ENGINEERING

1986

(THERE IS ONLY ONE

CLIPPING W.R.T. EXPORTS
Bus Day
(27.10.86))

27/10/86 · BUSDAY 189

'Sinews' of industry

AT ITS two modern manufacturing complexes on the East Rand — one the largest integrated rope works in the world — Haggie Rand processes more than 150 000t of steel a year.

Says general works manager Neil Paterson: "At Jupiter, every three days we draw sufficient wire in length to circumvent the Equator. At the Germiston plant we manage that about twice a month. Jupiter is involved mainly in rope manufacture, and Germiston in high tensile wire."

Thousands of metres of high carbon wire daily make their way into prestressed concrete, screens and springs, all manufactured to closely monitored tolerances.

"Steel wire ropes are the strength tendons of any industrialised economy. The sinews of industry, which raise and lower more than 300 000 men daily in our mining industry alone.

"They form an integral working part in industries such as engineering, construction, manufacturing, power transmission and forestry," says Paterson.

"Many countries around the world appreciate our high standards. Exports account for 30% of annual output. We have 17 branches in SA. Haggie employs 665 staff at Germiston and 1 800 at Jupiter."

Paterson speaks of Jupiter with pride. "Some of our major customers are Anglo American, Anglo Transvaal, Goldfields of SA, Gencor, JCI, Rand Mines, Sats, Anglo Alpha, Iscor and many more. At Germiston customers include Afcol, Woodhead-Kempo, Springtech and Steeldale Systems.

"We were originally based on the East Rand because of the proximity to the mines. Our premises cover nearly 10ha, of which half is under roof.

"When the upturn comes we can handle it, because we are only utilising 80% of our capacity."

CLIPPING ON EXPORTS

SHIPPING

3/2/86 BUS DAY (189)

Politics hit SA ship-repair firms

ALAN PEAT

POLITICAL factors are discouraging Western shipowners from having their ships repaired in SA.

Even with the apparent advantages of the weak rand, it is becoming increasingly difficult for ship repairers to attract major contracts, says Dorbyl Marine's ship-repair manager Trevor Burnett.

"I have been told nothing officially, but I surmise that owners are facing pressure not to repair in SA because of the political uncertainty and unrest.

"Recently a major British shipowner was very wary about sending a vessel for repair here, even after two successful repair jobs by an SA company."

Burnett admits the weak rand has brought some advantages.

"The exchange rate has helped us gain business in preference to ports like Singapore — where at least one yard has frozen wages for a year to keep prices near-competitive."

But, Burnett says the SA ship repairers are benefiting with compulsory classification dockings and insurance repairs — but only if these vessels are in the area.

Burnett says owners are receiving low rates for charters — about $4 000 to $5 000 a day.

And that is well below the running cost for the average vessel on the sea routes today, he says.

"Even running a ship in ballast at moderate speed would cost you at least four times that charter rate — on fuel alone. So we are at no advantage over the West European and US repair yards, despite their higher costs."

Dorbyl Marine in Durban is repairing between 30 and 40 vessels a month.

"But these are mainly small, running repairs and in-port breakdowns, and the future prospects are not too good."

By Dorbyl's reckoning, its price shows a 30% saving in docking, compared with Europe.

"But it is still not enough to attract the custom that we are so short of and so desperately need," says Burnett.

London plans super port

Industrial Staff

LONDON — A £30m covered seaport consisting of five berths, warehouses, roll-on-roll-off (ro-ro) terminals and related technology services, is planned for Bow Creek, in the heart of London's dockland, which is currently undergoing massive redevelopment.

A consortium of British companies, Bowcreek International, plans to start work on the 12,14-ha site in April and complete the first phase by June 1987. It will include five docking berths — two under cover — road and rail links and a clearance depot.

The second phase, scheduled for completion by 1989, will add customs warehousing and light industry factories.

Bowcreek director Stephen Dargavel says the scheme has the backing of the Port of London Authority and British Rail, which owns the site.

The Bow Creek scheme adds another project to the booming redevelopment of Britain's ports. The Medway Ports Authority is about to open the new Crescent Shipping Terminal at Chatham, Kent, and plans extensive development at Sheerness.

There is also a £75m expansion programme at Ramsgate's Thanet harbour, Great Yarmouth is planning a £45m new harbour, Sealink is improving ferry facilities in East Anglia, and European Ferries is awaiting approval for further growth at Felixstowe and Portsmouth.

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CLIPPING ON EXPORTS

SHIPBUILDING (189)

Naval rescue

FIN MAIL 2/6/86.

The SA Navy has shown itself to be the mainstay of SA's shipbuilding industry. Confirmation came at last week's launch in Durban of the 12 500 t navy replenishment vessel, *SAS Drakensberg.*

A succession of naval contracts has kept the order book of one of Durban's principal yards, Sandock Austral, virtually full at a time when most shipbuilders are desperately short of work.

With overseas yards mollycoddled by government subsidies of up to 40%, a massive over-tonnage in world shipping and SA's own shipbuilding competitiveness damaged by the withdrawal of a 25% subsidy, local yards have been up against it.

In addition to the *SAS Drakensberg,* whose keel was laid in 1984, Sandock Austral has built nine missile-carrying strike craft, of an original navy order for 12, the most recent of which was handed over a month ago.

While unable to discuss sensitive naval

(189) 12/7/86 W/E Post

Gloomy picture for PE engineers

Weekend Post Reporter

THE economic recession is biting into the pool of experienced, qualified engineers in South Africa.

The secretary of the Eastern Cape branch of the Engineers' Association of South Africa, Mr Thoral Jansen, said this week that last year 450 qualified engineers left South Africa, compared with 324 in 1984.

Chairman of the Eastern Cape branch of the SA Institute of Civil Engineers, Mr Gerrie Albertyn, said he knew of two qualified civil engineers in PE who were emigrating shortly to the United States. Last year, another two emigrated — one to Australia and the other to Britain.

However, he does not think the exodus will be too disruptive of the local economy should business here pick up, as major firms simply send in engineers as needed.

Although he knew of no architects who had left Port Elizabeth recently, the vice-chairman of the local branch of the SA Institute of Architects, Mr John Blair, said there was "little or no private sector development" in PE, and most work available was for the Government.

Mr Jansen said that while the total number of graduate engineers in SA would remain around the February figure of 11 649 because of newly graduted engineers from the universities, qualified engineers between the ages of 30 and 40 were increasingly leaving SA.

While he did not know the exact number of engineers who had left PE, he said they were mainly people who had worked for companies that had either closed down or cut back on staff.

Another factor damaging the profession was that non-registerable engineers were being appointed to senior posts, "and if this increases, the quality of work being produced could drop".

Much in-house design and construction work was being done in the public sector, he said, as Government departments cut back their budgets.

He said there was very little, apart from the creation of more jobs in PE, to stop the loss of engineers.

The whole question will be discussed at the national council meeting of the EASA on July 15, at Isando, he said.

One man affected by Ford's closure was Mr Jack Griffin, who was with the company for 24 years. He now works for a consultancy.

Mr Griffin said Ford's departure had affected the jobs of about 36 people in different engineering categories.

These included four graduate engineers (BSc Engineering), four Government-ticketed engineers (including himself), six with technikon engineering diplomas, 10 product engineers, five or six project engineers and six draughtsmen

R65m D & H Services buy-out

(189) Cape Times 26/9/86

BY AUDREY D'ANGELO
Assistant Financial Editor

DARLING & HODGSON, (D & H), the troubled industrial holding company with extensive interests in the construction and engineering industries, has agreed to a management buy-out of its profitable services division for R65m.

The deal — believed to be the biggest management buy-out in SA history — is backed by Barclays Merchant Bank and Standard Merchant Bank and most of the payment will be in cash.

Housing scheme

The announcement follows the disclosure in Business Report yesterday that Cape-based entrepreneur Robert Hall has agreed to purchase a 50% interest in the luxury housing scheme on Woodbridge Island off Milnerton from its originator, Harry Fuchs, and says he will hold D & H to an agreement to fund the project.

This is expected to cost D & H about R60m, unless it decides instead to buy Fuchs out in order to continue keeping the scheme on ice.

But a senior executive of D & H said yesterday that the agreement to sell the services division to a consortium of six top management and Barclays and Standard Merchant Banks had been under discussion for about two months and had nothing to do with funding the Woodbridge Island scheme.

He said that Gencor, which wholly owns D & H, is determined to reduce the level of D & H's borrowing, which stood at R159m at the end of June.

The coal division, Trans-Natal Coal Corporation, was sold off earlier this year and this, with the sale of D & H Services and a rights offer to raise R40m, will raise a total of R135m to reduce the company's debts.

D & H ended the financial year to December with an attributable loss of R16,8m compared with a profit of R18,9m and the dividend was passed.

D & H Services is involved mainly in specialized transport and waste disposal.

It has the largest road tanker fleet in the country, of 350 vehicles, and its subsidiary, Waste Tech, is the largest waste disposal firm in the country.

Its MD, Phil Erasmus, said the management consortium which he heads would have the majority shareholding and full management control.

Operations

Now that a loss-making waste recycling firm had been closed down and the road transport business, which had made a loss for two years, had been turned round, all the division's operations were profitable.

He was confident it could achieve adequate growth without diversifying into other interests.

Erasmus said he would like to keep the name D & H Services, but D & H might require him to change it.

Other members of the consortium are Paul Norris (transport division), Geoff Wood (Waste-Tech), Peter de Beer (engineering and D &H. Auto), Des Johannsen (Transport Natal) and Len Hall (financial).

Dorbyl ups profit 162%

LIZ ROUSE

DORBYL achieved a 162% increase in attributable taxed profits in the year to September, thanks to rationalisation benefits, slashed interest charges and lower tax.

Attributable income soared to R51,4m from 1985's low base of R19,6m. A final dividend of 42c has been declared, making total distribution 55c (40c).

The heavy engineering giant's positive cash flow caused total borrowings, including redeemable preference shares issued by certain subsidiaries, to decline to R21,5m.

The interest bill fell to R22,9m (R34,4m) as a result of lower interest rates and the reduction in borrowings.

Turnover increased by 9% to R1,5bn, reflecting the sluggishness of the economy. But operating income before interest and tax increased by 26% to R87,1m (R69,1m), as a result of consolidation and rationalisation of major acquisitions made in 1985.

overproduction. — Sapa-Reuter

Cape Times 23/12/86 (189)

Dorbyl earnings soar by 162%

JOHANNESBURG. — A 162% leap in attributable income and earnings a share — from R19,6m to R51,4m and from 61,6c to 161,2c a share respectively — are attributed mainly to a string of acquisitions and "more efficient and rational operations" in the latest Dorbyl group annual report for the year to September 30.

"The major acquisition of the 1984/5 year, as well as the minor acquisitions of the current year, have contributed positively to the overall improvement," says chairman F P Kotzee.

In particular, the rationalization programmes begun in the prior year have resulted in more efficient and productive operations, he adds.

The financial strength of the group was also improved.

"Notwithstanding the improvements in profitability and funding, the operating return on assets employed of 13% remained well below both the group's objective and the inflation rate."

Total dividend

The interim dividend paid in June was 13c and the final 42c bringing the total dividend to 55c (1985: 40c), a 37,5% increase.

Prospects for the 1986/7 year should be "seen against the background of the improvements achieved in the current year," says Kotzee.

Following the major expansion in the previous financial year, when Stewarts & Lloyds of SA, Afgate, Barlows Engineering Holdings and Wolhuter Steel were acquired, the current year has been one of "consolidation and rationalization".

However, further acquisitions also helped growth.

Hulett Engineering, with operations in general engineering in the Durban and Richards Bay areas, was bought and merged with Dorbyl Marine. Useful product lines were added in Dorbyl Marine. — Sapa

BUS DAY, 19/2/86. (189) CH

Steelmetals' earnings drop

MERVYN HARRIS

STEELMETALS' interim earnings' slump of 47%, from 14,6c to 7,7c a share, shows that conditions in the engineering industry are tougher than the company expected.

Anglovaal's engineering and contracting company cautioned shareholders in its annual report that it would be difficult to maintain profit levels.

However, the weakening rand in the six months to December pushed up the value of stock, despite reduced physical volumes. Borrowings increased and the interest bill jumped 83% from R538 000 to R987 000.

This offset the 3% increase in operating profit to R1,4m (R1,3m) and pre-tax profit plunged 47% to R452 000 (R851 000).

But a similar percentage decline in the tax bill from R387 000 to R206 000 left taxed profits 47% lower at R246 000 (R464 000).

Contract closures will ensure substantially higher profits in the second half of the year. But chairman David Royston does not expect earnings for the full year to match those of last year.

He declined to speculate on prospects for maintaining the annual dividend, which last year totalled 20c a share.

"The engineering industry is still very flat and will remain so until the economy picks up. There will always be some equipment replacement and new projects being undertaken."

Severely-depressed capital equipment sales are expected to continue and the contracting division's order book remains weak.

The bright feature of the interim results was the solid performance by those divisions serving the consumable products market. They contributed most to Steelmetals' 8% rise in turnover to R23,2m (R21,4m).

Capital expenditure for the half-year amounted to R249 000 (R458 000).

At the current price of 280c, Steelmetals' is on an historic dividend yield of 6,9% against the engineering sector's average of 5,5%.

Downturn deals heavy blows in building and construction

STAR 30/1/86 (189)

By Frank Jeans

The severe downturn in construction and building has taken its toll with a number of smaller companies going to the wall as work runs out and profits plunge.

Skilled workers have been hard hit with projected hourly rates trimmed back 50 percent after a six-month wage freeze.

Many larger businesses in civil engineering are reported to have reduced operations to an "absolute minimum" while others are on the brink of closing.

The latest company affected by rationalisation is one of the bright new stars, Execon Construction Projects, which branched out from the Concor group as an indpendently run operation about three years ago and handled prime projects such as Barclays Bank's super home development in Sandton, Khyber Village and many contracts for the mining industry and institutions.

Execon returns to the Concor fold and will become part of the parent company's construction operations.

Mr J J C Schultz, MD of Concor Construction, said that because of the reduced volume of work Concor is to rationalise and consolidate some actitivies.

"Consequently, there will be reductions in management and staff in keeping with the reduced requirements."

Execon, being complementary to Concor's building operations, forms part of this consolidation programme and has been integrated into the centralised group construction activities.

Mr Schultz emphasises that Execon will continue to meet its obligations as part of CC.

According to Mr Kees Lagaay, director of the South Arican Federation of Civil Engineering Contractors (Safcec), a "very mixed pattern has developed".

Skilled building workers have taken a bad knock in wages, with the potential hourly rate increases cut by 50 percent.

Builders had faced a six-month wage freeze from last May after which an negotiated increase was to take effect. But because of the slump, the trade unions "sympathetically agreed" to the rise being cut by half.

This means that, based on a 40-hour week, master craftsmen, craftsmen and artisans who stood to gain a minimum R62,40, R56 and R51,20 a month more in pay packets respectively, take home instead R32, R28,80 and R25,60.

Unemployment in the Witwatersrand has risen dramatically in the past year and the Industrial Council is paying out unemployment relief to about 400 skilled men. From January to October last year this amounted to R1,6 million.

In the past two years, the industry has lost nearly 14 000 unskilled workers and about 1 000 skilled men.

TECHNOLOGY

Swing from metal to engineering plastics

BUS DAY 21/1/86 (189)

THE swing from metals to engineering plastics is being accelerated by the low value of the rand, says a leading local manufacturer.

Vescoplastics MD Alain Leger sees an increased demand for materials such as Vesconite, nylon and polypropylene at a time when engineering output generally is declining.

"Locally-manufactured engineering plastics are increasingly displacing phosphor bronze as a bushing material and replacing imported plastics," he says.

"With the decline of the rand, the price of phosphor bronze has skyrocketed, despite the fact that copper is mined locally and that internationally its price stands at an all-time low."

Leger recalls that 20 years ago nylon was double the cost of phosphor bronze but today is only one-fifth of the cost.

"Even Vesconite, which traditionally has been offered as a premium grade material and not as a cheaper replacement, is sold at less than two-thirds the price of the cheapest grade of bronze."

Locally-made rod, bushing stock and mechanical components now enjoy a distinct cost advantage compared with imported equivalents and comfortably match specifications. Leger sees the cost differential moving further in favour of locally-produced materials as demand for the SA products grows.

Anticipating increased demand, Vescoplastics two years ago extended its extrusion plant capacity for rod production from nylon, HDPE, polypropylene and Vesconite by some 50%. Considerable investments were made to ensure integration of the entire production process — i.e., from raw materials to the machining of components.

Leger says the swing from metals does not stem only from the price advantage of engineering plastics.

"We have worked for the last 20 years to establish the concept of engineering plastic materials with high-loading strength, low-friction and self-lubricating properties, capable of out-performing ferrous and non-ferrous metals," he says.

"Now we see engineers taking the initiative, coming to us for specifications, materials or finished components and experimenting successfully in environments often stretching beyond our design criteria."

Heat pumps offer JVC boos

sunrise finance

STAR 25/1/86 (189)

Taking the gap to success

By Frank Jeans

While the engineering industry generally, has been taking a severe buffeting in the present recession, Process Plant has been enjoying times of good growth with future prospects even brighter.

And the brain behind its success is Stuart Bradbury, a chemical engineer and steam train buff, who arrived in South Africa little more than a decade ago, virtually penniless.

But he was well aware of a vital gap in the then industrial scene — the need for increased technological expertise in construction, plant engineering and installation fields.

And with a R10 000 loan he went after the business which had to come from a chemical industry which was awakening to hi-tech procedures.

It was the ultimate risk for an immigrant only a year in the country but as is said, the higher the risk, proportionately higher are the rewards.

It was a start, too, in the lean times of the depressed Seventies for construction — often the perfect climate for the man with something to sell at the right time and the right place.

Today, Sandton-based Process Plant boasts an annual turnover of about R25 million and although the Mossel Bay oil project is still some years down the line, there is little doubt that the reputation built up by PP will put it in the running for a good slice of the cake in infrastructure and ancillary work.

Expanding business

"Even now," says Stuart Bradbury, "there is evidence of expansion. This is seen in the growth of our inquiry book and if the inquiries turn into firm orders, the outlook for our business is very bright, indeed."

Process Plant is the kind of business that attracts people instead of having to find them and this is probably the measure of its success. Its entrepreneurial environment is a natural for the inquisitive type who wants to be in on new ideas and revolutionary processes.

Process Plant's beat stretches from the Transvaal to the Cape and has homed in on developments such as plant for the "de-naturing of the grape" to produce a high fructose syrup for the sweetening in the fruit drink industry — an enterprise, incidentally, which has drawn strong interest from Britain, America, Spain and the Middle East.

A main target area is mining which has seen PP teams involved at Rustenburg refineries in the area of cobalt recovery.

And there was the day Ralph Jones sought PP financial backing for his water treatment system. It had the Bradbury-style appeal and he got the money and although Jones was "carried" for about 18 months, suddenly the system clicked and the big orders came in.

Now Ralph Jones is a director of PP and his company is in the Process stable along with other winners from food-processing plant to bio-technology.

Great potential

Although the mining sector is one of the company's major areas of activity, Stuart Bradbury has no doubt that there lies great potential far and beyond the traditional "digging stuff out of the ground".

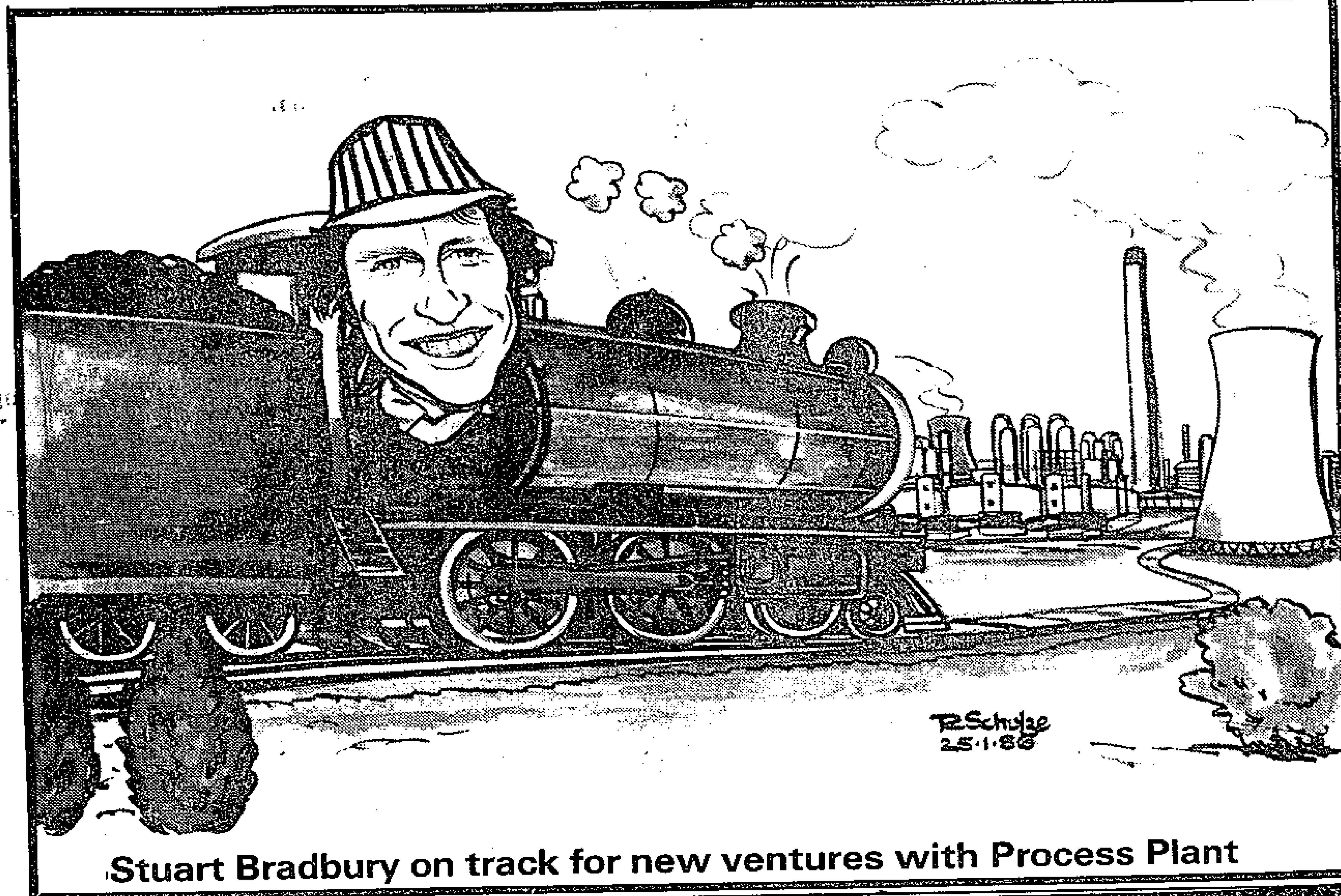
South Africa, he believes, should be taking a leaf out of the Japanese book which tells the story of success in hi-tech products throughout the world.

