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PAPER & PACKAGING SECTOR REPORT 2021

LRS Labour
Research
Service

**FRIEDRICH
EBERT
STIFTUNG**
TRADE UNION COMPETENCE CENTRE
SUB-SAHARAN AFRICA

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Introduction

Both Mondi Group and Sappi fall within the forestry and paper sector on the JSE, while Nampak limited falls within general industrials. There are only four companies listed on the JSE in the forestry and paper sector, and the LRS's sample represents two of these four

Firstly, this report takes a look at the significant effect the COVID 19 pandemic has had on the sector. The rich data extracted from the LRS's [MNC Database](#) further enables a retrospective view of company performance over the course of the last seven years. Following this, we analyse the remuneration packages received by directors in this sector.

COVID-19

Over the course of the last year and a half, COVID-19 has caused a significant slowdown in world trade and disrupted global supply chains. In addition to these disruptions, South Africa's national lockdowns over the course of 2020 and 2021 have severely impacted businesses.

The South Africa Paper packaging market, however, is expected to grow at around 5% during 2021 to 2026. The stoppage of production during the COVID-10 pandemic led to a low market growth rate.¹ The market is moderately competitive, consisting of a few global and regional companies.

Financials

Revenue

On average, the list of companies in our sample reported a 1% increase in revenue in what could be termed one of the most difficult years in business (however, some companies' 2020 financial year end did come before the worst of the pandemic could be felt, and these effects will be more easily seen in 2021 financials).

¹ <https://www.mordorintelligence.com/industry-reports/south-africa-paper-packaging-market>

Mondi Group reported a 14% increase in revenue, while Sappi reported a 12% decrease in revenue. Nampak reported the largest drop in revenue at 23%, from over ZAR 14 billion to ZAR 11 billion.

