

## *Mpact - recycle into results*

*Over the past few weeks a number of JSE-listed companies have reported results. Some CEOs were not shy to take on Government's incompetence to get South Africa right. We all sometimes feel that we are facing the end of the world, or the end of SA at least. However, South Africans have learnt to survive, and indeed thrive. What stood out for me during the latest results season was that we sometimes forget about the SA-centric businesses that successfully navigate through the maze of unknowns. For a number of years, Mpact has put its head down, faced the challenges and delivered the goods. They have adapted not just to the Eskom impact but spotted new trends after Covid, thereby offering clients better and new recycled product offerings. Their reward was another impressive set of results and a nice uptick in the dividend.*



**Willie  
Pelsner**

When markets are faced with uncertainty - and we all know there is much to be uncertain about at present - you often hear commentators referring to “flight to safety” as a means of protecting yourself and avoiding the unknowns. This might make sense, yet that can lead to missing those companies that harness their talents, take on the challenges that South Africa continues to throw at them and who

get the job done. During the latest results season, we looked at one of them again.

Over the past few weeks, several listed companies have reported their latest financial results. The updates spanned various sectors of the JSE, ranging from industrial companies, retailers and mining companies. Those who have a strong local footprint sometimes draw more attention than the global conglomerates. We scan through these results expectantly to see how management is coping with the almost daily disastrous developments across our country. The latest in the litany of events is the Santaco taxi strike in the Western Cape and its widespread impact on the daily lives of Capetonians.

There were many outspoken CEOs who lambasted the President, various government departments and State-Owned Enterprises for their lack of decision-making, incompetence when it comes to policy implementation and strained politically motivated policies, making it difficult for companies to function at their full potential. Nonetheless, a company that caught my eye again was Mpact - a foremost paper and plastics recycler in southern Africa. In previous

### SPEED READ

- Is SA really such a bad place in which to do business? Mpact, the packaging and recycling company, does not think so.
- Mpact's culture of recycling and renewables led them to be ahead of the curve with solar. Consequently, they have largely mitigated the disastrous impact of loadshedding.
- Revenue and profit growth took on a new trend after Covid and new product innovation resulted in margin expansion.

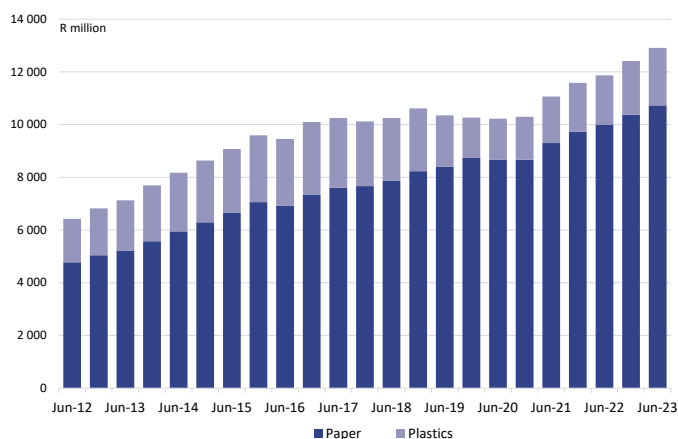
years management has highlighted their efforts to work with Eskom to mitigate the impact of loadshedding, as well as increasing solar capacity and efficiencies. In hindsight, Mpact was well ahead of the curve when implementing alternative energy. Perhaps the nature of their business – to think a greener environment - prompted the decision to install solar over the last couple of years. There are new solar generation installations totaling 6.7 Megawatts (MW) at Mpact's Springs Mill facility and their Castlevue factory is on schedule to be completed during the second half of this year. The Group's solar capacity will then be close to 16.1 MW. Thanks to existing installed solar generation capacity and process designs, Mpact has been able to respond to the curtailment requirements up to stage 6 loadshedding without materially reducing production.