"There is a tendency here," he says, "that shows South Africa as the place with a wealth of raw material resources which it sends abroad for people to turn into added value end-products.

"Then we buy them back again."

Urging a greater swing by South African enterprise into secondary industry, Bradbury has a point when he says that we must stop building plants which are motivated by strategic reasons only and that more emphasis should be placed on economic considerations.

Certainly, in tandem with technological advance there is the necessity for the upgrading, accordingly of black training.



Stuart Bradbury on track for new ventures with Process Plant

"The mere manufacturing of components and parts and the likes for other people to put together for the end-product must inevitably change so that we embark on the business of producing our own hi-tech products here in South Africa and sell them abroad," he says.

"Chemical plants, for instance, are becoming more and more automated so that the black man in future must be helped to come into line with this thinking.

"Although it is our precious commodity, we can't keep digging gold out of the ground forever. Now is the time to create greater investment in secondary industries and give greater attention to bio-tech activities."

One way or the other, the one-time steam engine watcher is on track for some exciting ventures.

ENGINEERING

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A.News 29/1/87

BUSINESS

Hudaco on takeover trail with R12-m cash

By TOM HOOD
Business Editor

A PICK-UP in the engineering business helped to more than double the profits of the Hudaco Industries group which is on the takeover trail with R12,5-million cash saved in the year to November 30.

Some R7-million was spent on acquisitions, including the minority interest in Power Systems International and the R12,5-million on hand from a strong cash flow exceeds medium-term debt of R4-million.

"We expect to deploy all our cash and more in 1987 in attractive acquisitions and in additional investment in the organic growth of our existing buinesses, says managing director Mr B G McInnes.

"We expect a good agricultural season and with a continuation of an improved level of demand, Hudaco should again show good earnings growth in 1987."

Results for the year were better than expected, he says.

The "unduly cautious" earnings forecast of 36c a share turned out to be 44,2c. After an interim of 8c, a final dividend of 12c is being paid.

An upturn in demand towards the end of the year pushed up earnings to 26,2c a share for the second six months.

Total earnings were double those of 1985 and flowed from an improved performance from all businesses and significant gains in productivity.

Turnover of R155-million was 29 percent higher while net profit soared by 138 percent to R8,5-million.

ASSENG GOING STRONG

ASSOCIATED Engineering's chairman, Mr Colin Hope, says the company's results for the first three months are in line with last year.

The performance for the 15 months to end- December 1987 — the new year-end — will depend on many factors outside the company's control.

However, operating profits are expected to continue at similar levels to last year.

Helped by favourable conditions for import replacement, the now streamlined and rationalised Asseng showed a R12-million turnaround in bottom-line profits, with earnings for the year to September 30 at a record R8-million after four years of losses.

DAB PAYS 42,5c INTERIM

A 42,5c interim dividend is being paid by DAB Investments, which last year took over the share portfolio of JCI's Free State Development and Investment Corporation.

The market value of listed investments soared to R90-million from R55-million. The book value is almost R12-million, showing an appreciation of R79-million (R52-million) in six months.

Major acquisition was 50 000 Elsburg shares, while 75 000 Trans Natal Coal shares were sold.

30/1/87 FM

CEMENCO (182) (189)

Mixed fortunes

Activities: *General engineering and contracting, which includes mining contracting, mechanical and civil engineering, foundry work valve reconditioning and ventilation equipment manufacturing.*

Control: *Trafalgar House Construction owns 49% of the equity. E L Bateman has 31,5% stake.*

Chairman: *R T Shaw*

Capital structure: *6,8m ords of 50c. Market capitalisation: R26m*

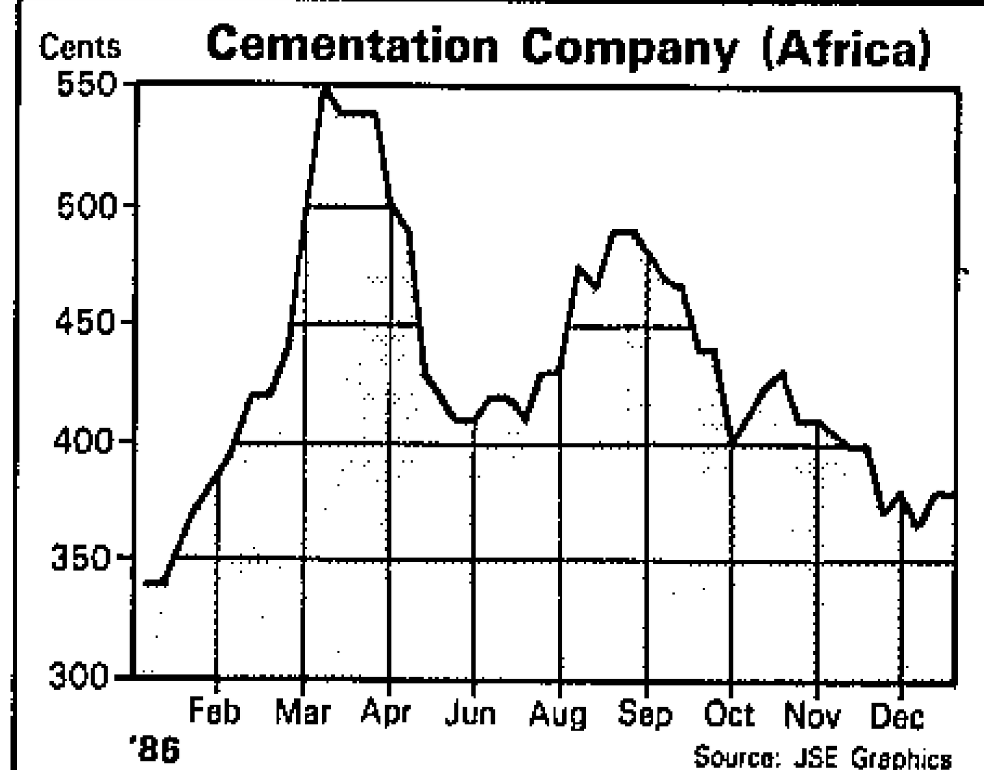
Share market: *Price: 380c. Yields: 5,8% on dividend; 11,7% on earnings; PE ratio, 8,5; cover, 2. 12-month high, 555c; low, 340c. Trading volume last quarter, 43 000 shares.*

Financial: *Year to September 30*

	'83	'84	'85	'86
Debt:				
Short-term (Rm) ..	6,5	1,4	3,6	12,9
Long-term (Rm) ...	1,1	11,2	36,5	33,8
Debt:equity ratio	0,21	0,32	0,85	0,95
Shareholders' interest	0,52	0,54	0,32	0,31
Int & leasing cover .	02,6	2,9	1,9	1,9
Debt cover	0,69	0,43	0,16	0,27

Performance:

	'83	'84	'85	'86
Return on cap (%) ..	10,1	7,8	4,8	9,0
Turnover (Rm)	116,1	95,7	152,3	241,6
Pre-int profit (Rm) ...	7,1	5,8	7,0	14,0
Pre-int margin (%) ..	6,2	6,0	4,6	5,8
Taxed profit (Rm)	3,2	3,5	4,3	4,4
Earnings (c)	51,8	58,8	58,1	44,6
Dividends (c)	25	25	25	22
Net worth (c)	529	573	610	633



It has been a year of mixed fortunes for Cementation Africa, with traumatic losses in its civil engineering division partly offsetting burgeoning profits from its mining operation. Pre-interest profits rose impressively to R13m (R6m); but these gains were prevented from reaching the bottom line by spiralling interest charges, which rose to R6,3m (R1,9m), and tax charges of R2,4m (nil). Earnings and dividends, stagnant over the past few years, dropped to 44,6c and 22c respectively.

Rising capex, mainly in the mining division, resulted in an increase in interest-bearing debt to R46,7m (R40,1m), resulting in a further deterioration of the debt:equity ratio.

In a bid to cut its main losses, Cemenco is closing down its entire civil engineering division, which lost R6,9m last year, and not just certain of the branches as stated in its financial report. The mechanical engineering operations fared better, and according to chairman Ron Shaw, it "maintained a fair level of activity." He notes, though, that the group experienced a steady deterioration in the demand for tracklaying and track equipment.

On the credit side, the Gold Fields Cementation mining division again posted extremely good results, with its shaft sinking and exploratory drilling operation doing particularly well.

Shaw predicts "real long-term growth" in this area, with "a great deal of prospect drilling" coming through. Capital expenditure totalled R22m, of which 50% was incurred by the mining division. Although conceding a short-term borrowings problem, Shaw anticipates a substantial improvement by year end.

In an interesting shuffle among controlling shareholders, UK-based Trafalgar House Construction reduced its holding in Cemenco from 62% to 49% last year, while engineering company E L Bateman increased its stake from 19,6% to 31,5%.

Despite continued adverse trading conditions, Shaw expects the group to maintain earnings in the current year. That places Cemenco stock, currently at 380c, on a forward dividend yield of 5,8%, a somewhat poor rating reflecting lingering doubts about immediate prospects.

Jane Arbous

HUDACO FM 30/1/87 (189)

Bearing up

It is no mean achievement for a company when its share price appreciates by almost 120% in a year. When attributable profit growth of a similar magnitude accompanies that share's appreciation, there is double cause for celebration.

Hudaco Industries, the engineering group listed in November 1985 following a management buyout, has rewarded the faith of investors who pushed the share to a 25 p:e, the second highest in the engineering sector, with a 138% increase in attributable earnings and a 96% increase in earnings a share for the year to end-November. The p:e now sinks to a more mundane 13 and the dividend yield to 3,5%, and the share is poised to continue its upward trend, as management expects good earnings growth again in 1987.

HUDACO BOUNDS ON

Year to November 30 ..	1985	1986
Turnover (Rm)	120,3	155
Pre-tax profit (Rm)	7,0	16,3
Attributable earnings (Rm)	3,6	8,6
Earnings (c)	22,6	44,2
Dividends (c)	n/a	20

The strong growth up to now has come principally from efficiency improvements. MD Bruce McInnes and his management team have restructured and rationalised the group, evident in the operating margin which improved from 7,9% in 1985 to 10,5% in 1986. The group also turned financing costs of R2,5m into financing revenue of R58 000, thanks to surging cash — some R24m cash flow originated from operations during the year and at year-end net cash deposits totalled R12,5m. Long and medium-term loans dropped from R8m to R4m, and short-term borrowings were eliminated.

In 1986 Hudaco spent R7m on acquisitions in the transmission sector and on acquiring Reunert's minority interest in Power Systems International, the group's hydraulics and pneumatics interest. This acquisition is reflected in the reduction in income attributable to minority shareholders — down from R381 000 to R182 000.

McInnes expects to deploy all cash, and more, on further acquisitions and additional investment in organic growth of existing businesses during 1987. It is through acquisitions and growth in demand in existing markets that Hudaco's future earnings growth will originate, as it must become increasingly difficult to make further improvements at operating level in businesses already in the group.

Hudaco's McInnes ... still shopping around

McInnes' faith in the future prospects rests partly in the Deutz diesel engine business, expected to benefit from the spread of trackless mining, and in the bearing business, where the group is gaining market share. A good agricultural season is also anticipated.

Kerry Clarke

has handed the matter to his attorney.

General manager Philip Kotze says the Newspaper Press Union found the adver-

payrolls of up to 25 staff members, but some competitors charged about R1 500 for payrolls up to 100 employees.

Mircroness claimed its package required no maintenance deal, alleging it was compulsory with two of the

Hudaco revival stuns engineering rivals

ST 1/2/87

(189)

By David Southey

THE turnaround achieved by Hudaco Industries since 1985 when Blue Circle sold off this modest performer is the envy of engineering firms.

Last year's 138% increase in attributable profits to R8,5-million must leave its former owners wringing their hands at having ditched the company in a management buy-out. Blue Circle must also be puzzling over why it was unable to make Hudaco perform when the economy looked strong.

Hudaco is also well placed to take advantage of an SA withdrawal by its major US or European-owned competitors. It shares No 1 spot in the ball-bearing market with the Swedish-owned SKF — each accounting for about R55-million turnover in the sector. SKF, however, is unlikely to surrender its lucrative share of the SA market.

Hudaco's accounts to November 1986 show a jump of about 50% to R39-million in creditors' liabilities. Managing director Bruce McInnes says: "We have been successful in reducing our debtors. We have cut debtors' days outstanding from 52 to 46. Our stock turns have also speeded up dramatically."

Stock turns improved from 2,2 times to 3 in 1986 in spite of a 40% increase in the cost of sales caused by the appreciation in the company's chief source currencies — the D-mark and yen.

Dr McInnes says the company has also benefited from increased supplier credits thanks to its faster stock turns.

With turnover up by a relatively modest 29% compared to 1985, and profit margins more or less maintained, Hudaco's sharply improved performance came largely from slashed expenses relative to sales margins.

Mining

About 50% of Hudaco's turnover is accounted for by the mining sector whose prospects still look healthy in spite of a stronger rand. Another 20% of sales is made to rock-solid clients, such as the military and public sector, and about 10% is attributable to agriculture.

Dr McInnes says the improved outlook for farmers should boost sales to this sector.

Although Hudaco has not made any forecasts for earnings growth this year, some analysts are looking to compound growth of at least 25%.

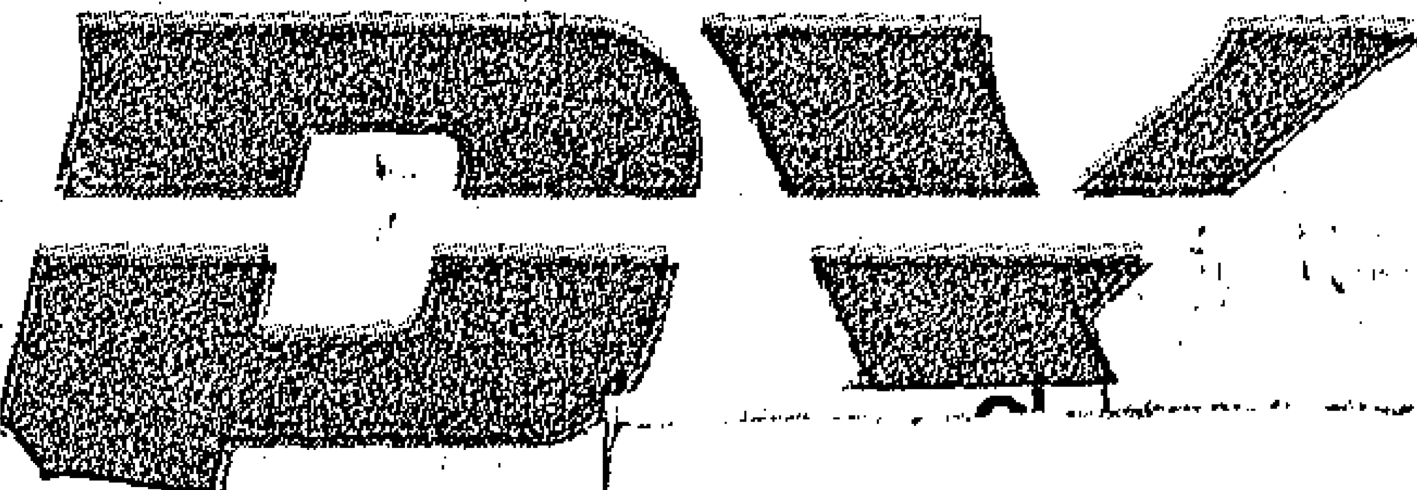
...n the rocks

...im Srodes: Washington

...City-based conglomerate owes the ...panies $85-million.

...shoggi was once believed to be the ...an in the world, but his far-flung ...operations have fallen on hard ...ong his creditors is Lonhro chair- ...Rowland.

...merica has failed to fulfil a con- ...ild an office and shopping complex ...ke City.



Wages of Free State workers drop

By Susan Pleming

10/2/87

Labourers in the engineering field in the Orange Free State earned less last year than in 1985, while in other parts of the country labourers' wages in engineering increased, says a survey released by the Central Statistical Service (CSS) in Pretoria last week.

According to the CSS survey labourers in the Free State earned an average of R1,52 an hour at the end of last year. In November 1985 they earned R1,59 an hour.

In the Transvaal labourers earned R1,57 an hour in 1985 and one year later an average of R1,96 an hour.

COMPANIES

189

NEI Africa's profits limited to a 13% rise

MERVYN HARRIS

A HIGHER interest bill limited the rise in heavy engineering group NEI Africa's taxed profits to 13%, from R19,9m to R22,5m, in 1986.

A final dividend of 119c (107c) was declared to take the total dividend for the year to end-December to 160c (145c) a share while maintaining its traditional cover of 2,5 times.

Earnings a share increased 6,5% to 391,9c a share.

Turnover at R338m was 15% up on 1985's R294m, while operating income before tax and interest was more than 8% up at R37,5m. A higher interest bill of R5,1m (R3,5m) left net operating income at almost R32,5m.

Taxation of R9,3m was slightly down on 1985.

MD Blitz Bieber said the company's performance was satisfactory, considering the "difficult environment" for engineering companies.

"Group companies continue to emphasise asset and cash management and improved productivity and we have stood by our policy of trimming the areas of our business that are not profitable while strengthening those that are.

"We also made an important organisational change by grouping the operating companies into three main divisions — mechanical, electrical and diesel — and this streamlining will continue to benefit operations."

Bieber added that while it was difficult to consider prospects for 1987 with certainty, the group order book had already reached "encouraging" levels.

During 1986, NEI Africa Holdings, which holds 56,3% of NEI Africa's ordinary shares, was converted into a public company and shares were listed on the JSE in November.

By disposing of 46,7% of these shares the UK parent company's shareholding was reduced from 100% to 53,4% and SA shareholders increased their stake in NEI Africa to almost 70%.

In June, NEI Africa bought low-voltage motor control equipment manufacturer Cutler-Hammer, now renamed CHI Control, as well as the franchises for Eaton and Fuller transmissions, Mack Trucks and Powerguard Filters.

The Fiatallis earthmoving machinery franchise held by APE Africa was sold to Blackwood Hodge SA in August, along with stocks of equipment and parts.

NEI shares have come off their August peak of R44,75 and closed yesterday at a sellers price of R40. This puts the shares on a dividend yield of 4% compared with the engineering sector average of 3,5% yield.

Engineering shortfall

MICK COLLINS

ANY economic recovery could result in a demand for engineers similar to that of the early 1980s — when the gap between supply and demand could be more than three jobs for every young graduate, the Federation of Societies of Professional Engineers (FSPE) said.

It also said there were more than four jobs for each graduate in electrical engineering, but there has been a marked fall in the supply of, and demand for, civil and other types of engineer.

The fifth biennial survey of professional engineering manpower published by the FSPE has found that the demand for engineers had declined mainly as a result of the recession.

It said: "Equally, the supply has fallen, so that the long-term trend of an average of two jobs for every engineer entering the job market is maintained."

The survey also found:

☐ A growing demand for agricultural engineers;

☐ A drop in supply of and demand for civil engineers, which could lead to an exacerbated situation if economic activity is restored;

☐ An over-emphasis on producing electronic engineers at the expense of electrical engineers, so that where there are less than 1,2 jobs for every newly graduated electronic engineer, there are more than four jobs for every newly graduated electrical engineer.

Cape Times 26/2/87

Attributable profit down 23%

Globe results 'disappointing'

(189) (269)

CAPE TOWN-based Globe Engineering, in the Anglovaal group, was hit by price-cutting, disappointing results from its Walvis Bay operation, lower investment income, irregular workloads and an increased tax rate in the six months to December.

Attributable profit in the first half of its financial year was down by 23% to R1,2m (R1,6m), equivalent to earnings of 36,8c (47,6c) a share.

Volumes were little changed from those in the corresponding period of 1985 and turnover was 4% higher.

'Unabated pressure'

But irregular workloads adversely affected performance and unabated pressure on prices — which prevented the company from fully recovering inflationary increases in overhead costs — reduced operating profit by 35% to R325 000 (R500 000).

As a result of lower interest rates and smaller dividends received, mainly from the group's construction investments, investment income declined to R549 000 (R739 000) leaving a pre-tax profit of R874 000 (R1,2m).

In spite of this, the tax bill rose to R136 000 (R97 000) because assessed losses were fully absorbed in the previous financial year.

Commenting on the future outlook, chairman David Royston said: "Any improvements in the construction industry will not become apparent in Globe's current financial year and therefore no material improvement in the share of associated companies' earnings is anticipated, while little change is expected in interest rates."