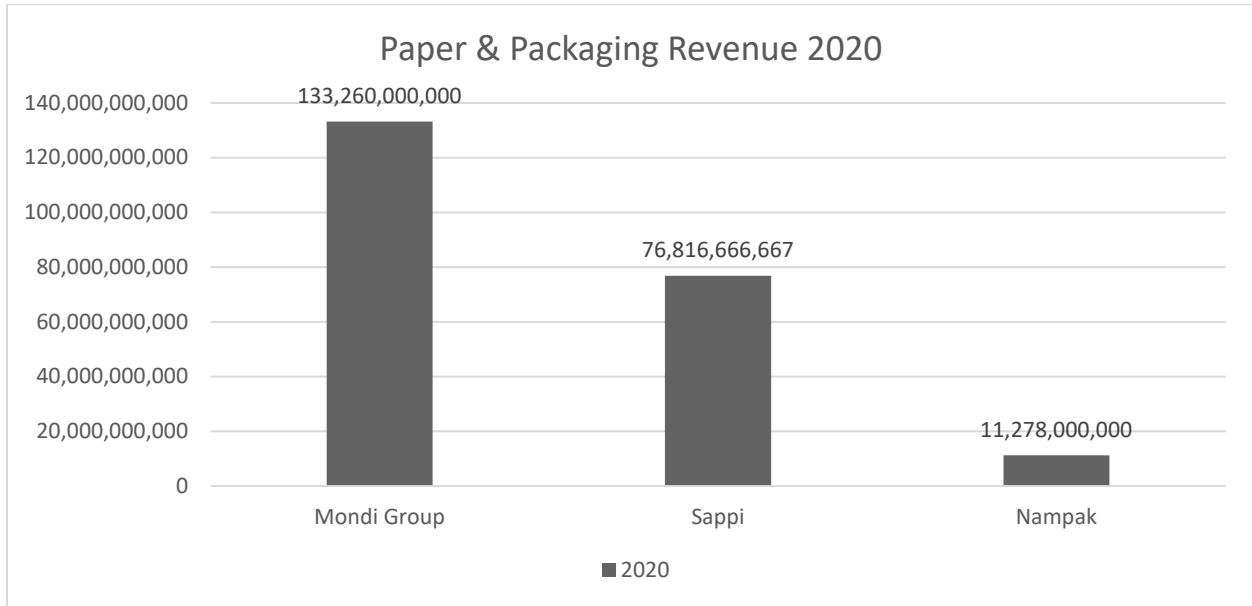


Figure 1 Paper & Packaging Sector Revenue 2020

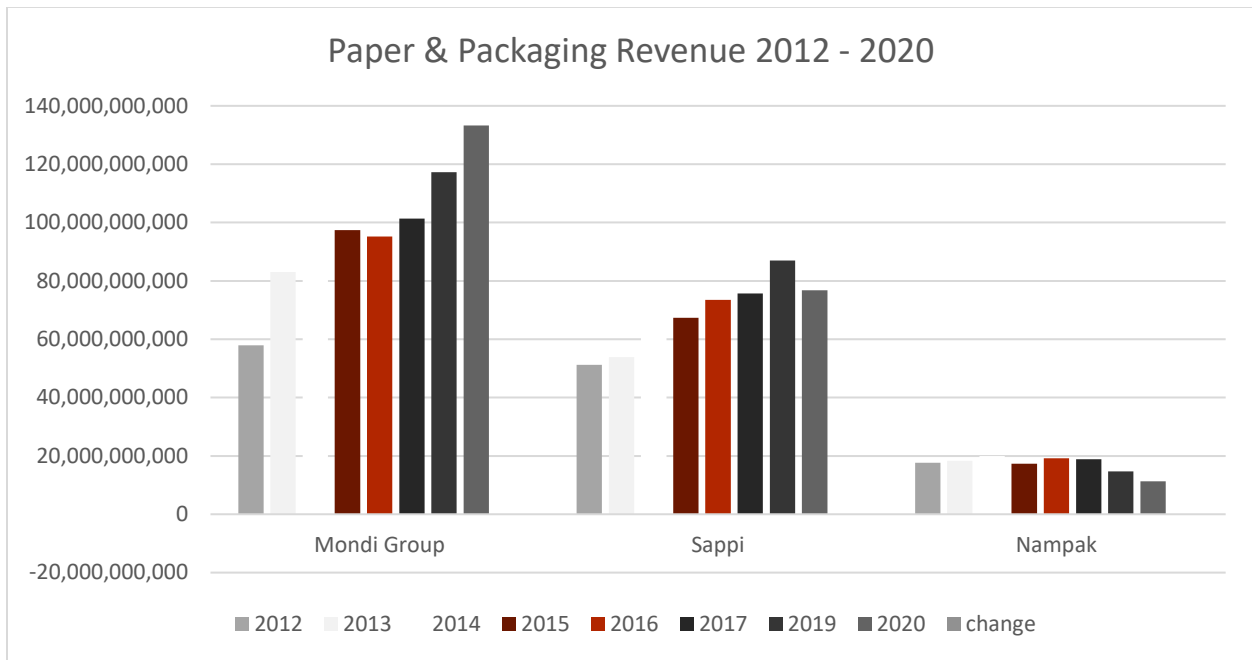


Figure 2 Paper & Packaging Sector Revenue 2012 to 2020

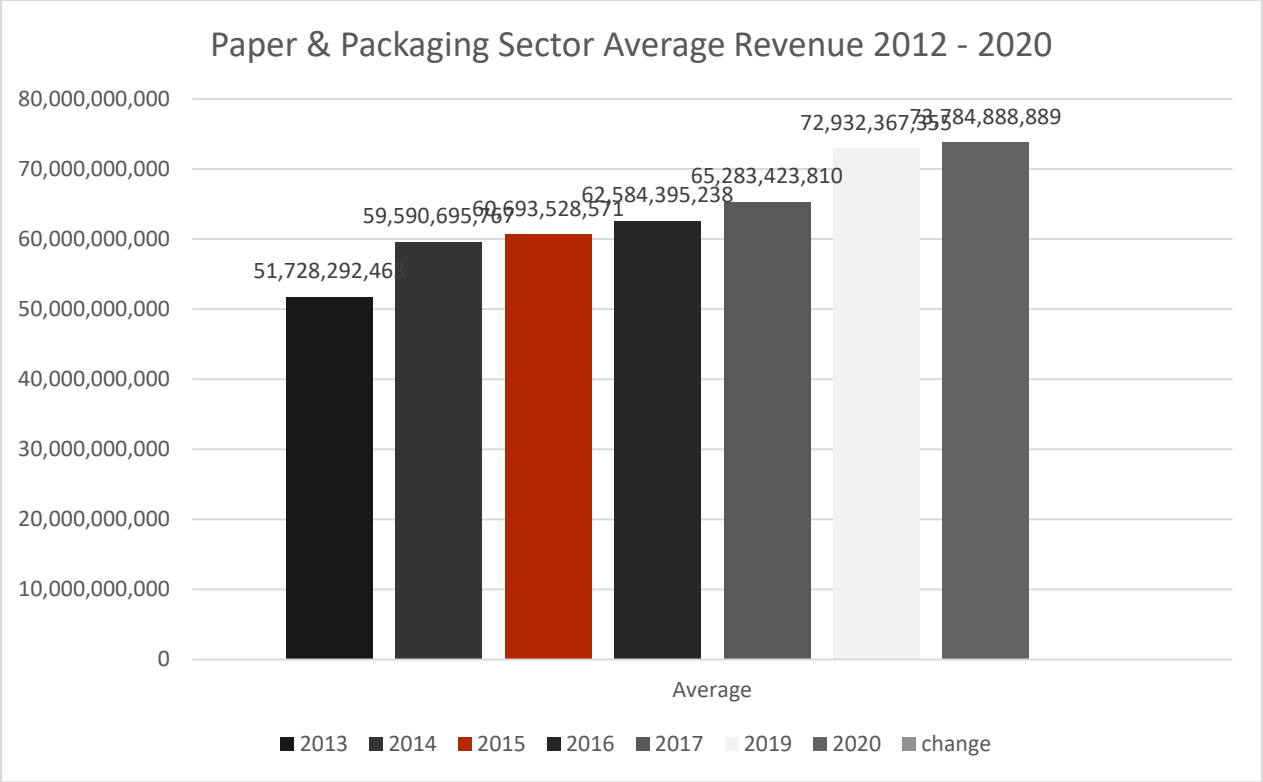


Figure 3 Paper & Packaging Sector Average Revenue 2012 to 2020

Profit before Tax

In 2020, Profit before Tax in this sector took a big hit. On average, reported PBT went down by over 45%. All three companies in the sample reported significant losses. Mondi group lost about 8% of PBT, but Sappi reported its first loss in at least 6 years – of over ZAR 2 billion.

Nampak reported a loss of over ZAR 4 billion for the same time period. Nampak attributed this loss to impairments of businesses in Nigeria, Angola and South Africa, as well as currency devaluation in Zimbabwe. The loss of over ZAR 1 billion in Angola was attributed to ‘depressed consumer demand, resulting from the significant fall in the oil price, lagging wage inflation, changes in pricing dynamics, Covid-19 and other risks, as well as an increased weighted average cost of capital’.² Nampak has identified some assets that they will sell in order to recuperate these losses.

² https://www.engineeringnews.co.za/article/nampak-posts-r283m-operating-loss-2020-12-01/rep_id:4136

Sappi's losses were attributed mainly to the effects of the COVID-19 pandemic on supply chains and costs. CEO Binnie is optimistic about the company's ability to bounce back after the losses by looking in to the expanding certain parts of the business.

