Nampak's Final (?) Throw of the Dice

Perspectives: December 14th, 2022

Nampak has been listed on the JSE since 1969. Over the years it had carved out an *unenviable* reputation for overpromising and underdelivering. It has consistently been owned by a grouping of large institutional shareholders and led by a succession of C-suite executives earning gazillions in guaranteed cash compensation while their carefully laid plans all came to less than nought. Of equal interest is how these C-suite executives never had any real skin in the game given their negligible personal ownership of the equity of Nampak.

In late November 2022, Nampak announced a rights issue with which they aim to raise R2bn. In addition, the rights issue is clearly not underwritten. Given the enormous share price decline since the date of the announcement, we logically deduct that this must have come as quite a shock to its shareholders.

At today's closing share price of 88 cents per share, Nampak's total equity market capitalisation is R557mn. Given they need R2bn, and that rights issues are typically undertaken at a significant discount to the ruling share price even at the best of times (which this is not), this rights issue is going to be *extremely* dilutive for existing shareholders unable or unwilling to follow their rights.

In their recent results presentation, Nampak disclosed what the R2bn is needed for: R1,35bn is for repaying debt, R350mn is for capacity expansion at Bevcan, R150mn is 'operating flexibility', and R150mn is for 'transaction expenses'.

But far more revealing was the CEO's live webcast commentary that the R150mn of operating flexibility is "*a sliver*". Refreshingly, this is the first honest admission of bad news that we have seen from a Nampak executive in many years - albeit quite badly timed. It certainly dovetails with the facts - Nampak's end of September 2022 working capital components were R3,9bn in Stock, R3,2bn in Debtors, and R3,7bn in Creditors. An amount of R150mn is indeed a sliver in this context.

As for the R150mn in transaction costs, that would clearly *not* be a sliver for the recipients of said fees, nor is it a sliver for Nampak's long-suffering shareholders, who are the ones now being asked to pay an implied 7,5% fee on this bailout capital injection [R150mn divided by R2bn].

Nampak CEO Erik Smuts, CFO Glenn Fullerton, and HR Director Lynne Kidd are competent, hardworking, ethical people, and we have no evidence or reason to question their integrity. What interests us is that they collectively earned compensation of R52,7mn in the 2021 financial year alone, while only owning Nampak shares to the *collective* value of R853,600 at today's closing share price.

Think about it. If you were a Nampak shareholder right now - would you want to write this cheque?

Our work continues...

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