He added: "Uncertainties stemming from the socio-political climate continue to dampen business prospects, particularly in foreign markets, and results for the full year remain unclear."

Globe pays only one dividend, at the end of the financial year. It paid an unchanged 55c a share for the 12 months to June 30, 1986.

Comparative figures have been altered following the finalization of associated companies' results for the half-year to end-December 1985, says the company.

The share of those companies' earnings attributable to Globe was increased by 4c a share. — Financial Staff and Sapa

Steelmetals records 126% profit boost

Financial Editor

STEELMETALS — the engineering and contracting group in the Anglovaal stable — lifted attributable profit for the six months to December by 126%.

The directors also announced yesterday that, subject to certain conditions, Steelmetals has acquired a controlling interest in King-Pac Materials (Pty), a distributor of industrial packaging materials.

Earnings for the first half of the financial year rose to 17,5c (7,7c) a share. Consolidated turnover rose by 18% to R27,3m (R23,2m).

Tax bill rose by 139%

Operating profit was 37% higher than the previous year at R1,8m (R1,3m). With interest received contributing R67 000 (R112 000), the profit before paying interest and tax was 31% higher at R1,9m (R1,4m).

Interest paid was reduced to R840 000 (R987 000), but the tax bill rose by 139% to R492 000 (R206 000).

This left the after-tax profit 126% higher at R556 000 (R246 000).

The directors said better performances from both the capital goods and consumables' sectors of the business contributed to the improvement.

Other factors included improved asset management and the effect of the firmer rand exchange rate on stock values which, in turn, enabled borrowings and the interest bill to be reduced.

Higher profits expected

They said orders on hand at December 31 were R14m higher at R29m but a substantial part of these will be carried out only after the close of the current financial year.

However, they expect that profits in the second half of the year will be higher than those announced yesterday — partly because of contract closures — and therefore profit for the full year is expected to be higher than in 1985/86.

Turning to the acquisition of 51% of King-Pac Materials, the directors say that this is subject to certain suspensive conditions.

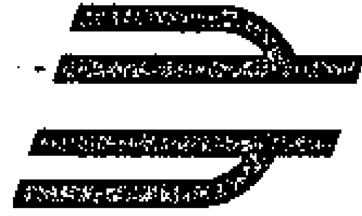
It has been bought with effect from December 1 for a price that, based on a formula, will not exceed R2,5m.

Steelmetals expects this to become payable in March when the suspensive conditions have been fulfilled and the cost will be met from internal sources.

Although this acquisition will not have a material effect on the current year's earnings, it is expected to contribute about 10c a share in the following year.

Haggie income shows 18% improvement

JOHANNESBURG. — A group operating income before tax and interest of R93,8m is reflected in the latest (1986) annual report for Haggie.



Chairman I S Haggie has pointed out that this was an improvement of 18% on the R79,3m earned in 1985, "nothwithstanding that the first half of the year was seriously affected by a labour dispute at Haggie Rand and the mid-year profit was only a 9% improvement on that of 1985".

The balance sheet of the company continued to be sound, he said, with total liabilities including preference shares of 49% (1985: 57%) and net borrowings on 15% (1985: 15%) of shareholders' funds, outside shareholders' interest and deferred taxation.

'Protectionism'

Earnings for ordinary shareholders for the past year at 237c a share were 17% up on 1985.

The strength of the balance sheet and the improved earnings have enabled the directors to declare a final dividend of 70c a share, making the total for the year 95c (1985: 85c), and the dividend cover is improved by 2,5 times.

The chairman explains that when Haggie Rand began its serious export programme some fourteen years ago, the US became the company's first major market.

He said: "There has been a growing protectionism in the US and Haggie Rand's and Consolidated Wire Industries' products have been the subject of countervailing duty actions since 1981, followed by a voluntary restraint agreement in 1983 and then a bilateral trade agreement in 1984 (both imposed by government to government agreements) all of which restricted these companies' sales in that market.

"This led our export sales departments in these companies to concentrate on other areas in which to promote their products . . .

"Although the US sanctions legislation was aimed at primary steel products, certain of these companies' products were included mainly as a consequence of the bilateral trade agreeement previously referred to.

"However, the broader markets now being served are being actively expanded to reduce as much as possible the impact of US restrictions on our business." — Sapa

the Baking and

interest".

Oil lubricates Starke's progress

By AUDREY D'ANGELO

BASIL STARKE — the rapidly growing civil engineering group based in Stikland — is only at the start of its expansion programme, says financial director Colin Glen.

Its reverse take-over of the Ovenstone group (Ovgroup) and Ovenstone Investments (Oil), announced this week, will make it easier to acquire other companies which fit in with its existing interests.

"We see many opportunities and it will be a great help to have paper we can use for this. Before, we had to utilize our cash resources to the full to make new acquisitions."

On the advice of Glen, a former partner in a firm of actuaries, Starke had for some time been looking for a suitable vehicle through which to obtain a listing on the Johannesburg Stock Exchange (JSE).

Apart from any tax advantages, Glen saw a reverse take-over as the cheapest way to obtain a listing in certain circumstances because "we don't have to give away a stagging profit".

The Oil group seemed ideal, with its pyramid to give flexibility.

But it was Oil's loss-making subsidiary Premier Wire which first attracted Basil Starke's attention.

"We like Premier Wire and we are not unhappy with that acquisition. We are getting a very nice manufacturing facility at the beginning of the upturn."

It will be run by Autotube MD Kobus Lombard and Glen said:"We are confident that we shall be able to turn it round."

He said he had found in the past that the secret of a successful turnaround was a positive attitude.

Managements running into trouble because of a shortage of cash tended to make the mistake of lowering morale by cutting down on things like stationery "and they are scared to employ a new guy when they know they need him because they are worried about finding his salary".

Premier Wire employs 300 people which will increase Basil Starke's total work force to 1 400. "That is a big responsibility," said Glen.

Basil Starke started in a small way as a civil engineering contractor in 1968 and its first big break came in 1973 when it obtained a township development contract in Atlantis. This was followed by a bigger one in Mitchells Plain "which put us on the map".

Its first diversification came in 1981 when it started a light engineering company, Autotube, providing automotive components primarily to Atlantis Diesel Engines as well as products for the furniture and construction industries.

In 1982 it acquired Sebotti Construction (Pty), a company specializing in concrete engineering, and in 1983 it started the building operations which now provide a third of group turnover.

In 1984 it acquired 100% control of National Tractor (Cape) Pty, which is engaged in the earthmoving business.

To Page 18

AND in Durban, two key provi-

up on a diet of print. So I actually know ... sounds like ... anyway.

Oil lubricates Starke's progress

From page 15

Few figures are available ahead of the transmuted listing statement later this month, but Glen says turnover has risen from R16m in 1983 to R43m this year — an average annual growth rate of 28%. Taxed profit has grown at an average annual rate of 43%.

He would not give details of borrowings, except that interest payments were R230 000 in 1985.

Glen sees major opportunities for the group in the expanding market for black homes.

He joined the group in 1981, after taking an MBA degree at the University of Cape Town.

Before that he was a partner in a firm of actuaries in Swaziland for four years. "But I decided that was the wrong career for me and that an MBA would be the appropriate vehicle for a move out into commerce."

Like other directors, he is a substantial shareholder in the Basil Starke group, of which founder Basil Starke is chairman, and is happy with his career switch.

"This is a group with a lot of integrity at the top."

Glen, who is married with children, says he has never been tempted to emigrate in spite of the demand for auditors overseas.

He believes SA will offer opportunities as well as problems.

"My four years in Swaziland were very interesting — I see a lot of things that happened there, such as developments in the field of labour relations, being repeated here."

He got on well with Swazis and "my hope is that people of goodwill of all races will get together here".

Dorbyl boosts earnings 46,6%

Cape Times 19/5/87 (189) (289)

From MERVYN HARRIS

JOHANNESBURG. — Engineering group Dorbyl flexed its muscles in the half-year to 31 March to boost earnings 46,6% from 32,8c to 48,1c a share.

The interim dividend has been raised 3c to 16c a share on an increase in cover from 2,5 to three times.

Chairman F P Kotzee and group CE D B Mostert say that while the results are not representative of earnings for the full year, as profits in the engineering industry do not accrue evenly throughout the financial year, they nevertheless expect year-end results to show some improvement on last year when earnings totalled 161,2c.

The improved results, reflecting the benefits from acquisitions, improved operating efficiencies and lower interest rates, is in line with the forecast in the last annual report.

Subsidiaries operating in the light-engineering and trading sectors performed better, but low levels of demand continued in the heavy-manufacturing sector where losses were incurred.

Loss-making Atlantis Forge division was sold on March 1. The R5m loss on disposal will be treated as an extraordinary item at year-end.

Operating income increased by 21% to R34,6m (R28,6m) on a 15% rise in turnover to R784,3m (R679,8m). While the interest bill fell from R12 to R10,3m, the tax bill rose from R4,1m to R6,2m, leaving taxed income of R17,8m (R12,3m).

Attributable earnings rose from R10,4m to R15,3m after higher payments to outside shareholders.

3/7/82

Business Repor

Dorbyl take-over

Finance Staff

DURBAN. — Engineering giant Dorbyl is expected to announce later this week the terms of its take-over of Sandock Austral, the Gencor-owned engineering firm.

H F Brown, an executive in Gencor's industries division, confirmed yesterday that talks were under way and an announcement was "imminent".

About 200 staff members at Sandock Austral have been given notice for the end of this month.

A further 500 production workers are expected to hear later this month whether they will be offered jobs with Dorbyl.

A major government contract is due to be completed soon at Sandock Austral, but the flow of work is uncertain. Most firms are waiting for tender outcomes for the Mossgas scheme.

Cape Times 25/7/87

Coroma workers end strike

Labour Reporter

A STRIKE by about 100 weekly paid workers at the Coroma Engineering (Pty) Ltd in Parow Industria ended yesterday after talks between management, shop stewards and the union.

The majority of the work force have been on strike at Coroma for the past two days.

Workers struck over dissatisfaction relating to the present negotiation of a recognition agreement.

The managing director of Coroma, Mr Leslie Hemmens, said in a statement management had agreed in the past to negotiate a recognition agreement and thereafter start wage negotiations. Negotiations will continue next week.

dict, he says. ... ...,8 million in the 1985/86 fi- year.

Rationalisation works well for Aberdare

Finance Staff

The rationalisation of plant and resources, coupled with a significant restructuring, has seen Aberdare Cables increase taxed profits by 33,3 percent to R5,2 million for the six months to June.

Group interim results issued yesterday show that although group turnover was slightly down on last year, pre-tax profits increased by 52,2 percent to R9,6 million.

The directors have declared an interim dividend months of 15 cents a share, an increase over the same period last year of 20 percent.

Looking to the future, the directors say that greater political stability suggests a possible increase in fixed investment, with the result that industrialists may once again consider expansion plans which have effectively been shelved.

COMPANIES

(189)

National Trading profit up 36%

MICK COLLINS

NATIONAL TRADING (NTC), engineering manufacturing and trading merchants, reports a 36% increase in attributable profit to R3,4m in the six months to June 30, 1987.

The interim dividend goes from 10c to 14c a share.

Turnover rose 12,5% to R116m and earnings yield is 13,4%, compared with an average of 7,3% recorded for the iron, steel and engineering sector.

The company, which scored a R9,6m turnaround last year, was helped by more agressive marketing, says deputy chairman and MD Leonard Stern.

"Lower overheads also helped us in what was a disappointing market in this sector."

Stern expects the positive trend shown by the company to continue for the rest of the year.

He added: "The group has more than consolidated it's position after having focused its activities, reducing it's overheads and closing unprofitable departments.

"We are well poised to achieve sustained earnings growth in the future, particularly if a strong gold-led economic recovery gets under way."

Holding company, National Trading Holdings (NTH) — whose present sole interest is in NTC — has declared a directly comparable dividend of 7c a share.

The NTC share was steady yesterday, with only one small deal recorded, and closed at a seller's price of 800c.

It touched a high of 850c last month after a year's low of 280c in December.

Engineering a restructuring

19/8/87 BDay (189)

DAVID FURLONGER/Industrial Editor

TURNER & NEWALL (T&N) and Associated Engineering (Asseng) are expected to announce rationalisation plans next week.

T&N's British parent — Turner & Newall plc — bought control of Asseng's UK holding company, AE plc, late last year. As part of an international rationalisation of the group's activities, the two local companies announced last month that they were holding talks on joint restructuring of their activities.

Both are currently listed on the Johannesburg Stock Exchange (JSE), and managements are seeking a formula that will keep the two companies there.

Some market analysts say they expect a deal in which T&N is the senior partner and Asseng a subsidiary. Officials of the two companies are unwilling to pre-empt an official statement, but Asseng group MD Johan Meyer said "any number" of options were still being considered.

He said the likely formula would be some form of pyramid, with one listed company controlling another. "But just about every configuration is possible and no firm decision has been reached yet. There are the best part of 10 alternatives being considered."

Analysts say the companies sit comfortably together. T&N divisions produce chemicals, plastics and industrial and automotive components. Asseng produces industrial and automotive components.

Both companies say any formula must take account of the possible dilution of shareholdings in the companies.

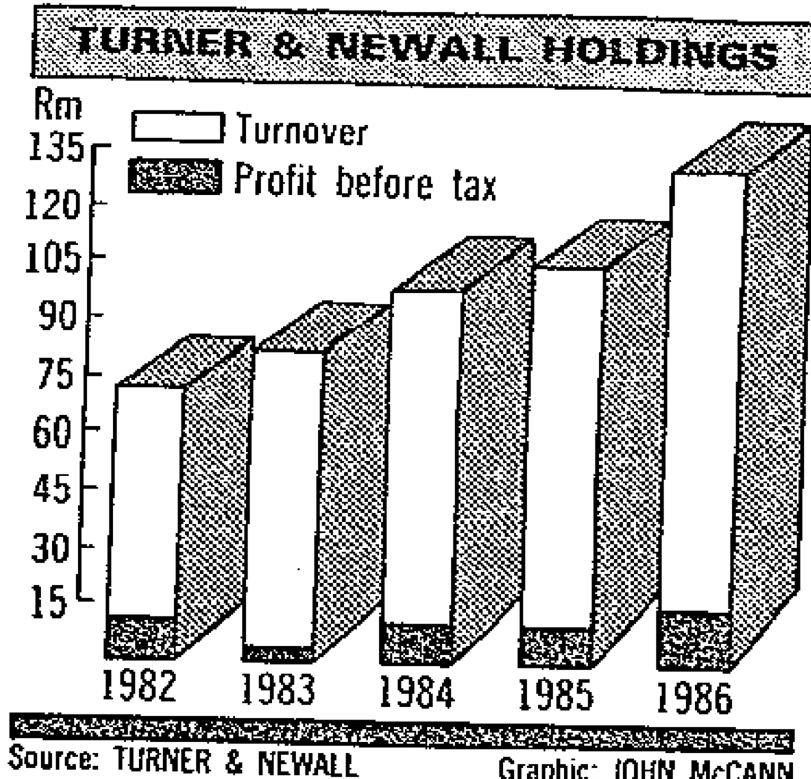
T&N is 51% controlled from the UK, with Old Mutual holding 20%, an employee share fund 5% and the rest held by the public. Asseng is 77,6% British-controlled, with the Mine Officials Pension Fund the biggest local shareholder, with 11%.

Senior

Asseng was listed on the JSE in 1965. T&N went to the JSE little more than a year ago, but in terms of turnover and profits is the senior of the two. It reported turnover of R130m last year and a pre-tax profit of R15m.

Asseng's turnover was R58,6m and pre-tax profit R7m.

At the end of last year, Asseng has SA assets of just under R50m, and T&N nearly R110m. T&N's asset base is likely to show substantial growth at the end of this year after the group has revalued its plant and machinery.



Source: TURNER & NEWALL Graphic: JOHN McCANN

Whatever the rationalisation formula, T&N group finance executive Chris Good believes it is unlikely to slow T&N's steady growth of the last few years.

Turnover has increased by more than 80% since 1982. Profits haven't shown such sustained growth, but lifted sharply in 1986 before taxation made a R6,5m dent.

Good is confident earnings a share this year will be 60c, compared with 39,1c in 1986. Earnings were 28,1c at the interim stage and Good says T&N is "on target" for 60c.

He says the group is sheltered from the worst of the economy's extremes by the diversity of its holdings and their ability to weather difficult times.

T&N itself is not a household name but some of its holdings are well-known — among them the Ferodo friction and braking material operation and British Industrial Plastics (BIP).

Demand

The group also has a near-R100m stake in Everite and recently bought a 51% stake in food additives producer Butakem, which Good says will increase group earnings this year by 2c a share.

Companies like Ferodo and the industrial and automotive component operations are less afflicted by recession than some industries because they service both original equipment and after-sales markets.

When vehicle and machine sales are down, existing equipment must keep going and there is steady demand for parts.

Industrial chemicals are also protected to some degree from cyclical excesses, but the same can't be said of building.

The building and construction industries have spent a miserable few years, and T&N has restructured by disposing of its building products division to Everite and taking a 25% stake in that company.

"The rationalisation benefits are likely to be substantial," says Good of the deal, in which T&N rid itself of a division which represented 44% of assets and only 18% of earnings.

Good expects T&N to remain within sight of its target of 25% return on capital employed.

"The intention is to average that over a five-year cycle. We have been relatively close for the last three years. In 1984 we were over, in 1985 just under, and again in 1986.

"We are very close this year, but we expect the percentage return to fall in 1988 because the revaluation of plant and machinery will cause a substantial increase in the capital base."

ENGINEERING EXPORTS

1987

SHIPBUILDING (189) FM 20/3/87

Gencor into Chile

Sandock-Austral (S-A), Gencor's low-profile heavy engineering and shipbuilding arm, is flexing its muscle in world markets.

After winning a US$13m tender against international competition to build a shipyard at Punta Arenas, southern Chile, two and a half years ago, S-A entered into a 50-50 arrangement with Asmar, the Chilean navy's ship repairer. The jointly owned company is now operating the Strait of Magellan Shipyard.

Prospects for the new venture, situated on the main sea route from the Atlantic to the Pacific oceans, are good, says Pierre de Villiers, S-A MD and first chairman of the joint company.

"The nearest shipyard to service the ever-increasing flow of shipping traffic," he says, "is nearly 1 500 km away at Talcahuano on the Pacific coast of South America. On the Atlantic coast, the nearest yard is even further away — at Montevideo."

He points out that the industry is currently being boosted by the trend to ship refurbishing to avoid heavy capital outlay on replacement.

Also, the new ship repair facility lies in an area where mineral resources are being exploited and which is becoming increasingly important for the fishing industry.

The shipyard, now ready to receive its first vessel, consists of a marine railway drydocking system which retrieves vessels from the sea and then refloats them when repairs have been completed.

Sandock's De Villiers ... expanding horizons

De Villiers is particularly proud of the fact that the entire project was managed by S-A. "Crandall of the US was our design consultant. But all the steel for the project came from SA; it was fabricated at our Durban shipyard and, together with our partner Asmar, we installed it on site at Punta Arenas. Now we are into the physical operation of the shipyard."

Encouraged by the success of the venture, S-A is now looking for new joint ventures overseas. The company always had a fairly sizeable stake in the export field through its involvement with Armscor and its expertise as a manufacturer of combat vehicles, but it has never publicised its activities.

"I think we have proved that we have the ability to handle major projects anywhere in the world right from scratch," says De Villiers. "Expertise developed to serve SA's mining industry is backed by ultra-sophisticated technology, including computer aided design, which can be applied to all fabrication.

"This is going to stand the company and the country in good stead in future." But benefits will not come instantly. The Chilean project was first identified in 1979 and is only coming to fruition now. But he is confident that international recognition will eventually come.

At home, meanwhile, he is looking for a slice of the action at Mossel Bay. "We're ideally placed and experienced to participate in a project of this kind," he reckons. "I think the decision to go ahead with Mossel Bay is the best news SA has had for some time." ■

FINANCIAL MAIL MARCH 20 1987

BUSINESSMAN OF THE WEEK

Tanks a million for the export trail

By DEREK TOMMEY

PAUL Bell, managing director of Consani, the giant engineering company at Elsies River, has some good news for the Western Cape.

During the next 12 months he is planning to hire an additional 80 to 100 people which will increase the size of his workforce by about 20 percent.

"We have noticed some improvement in business lately and will need extra staff," he said.

However, there were no plans for a major increase in the workforce.

Mr Bell, a 40-year-old former Rhodesian who studied engineering at Trinity College, Dublin, joined Consani in 1980 after nine years with Dorbyl, and was promoted to his present position in 1985 when the company was taken over by Murray & Roberts and new life was injected into it.

Since then the company has become a major world manufacturer of specialised products.

Cape Town was appallingly situated for the Transvaal markets as it was cut off from them by the Karoo.

But it was ideally situated for the export market and four years ago it was decided to make a major push to export.

Consani opened an office in Paris and offered for sale beam tanks and frame ISO containers of their own design.

These are pressure vessels, normally made out of stainless steel, set in a frame and used to transport aggressive chemicals and gasses.

