Nampak optimistic over Africa growth

Packaging conglomerate Nampak's share price has stuck fairly close to its 12-month high in spite of increasing evidence of tempered consumer demand for fast-moving consumer goods.

Nampak's trading statement for the first quarter of its new financial year confirmed mixed need for packaged goods in SA as competition intensifies in areas of lower demand, like toilet tissues and nappies.

Nampak chief executive Andrew Marshall expects fairly low growth in SA packaging segments in 2013. "Because of our dominant positions in most packaging markets, all we can realistically expect to do is grow the SA business in line with our major SA customers and the overall economy."

The longer-term *X factor* at Nampak is its sustained push into other African markets. In fact, Nampak's continued successes on the continent might be the reason the company's shares are, for once, looking far perkier on the JSE than its much loved smaller competitors.

Nampak already has an imposing presence in Africa, with production facilities in 12 African countries. Angola is the largest market, with annual revenues of over R700m, followed by Nigeria (around R500m) and Zambia (over R300m). There is also a growing presence in Kenya, Malawi, Tanzania and Mozambique.

Marshall says growth in all the African countries where Nampak operates is very good. "In addition, we are replacing what was previously imported - such as beverage cans in Angola and cigarette cartons in Nigeria - with local products."

As in SA, Nampak deals mostly with blue-chip clients. SABMiller is a major client but Nampak also provides products to Heineken, Diageo, Coca-Cola, Pepsi, Nestlé, British American Tobacco and Unilever

While top-line growth is vibrant, it is the substantial trading margin earned by businesses to the north of SA that demands that investors pay close attention to its expansion on the continent.

Higher African margins

Nampak's average operating margin for Africa is between 14% and 15%. This is markedly higher than the average margin achieved in SA of between 9% and 10% and the 6% to 7% managed in the UK business.

Marshall says the higher margins in African countries are due to higher operating costs as well as lower levels of competition. "These higher margins are, of course, another reason why we're trying to grow our African businesses," he says.

Marshall points out that three years ago Nampak aimed to have a quarter of its revenues generated in markets elsewhere in Africa. "We are already over the 20% mark, so have revised our 2015 target to 35% and are very confident of achieving it."

Marshall says Nampak has not set a specific longer-term target for 2018. But he says: "I would personally be disappointed if we haven't reached the 50% level by then." Obviously this would have a profound effect on Nampak's overall trading margin.

In the shorter term, Marshall says Nampak has identified Ethiopia and Ghana as two markets to break into this year. "Ethiopia is happening, as we've signed a supply contract with Coca-Cola Sabco. The crate equipment is ordered and the factory being set up. In Ghana we've installed our first filling line for sorghum beer cartons for SABMiller. We hope to build on this."

Naturally the higher-growth expansion over the border comes with risks, though Nampak's well-packaged operating procedures do offer some comfort.

Marshall says Nampak secures a long-term supply contract with a multinational before entering the market and then puts senior "expat" teams in place to ensure the project is a success. "Over time, we then [appoint] employees from the particular country."

Marshall says once the initial project is up and running successfully, Nampak encourages its management to create a mini-Nampak of other product lines. "For example, the printing factory in Ibadan in Nigeria that supplies BAT can now also supply beer labels to Heineken and toothpaste tube cartons to Colgate," he added.

Source: *Financial Mail* via I-Net Bridge