The net result was an increase of 37% and 33% in operating profit and earnings per share respectively, whilst Return on Capital Employed improved to 18.7% and investors were rewarded with a 12% increase in the interim dividend. Who said that South Africa is all bad? Not Mpact. However, not

to raise false hope, the CEO also highlighted the tough economic conditions, the impact of higher inflation on their input costs and a weakening Rand that has a negative impact on imported raw materials.

Mpact operates through two divisions, namely paper and plastics, with the paper division contributing more than 80% to both revenues and profits. Both divisions have recorded an acceleration in revenue growth since Covid and an even stronger profit performance, leading to the profit margin expanding from around 8% prior to Covid to the current 11.5%.

#### ROLLING 12M REVENUE BY DIVISION

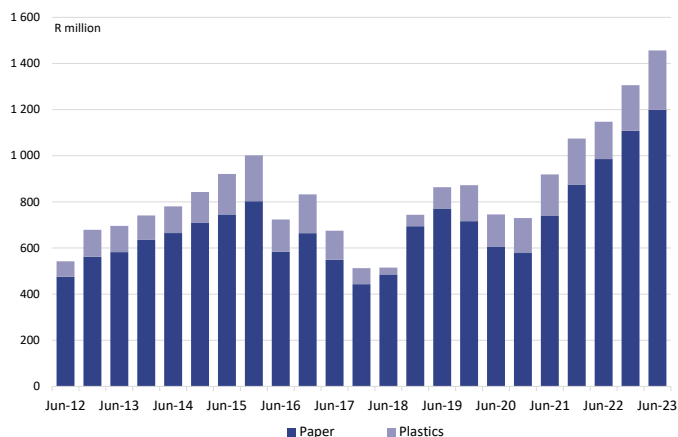


*Revenue stagnated during the Pandemic, but new trends in consumer behavior, coupled with innovative new products, has resulted in strong revenue growth.*

What has contributed to this growth? The paper division is not the A4 piece of paper you use in your printer - that belongs to Mondi - so let me help you here. Mpact's paper operations produce items such as your cereal box, that carton box carrying your tomatoes or veggies, that carton box that the courier chap delivers your wine order in. Other examples include the bag your charcoal comes in, your takeaway coffee cup and that strange looking tray that avos rest in. Perhaps you are now starting to realise why the paper division has performed so well after Covid. If not, again a few hints: ordering online is gaining significant traction; grabbing a take-away from the fast-food outlet due to loadshedding; visit a market fair where they serve food on some interestingly shaped "plates". You might also have noticed how the little polystyrene tray has been replaced by a paper/carton-based tray. Mpact, and others, have managed to

capture these new global trends after we were let out from "house arrest".

#### ROLLING 12M PROFIT BY DIVISION



*Revenue stagnated during the Pandemic, but new trends in consumer behavior, coupled with innovative new products, has resulted in strong revenue growth.*

Now let me focus on plastics. Firstly, we must think "recycled plastic" before some greenie hits me with a paper bag! When you traipse the aisles of your favourite supermarket please take note of all the plastic. I will keep the list of examples shorter here because it has such a vast application field. Coke is in a plastic bottle but did you know that almost 75% of the plastic in Coca-Cola's plastic bottled products is recycled plastic. Coke sets a high standard yet Mpact has successfully met this challenge. Illovo syrup, 2lt cooking oil, 5lt water, yoghurt tubs, your magnesium effervescent tube, the sushi tray and plenty more. The most