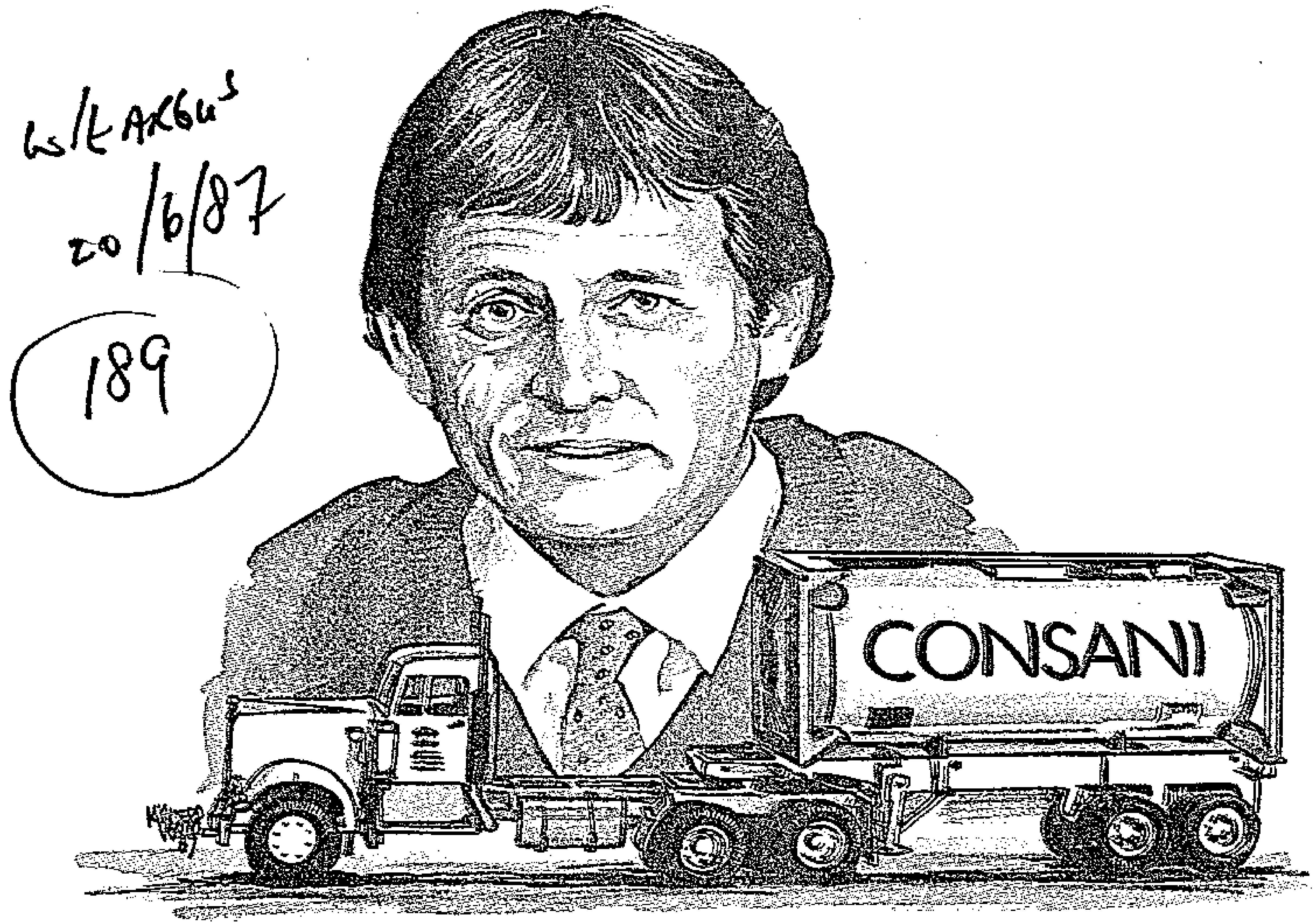
Helped by the decline in the value of the rand, the company quickly became the world's second largest manufacturer of these tanks and containers, said Mr Bell.

The result was that nearly 65 percent of Consani's turnover was being exported.

"It meant our quality had to be right, so we had to invest a lot of money in ensuring this," he said.

"It also meant that we had to learn to programme and plan, for our delivery dates are the absolute key to our success."

But while the decline in the exchange rate of the rand helped Consani enter this market, it was realised that no company could found a successful business on a poor exchange rate, said Mr Bell.



Paul Bell . . . good news for the Western Cape.

As a result Consani had contracted its market share and instead put up its quality, improved its design and was now selling on these properties.

"Consani has plans for other exports. When you move around overseas you see many opportunities."

In view of the need for the Western Cape to develop export industries Mr Bell said that it would be nice to see Cape Town turn into a duty free area such as Shannon.

The Shannon free trade area in Ireland had been a great success and he believed the same would be the case here.

"We have a very high level of skills in the Cape. This and the availability of raw materials and other resources here will attract foreign manufacturers."

Developments that suggested an upturn was approaching included increased spending by Iscor and Sasol and SA Breweries' new Transvaal brewery.

Married to a South African, Tessa, Mr Bell has three young daughters, aged five, four and one. For recreation he plays golf and squash.

His aim, he said, was to make Consani what it was before.

It had gone through a rough patch, but it deserved to be a highly successful company. The intention was to contain size and become a good profit centre.

W/E ARGUS 20/6/87

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ENGINEERING

1988

by JULIE WALKER

Hudaco — hard to spot a better buy

181

HUDACO, an acronym derived from former parent Hubert Davies Company, is one of the best buys on the market at 420c.

Its history makes interesting reading and offers valuable lessons to companies loath to stick to their knitting. Hubert Davies was established in 1891 as an engineering and mining supplies company.

By the 1960s it had developed into a huge diversified conglomerate.

"It grew like topsy," says managing director Kevin Clarke, "and ended with the classic conglomerate problem — lack of focus."

FLEDGLING

In 1974 the ailing Hubert Davies group was bought out by the fledgling but profitable Blue Circle, into which the latter was reversed.

"It was akin to a fish swallowing a whale," says Mr Clarke. Blue Circle was confident it could correct the problems which had afflicted the group.

But it had to sell off parts, such as the water purification and electrical divisions. At the same time, Hudaco Industries was formed, which more or less comprised the trading arm of the old Hubert Davies company.

In 1979, Mr Clarke joined Hudaco. When Blue Circle was disposing of the various groups the current chairman Bruce McInnes approched it with a view to a management buy-out, but was rejected.

Six months later, in early 1984, Blue Circle changed its mind when, it is said, it was looking for R20-million to do a deal with Darling & Hodgson.

Hudaco's net assets approximated the amount required by Blue Circle, and a deal was struck. Six Hudaco executives bought the business for R20-million, and acquired 74% of the shares. The balance was taken by Volkskas Merchant Bank.

The executives displayed their financial acumen by quickly disposing of a major asset, the property they now occupy, at a large profit.

"At that time only one of the four divisions in Hudaco was profitable, and we acquired the company on a PE of 20 times — quite a lot at that time," says Mr Clarke.

The divisions are diesel engines, bearings, transmission and hydraulics.

The diesel engine division makes and distributes Deutz engines under licence in Maritzburg. It was the only profit-generator in 1984. Deutz engines are air-cooled, which makes them the automatic choice for many applications but particularly underground.

The South African mining industry is moving towards greater underground mechanisation and Mr Clarke expects strong growth in demand for the engines.

It is the leader with a share of 30% of the market and 90% of the underground engine demand.

One division imports and distributes the whole range of bearings. When Mr Clarke joined the division it was showing a loss, but has returned to profitability and contributes to the bottom line. It is also the market leader, with a share of more than 30%.

The transmission division comprises Fenner Gears, Belting Supply Services and Roller Chain, and is a leader in its field. Belting Supply Services came on board with the recent acquisition of Frencorp for R18-million.

The hydraulics division is the second largest in its field, and offers a good opportunity for growth, says Mr Clarke.

"It has been a disappointing performer, but we have ironed out certain management problems and are looking to a turnaround.

"We have a basic philosophy about acquisitions. Some managers will buy a company, change its name, stick a member on its board and sit back. We are not prepared to sit back and let things happen. We know the business we buy, and get actively involved to add value.

"We often find that although a company's products and marketing approach are sound the finances are a disaster. We move right in, apply strict financial controls and improve the business" says Mr Clarke.

Mr Clarke says that higher market shares give bigger returns because of the economies of scale and greater operating efficiency.

Mr Clarke is a civil engineer who completed an MBA several years ago, and has spent four years with Deutz, three in bearings, one in transmissions and is now exercising his talents in the hydraulics division.

Growth can come from several areas. Bearing sales for agricultural equipment have shown a large upturn; trackless mining offers much potential; and the benefits of rationalisation in the transmission division should start to come through this year.

Hudaco management aims to increase earnings by between 20% and 25% a year. Since the company was listed in November 1985 the growth in earnings has been outstanding. Attributable profit went from R1-million in 1984 to R3,6-million in 1985 to R8,6-million in 1986 to R14-million last year.

Mr Clarke says the group is debt-averse and that by November 1988 it will be ungeared. All the companies are cash-positive and use is still being made of certain tax losses. The tax rate will be about the same as last year's 38%.

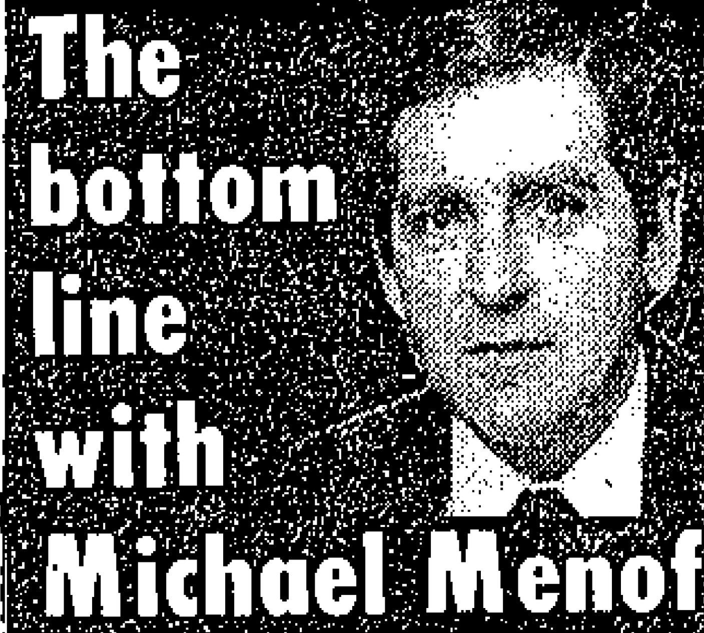
From the depths of obscurity Hudaco shares have become one of the most sought-after stocks in the engineering sector and indeed the entire industrial boards.

Management has gradually lowered its shareholding from 74% to 27%, institutions such as Old Mutual, Liberty Life and Sanlam taking up stock as it becomes available.

At 420c the share is on a PE ratio of 7 and a dividend yield of 6,5%. The downside potential looks remote and only a collapse of the share market could detract from investing in such a good company.

Fenner group proves a point

Star 8/2/88 (189)



Fenner is a typical new entrant to the JSE with sparkling current results compared with the previous year's low. Additional capital raised on its debut of R9,3 million less the heavy listing expenses of R737 500 is the platform to first fund any acquisition, strengthen the capital base and provide the working capital for the enhanced state of the group.

Shareholders and investors need to look more closely at management and establish whether they have the experience and skills to bat in a higher league or not. The proving time is not year one when management knew full well by May, eight months into the year, whether they were on line with projections, but rather years two and three in which management must prove whether they are capable of handling a bigger ship.

The Fenner group was listed on the JSE during May last year at the height of the listings boom with a prime objective of becoming the country's major suppliers of mechanical products and specialised engineering services.

Management has decided "in the interest of the shareholders" not to publish divisional results as this would lead to the group's competitive position being compromised." The annual report fails to disclose the competitors.

The group's ultimate holding company is J H Fenner (Holdings) PLC incorporated in England.

The annual report is silent as to the UK's percentage holding. Nevertheless against the background of all the disinvestment nonsense it is gratifying to note that foreign shareholders are still active.

In its first year of operation as a listed company the group exceeded expectations. Turnover increased significantly to R104,6 million (1986 R63,8 million). Margins improved with net operating income R10,7 million (1986 a disappointing R2,6 million) representing just over 10 per cent of turnover.

After deducting tax, preference dividends and outside shareholders interest, the net income attributable to ordinary shareholders totalled a respectable R2,97 million (1986 R528 000) giving 29,9 cents earnings per share.

The annual dividend — forecast at 6 cents in the prospectus — was increased to 6,5 cents. This absorbed R1,98 million of profit leaving an amount of only R990 000 (less than one percent of turnover) retained income for the year.

The improvement was achieved against a background of sanctions affecting the mining industry, some mine closures, a general lack of major projects and a greater degree of labour unrest resulting in more lost production time than had occured in previous years, says chairman Mr P J Ibbotson.

To meet the challenge of the present economic climate, one of management's major objectives was to maintain healthy balance sheet ratios. To achieve this, close attention was paid to assist management and sound improvements were achieved in the areas of stock turn and debtor collections in all companies.

The group comprises Fenner SA (Pty) Limited with its divisions — Power transmission, conveyor belting and Fluid power, Control Specialists (Pty) Limited, Furmanite Africa and 50 percent of KSB Pumps (SA) Limited.

In the power transmission division the 22 existing outlets were increased with one new distribution point opened at Evander to secure the Secunda complex. The conveyor belting division passed another milestone by producing the 1,5 millionth metre of belting.

Conveyor belting is promising with new power stations and mines under development and the restoration of coal exports. The mining industry has provided the most significant growth for KSB Pumps. Export sales to African countries have continued to increase.

The group's balance sheet at end August 1987 has a sound foundation for growth. Shareholders' funds total R26,7 million (1986 R20,6 million). The working capital position of net current assets has grown to R17,83 million (1986 R11,7 million). The ratio of current assets to current liabilities is 1,73 to 1 (1986 1,94 to 1). Bank overdrafts of R5 million (1986 R1 million) represent the only significant borrowings. The preference shares are redeemable in three instalments of around R1 million each in 1988, 1989 and 1990 and should present no repayment problems.

While it might be early days to judge the group, chairman Mr Ibbotson is confident all companies are well-placed to assist in various large-scale projects including Mossel Bay and the proposed synthetic fuel plants. Let's hope that Mossel Bay will indeed turn out to be the pot at the end of the rainbow that everyone expects.

Demand for the group's products remains good and provided the economy continue to show modest growth Mr Ibbotson expects higher earnings next year. The net asset value is R1,57 per share and the JSE current price hovers around R1,60. The next two years could be testing for management.

NEI ups earnings, dividend

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Star 19/2/88

Finance Staff

Northern Engineering Industries Africa (NEI) achieved an 18,5 percent increase in net income before extraordinary items in the year to December, the preliminary profit statement released today shows.

This amounted to R24,7 million, compared with R22,5 million in 1986. Net operating income before tax showed an even better increase of 25,5 percent to R40,7 million.

Earnings per share were 450,3c (391,9c). The company has declared a final dividend of 130c (119c), bringing total distribution to 180c (160c).

Turnover was up 20 percent to R391,8 million and operating income increased 21,3 percent to R45,6 million (R37,5 million).

Holding company NEI African Holdings has declared a final dividend of 65c a share (59,5c), bringing the total dividend for the year to 90c.

NEI Africa sees 25% income rise

THE engineering group NEI Africa has celebrated its 10th year of operations in appropriate style, with a 25,5% increase in net income to R40,7m on a turnover of R391,8m for thhe year to December 31, 1987.

In spite of a 49% increase in the tax bill to R113m, net operating income was 18,5% higher at R26,7m (1986:R22,5m) and a final dividend of 130c (1986: 119c) has been declared.

Earnings per share, on 5,9m shares in issue, were 15% higher at 450,3c (1986: 391,9c). The group has a strong base in the Cape through boiler manufacturer John Thompson Africa, transformer and substation manufacturer Power Engineers and diesel engine remanufacturer Probuilt Diesel. Formed in June 1978, NEI Africa has gained a reputation as a steady performer in the engineering sector. Over the past 10 years, turnover has increased from R65m in the first year of operations to R392m this year — an annual compound growth rate of 22%.

Over the same period, net operating income before tax has grown from R5,6m to R40,7m, reflecting a compound annual growth of almost 25%. Earnings per share, which have risen from 70c in 1978 to 450c this year, also reflect an annual compound growth rate of 22%.

Acquisitions

NEI Africa chief executive Blitz Bieber said all nine operating companies within the group, were profitable and overall the group performed ahead of budget.

The mechanical division contributed 53,0% of turnover, the electrical division 25,8% and the diesel division 21,2%. "The year was largely one of consolidation and for the first year since the formation of the group, there were no major aquisitions. we concentrated instead on improving productivity and efficiency and this will be an ongoing exercise," said Bieber.

He added that although ICAL has a workload through to 1993 in manufacturing pressure parts for Kendal power station, a major concern is the lack of capital investment in both the public and private sectors. "No orders for industrial boiler plant were placed in South Africa during 1987 and work that may stem from the few major projects that have been initiated is not likely to filter through into the engineering sector until the second half of this year.

"High raw materials and transportation costs are hampering the export activities of the manufacturing sector and this, coupled with high rates of taxation, means that re-investment opportunities are limited. "He went on to say that in spite of the lack of investment, the group was fairly well set. "If the group companies continue to perform at the pace they achieved in the last quarter of 1987 then growth could be well ahead of our expectations."

NEI Africa Holdings is the pyramid company of NEI Africa.

GLOMINE/DANGLO

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Back to basics

Glomine has produced a number of documents which must have shareholders dangling in mid-air about deciding which route to take.

On February 29, Glomine (listed in the engineering sector) is due to change its name to Danglo, after considerable restructuring. Glomine minorities can exchange up to 45% of their Glomine shares for Dicor shares on

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the basis of 1 325 Dicor for every 1 000 Glomine.

Danglo will retain the existing businesses of Glomine and will acquire 50,8% of Danech (Dicor is its holding company) in terms of the present deal. Glomine chairman Dan Slabbert and CE Neville Parry bought Danech as a cash shell in 1985 and injected Rance-Colly's nuts and bolts business into it. This was followed by acquisitions of Comet Electrical Wholesalers, Modash International (an exporter and importer of mining equipment), Chick Henderson (hose and pump services) and Highveld Hose.

Parry sold off 6% of Glomine's engineer-

ing interests last year at a R2,2m loss. It used the receipts, plus another R39,5m raised through a rights offer of ordinary and preference shares, to make further acquisitions. These include three plastics manufacturers, now transferred to DCM-listed Plastall in which Glomine has a 95,2% interest and several other unlisted subsidiaries. Glomine is now a service and consumables business focusing on the mining industry, with Norton Abrasives its main asset.

Parry's aggressive acquisition strategy had its followers in the bull market, but now there is the need to rationalise synergistic businesses under Danglo and establish a good track record. The Glomine share price slipped badly after some 850 000 shares traded in January, a sharp increase from the average of 400 000 shares traded in each of the preceding two months. It is now down to 45c, against 65c earlier this year, in an unexpected prelude to the restructuring.

Parry tells me the share price fall was due to forced sales by a shareholder whose business Glomine acquired on a profit warranty basis and who did not achieve the warranty level. "Exactly 500 000 shares are involved," he says.

Based on pro forma EPS in the circular, shareholders would do marginally better to take the Danglo route, but the market seems to be giving Danglo a vote of no confidence. At 45c, the current p:e for Glomine is a mere 3,0 times — lower than any other share in the sector.

Dave Edwards

DORBYL

Merger under the microscope

In 1985 Dorbyl merged with Stewarts & Lloyds to create SA's largest and most diversified engineering group. The full benefits of the deal have yet to be seen.

When Metkor decided in 1985 to merge its two large engineering groups, Dorbyl and Stewart & Lloyds (S & L), a major objective was to remove the strong cyclical nature inherent in each of their activities. Dorbyl's heavy engineering business, mainly dependent on domestic fixed investment, was largely contra-cyclical to S & L's mainly consumer-linked, light engineering operations. Now, almost three years later, one needs to ask whether the merger has been successful.

Certainly, the enlarged group's earnings history has not been impressive. Last year's 180,4c EPS is marginally short of the 180,9c that the original Dorbyl achieved in 1983. Since 1985 — when EPS dropped to 61,6c — Dorbyl has been on a recovery trail of sorts. Although the operating margin has improved, at 5,7% it is far short of the 8,2% achieved in 1984.

Management has been intent on restructuring the industrial giant which is now SA's largest and most diversified engineering group, employing 23 000 people. At the time of the merger, the combined staff complement was 25 300. Continuing decentralisation has been important too. Both policies have helped, but any significant improvement in the group's fortunes remains welded to a broadly based revival in SA's economy and in business confidence. An upturn in fixed investment is still extremely important for Dorbyl.

While the recent pickup in consumer spending has been encouraging, domestic fixed investment continued to fall during the group's financial year to end-September. Turnover has failed to show real growth for two consecutive years. The 1987 figure of R1,7bn shows an annualised increase of only 11% over 1985.

Inflation has been running far higher. Although the heavy engineering business remains sluggish, the light engineering operations are seeing improving levels of activity, and this makes chairman Floors Kotzee optimistic about the future: "The outlook is favourable, although strong growth will not necessarily come through next year." That view ties in with previous trends. Recovery in the heavy engineering sector usually lags upturn in light engineering by about two years.

And there are other factors to consider. One is the present turmoil in international currencies and gold, which could hinder SA's economic revival. Another is the curtailments to Sats' and Eskom's capex programmes, which have already dented the group's growth performance. This is not likely to change soon.

Of the nine business operations, transport products and heavy engineering fared particularly badly with both showing lower income. Heavy engineering — where the 1985 acquisition of Barlows Engineering had previously been described as successfully implemented — made a loss. Transport services, which absorbed Barlows' railway and engineering products in 1985, has been consolidated in Boksburg, on the East Rand with two other major railway truck manufacturing

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facilities closed down.