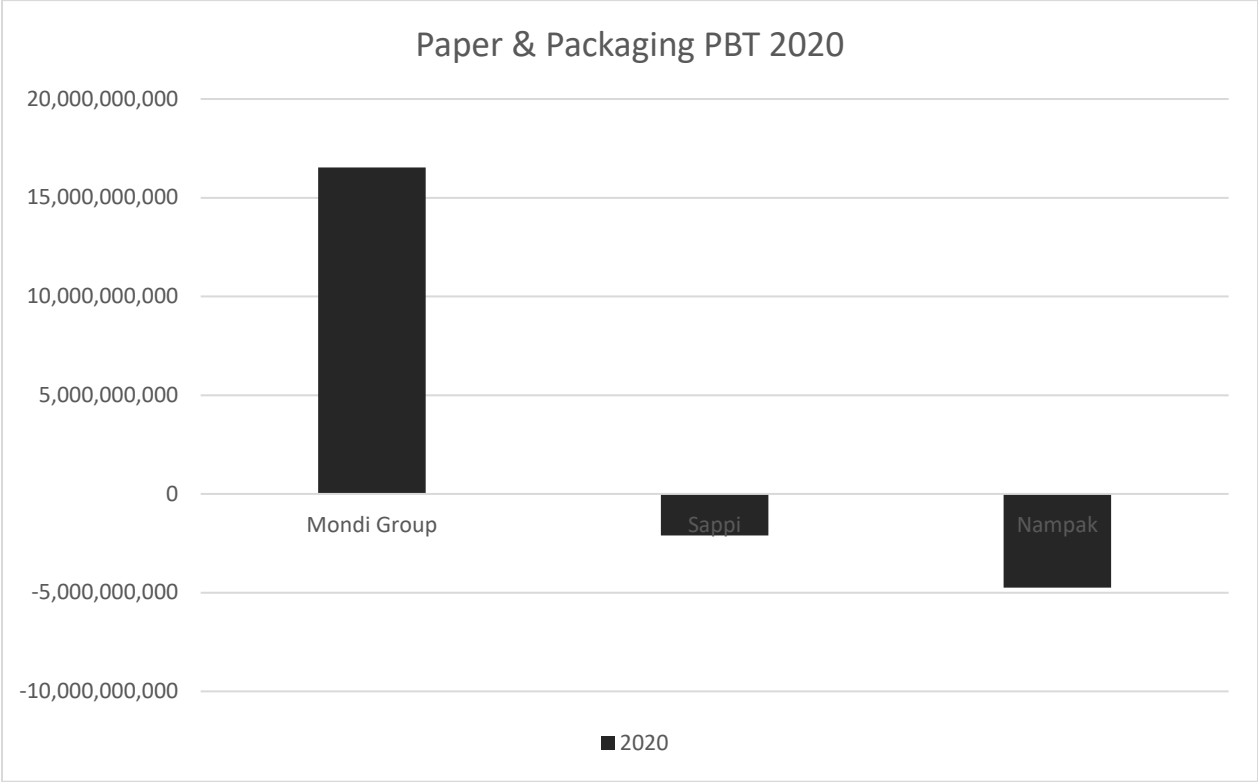


Figure 4 Paper & Packaging Sector Profit before Tax 2020

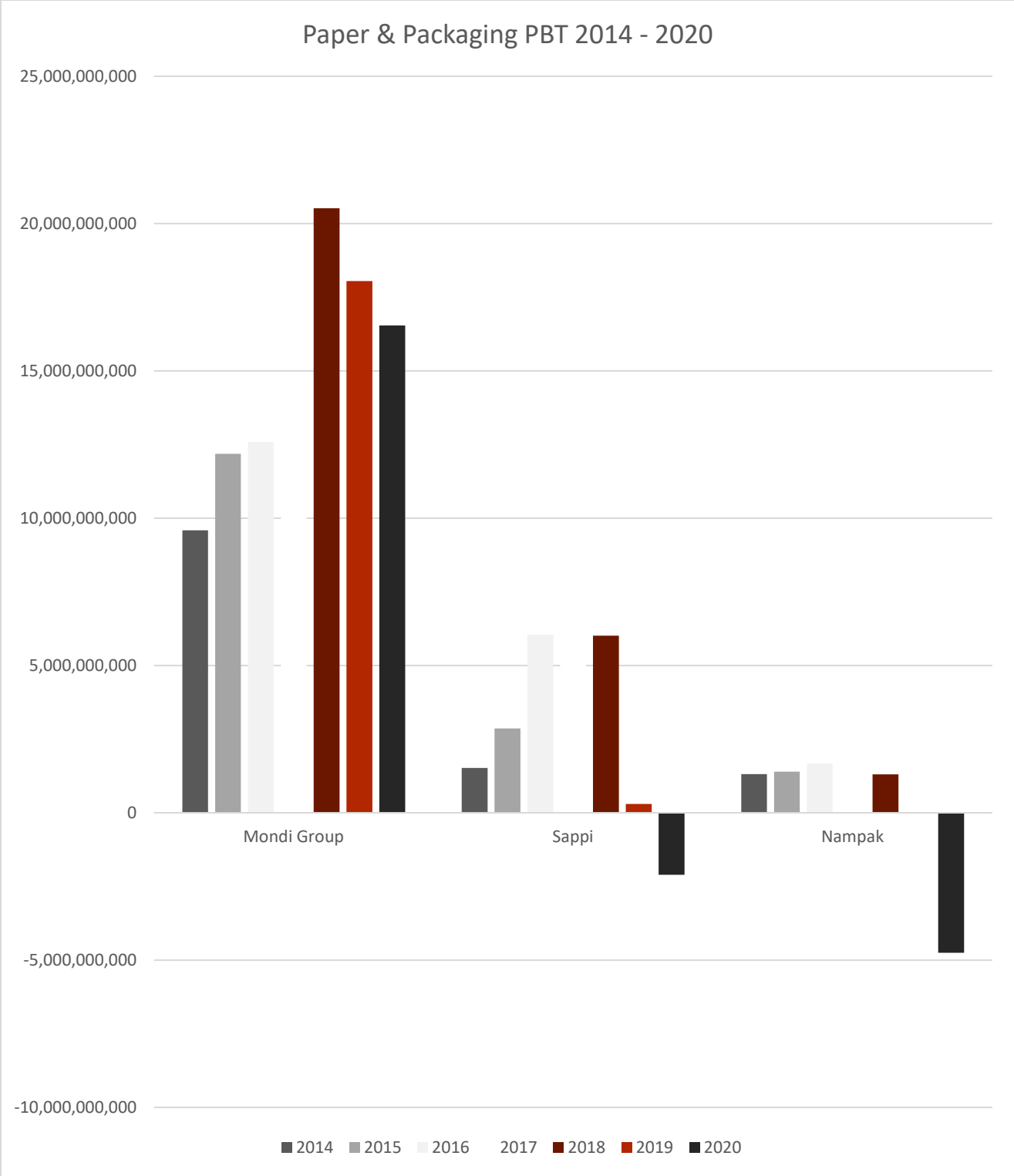


Figure 5 Paper & Packaging Sector Profit before Tax 2014 to 2020

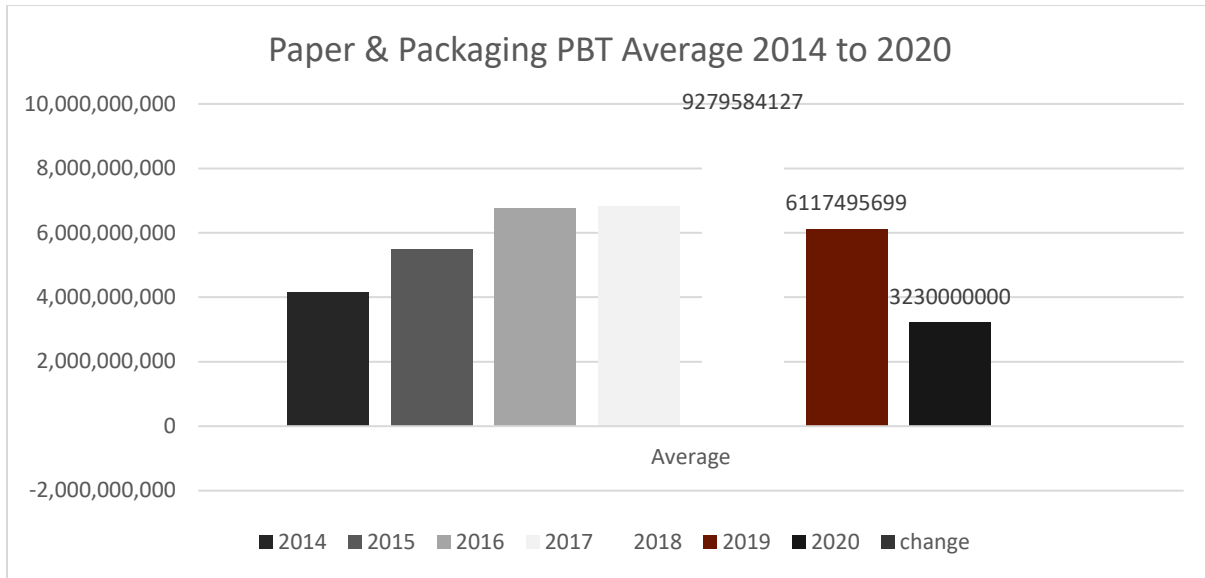


Figure 6 Paper & Packaging Sector Average PBT 2014 to 2020

Directors' Remuneration: a ten year retrospective

The LRS MNC database allows us to look at CEO remuneration over the course of the last ten years. In the Paper & Packaging sector, and our sample specifically, we see the general trend over time being flat, with a large spike in 2017 when the CEO of Mondi Group received a large remuneration package. Salaries do not seem to be increasing at a high rate, reflecting the slow market growth of the sector. LTIs also are not traditionally very high in this industry.