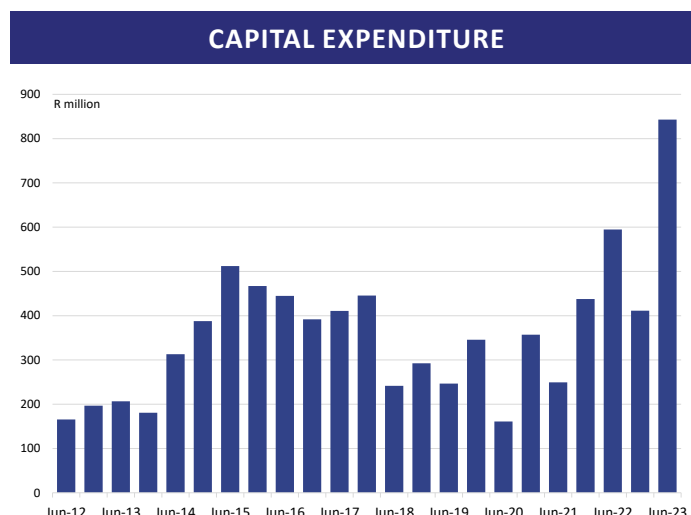
exciting part of the plastics division is crates and bins (the wheelie bin as well). Mpact has ventured into the agricultural sector with crates and bins now successfully being used in the fruit and wine industry. Their latest innovation is plastic pallets. The diverse selection includes standardised hygiene pallets as well as more innovative, nestable designs. These lightweight pallets are robust and offer an efficient

alternative to existing wooden products, with some designed to reduce stacking space when they are not in use. The revenue and profit numbers for this division is a nice remainder of how their client base has adapted to the greener initiatives and workable solutions of the product offering.

**"Almost 75% of the plastic in Coca-Cola's plastic bottled products is recycled plastic."**

Importantly, and encouragingly, Mpack is not shy to spend on renovating and renewing production lines and on innovation to entice customers to use recycled and greener alternatives. The capital expenditure chart speaks to that although some of this spending has been funded with debt, resulting in a higher debt balance than in the past. We will be watching this trend closely given the high interest rate environment. But Mpack has a successful history of expansion and innovation, so there is no reason why their current projects should not deliver accelerated growth in the years ahead. As mentioned, the company does reward investors with a growing dividend distribution on an annual basis, a critical building block in the Harvard House investment philosophy. Importantly, debt levels are not so high that they place the dividend at risk, in our opinion.

In conclusion it appears that Mpack successfully “collects” all the challenges that SA continues to throw at them. They then “recycle” them, process them and spit-out a worthy set of financial results. They have done it again over the past six months. Mpack is not an isolated example – there are many local companies who are delivering the goods against seemingly insurmountable challenges. Imagine what companies such as Mpack could achieve if conditions



*Renewing, renovating and innovation is part and parcel of Mpack. The company has a successful track record of investing for the future.*

in our country were to improve, even marginally. There is much opportunity for investors who are prepared to dig deeper below the surface and who are prepared to take a slightly contrarian view.



As the leading recycler in South Africa, Mpack collects approximately 600,000 tonnes of recovered recyclables per annum.





Our next Insight seminar will take place in September in Howick and Johannesburg. The topic will be announced in due course.



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**Topic:** **TBC**

#### **Natal Midlands**

Date:	21st of September 2023
Venue:	Oasis Conference Centre, 72 Main Road, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

#### **Johannesburg**

Date:	19th of September
Venue:	Rosebank Union Church, Cnr William Nichol and St Andrews Road, Hurlingham
Time:	7am for 7.30am

#### **Cape Town**

Date:	n/a
Venue:	ABRU Motor Studio, Lourensford Wine Estate, Somerset West
Time:	5.30pm for 6pm

## **CONTACT DETAILS:**

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Performance figures quoted for the portfolio is from Morningstar, as at the date of this document for a lump sum investment, using NAV-NAV with income reinvested and do not take any upfront manager's charge into account. Income distributions are declared on the ex-dividend date. Actual investment performance will differ based on the initial fees charge applicable, the actual investment date, the date of reinvestment and dividend withholding tax. Performance fees do not apply to any funds managed by Harvard House. The manager does not provide any guarantee either with respect to the capital or return of the portfolio. A schedule of fees, charges, and maximum commissions are available on request from the manager.

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