Nampak packing for Africa

Andrew Marshall had a clear strategy when he took over as Nampak's CEO in March 2009. He was tasked with putting SA's biggest packaging company back on a growth path, a path it wandered off a decade earlier. His approach was simple: if underperforming business units can't be fixed sell them or close them down.

"When I became CEO, 20% of Nampak's operations were loss-making or earning unacceptable returns," he says "They'd been in this position for years and had no sustainable competitive advantages."

Wielding a big axe, Marshall has overseen the sale of 11 business units and the closure of seven since 2009. "It has reduced Nampak from a R20bn [annual sales] company to a R16bn company," says Marshall.

Marshall also waded into overheads, slashing group and head office costs. He also applied the brakes on capex, which prior to his arrival had led to wholesale squandering of shareholder capital. At its worst, capex of R781m in Nampak's year to September 2006 had rocketed to R5,6bn two years later, of which R1,4bn was pinpointed as having been blown on underperforming units.

Marshall's strategy produced quick results. Over the past three financial years Nampak's headline EPS rose 133%, though more by way of recovery than dynamic growth, while net debt fell from 60% to 10% of shareholders' funds.

Where to now?

A job well done and one that has earned Marshall high praise from analysts. The big question is: where to now? Nampak is very much the big fish in a not too large SA packaging pool. In some market sectors it commands market shares that leave little or no room for improvement. For example, Nampak is the sole producer of beverage cans and in the food can sector has an 85% market share.

Marshall concedes that in SA Nampak can look to growth in line with the economy or a bit better if key clients such as SA Breweries (SAB) and Tiger Brands perform well. In the short term that appears to spell a low- or no-growth situation. SAB reported flat volumes in the six months to September while data from research firm Nielsen shows fast moving consumer goods volumes in the three months to September down 4,5% on a year earlier.

Don't expect much from Nampak's UK plastic milk bottle unit either. "It's a solid business with a 45% market share but it's not a growth area," says Marshall.

Marshall is pinning his hopes on Africa to drive growth as Nampak has a long history in 12 countries. Though they are growing, African operations are still modest contributors to Nampak; in the year to September they generated 8,5% of sales (R1,35bn) and 8% of trading profit (R122m).

Looking to Africa

"We're focused on expansion in Africa," says Marshall. "It's largely virgin territory." The strategy, he explains, is to expand on the back of multinational food and beverage companies as they replace imports with local production. The model, he says, is "low risk" and lends itself to adding new product lines to existing businesses.

Nampak, he says, is also eyeing the glass bottle sector through the establishment of a facility in Nigeria or Angola. It would be costly. A glass furnace costs R1bn, says Marshall. On the other hand this makes it a sector with high barriers to entry, he adds.

Whatever steps Nampak takes, Sanlam Investment Management fund manager Ricco Friedrich believes they will be prudent. "He [Marshall] is a good allocator of capital," says Friedrich. "He won't do something just for the sake of doing it."

Investors are clearly expecting big things from Nampak, affording it a heady historic p:e of 20. Compensating is a solid 5% dividend yield and the potential that as the leader in Africa's packaging market it will attract growing foreign interest.

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