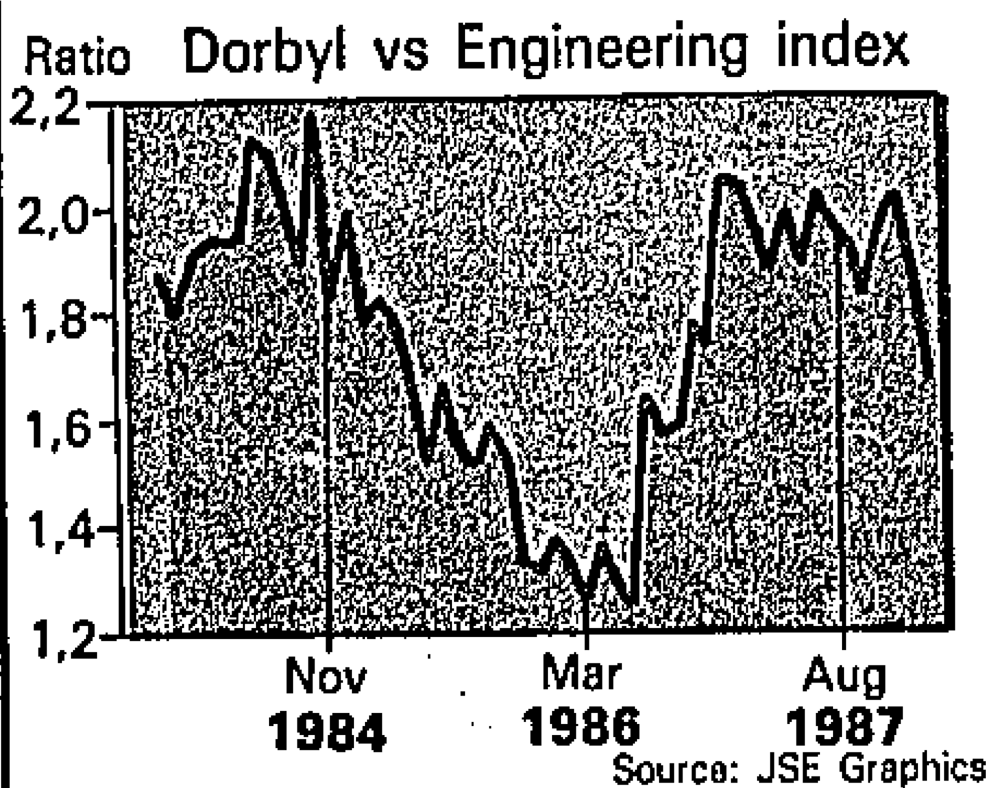
Under-utilisation of engineering capacity depressed other operations. Dorbyl Marine's industrial division is still working well below capacity, although its shipbuilding division should show material benefits when it starts constructing platform modules for the Mossel Bay gas project. Manufacturing capacity has been significantly reduced in the group's structural engineering business, with the vacant space being absorbed by business transferred from the Tosa operation.

Last year saw some disconcerting interruptions in production — even though management has been concentrating on improving productivity. The automotive products subsidiary experienced many forge problems in the Uitenhage works and an extremely high arrears situation subsequently developed. Substantial technical hurdles resulted in a delay in the commencement of deliveries of the new 8M New Generation trainset from the transport division. The rash of acquisitions that Dorbyl made in 1985 has slowed to a trickle. Apart from the S & L deal and the purchase of two of Barlows' engineering businesses, Dorbyl acquired Afgate and Wolhuter Steel. Last year saw only two minor acquisitions and this year, apart from the purchase of equipment when Transvaal Malleable was closed down, the only move was to buy out foreign minorities in Bundy Tubing SA. The expansion of three years ago has, therefore, been replaced by consolidation and rationalisation. Several businesses have moved from one operation to another and lossmakers with little hope of improved performance have been weeded out or sold off.

Overall, certain operations appear to be on the mend, but the combined benefit has yet to take place. Light and general engineering, and automotive products (which returned to profitability), have shown considerable improvement, according to Kotzee. But, with these two exceptions, more attention is being paid to trimming operations than waiting for a business revival. Kotzee comments: "We don't see our Sats and Eskom-linked businesses ever getting back to pre-1985 levels, though they must raise order levels some time. Our rationalisation takes into account this perspective — we have been aiming to reduce both capacity and break-even point to improve profitability."

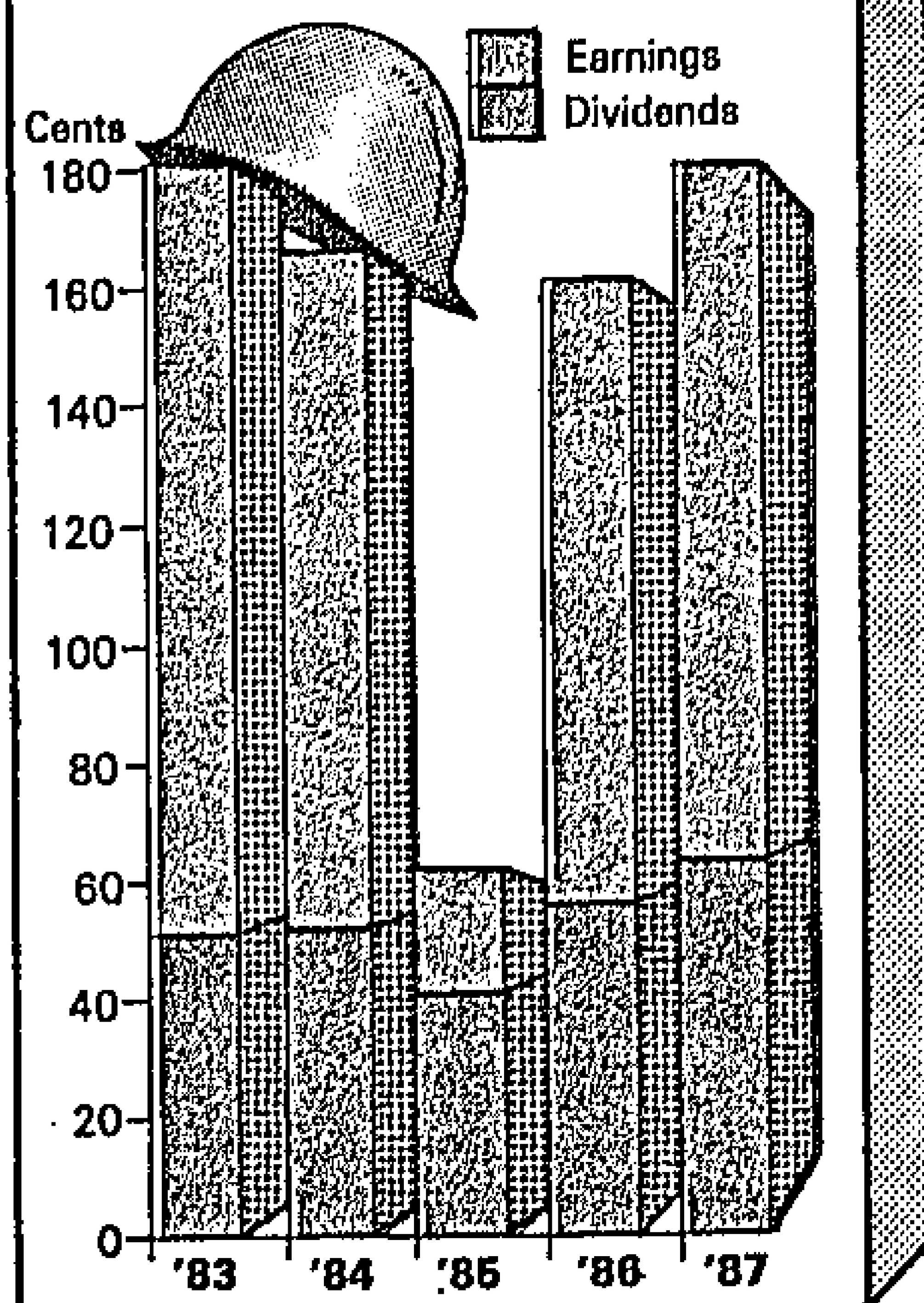
The truth is that Dorbyl has had an uphill task since 1985. The group inherited a lot of problems. Although Dorbyl's original business was running reasonably smoothly, S & L, hard hit by the lengthy recession, was in poorer shape and was over-borrowed even before the 1984 surge in interest rates. Its operating margin had fallen from 7,5% to 3,4% in three years. The merger was difficult and, in retrospect, unfortunately timed as far as interest rates were concerned.

Dorbyl's interest bill, which rose from R4,3m to R34,4m because of the acquisitions, halved pre-interest profits in 1985. Under normal circumstances, the more than doubling of debt:equity to 0,44 — which occurred between 1984 and 1985 — would probably have been manageable. But the higher interest rates were severely damaging. Since then, the balance has improved; debt:equity is back down to 0,31 and interest-bearing debt has fallen to R187m (excluding R46m in redeemable prefs issued by group subsidiaries) against R208m in 1985. Net worth at year-end was 1 765c, close to the 1 777c figure of 1984 — even though issued share capital increased by 75%.



One reason why Dorbyl's rate of recovery this year did not match that of 1986 is that the tax rate rose to 19,7% (12,6%) which, though still low, is a legacy of last year's decision to offload lossmakers. Accumulated tax losses have fallen to R117m (R141m).

Financially, the group seems to be back to where it was before the merger, but operationally it still has some way to go. Two of the group's operations — S & L trading and automotive products — show potential for promising growth this year. Baldwins steel, light and general engineering, structural engineering and Tosa might show some improvement; but growth prospects are dim for three sectors largely tied to fixed investment: marine, transport products and heavy engineering.



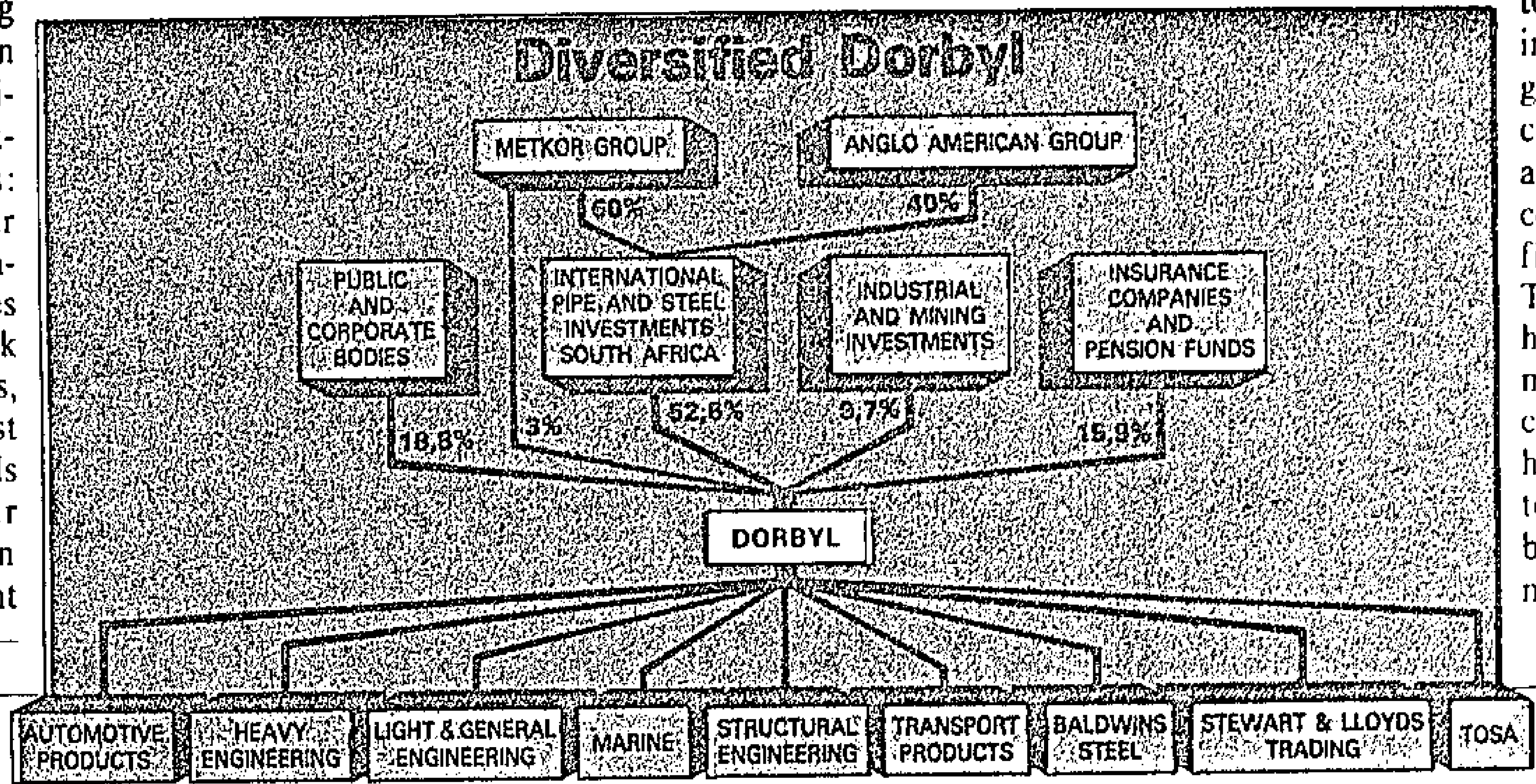
Further ahead, a key factor will be the Mossel Bay gas project. The group will be building the accommodation module and has the prospect of additional Mosgas and refinery business. Says Kotzee: "We expect to get our fair share of the contracts." Taking into account Dorbyl's size, that could be substantial. A flood of new mines could also help the heavy engineering business, but lower gold and platinum prices may slow down some expansion programmes. "We have seen a slowdown in mining capex orders over the past year," Kotzee notes.

At R9, Dorbyl's share price is not far ahead of its 1984 peak. Market perception of the merger was none too favourable and the share price declined relative to the sector until mid-1986, when it started swinging sharply upwards, apparently in anticipation of the better results that year.

But last year's results failed to enhance the group's image. The merger gave Dorbyl strength precisely while heavy engineering has been in the doldrums. To that extent it has been successful.

From here on, the group should continue to improve earnings and the rate of growth should accelerate if there is a pronounced recovery in domestic fixed investment. The merger should have helped to make earnings cyclical, but shareholders may have to wait for 1989 before the real muscle emerges.

Dave Edwards



SHARE SPOT

189 Star 5/3/88

Danglo (formerly Glomine)

LYNNE PEACH

The investment holding company, Danglo, has suffered an extensive price collapse — from 225c a year ago, to yesterday's faded 55c. At the same time, the company has blossomed in the sense that its size and turnover have grown rapidly. (During the 1987 financial year, aquisitional expansion alone exceeded R30 million).

The thorn in the flesh, however, is the means used to finance the new ventures. Danglo used share capital, increasing the number of ordinary shares in issue from 13,5 million to 42,6 million. Furthermore, since then, the company purchased a controlling interest in Danech, issuing a further 21,8 million shares (bringing the total to 64,4 million).

Not surprisingly, shareholders have shied away in fear of the inevitable earnings (and other) per share dilution that will follow.

The extent of the dilution will be significant. The current financial year (to September 1988) will use 64,4 million shares in its per share calculations, compared with only 23 million used in the previous year.

This means that Danglo will have to achieve approximately a three-fold increase in attributable income in order to merely maintain last year's declared earnings of 15 cents per share.

Rest assured, however, not only is this likely to be the case, but there may even be a small increase in per share earnings. Chief Executive Neville Parry warns that while interim earnings (to be declared in May) may appear on the low side, he is confident that earnings for the full year to September 1988 will be "at least 15 cents per share".

The extensive structural change, effective from October 1 1987, was initiated by the controlling shareholders who decided to "neaten" the group's structure by shuffling ownership. Mr Parry points out that the restructuring is not only visible "outside", but involves both management and the balance sheet too. The changes have also removed a conflict of interests involving the controlling shareholders — their main interest now lies in Dicor rather than in both Dico and Danglo.

The nature of Danglo's business is also affected. It changes to that of an industrial holding company following its new controlling interest in Danech and existing interests in Plastall and other unlisted subsidiary companies.

Structural change

In view of this, Danglo is likely to be relocated from the engineering sector to the industrial holdings sector.

Assuming that the Danech acquisition had been in effect for Danglo's entire financial year to September 1987, earnings per share would have been 9 percent lower (13,6 cents instead of 15 cents). In addition, net asset value per share would have plummeted by nearly 15%, from 89 cents to 75,6 cents.

This follows a near-doubling of the weighted average number of shares in issue (used in all per share calculations), which would have been 41,3 million rather than the disclosed 23 million. In addition the debt:equity ratio would have deteriorated to 72 percent, from the pre-acquisition 48 percent.

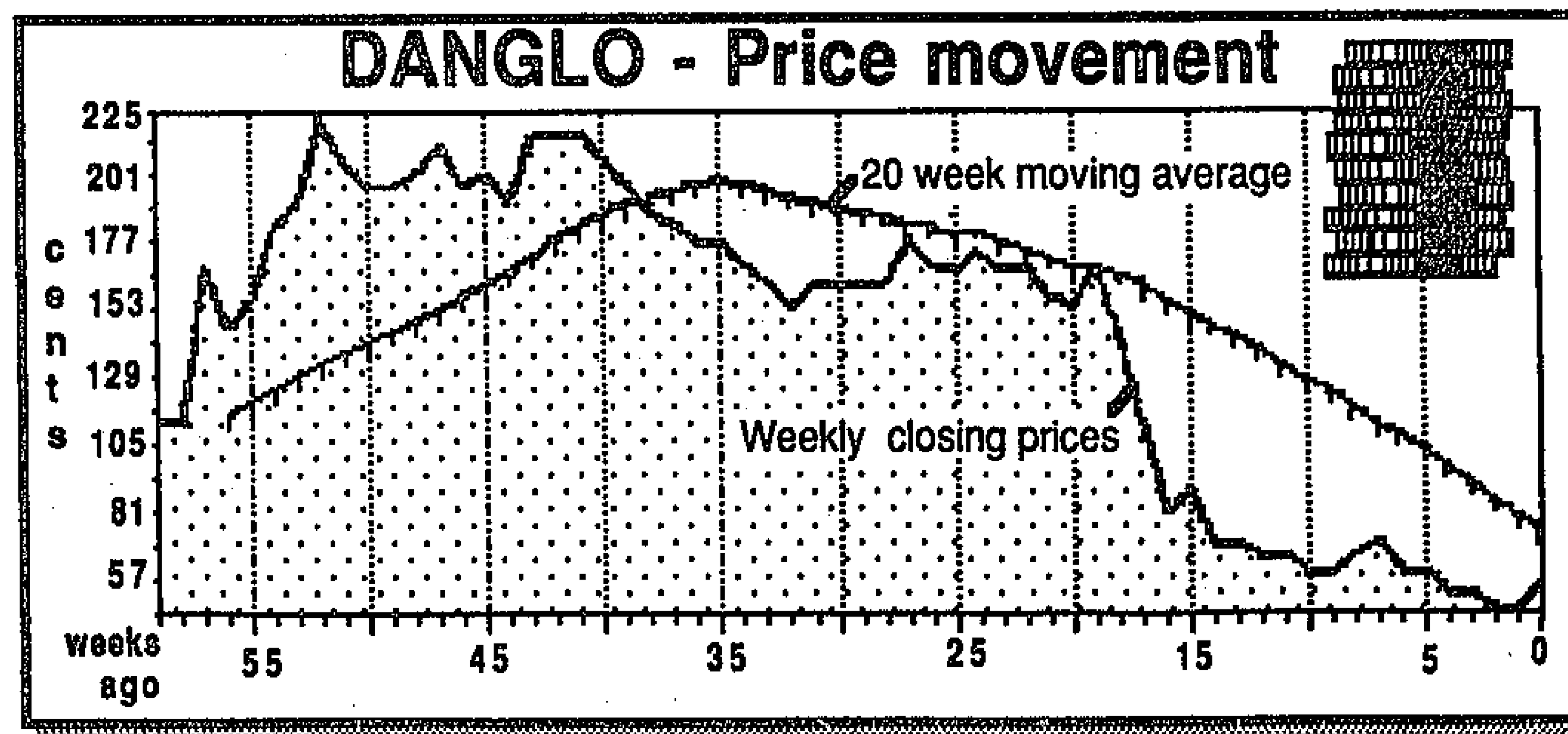
Asset base

However, according to management, the pros of the acquisition are set to outweigh the cons. Danglo is expected to benefit from an expanded asset base and diversified portfolio of businesses. In addition, rationalisation benefits will arise through Danech distributing the products of Danglo's subsidiaries through its national network servicing the mining industry.

The acquisition will facilitate future growth. This, however, will not occur at the expense of increasing the debt:equity ratio. Nor, according to Mr Parry, will any further share issues be made in the forseeable future. He further explains that the company is in the process of consolidating its affairs and ensuring that its newly acquired interests contribute more significantly to group profits.

CONCLUSION

Danglo appears to offer excellent future earnings potential (especially in 1989) suggesting that accummulation of this share is in order as confirmed by the charts. The forward price:earnings ratio (September 1988) is estimated to be less than 4. This compares favourably with the current industrial holding sector average of about 8.



Danglo has clearly been in a bear phase for the past 10 months. (Over this period it has also consistently been an under performer in the engineering sector). The price line shows a stepped formation with periods of consolidation (lasting between 11 and 13 weeks) dividing major price moves. At present, Danglo looks about 10 weeks into a period of consolidation. The imminent price move should be positive and significant, turning the bear phase into a bull phase as the price line breaks through its 20-week moving average.

All's well in engineering

Business Times Reporter (189)

THE engineering sector is looking better than it has for years.

Growth has been stimulated by increased infrastructural spending and the coming on stream of capital projects in the mining, metallurgical, precious metals and chemical sectors, says Pat Davies, marketing director of Titaco.

