Debt-reduction plan pays off but Astrapak braces for tough times

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When packaging company Astrapak reports its results for the six months through August, it will tell its shareholders it has made a profit of up to 17c basic earnings per share as it has concluded the first phase of its turnaround strategy.

The much-improved results came about as a result of the firm reducing its crippling debt, which improved its cash flows.

The loss from continuing operations would be between 6.8c per share and 7.1c, compared with a restated loss of 3.3c last year, Astrapak said in a trading update on Wednesday.

The overall profit notwithstanding, Astrapak is bracing itself for tougher times ahead as the economy fell into negative growth, with a possible recession ahead. Gross domestic product growth declined 1.3% in the quarter ended June from the matching period last year.

"The trading environment is deteriorating, which makes the timeliness of the business reengineering initiatives that much more appropriate," said the company.

In the six months ended August last year, the food packaging manufacturer and distributor reported a loss per share of 43.2c.

In that period, it had R260m of interest-bearing long-term debt, together with R114.5m in short-term debt.

In the year ended February, Astrapak had reduced these to R170m and R91m, respectively.

"Net interest-bearing debt to equity relating to continuing operations is expected to be in the range of 6%-7% "¦ compared with 30.5% as at February," said the company.

This had improved its gross profit margin even as it reduced turnover after exiting some noncore markets. Sales of non-core companies in the year ended February earned R148m.

"Improved cash flow from operations, a decrease in cash applied to working capital, reduced capital expenditure and the benefit of cash inflows on disposals has enabled the group to record considerably reduced gearing," said Astrapak.

Astrapak said it expected to report on Wednesday that its interim headline loss per share would narrow to between 6.3c and 6.5c from the matching period's restated 33.1c.

Source: Business Day