial markets over the next 3-5 years. The South African themes include:

- **Supported Consumer.** For example, the fact that SA has a social grant system, further supported by the R350 Covid Relief grant, as well as high average inflation-adjusted salaries.
- **Reform Optimism.** What we have just experienced. President Ramaphosa's announcement around the energy sector/Eskom is a good example of reforms designed to improve our growth rate.
- **Infrastructure.** We are starting to see announcements coming through that will take us from a dismal 13% of GDP investment contribution potential back to a level of 20% of GDP. Quite a few examples can be mentioned, but Transnet's announcement seeking private participation for a new deepwater port at Boegoebaai in the Northern Cape, a mineral-rich area earmarked for the export of green hydrogen and other commodities, is a good example. SANRAL has also embarked on major road upgrades – look no further than the N3 to Durban.
- **Pockets of Excellence.** Those companies that are not countries, ie they continue to perform regardless of market and economic turmoil.
- **Digitisation.** The Internet of Things gives scope for expansion to the likes of online shopping, mobile companies, and computer companies.

SPEED READ

- Over the past 12 months, our research has focussed on a few themes such as the “Supported Consumer” and “Reform Optimism.”
- The turmoil across global markets, via inflationary fears, cost pressures and the impact of conflict, has made an impact, so much so that the management of Mpact delve into almost all of these factors.
- Good management, who are forward-thinking and adapting to the daily changes, shows in the results of this recycling business.
- New growth projects and alternative energy bring hope to both citizens and shareholders.

The news reminds us daily of the impact of the Russia-Ukrainian war, hiking of interest rates by almost all countries due to inflationary concerns and additional fears that supply constraints are not abating. The visit by high-ranking US officials to Taiwan – swooping in like they think they are landing on the moon again - has added another round of global tension and uncertainty to an already unpredictable world.

Reading through the latest results announcement by MPact, I was perplexed that a recycling and packaging company can mention something on almost all of our themes as well as the current market forces at play. Before we get there, let me offer a quick recap on who Mpact is.

In 2011, Mondi demerged Mondi Packaging South Africa and separately listed the company under the name Mpact. They are the largest paper and plastics packaging and recycling business in Southern Africa. Their business model is uniquely focused on closing the loop in plastic

CONCISE COMPANY OVERVIEW

Mpact (revenue R12.4bn*)

Paper (revenue R9.7bn*)

- Recovered paper collection and recycling
- Packaging and industrial papers such as cartonboard and containerboard
- Corrugated packaging
- Paper bags, sacks and quick service restaurant (QSR) packaging



Plastics (revenue R2.7bn*)

- Large injection moulded containers and pallets
- FMCG containers - personal care, home care and food packaging
- PET bottles and preforms, hot fill bottles, PET jars and closures
- Trays, fast food containers and clear plastic films



The containers or packaging - from your tomatoes to your takeaway coffee, your bleach, and then into your wheelie bin - are recycled and moulded by Mpact.

and paper packaging through recycling and beneficiation of recyclables. Collecting more than 500,000 tonnes of paper and plastic recyclables, they reduce the amount of material going to landfill sites and promote local beneficiation of raw materials and support more than 50 small businesses. The liquid packaging recycling plant recovers more than 24,000 tonnes of used liquid cartons a year, therefore saving 65,240 m3 of landfill space annually. The company generates over R12 billion in revenue.

In the opening lines of their latest media release, the CEO, Bruce Strong, referred to our **Supported Consumer** theme by commenting that Mpact experienced good sales volumes from the QSR (quick service restaurants), beverages and courier bags (home delivery) sectors. His statement confirms Statistics South Africa's consumer spending numbers that consumer spending at restaurants grew by 6.5% quarter-on-quarter and beverages spend by 2.5% in Q1 of 2022. Mpact's results are to the end of June '22 and therefore we can surmise that perhaps the buoyant consumer spending on takeaway food has continued into the second quarter.

