Novus firms in face of revenue knock

The share price of Novus Holdings closed 2.35% firmer at R4.35 on Tuesday after the release of details of the hefty knock it will suffer on the new Media24 printing contract.

Image credit: Reuters

The relative strength of the share price prompted speculation that the company could be a target of a control bid, although one industry insider said some investors believed that the recent collapse in the share price, to an all-time low of R3.63, had been overdone.

"The company is quite cashgenerative and the share is on a dividend yield of 13.18%, so it has some attraction for investors," said the insider.

Sam Sithole, CEO of Value Capital Partners, which recently acquired a 10% stake in Novus and appointed a director to the board, said on Tuesday he remained convinced it was a good investment.

He said the emphasis of Novus's strategy in the short term was "adjusting the business to its new reality".

During a presentation to investors on Tuesday morning Novus management said they had started a number of initiatives to reduce the effect on earnings. These included closing the Pietermaritzburg plant and decommissioning a number of printing presses.

Other measures to enhance the outlook for earnings included improving the profitability of the group's labels business and achieving breakeven in its tissue business. Management also told investors it would look at concluding other acquisitions, where appropriate. In response to the undertakings given in the presentation, Sithole said: "We believe profitable growth is achievable and that will be the next priority."

On the subject of acquisitions, which have had limited success for Novus, Sithole said: "Our presence on the board will ensure that our voice is heard and that capital allocation is done in a disciplined and valueaccretive fashion."

The details of Novus's new printing agreement with its most valuable customer, which were released on Monday evening, were considerably worse than had been expected.

The details highlight the extent to which Novus, which was previously part of the Media24 group, was able to secure extremely favourable pricing terms from Media24.

These comparatively steep prices were behind Media24's determination to secure alternative printing arrangements as soon as possible after Novus was unbundled out of Media24.

The contract to print Media24's newspapers and magazines accounted for 21% of Novus's revenue but, because of its favourable pricing, for a significantly higher portion of profit. Industry sources had expected the renegotiated contract would result in Novus losing revenue of about R200m.

Had the new contract been in place for financial 2018 Novus's revenue would have been lower by between R520m and R560m. The loss of volume would account for half of the fall in revenue, and the lower prices in the new agreement account for the other half. The new contract is effective from 1 April.

Source: Business Day