The Government's commitment to privatisation is another reason for optimism.

Mr Davies says projects in the early stages of planning are estimated at R500-million in non-precious metals, R5-billion in precious metals, R500-million in chemical processing, R5-billion in the Mosgas project and R3-billion for Majuba power station.

S/T 6/3/88

Berzack more than doubles dividend

Finance Staff

Engineering group, Berzack Brothers, has reported an 89 percent surge in attributable income to R7,03 million for the six months to December and has declared a dividend of 65c a share which is more than double last year's 30c.

The group's parent, Berzack-Illman Investment Corp. Ltd (Bivec), has announced a dividend of 13c a share (6c) from earnings of 101c.

During the review period Berzack's operating income surged 75 percent to R14,11 million (R8,03 million) while the increase in taxed income was even stronger at 77 percent to R7,33 million (R4,13-million). Earnings a share were up from 305,4c to 578,5c.

Director Myron Berzack states that the improved payouts are a continuation of the policy initiated in 1986 for improved disclosure and a more liberal dividend policy. Barring unforeseen circumstances, the group expects to come up with the same performance in the second half.

Berzack subsidiaries manufacture underground cable and plastic products for the mining, construction, and agricultural markets and supply sewing machines to the clothing and domestic sectors.

In line with the Berzack performance, Bivec lifted operating income by 74 per cent to R14,28 million (R8,18 million), yielding pretax income 10 percent better at R12,49 million (R6,02 million). After tax income was up 77 percent to R7,41 million (R4,18 million) and attributable income was up by 89 per cent to R3,60 million (R1,90 million).

HAGGIE

New projects

Activities: *Engineering group with interests in conversion of steel rod into wire and rope, non-ferrous manufacturing and distribution (copper and its alloys).*

Control: *Anglo American Industrial Corp and Gencor (through Malbak) each hold 36% of the equity.*

Chairman: *I S Haggie; managing director: J S Feek.*

Capital structure: *19,3m ords of 5c; and 12m 2nd variable rate cum red prefs of 1c. Market capitalisation: R347m.*

Share market: *Price: R18. Yields: 6,3% on dividend; 15,9% on earnings; PE ratio, 6,3; cover, 2,5. 12-month high, R27; low, R15,50. Trading volume last quarter, 167 000 shares.*

Financial: *Year to December 31.*

	'84	'85	'86	'87
Debt:				
Short-term (Rm)	30,9	26,3	19,6	26,1
Long-term (Rm)	8,5	12,5	13,8	10,7
Debt:equity ratio	0,31	0,29	*0,12	*0,13
Shareholders' interest	0,62	0,60	0,64	0,63
Int & leasing cover	19,6	10,1	18,3	27,3
Debt cover	1,4	1,6	2,16	2,43

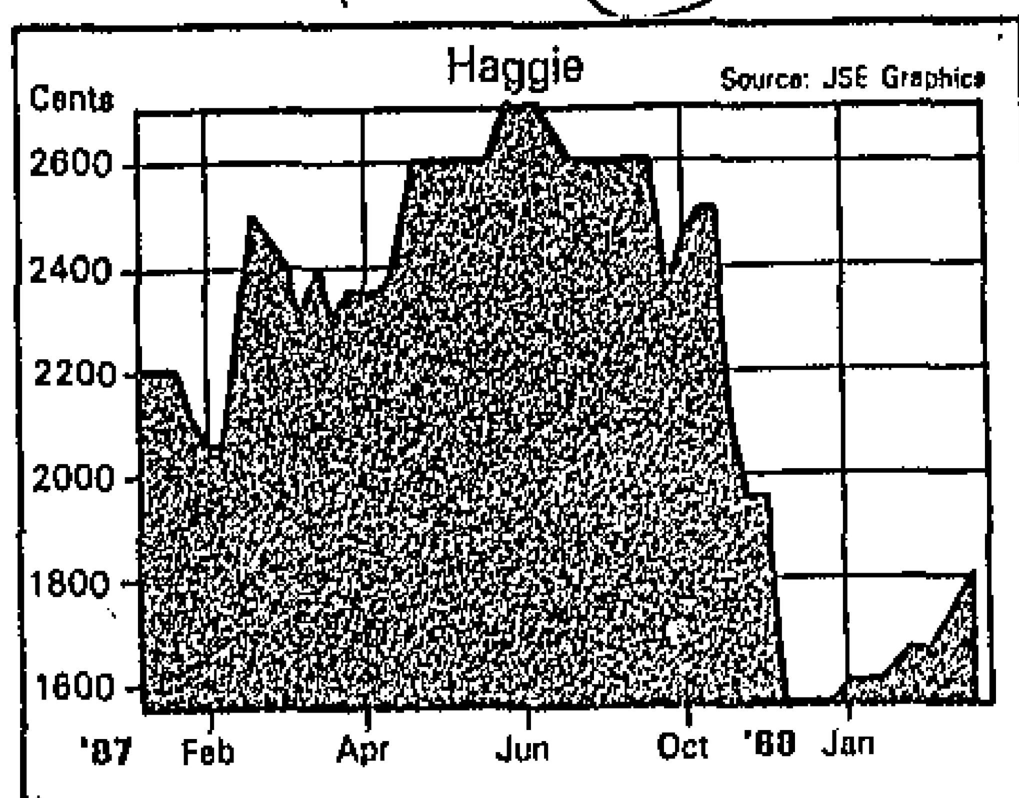
Performance:

	'84	'85	'86	'87
Return on cap (%)	14,4	16,4	18,5	21,2
Turnover (Rm)	463	598	707	794
Pre-int profit (Rm)	63,7	79,3	93,8	114,9
Pre-int margin (%)	13,7	13,1	13,1	14,4
Taxed profit (Rm)	37,6	47,9	59,3	67,5
Earnings (c)	159,6	201,6	237,4	285,4
Dividends (c)	73,5	85,0	95,0	114,0
Net worth (c)	1 023	1 145	1 302	1 488

*Net of cash

The pattern set in recent years — high liquidity, good returns on assets and dividend growth above the inflation rate — has been maintained. Static sales volumes or competitive conditions in some major product lines, particularly the traditional business, curbed growth last year. Thanks partly to improvements in the diversified interests, however, the group lifted both earnings per share and dividends by 20% and raised return on capital to a creditable 21%.

For the current year, management is looking to several new projects. Chairman Ian Haggie, writing his last review before Grant Thomas succeeds him as chairman, lists these:



The board has approved a project for Haggie Rand to manufacture chain, which will become available during 1988; last August, Consolidated Wire Industries (CWI) the group's mild steel wire company in partnership with Iscor, bought Pietersburg-based Wirecor, with benefits expected during 1988; in the Macdem group, interests of McKechnie plc were bought, increasing the holding in metal and waste reclamation company Reclam to 100% and in Copalcor to 60%.

The structure of the non-ferrous activities will be reviewed this year, to focus further the scrap collection, refining and conversion, and to rationalise distribution.

Improved summer rainfall is expected to help current results by benefiting the agricultural sector and the economy. This should boost Haggie's steel wire and steel wire rope business, which is the major contributor to operating income through subsidiaries CWI and Haggie Rand.

However, sanctions and the strengthening rand made CWI's exports difficult and its position in foreign markets will depend largely on ability to contain costs, especially those of raw materials, and remain competitive in the relatively price-stable international markets. Import substitution efforts will continue.

Haggie Rand largely regained export volume which had been disrupted by sanctions. Little growth is expected this year in the local market for Haggie Rand's conventional commodity-type products but progress should continue in developing new products and markets. This, with firmer domestic demand for technically advanced products, is expected to enable higher sales in 1988.

Service-related non-ferrous metals companies Macdem and Reclam will benefit from any improvement of the economy. In other non-ferrous operations, demand for products from Copper Alloys Corporation (Copalcor) is expected to remain relatively stable and emphasis will be on operating efficiencies in the manufacturing units.

Capital spending continues

Distribution companies Copalcor Trading and Jacksons Trading lifted volumes and trading margins. But, as competitiveness is expected to prevent upturn in markets covered by these companies and by Osborn Aluminium, management will again concentrate on service and efficiencies.

Haggie says that while the group's order books and projected business indicators point to continued sustained improvement in 1988, management is cautious about the global economy. Unstable commodity prices could hamper the non-ferrous metal activities. Capital spending will continue, with more emphasis on the Copalcor companies, and profit improvement will also be sought through acquisition, related to existing businesses or complementary to them.

Export income may benefit this year from a lower rand and, provided management does improve efficiencies, there should again be solid increases in earnings and dividends. At R18, the share offers value, with both p:e and dividend yield at 6,3%. *Andrew McNulty*

Fishing interests dumped, losses reversed

BSG turns Ovenstone: Profit R1,4m, 5c div

Cape Times 18/3/88

By AUDREY D'ANGELO
Financial Editor

THE Stikland-based Basil Starke Group (BSG) — which acquired the loss-making Ovenstone group in a reverse take-over last year and disposed of the fishing interests — has succeeded in turning it around very decisively in the nine months to December.

Attributable profit by the renamed Basil Starke Investments (BSI), formerly Ovenstone Investments (Oil), is R1,4m and earnings at share level 24c. Turnover was R77,2m and net profit after an abnormal item of R168 000 was R2,7m.

An ordinary dividend of 5c a share has been declared, together with an 8,5% preference dividend of 4,25c and an 11% preference dividend of 5,5c a share for the six months to February.

Comparative figures are meaningless because of the change of ownership and restructuring, as a result of which the business has changed from a fishing group with general engineering interests to a construction group with general engineering interests.

MD Colin Glen said last night the turnaround was due to "the disposal of the loss-making highly-geared fishing companies and the acquisition of the profitable Basil Starke Construction and engineering interests".

Review period

● The Basil Starke Group, formerly the Ovenstone Group, ended the nine months to December with an attributable profit of R2,2m and net profit of R2,7m on a turnover of R77,1m.

Earnings at share level were 25,1c and a final dividend of 3c has been declared.

Chairman Basil Starke and director Colin Glen say Premier Wire, which lost approximately R5m in the 12 months to March, lost only R0,4m in the review period. It is now part of the Basil Starke Autotube division.

"We are pleased with this performance as this operation was a cause of grave concern at the time of the Basil Starke shareholders gaining control of the Ovenstone companies," they say, forecasting that Premier Wire will make a profit in the current year.

They say the structural organization of the group has been almost completed. "The management systems required to monitor operations are in place and the group looks forward to continued satisfactory results."

Glen said last night that the directors were "very happy" with the results. The group will continue to expand and may make a high-tech acquisition "but it will probably expand more by internal growth than by acquisition".

He said a move into property development last year "should show results" in the current year.

The group is building a residential township in Somerset West which, Glen said, was "practically sold out", and an office park in Bellville.

Engineer brain drain reversed

29/3/88 (189)

Own Correspondent

JOHANNESBURG. — The engineering brain drain which has caused concern in professional ranks over the last two years has been reversed, with latest immigration statistics showing a positive trend.

Immigration figures for late 1987 reflect a dramatic inflow with 37 engineers coming into SA in October 1987 (25 in October 1986), and 30 emigrating (35 in October 1986).

Compared with a total of 21 engineers immigrating to SA in November 1986, 39 immigrated in November 1987 and only 18 emigrated (24 in November 1986)

In December the positive trend continued with 29 engineers immigrating to SA (15 in December 1986) and only 17 emigrating (24 in December 1986).

Commenting on the change, Titaco Group marketing director Mr Pat Davies said: "The overseas engineers — mainly from the UK — are essentially interested in the Mossgas project. They seem to be applying for permanent-type salaried positions, rather than merely contract work where the salary is paid elsewhere.

"Applicants include specialists — chemical engineers with oil-refinery experience and marine engineers."

Mr Philip LLoyd, past president of the Federation of Societies of Professional Engineers said some top positions on the Mossel Bay gas project were filled by overseas applicants (top package earned was about R360 000 a year which Mr Lloyd said was justifiable in equivalent Sterling terms) but it was difficult to attract immigrants because of unrest in SA and the drop in value of the rand.

He said the internal supply of civil engineers was particularly poor. In the mid-70s SA produced about 400 a year, but now only 200 graduate each year.

SA produced about half its engineering needs — 1 000 professionally qualified engineers a year are produced though 2 000 are needed.

Total emigration figures showed a net loss of 3 221 for 1987 and a loss of 1 858 professionals. However the net loss in 1986 was a high 6 717 with a loss of 2 165 professionals.

NEI (189)

Growth record intact

Activities: *Engineering holding company.*
Control: *NEI plc holds 53,3% of NEI Hold which in turn holds 55,9% of NEI.*
Chairman: *L G Abrahamse; managing director: H M L Bieber.*
Capital structure: *5,98m ords of 50c each. Market capitalisation: R164,5m.*
Share market: *Price: 2 750c. Yields: 6,5% on dividend; 16,4% on earnings; PE ratio, 6,1; cover, 2,5. 12-month high, 4 550c; low, 2 700c. Trading volume last quarter, 19 000 shares.*
Financial: *Year to December 31.*

	'85	'86	'87
Debt:			
Short-term (Rm)	0,3	0,9	0,9
Long-term (Rm)	10,3	7,7	5,9
Debt:equity ratio	n/a	n/a	n/a
Shareholders' interest	0,45	0,46	0,47
Int & leasing cover	3,7	5,0	6,3
Debt cover	2,7	3,1	4,7

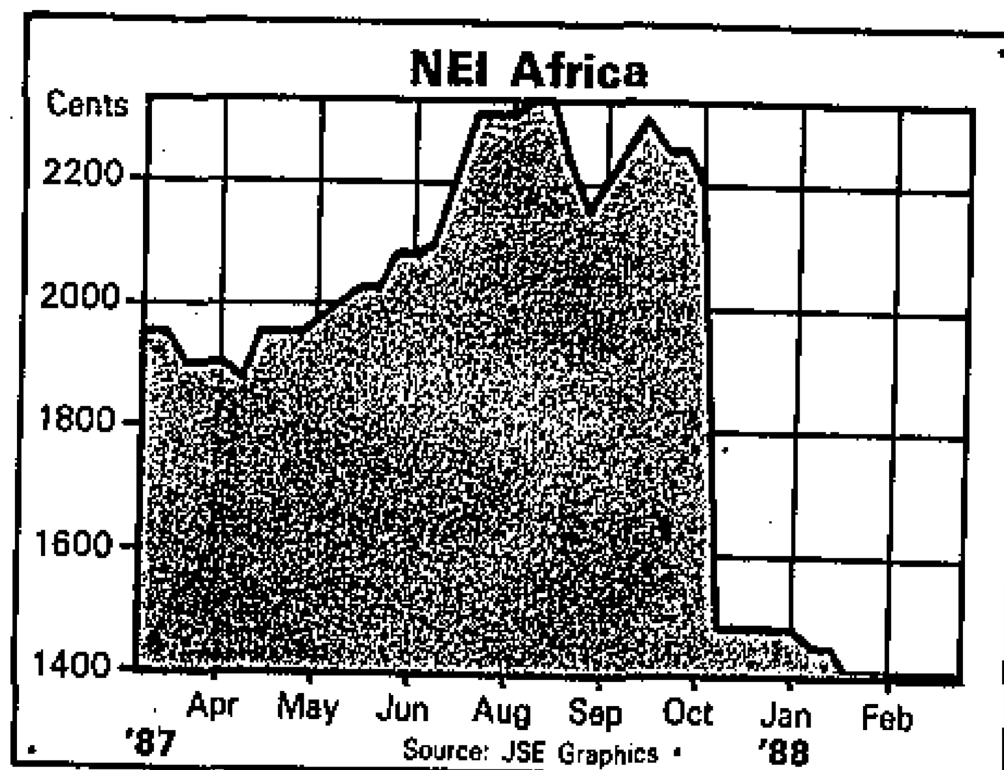
Performance:

	'85	'86	'87
Return on cap (%)	19,4	14,2	15,7
Turnover (Rm)	294	327	392
Pre-int profit (Rm)	34,7	37,6	45,6
Pre-int margin (%)	13,7	11,5	11,6
Taxed profit (Rm)	20,7	23,1	26,8
Earnings (c)	368	392	450
Dividends (c)	145	160	180
Net worth (c)	1 633	1 972	2 272

Northern Engineering Industries Africa (NEI) has performed well since its inception in 1978, increasing turnover by 500% to R392m, operating profit by 625% to R40,7m and earnings per share by 540% to 450,3c. Growth has been substantially higher than the economy. The group's worst year was 1983, when earnings per share still grew by 1%. Return on shareholders' funds has averaged a healthy 21% over the past 10 years.

"Diversity of operations presents tremendous strength and stability and is the secret behind the profit history," says group MD "Blitz" Bieber. "The group always maintains a balance of long-term, medium-term and short-term work."

Chairman Len Abrahamse notes that each of the operating divisions has a sound technological basis and is strongly market-oriented. Bieber adds that consistent growth has been achieved by concentrating on the most profitable divisions which have the capacity to improve the quality of earnings.



NEI's Bieber... keeping a balance

In the year to end-December, the three divisions — mechanical, electrical and diesel — respectively contributed 53%, 25,8% and 21,2% to turnover; contributions to operating profit were 52,4%, 18,1% and 29,4%, reflecting the strong performance of the diesel division.

Bieber says he sees the diesel division as a major expansion area because of its relatively high profitability and the group expects to increasingly derive growth from this source in future.

The past year was one of consolidation and rationalisation. All loss-making divisions have been shed, with remaining businesses formed into three operating divisions. Significant cost savings are expected to result from rationalisation of the diesel division. The recent floods should also offer profit opportunities.

Mechanical division company International Combustion Africa, which has supplied large boilers to Eskom, has orders on hand which give it a satisfactory loading for the ensuing three years. Another company in the division, John Thompson Africa, has a reasonable forward load ensuring a sound basis for production this year. The export market is also presenting opportunities which currently include a major project for Mauritius. NEI derived 2,5% of its turnover from exports last year.

The electrical division has a healthy share of the group's business with the mining industry. Two major contracts for Anglo American's New Denmark colliery were fulfilled during 1987. Switchgear for Sappi's Ngodwana plant — which was damaged in an explosion last November — was delivered in a quarter of the normal time.

Management has adhered to a policy of keeping the group highly liquid and this should insulate the income statement from adverse effects of rising interest rates. Cash deposits stand at R45m against interest-bearing debt of R6,7m, while interest and leasing cover has risen to a very comfortable 6,3 times.

There seems no reason to doubt that the historical earnings and dividend performance can be maintained. At R27,50, the share yields 6,5% on dividend compared with the engineering sector average of 5,2%. This, and the 6,1 times p:e, seems an unduly cautious rating for NEI.

Louis Venter

BUSIN

COMPANY FOCUS

Asseng's profits for '87 wiped out in dividends, royalties to UK parent company

From MICHAEL MENOF

JOHANNESBURG. — Asseng's UK holding company, T & N PLC, has absorbed the company's 1987 profit with massive dividends and royalties paid to the parent company.

Yet, in Asseng's latest annual report, UK chairman Sir Francis Toombs claims: "The conservation of foreign currency, both in the new vehicle and replacement markets is of particular relevance to us because of the nature of our products and the length of period over which the basic tooling can be used."

SCOOPED

In direct contradiction, T & N scooped handsome dividends of R12,8-billion and a further R1,7-billion in technical aid fees and royalties — a total of R14,6-billion out of profits and retained earnings of R16,2-billion during the year.

Nothing was ploughed back for Asseng's expansion.

Perhaps management feels comfortable that the reduced shareholders' funds are adequate for the future.

Management also needs to be reminded that the company only became profitable recently and needs every incentive to grow.

South Africa is desperate for reinvestment capital which makes one wonder how deeply T & N PLC is committed to South Africa.

Hefty past tax losses have also meant that the income statement escaped heavy tax charges thereby boosting the bottom line and saving cash flow.

It appears management did not see it that way and has milked the cow dry.

Associated Engineering is held 77,8 percent by ultimate UK holding company T & N PLC.

The annual report was positive on 1987's achievements and the outlook for 1988 is confident.

In order to streamline its year-end with that of its holding company, Asseng's year-end has changed to December 31.

For the 15 months ended December 1987 sales reached R93,58-million (1986: — 12 months R58,56-million).

Operating profit was 12,2 percent (1986 10,8 percent) of sales and totalled R11,38-million (1986: R6,34-million).

Net interest paid declined significantly to R668 000 (1986: R1,9-billion). Profit before tax was R11,53-million (1986: R4,97-million).

PAST LOSSES

Assisted by past losses, the tax charge was a token R480 000 (1986: R239 000) giving a bottom line of R11,05-million (1986: R4,73-million).

Earnings a share were 29c (1986: 12c). Below the line a net extraordinary gain of R3,78-million (1986: R3,3-million) arising from a refund portion of pension fund surplus (R5,77-million less a R1,99-million loss on the disposal of the 50 percent interest in Silverton Engineering Holdings) increased profits to R14,83 million (1986: R8,03-million). To this was added R1,41-million retained profit from 1986 giving a total of R16,24-million.

From this amount, dividends totalling a massive R16,55-million were paid turning the retained earnings negative to the tune of R304 000. This means that dividends were paid partly out of capital.

Sir Francis Toombs says new vehicle sales were depressed due to the rapid escalation of new vehicle prices by some 80 percent during the last three years caused by the collapse of the rand.

MAJOR

Major emphasis is now on used vehicles helping the AE Engineering Parts division which accounted for 76 percent of Asseng's 1987 turnover.

The proposed basis for establishing local content for new vehicles aimed at saving foreign currency also presents expansion capacities and the introduction of new products for Asseng's core product range.