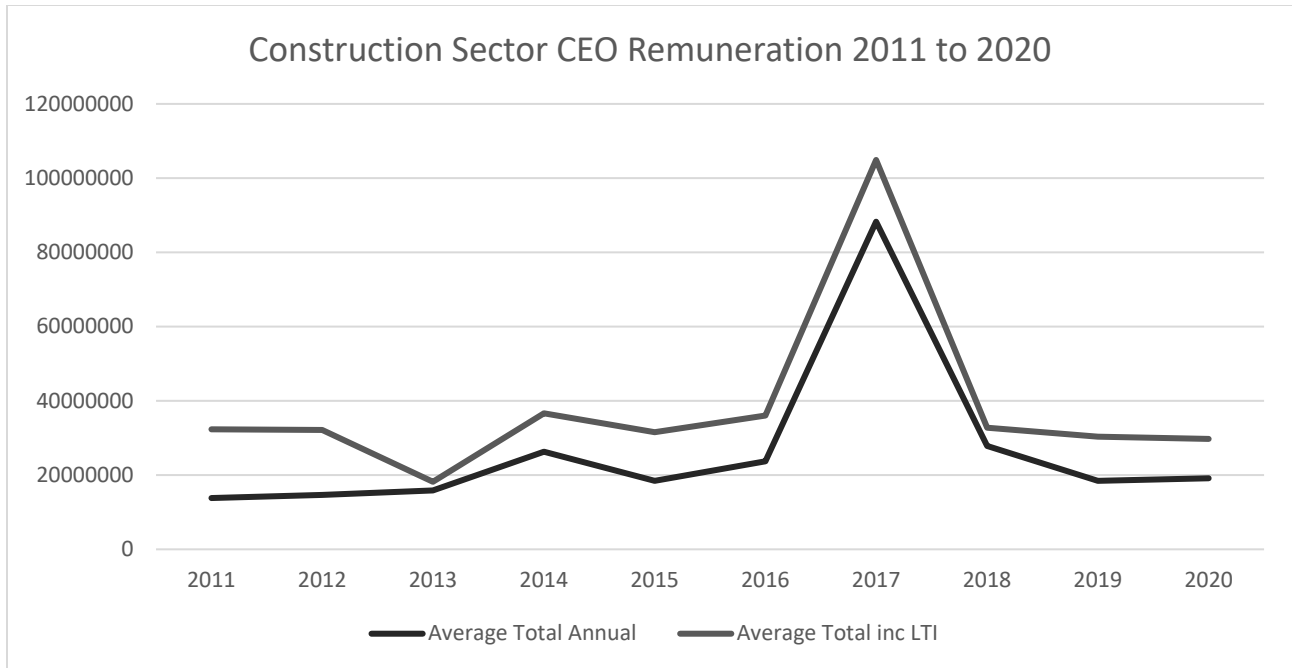


Figure 7 Paper & Packaging Sector CEO Remuneration 2011 to 2020

CEO Remuneration 2020

In the Paper & Packaging sector, the CEO of Mondi Group (Oswald) was replaced by new incoming CEO Andrew King on 1 April 2020. Both received good remuneration packages, with King's package being a total of over ZAR 54 million, inclusive of a ZAR 11 million LTI and a salary of ZAR 19 million. On average, CEO remuneration went down around 2% from 2019 to 2020.

Smuts, CEO of Nampak, received total remuneration of ZAR 10 million, and CEO of Sappi, Binnie, received remuneration of ZAR 21 million, inclusive of an LTI of ZAR 10million (despite the company reporting a loss for the year).

On average, executive remuneration went down just over 3% from 2019 to 2020. Non-executive remuneration went up by about 20% in the same period.

