Little relief in sight for Novus as woes keep piling up

Twelve months ago, it looked as though 2017 was going to be a tough year for print and publishing company Novus.

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As it happened, the year was a lot tougher than expected. The competition authorities forced Media24 to reduce its holding in Novus from just under 66% to 19% and the JSE forced it to reverse a January announcement relating to the crucial print contracts with Media 24 amid criticisms of unsound governance.

In 2017, Novus wasn't just having trouble with the regulators. As the year progressed, the company seemed to edge closer to the possibility of losing its valuable contract with Media24. Possibly more disturbing for its relatively new shareholders were the disappointing results from its tissue business and the lessthan-exciting growth prospects for its label business.

Analysts say the breadth of problems points to weaknesses at top management level. They say the group has not recovered from the controversial loss of key members of its top executive during 2016. That was the same year nonexecutive director and former CEO Lambert Retief was forced to take medical leave. The 2015 JSE listing and the battle with Caxton before the competition authorities meant the new leadership had to deal with a dramatically different environment. It could no longer look to Media24 and Naspers for shelter.

Just weeks into 2018 and there's no sign that life is going to get any easier. In mid-December 2017, the company advised shareholders that negotiations with Media24 were expected to be concluded during February 2018 and new printing arrangements were expected to become effective from April 1. In December, Novus warned investors that the new printing terms and conditions being negotiated could have a "substantial adverse impact" on its earnings for the 2018 financial year.

In early January came reports that Media24 was in advanced discussions with long-term rival Caxton to take over large chunks of the printing. The reports took most by surprise, given the long history of tension between Caxton and Media24, highlighted most recently by Caxton's interventions before the competition authorities. These determined interventions eventually forced Media24 to offload its controlling stake in Novus.

As the end-March deadline approaches, most analysts believe Novus will hold onto much of the contract, but that Media24 will have used its negotiations with Caxton to force better rates from Novus. Some industry players estimate Media24 could save as much as R200m a year on the contract. The corollary is that Novus stands to lose R200m.

Chris Wood at Prudential Investment Managers, which has built up a stake of just under 15% in the past few months, says that however much of the contract Novus holds on to it will not be on as attractive terms as previously.

"Whatever they retain will be at lower rates and that will be bad for earnings."

But of greater concern to Wood is the disappointing performance of Novus's tissue business. Although Novus, like Caxton, was a dominant player in printing, Wood says the longterm prospects for the industry are in decline.

Much more exciting for Woods are the growth prospects for Novus's tissue and label businesses. "The tissue business hasn't met with the original guidance provided at the time of the 2015 listing when we initially took up some shares," says Wood, adding that the label business has not taken off as strongly as hoped. Novus has secured a large contract to supply labels to South African Breweries but so far there has been little sign of the additional consumer products business that was hoped for.

As if all that were not enough to be contending with on Monday, the Constitutional Court began hearing Caxton's claim that the tender for the schoolbook printing contract awarded to Novus should be declared invalid and set aside.

Source: Business Day