Asseng has six divisions but no breakdown in sales or contributions to income was disclosed. AE Engineering Parts experienced difficulties in sourcing products both locally and abroad to satisfy demands. AE Cylinder Components (aluminium) was under pressure throughout the year to maximise output.

INCREASE OUTPUT

The Iron division did not reach profitable levels. AE Bearings automotive division had an exceptional year and has signed export contracts (not disclosed). Glacier Bearings enjoyed steady growth in sales and profit and AE Valves managed to increase output.

Shareholders' funds declined to R32,3-million (1986: R34,1-million) at end December 1987. Long and medium term liabilities increased to R4,23-million (1986: R4-million). Working capital improved to R22,4-million (1986: R16-million).

Net asset value per share has declined to 84c (1986: 89c). Tax losses, available to reduce future tax, and cash flow is now only R1-million (1986: R16- million). Future tax payable will have a major impact on the income statement from 1988 onwards.

FUTURE EARNINGS

Sir Francis gives no indication of future earnings apart from saying that 1988's prospects remain encouraging and that current capacity is being expanded as opportunities arise.

A more aggressive marketing approach should generate a number of further opportunities for import substitution and increase Asseng's existing product range.

There is little doubt that sanctions, isolation and the high inflation factor — threatening to place new vehicles beyond the reach of most and meaning a longer life for used vehicles — has all helped.

It is only during the last two years that Asseng has returned to profitability. With this in mind, it was strange to find the entire profits earned to date wiped out in dividends.

The unanswered question is what is the intentions of the UK controlling shareholders? Somehow their actions show little faith in this country despite a positive chairman's statement, which is generally written by PR companies.

NATIONAL TRADING COMPANY

A little blockage in the pipe

After making losses in 1985, NTC has rationalised activities in several areas. Now management is forecasting growth, although debt remains a problem.

Dull as the JSE may seem at present, sooner or later investors will be back in force. Some, meanwhile, are quietly accumulating the stock they favour. Analysts are currently sifting through the industrial board for those shares that look undervalued and capable of showing vigorous earnings growth. Among the more interesting candidates are those which have rationalised operations and are expecting to show the benefits soon.

Such a case is engineering group National Trading Company (NTC). It has cleaned up product lines, rationalised activities in several areas, and restructured the divisions into decentralised profit centres. Employees were reduced from the peak of 1 943 in 1984 to 1 371. In the year to end-December 1987, earnings remained static after rebounding during the previous year from large losses, but management believes profits are ready to take off.

A R3,4m loss in 1985 — NTC's first loss and failure to pay a dividend in more than 80 years — persuaded management to make the changes. Behind the loss lay a situation common to many industrial companies which did not plan adequately for the collapse in economic activity in the mid-Eighties.

The overhead structure was geared to a considerably higher turnover and gross margin than could be achieved in such withered markets. Over-capacities were depressing margins in various markets. Substantial losses were suffered in the trading division, helping to depress trading profits to only R735 000, while high rates meant more than R3,8m was paid in interest on the then 0,40 debt:equity ratio. Remedial work started in that year with the decision to stop trading in Sanitaryware, whose closure resulted in an extraordinary loss of about R1,4m.

As rationalisation continued the following year, management moved to focus activities on two main areas: manufacturing and trading. Trading was divided into profit centres, each headed by a manager with full responsibility for the business. The group decided to stop distributing woodworking machinery, where results were poor owing to the depressed building and furniture industries, and because there was no synergy with other trading activities. The Newcastle branch was closed and the Germiston branch rationalised, with staff reduced.

With help from an improving economy, and tighter asset management, net income recovered in the 1986 year to R5,9m, the highest level achieved since the previous best of R6,3m in 1981. But profit growth ground to a halt last year, when EPS slipped from 95,6c to 94,8c. This was despite the 13% advance in turnover to R252m and the rise in pre-interest income to more than R10m for the first time, having reached R10,2m (R9,9m).

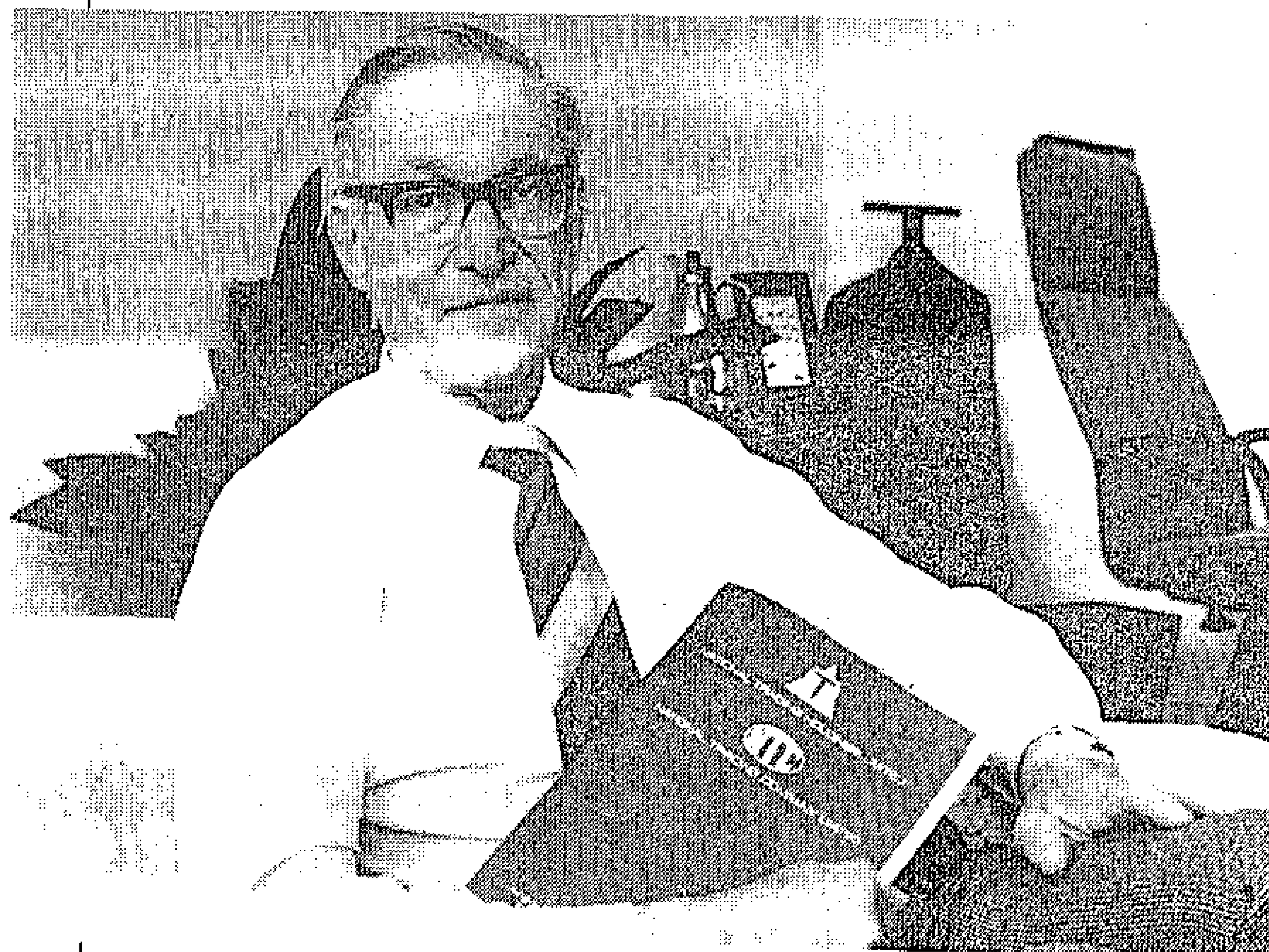
Higher borrowings pushed interest paid to R2,6m (R2,2m), but the main problems were felt in the manufacturing operations, particularly in Main Industries, which makes extruded plastic pipes and moulded plastic fittings in polyethylene and PVC. The company had two strikes at its Midway factory, while profit margins were drastically cut by large production overcapacity in the PVC piping industry. Together these shaved R2,5m off operating income.

The PVC piping industry had, for several years, been groaning under large excess capacity, estimated at 50%. In recent months the major participants have moved to rationalise their operations and the number of manufacturers has shrunk. NTC formed an agreement with Malbak's Rocla. The plastic piping operations of the latter have been merged with Main Industries, and since January the manufacturing divisions of both companies have been consolidated at Rosslyn in a single, automated plant.

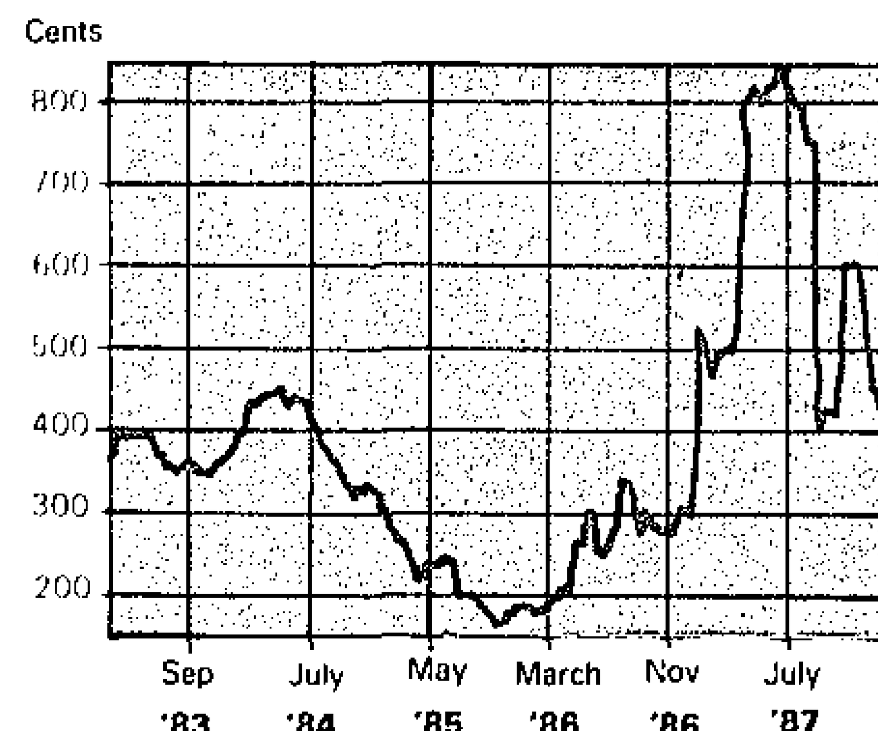
"We were all bleeding and we thought it was the obvious thing to do," says NTC deputy chairman Leonard Stern. More recently, with effect from the end of May, Main Industries bought the extrusion business of Noordkaap, increasing its capacity by 15%-20%. Others were making similar moves: AECI's Duraponta and Everite's Pipekor merged their plastic piping operations late last year.

This left only three major participants in the PVC manufacturing business: Main Industries (of which NTC holds 75%), AECI/Everite and Marley. NTC MD Mike Davis estimates Main Industries holds about 20% of the total market, and about 33% of the market for pressure piping. Stern forecasts that NTC will be enjoying full benefits by the second half of this year. With the increased factory efficiency, he expects the R2,5m shortfall of last year should be at least reversed in 1988.

The challenge now will be to show that controls have indeed improved and a firmer grip has been taken on asset management. In the 1987 year the balance sheet showed stock jumping by 41%, with debtors and creditors both up by 21%. Last year's problems in Main Industries were reflected in the group's thin trading margins of only 4,2%. Had an-



Deputy Chairman Stern . . . when the bleeding had to stop



De Villiers says automation is too expensive to use generally. "You can justify it only where you have sufficient volumes. Places like Port Elizabeth and Bloemfontein, for example, don't handle enough to merit automation."

This cash-consciousness could also lead to a reduction in already irregular mail delivery services, and lead to the disappearance of some post offices. Both are threatened by Sapo's three-point plan to increase profitability.

"First, the department will need to address the question of adjusting postage tariffs to more realistic and cost-related levels," says De Villiers. "A study has already shown that the charge for an ordinary letter should be raised from 16c to 22c to achieve break-even on standardised mail.

"Second, the rationalisation of services requires scrutiny with a view to eliminate or effectively reduce the uneconomic or less economic ones. This could, for instance, affect the frequency of mail services at street addresses and the maintenance of post offices in suburban and rural areas.

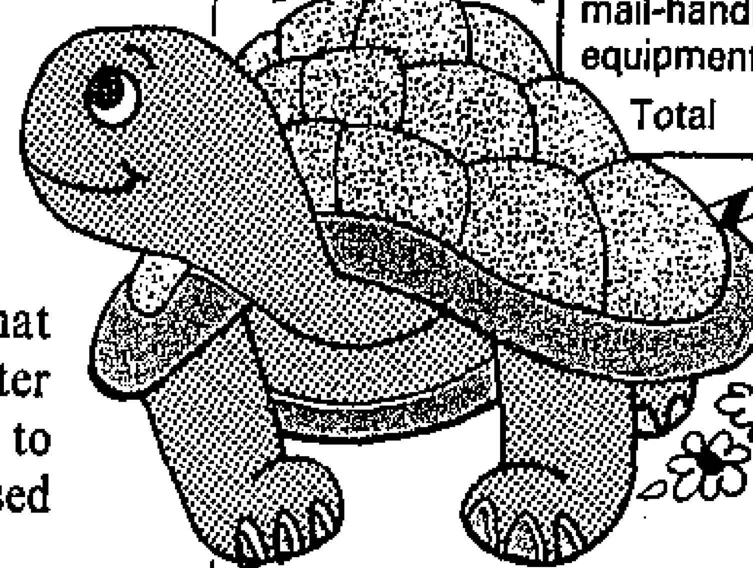
"The third main objective extends to generating higher mail volumes, without a corresponding increase in operating costs. The department is planning a strategy aimed at attracting additional postal business and stimulating postal revenue by marketing the mail service as an economic yet effective direct advertising and marketing medium."

Any move to close down post offices is bound to meet local resistance. It's hard enough already, finding one that's visible, open and organised. While accepting Sapo must try to balance its books, any closures must be matched by greater efficiency at remaining post offices.

A beef among many is that they have continued to use distant post offices, unaware of a local one on their doorstep. A Roodepoort businessman drove past his local post office daily for six months on the way to work before realising it was there. A random poll among members of the public revealed only one in eight knew how to identify a post office from the outside. (In theory, the P & T logo should tell you — but it's rarely visible.)

De Villiers accepts other criticisms — that counter staff are considered unhelpful, and that queueing for service can be a nightmare. He says Sapo has responded to pleas to implement single queues, as in banks and building societies. "We recognise the problem," he says.

De Villiers, who started his Sapo life 40 years ago as a counter clerk, believes the poor image of postal staff can be overcome through a public relations exercise. While he accepts there is room for staff training, he adds: "It's mainly a question of image. We're aware it's still poor but it has changed for the better. Since I took over, we have decided to extend the PR operation."



No expense spared

Capital expenditure estimates 1988-89

Telecommunications	R1,333bn
Land, buildings and housing	R150m
Vehicles	R52m
Office, data processing, mail-handling and stores equipment	R60m
Total	R1,595bn

Where postal services have consistently made losses, Sapo's telephone arm has made money. That doesn't mean it's made friends.

Telephones and other telecommunications operations — including telephones, telex, teletex and fax — must run flat out just to keep pace with technological developments. But in its haste to remain up-to-date, Sapo is in danger of outstripping its own capability. How do you reconcile a service that is at once racing headlong towards the 21st Century, and at the same time unable to satisfy customers' needs today?

While Sapo invests millions of rands in new-wave technology like Integrated Services Digital Networks (ISDN) and Centrex, hundreds of thousands of families are waiting for a simple telephone. The backlog is already estimated at 250 000, and demand for phones is expected to double within the next 12 years, from 2,7m at the end of 1987, to 5,4m by the turn of the century.

In metropolitan areas, telephone services exist in about 80% of white homes, 60% of coloured, 72% Asian and 22% black. By the year 2000, these figures are expected to rise to 94%, 82%, 93% and 64% respectively.

Not everyone who has a phone is happy with it. Sapo technicians insist they have ironed out bugs in the network's push-button units. Many customers aren't convinced. Critics say push-button phones are more breakdown-prone than the traditional circular-dial version, and more expensive to repair. The problem, they say, is twofold — Sapo rushed into the new phones without due preparation, and is tied into long-term contracts with local suppliers who can't match overseas expertise.

"Nonsense," says De Villiers. "Telephones are made by local companies on 15-year contracts, but the technology is right up there. We are not lagging behind." Of Sapo's own engineers, he adds: "They are the best-trained in the world. In some respects, they are too well-trained. We are losing them to the private sector every day."

Banking on the Post Office

How savers' money is spread

Savings bank accounts	R500m
Telebank	R70m
Savings bank certificates	R2,5bn

Sapo is under growing pressure to licence cordless phones. Illegal as they are for now, many households already possess them. Sapo accepts their inevitability, so why delay? According to De Villiers, tests are under way to see which are best-suited to SA. "When we find the best ones, we will legalise them." He doesn't accept that users should be allowed to decide which ones they want to use.

Meanwhile, Sapo's other moneyspinner is its Savings Bank. Originally created to cater for people in outlying areas where banks and building societies didn't operate, today it holds more than R3bn in savings. The 7,5% tax-free savings certificates total R2,5bn, savings book accounts R500m, and the Telebank automated service R70m.

Sapo has budgeted R4,1bn for operating expenditure this year, and R1,6bn for capital spending. It funds its needs mostly through Savings Bank investments, export credit agreements — the only source of foreign loans under debt standstill arrangements — and issue of Post Office stock on the domestic secondary capital market.

At the end of March, the book value of total foreign debt was R1,6bn, of which R890m lay outside the standstill net. Domestic loans amount to R1,53bn, consisting of Post Office stock worth R1,4bn, domestic loans of R60,6m and Treasury loans of R72,5m.

A breakdown of the R1,6bn capital expenditure bill gives an idea of where Sapo's service problems lie. Telecommunications accounts for nearly all of it — R1,33bn. Land and buildings take up another R150m and vehicles R52m. That leaves only R60m to be spread between office, data processing, mail handling and stores equipment.

It looks increasingly as if Sapo is so intent on remaining at the cutting-edge of technology that it is neglecting its base business of providing a service for everyone in SA. Electronic mail, ISDN and all the other new toys are all very well, but what about the millions of ordinary South Africans who want nothing more than a mail service that delivers on time and a telephone that works?

Whatever Sapo may say, problems abound. The solutions are there, all it needs is the will to grasp them. But with its headlong flight towards a brave new electronic world, has it the time or the inclination to bother? ■

other R2,5m been included in pre-interest profit, the margin could have been about 5,2%. Costs of rationalisation are largely out of the system.

Demand has improved in most markets served by the group. NTC in fact covers a wide range of sectors, although it has particular strengths in supplying to the mining, petrochemical and electrical industries. Stern says benefits are expected this year from the Mossel Bay gas project, and the group stands to gain from any other synfuel projects.

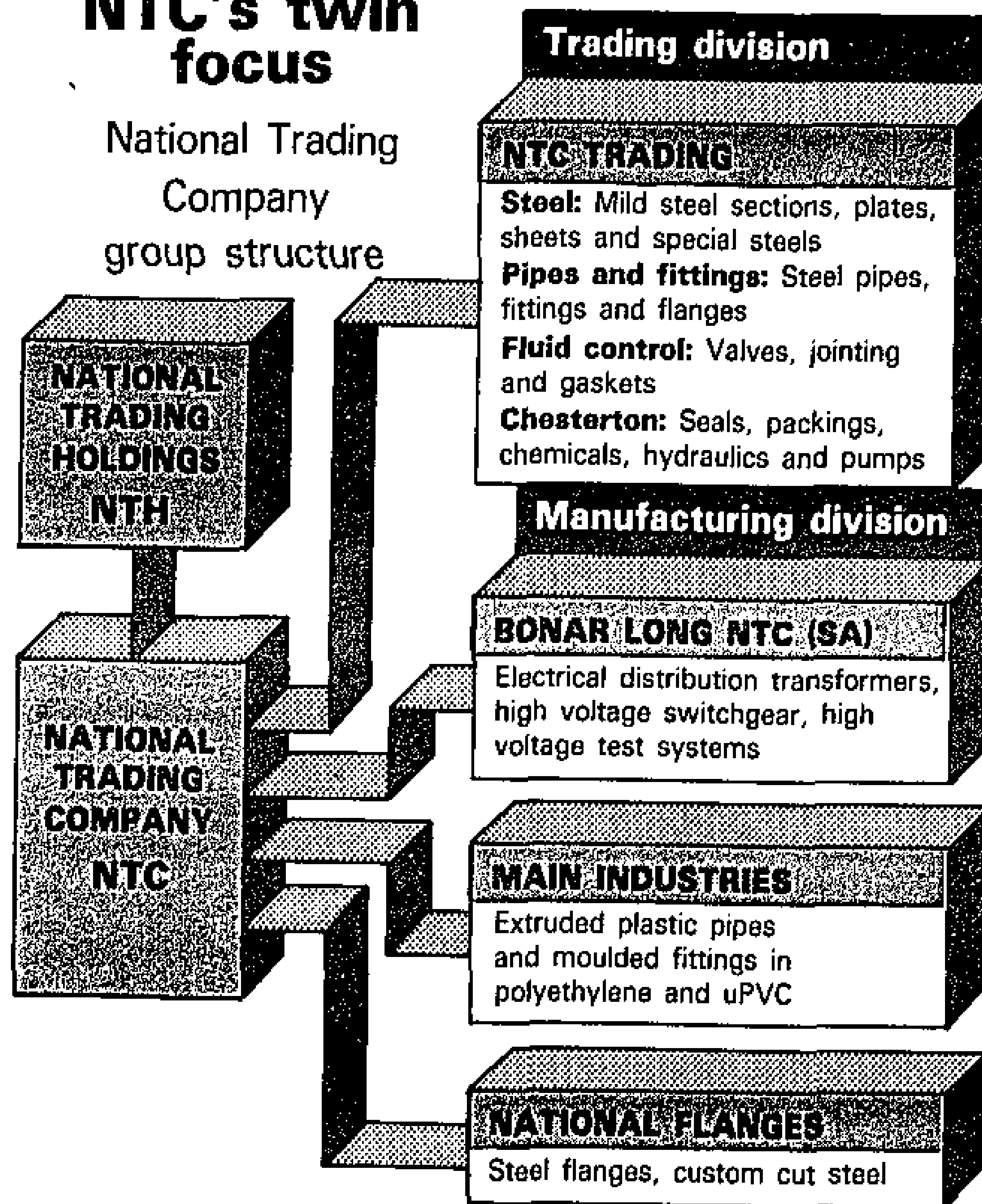
On the manufacturing side, which in a normal year supplies around a third of pre-tax income, no need is seen for further investment in new capacity. Davis says that on the electrical side — another industry that has seen rationalisation involving other firms — the plant is virtually fully utilised, while the plastics operation is heading that way.