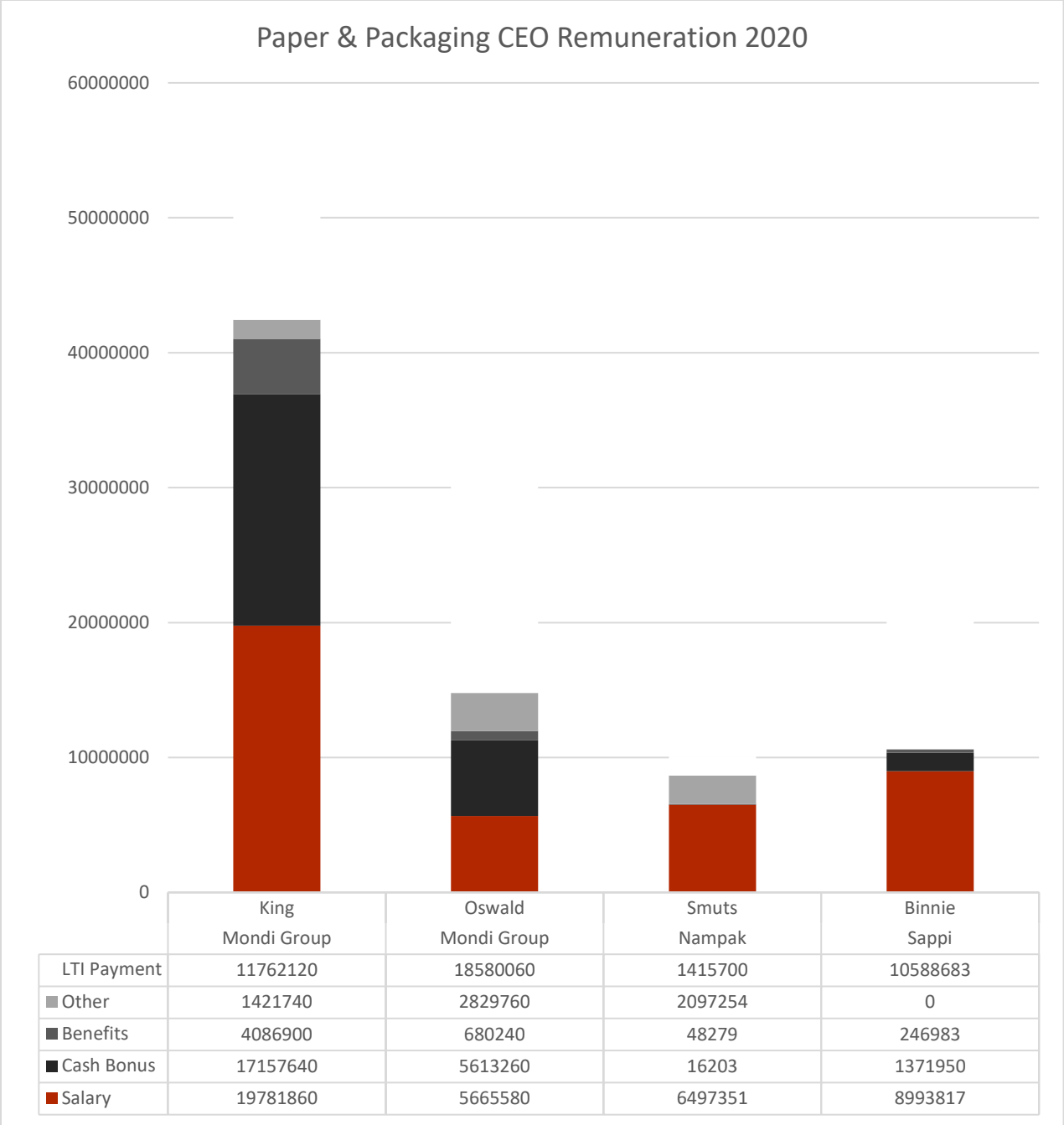


Figure 8 Paper & Packaging Sector CEO Remuneration 2020

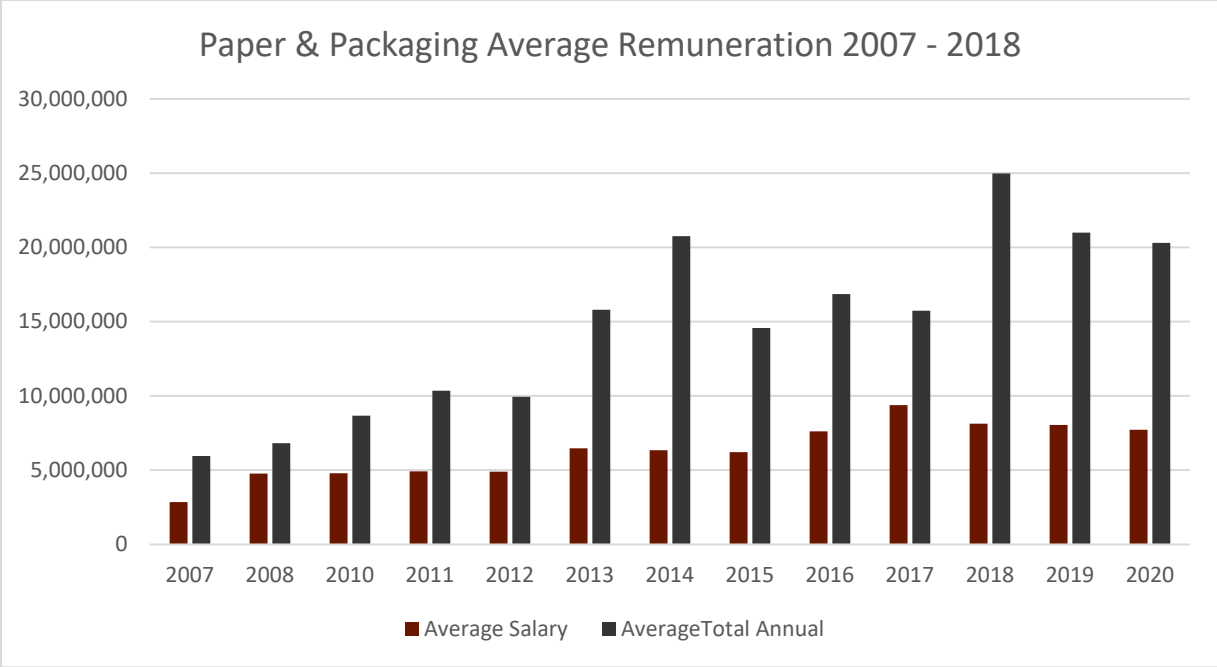


Figure 9 Paper & Packaging Sector