Management stated that production of bins and crates was lower than the prior period as **international supply chain** issues caused delays in the arrival of new equipment from overseas, and in part due to operational issues, impacting sales. South Africa's fruit sector experienced slower sales and exports impacting negatively on Mpact Paper and

Plastics businesses. Producers delayed orders as a result of supply chain and market uncertainties arising from port constraints in South Africa and sanctions against Russia. However, the Citrus Growers Association forecast that citrus export volumes from South Africa will remain strong into the remainder of the 2022 calendar year. Mpact remains confident that their growth assumptions for both paper converting and plastic bins and crates will benefit from this segment of the agricultural sector.

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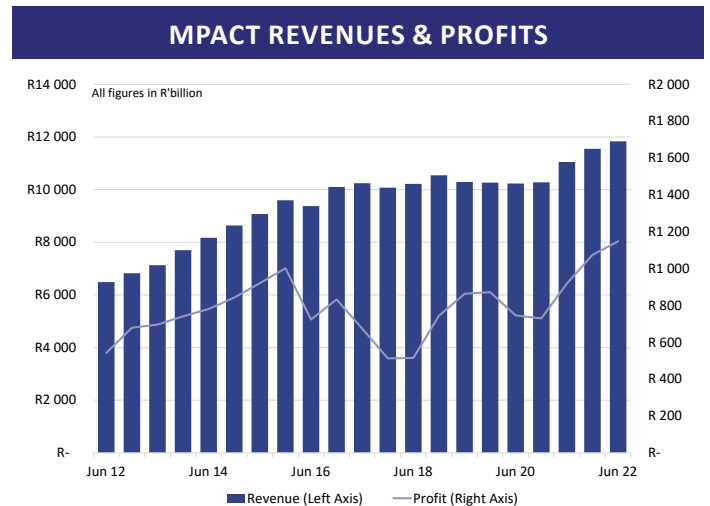
Looking into the future Mpact commented as follows: "While we anticipate the continued negative impact from ongoing global supply chain constraints; market uncertainty arising from the Russia-Ukraine conflict and its effect on the costs of energy and food; and the current cycle of monetary policy tightening globally, Mpact will continue to invest to meet customers'

requirements and extend our innovative product offering." How did Mpact come through the last 2 years? The chart below shows revenue and operating profit on a rolling 12-month basis. Focusing first on revenues, the company hardly faced a decline despite the factors mentioned above. However, due to costs and other Covid-related constraints the profit line did take some "recycling" but was better than the 2017/2018 period. During this time the company was faced with scheduled downtime at the Felixton facility in KZN, soaring paper costs and the impact of a severe drought.

The last observation is around **Reform Optimism** and

Infrastructure. In 2021, Mpact approved over R700 million for growth projects ranging from a new injection moulding facility, to a new plastic recycling facility in Brits, and the central Recycling Distribution Centre in Ekurhuleni, to name a few. What caught my eye in these results is the renewable energy plans they have to secure energy supply and reduce costs. The scope of the installation of solar and inverters has now reached 8.9MW of completed installations, with another 1.8MW project currently under construction, and a pipeline of 7MW at some of the new sites. Another cause for excitement is their new sodium sulphate purification plant at Mkhondo, Piet Retief. This is a facility that beneficiaries by-products from a pulping process. The purification of sodium sulphate will replace imports and product used in the detergent and glass industries.

Using Mpact as an example, we can in summary say that we all are in a position to adapt to the challenges of the global financial and economic systems. What is more exciting is that despite the negativity around South Africa, companies



The world is throwing everything at Mpact, but they manage to “recycle” the onslaught and deliver resilient revenues, and improving profits.

are investing for growth which not only benefits the citizens but also their shareholders.



Dull but important: Mpact manufactures hard plastics such as the ubiquitous wheelie bin found in industrial, commercial and even private homes across the land.



Topic: **Topic to be confirmed**

Natal Midlands

Date:	15th September 2022
Venue:	Oasis Conference Centre, 72 Main Road, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

Johannesburg

Date:	20 September 2022
Venue:	Rosebank Union Church, Cnr William Nichol and St Andrews Road, Hurlingham
Time:	7am for 7.30am

The next topic for our Insight seminars will be announced in due course.



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