Average Executive Director Remuneration 2007 to 2020

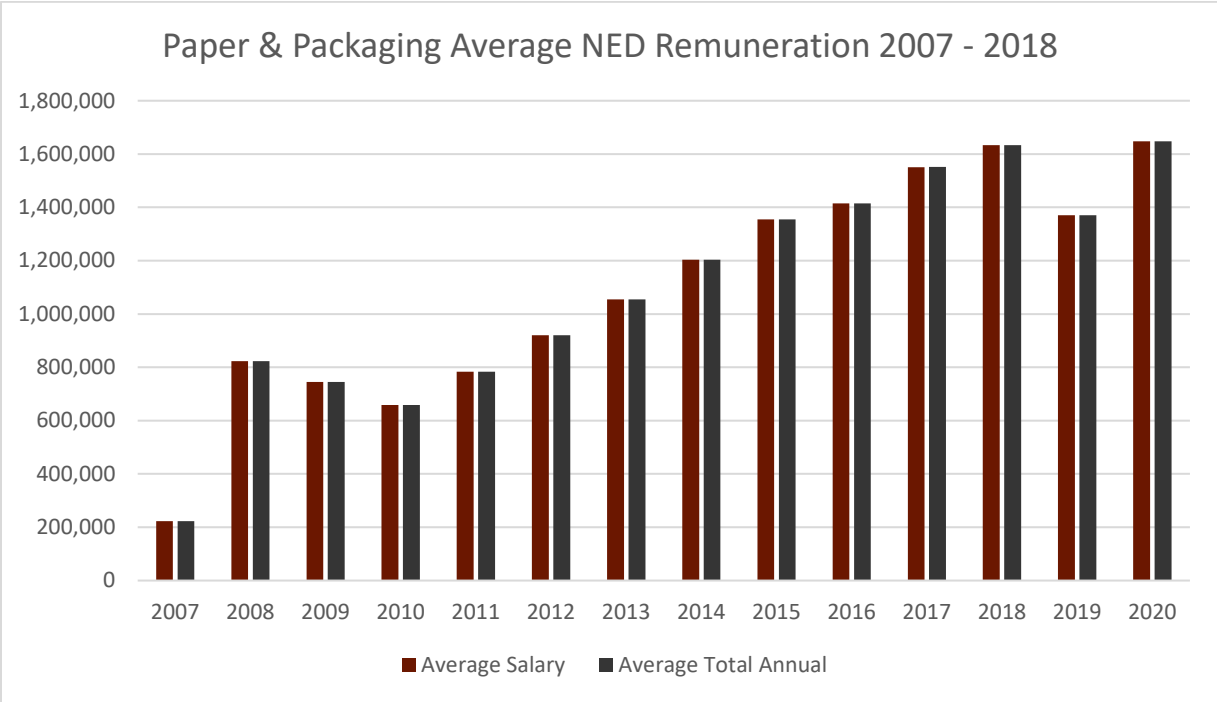


Figure 10 Paper & Packaging Sector NED Average Total Annual Remuneration 2011 to 2020