"I think the group is poised for good results and is in a position to take advantage of the upturn in the economy," says Stern. "A year ago we had much shorter order books. Activity is definitely up and we feel confident this will continue at least until the end of the year and possibly into 1989."

But a problem that still needs to be resolved is debt. Borrowings at year-end totalled R31,1m, giving a debt:equity ratio which is well above the average for listed industrial companies at 0,68 (excluding the cash of R2,8m). In a climate of rising interest rates, the stock market could well penalise the share for this level of gearing.

The ability to get borrowings down will depend on how successful the rationalisation and efforts toward better efficiencies turn out; in any event, no refunding exercises are planned. "The debt is receiving our close attention," says Stern. "We are working on turning it around and bringing gearing closer to 0,50 during this calendar year. There are plans in motion to do this, mainly through tighter management."

Another curb on earnings over the next couple of years will be a rising tax rate, which will continue heading towards 50%. Owing largely to previous losses, the rate last year was only 24,3%, but only R1,6m of estimated tax losses remain. However, dividend cover, planned to be kept between 2,0 and 3,0 times, was 3,82 and 2,7 in 1986 and 1987 because of the abnormal tax rate.



But the trading performance will be the key to the group's future. Interim results will give a clearer picture of the effects of work done over the past 18 months. If the rationalisation has been as effective as management seems to think, it would not be surprising to see trading income move to around R14m. Even after a higher tax payment, the effect on the bottom line could be considerable, given that only 6,5m ordinary shares are on issue.

Although no investment is planned, more emphasis should be placed on expansion. This would include broader product ranges, particularly high-value, hi-tech items. A pyramid company, National Trading Holdings, was listed in 1986 to ensure control and also to facilitate growth.

Ultimate control is held by UK-based A Oppenheimer & Co, and Stern, who is a director of the UK company, says there are no plans for disinvestment. The share is conservatively rated at 450c, where the p:e is an undemanding 4,7 times and the historic dividend yield 7,8%.

Andrew McNulty

Higher margins boost Valard

By Sven Lünsche

Booming business conditions and higher margins boosted engineering group Valard's earnings per share by a staggering 164 percent to 8,6c for the year to end-March 1988.

The dividend was raised by 1,5c to 3,5c, which improved the dividend cover to 2,5 compared with 1,6 in the previous financial year.

At the half-way stage turnover at R23,19 million was still down on the previous year's interim figure, but by end-March sales had risen by 24 percent to R51,23 million.

Operating profits increased by 76 percent to R6,62 million, highlighting the significant boost in margins from nine to almost 13 percent. Pre-tax income of R5,8 million, however, was significantly jolted by tax payments of R1,66 million (previously R386 000) leaving taxed profits of R4,14 million.

Commenting on the results the directors said that all companies within the group had produced profits for the year. "The previous loss maker, FTS Industries, made an operating profit of R672 000," they said.

Bosworth Holdings, which was purchased in July last year, also made a significant contribution, but benefits from the acquisition of Pang Group are only expected in the current financial year.

On prospects for the year the directors said: "Operating profits will continue to grow strongly, however, our tax rate will rise and therefore a corresponding increase in earnings from existing businesses is not expected.

Dorbyl EPS up a healthy 60 percent

Star 23/5/88

189

By Magnus Heystek

An upturn in the light engineering industry is reflected in the bottom-line profits of Dorbyl Limited with earnings per share in the six months to end-March 1988 soaring by 60 percent from 48,1c to 76,9c a share.

But, says Dorbyl, subsidiaries in the heavy manufacturing industry are still troubled by insufficient demand which was a drain on profits.

According to the interim report published today turnover in the six months to end-March rose from R784,3 million to R921,8 million while the operating income increased by 36 percent to R47,2 million. With no significant increase in borrowings net interest remained virtually static at R10,8 million (1987:R10,3 million). The tax bill soared from R6,2 million to R9,4 million which left income after taxation up from R17,9 million to R26,9 million, which indicate an improvement in margins.

Earnings attributable to shareholders rose from R15,3 million to R24,5 million which amounted to an EPS of 76,9c a share (48,1c).

The interim dividend has been increased from 16c to 19c a share while the dividend cover has been increased from 3 to four, reflecting a cautious approach by management.

Comments Dorbyl on the results: The improvements have been achieved largely o the subsidiaries operating in the ligth engineering and trading sectors, where economic improvements have had a favourable impact. The heavy manufacturing subsidiaries continue to be affected by poor demand. Earnings for the full year, however, are expected to show an improvement on last year."

Industrial news BY STAN KENNEDY

APV moves into Welkom goldfield

Star 25/5/88 (189)

APV South Africa has expanded its process engineering operations right in the heart of major new gold mining activity in Welkom.

The new branch will, primarily, provide a repair and service facility for refrigeration, air conditioning, gearboxes and pumps, while also giving a local support base for any capital project of APVs in the region.

"Numerous new shafts are being planned around Welkom, which will make growth of the Free State goldfields greater than what is taking place on the Reef," says APV director Mr Chris Price.

"Although these projects may take temporary setbacks because of the fluctuating gold price, in the longer term there is tremendous potential in the area."

He says the main reason for opening in Welkom is to provide close-at-hand support for the mines.

APV supplies metallurgical plant, such as slurry mixing for gold extraction, and plate heat exchangers for cooling applications in various aspects of mining and gold recovery.

The company is currently pioneering new energy-efficient methods of mine cooling, using both chilled water and ice.

Ash stacking system

The first phase of the ash-handling conveying and ash-dump stacking systems at Eskom's Kendal power station has been commissioned by IMG Engineering.

IMG is the materials handling and mining technology subsidiary of Industrial Machinery Supplies (IMS).

The first phase of the ash plant has 13 containers and a combination tripper car crawler-mounted spreader, linked to form a single fully interlocked ash conveying operation.

The spreader, which is less flexible than the conventional stacker, will later be used as a standby system after the crawler-mounted stacker has been commissioned in a subsequent phase of the project.

The operation of the plant in continually removing ash from boilers and precipitators is of vital importance for the availability of the power plant. In an emergency, as much as 1 885 t/h of ash can be carried away from the boilers. The plant is designed for 100 percent availability through a complete parallel standby system.

Weighing device

An integrated cost-effective system, which accurately weighs all types of aircraft, is available from Bateman Process Instrumentation (BPI).

Known as the MEWS-II, it is claimed to be one of the most advanced platform scale systems for the aircraft industry.

Without sacrificing accuracy, the scale is designed for mobility and field use. Foot pads located at each corner of the platform distribute the load evenly over a large area. Floor loading is less than 325 psi at full rated capacity. The platform weighs about 63 kg and can be positioned easily by two men.

The signal conditioning electronics are located in a sealed cavity and the weight is indicated on a high-visibility LED display rcessed in the platform.

Calibration and indentification values are stored in the memory of a microprocessor. All readings are averaged to account for fluctuations in weight caused by wind or other external influences.

R19-m truck order

An order worth more than R19 million for 95 truck tractors has been awarded to MAN Truck & Bus SA by South African Transport Services (SATS).

The major part of the contract comprises 60 units having the most powerful Atlantis Diesel Engine (ADE) engines bought by SATS. The units are powered by 284kW V-8 twin turbo intercooled ADE 422TI diesel engines.

Because the specifications are in line with MAN specifications, most of the trucks can be delivered virtually "off the shelf".

The balance of the contract is for 35 MAN 19.280 FT 4x2 truck tractors to be used for SATS' Fastfreight container transportation service. They will operate in Cape Town, Durban and Bloemfontein.

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Asseng boosts production of car components

By Don Robertson

TO meet the rapidly growing demand for locally manufactured motor components, Associated Engineering (Asseng) has introduced three shifts on some of its production lines at its Roodepoort and Pinetown factories.

And if firm orders are received, the company plans to spend between R20-million and R30-million to expand its facilities over the next four years.

Asseng manufactures engine parts, but 15% of its sales are to the industrial market through the Glacier industrial division. A number of small acquisitions are planned for this division.

But although production has more than doubled, the backlog has not been made up and the company has been forced to import components from Japan and Europe to meet demand.

In spite of this, John Koen executive director of A E Engine Parts which markets and distributes Asseng pistons, sleeves, bearings, valves and rings, says the backlog will not be met until August.

Mr Koen says the reason for the increase in demand is because cars are now being kept on the roads for longer periods — from 10 years a few years ago to between 13 years to 14 years because of the high price of new cars — and because the demand from vehicle manufacturers has also increased.

About 75% of A E Engine Parts are sold into the aftermarket, with about 10% sold to manufacturers.

This, coupled with a major marketing exercise which gained market share from imported products, left A E Engine Parts in short supply.

Multimech heads for JSE

By Tom Hood

CAPE TOWN — Multimech, the Tollgate group's in-house engineering and vehicle body building company, is expected to be listed on the JSE through a reverse takeover by Drivetech.

Both companies are controlled by Duros, which owns Tollgate.

Tollgate will receive R17,9 million — R3,7 million in cash and the balance in Drivetech shares

But Tollgate will pay R11 million in cash to Duros for its 40 percent stake in Multimech.

After the deal Tollgate will end up with more than 60 percent of Multimech.

The three companies said yesterday the reorganisation would achieve Tollgate's aims of giving Multimech its own identity and a separate listing on the JSE.

Tollgate is to get a new MD, Hennie Diedericks, the MD of Volkskas Investments (formerly Volkskas Industries).

Johann Barnard, present MD, is to be vice-chairman. Tollgate recently appointed a new chairman, Johan Claasen, a Duros director and former chairman of Ellis Park.

Multimech has been developed into an independent business, with a significant part of its work coming from outside customers.

"Drivetech's financial base will be considerably enlarged and certain synergistic benefits realised," the companies said.

"As a result of the significant increase in Tollgate's bus operations, the earnings of Multimech are budgeted to increase materailly, with resultant benefits to the enlarged Drivetech group."

Tollgate's earnings would have increased by 8,6c to 40,8c a share if the reorganisation had been effective for its past financial year. Net asset value would have dropped by 6c to 298c.

Duros's earnings would have risen by 0,5c to 54,3c and net asset value by 5c to 375c.

Drivetech's earnings would have been 2,1c lower at 18,3c and net asset value would have risen by 1,1c to 41,9c.

- In another development, Tollgate is to merge eight sport and leisure companies into one with assets of more than R35 million.

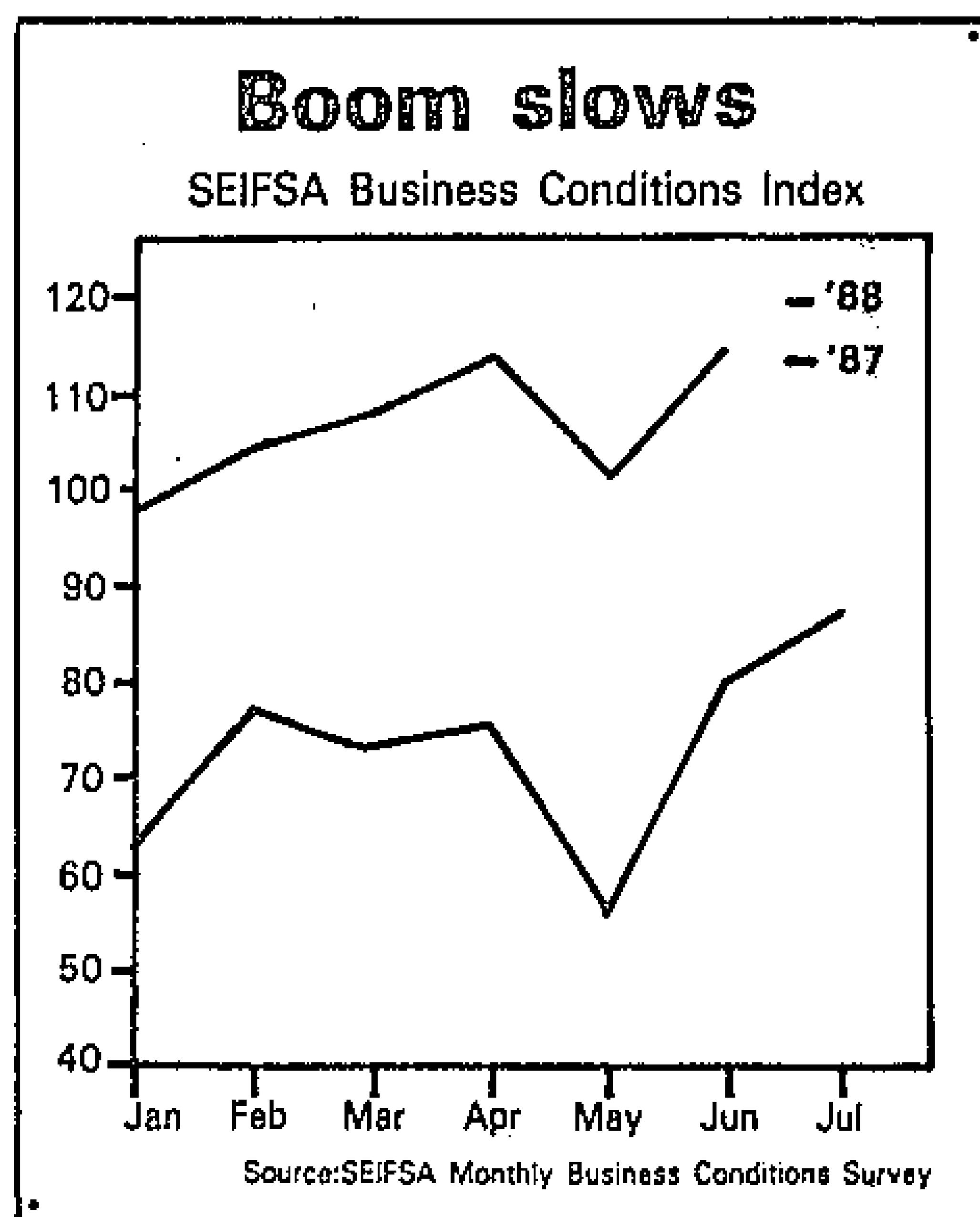
The new company, Entercorp, has been formed via its wholly owned subsidiary, Tollcom, and will apply for a JSE listing later.

ENGINEERING

Losing steam

The recovery in the engineering sector, which accelerated in the first quarter of the year, could be threatened by the cooling down of the economy and the growing skills shortage.

The Steel and Engineering Industries Federation (Seifsa) says the industry can't pin its hopes on a private sector boom for much longer.



Seifsa's business conditions index, which measures order intakes in the metal industries, declined in May after five months of continuous improvement — although it remained well above the level of May 1987. The index for June regained April's level — hardly indicative of a major recovery.

"Orders are a good indication of likely production for months ahead," says Seifsa economist Michael McDonald, "so it looks as though the boom is already slowing down."

Dorbyl Group CE Dawid Mostert says the answer is increased local content throughout SA industry.

"We must pursue a policy of economic nationalism. Even if there is an initial premium of 30% for local manufacture, it is worthwhile from a strategic point of view, especially given the need for job creation and our shortage of foreign exchange. There are plenty of opportunities out there for SA companies."

Mostert points to Dorbyl's recent R120m venture with Iscor to upgrade the Tosa seamless tube facility. He says it will save the country R50m a year in foreign exchange.

But Cementation chairman Ronnie Shaw says: "We will need sophisticated skills if we are going to manufacture more products and components locally. The trouble is that we cut back severely on training during the last downturn." Growth areas, in Mostert's view, include mechanisation on the mines and low-cost housing. Other sectors aren't so lucky. Some traditional engineering areas, notably transport, have been scaled down.

GEC is closing its traction motor plant and Dorbyl recently closed its Germiston wagon plant which, since its inception, had produced more than 100 000 units. "This capacity is lost to the country forever," bemoans Mostert.

He says rationalisation of heavy manufacturing industry means SA is unable to carry on the number of capital projects it used to do simultaneously. This was acknowledged in government's approach to synfuels.

"It is a genuine effort to fill the valleys and smooth the peaks that are so prevalent in our industry. We understand that future synfuel projects will be staggered to prevent the sudden creation of excess capacity." ■

R12m order for Dorbyl

GENCOR has ordered equipment worth more than R12-million from Dorbyl Heavy Engineering.

The orders are for the design and supply supply of chemical portions of three 4,88m diameter double-drum winders and a 4,9m diameter trunnion mill.

The mill and two winders will be installed at Impala Platiunum's Gazelle Karee mine in the north-western Transvaal. The third winder is for Oryx, the gold mine being established at the old Beisa workings in the Free State.

Delivery will start in January and will be completed in 1990.

S Times 14/8/88 (189)

Eviction looms for Haggie strikers

By EDDIE KOCH

MORE than 1 800 metalworkers at two Haggie Rand plants on the East Rand face eviction from their hostels as a wage strike at the steelworks drags to the end of its first week.

The workers, who began striking last Saturday after a deadlock in annual wage talks, were dismissed early in the week and told they would only be re-employed if they accepted the company's wage increases.

Haggie management says the company had locked the workers out before the stoppage began and that subsequent strike action has thereby been rendered illegal.

The National Union of Metalworkers of South Africa insists the workers had exhausted all conciliation procedures before downing tools and that the strike is legal.

It plans to challenge the validity of the dismissals and the threat of evictions in court, says union organiser Alistair Smith.

The strike began after workers rejected management's offer of a minimum wage increase of 45 cents an hour. Workers are demanding an 85 cents an hour hike across the board.

Production at Haggie's Jupiter plant in Cleveland, which manufactures steel cables, and at its Germiston steelworks has been halted. The Jupiter factory, jointly owned by Anglo American and Gencor, is the biggest of its kind in the world.

…sions but had to cut the second one short when his body rejected it.

Haggie Rand lockout

JOHANNESBURG. — Haggie Rand yesterday entered the 18th day of its lockout of 1 800 workers after a meeting between the parties on Tuesday failed to reach agreement on annual wage increases, a management spokesman said yesterday. The National Union of Metalworkers of SA (Numsa) dropped its wage increase demand from 85c an hour to 65c, but management refused to alter its 45c offer, the spokesman said.

Cullinan forms hi-tech engineering company

Star 18/10/88 (189)

Industrial giant, Cullinan Holdings has formed a hi-tech engineering company which will manufacture specialised products such as jigs, tools and fixtures for the car and armaments industries.

The new operation, Cullinan Precision Engineering, is expected to become a "major profit centre" for the holding company during the current financial year.

Mr Louis Sprenger de Rover, an executive director of the Cullinan group, says: "The decision to establish a new operating company within the group to service the large and growing demand that exists in South Africa for a specialised, high-technology engineering capability has had an excellent reception in the market and full production is now underway.

"CPE addresses a market which is usually associated with small, entrepreneurial enterprise. We have identified this field as a major opportunity that is worth of the group's financial backing and administrative support."

Star 22/11/88 (189)

Dorbyl sustains its stronger performance

By Ann Crotty

Despite continued weakness in its heavy engineering division, Dorbyl has sustained the stronger performance that it reported at the half-way stage. On a 20,4 percent turnover increase, earnings were up 36 percent to 245,5c (180,4c) a share for the 12 months to end-September.

The final dividend was increased 26 percent to 58c (46c) a share, for a total dividend payment of 77c (62c). The dividend cover, which was a high 4 at the interim, was reduced to 3,2 times at year-end but this represents an increase on end-financial 1987's 2,9. Gearing was down to 29 (32) percent

Group turnover was up 20,4 percent to R2,1 billion (R1,7 billion) and operating income rose 32,4 percent to R129 million (R97,4 million), reflecting an improvement in margins from 5,6 percent to 6,2 percent. At the half-way stage margins were 5,1 percent.

The tax rate was up again (to 21 percent from 19,7 percent), which left taxed income showing a 33 percent advance to R83 million (R62,5 million). Income from associates surged 131,6 percent to R88 000. Attributable earnings were up 36 percent to R78,3 million (R57,5 million).

The directors report that divisions linked to private consumption expenditure performed well; "however those reliant on fixed investment (the heavy engineering divisions) continued to operate at low activity levels".

Referring to the group's heavy divisions, group CE Dawid Mostert, states that the marine and structures divisions are both operating profitably but the heavy engineering division continues to show a loss and will again show a loss in financial 1989.

Performance beyond that will depend on the mining industry's capex plans as well as those of the parastatals. But Mr Mostert points out that only 20 percent of group turnover is dependent on fixed investment.

Indications are that management is continuing to reduce this level of dependence. Mr Mostert states that they are curretly scaling down facilities in the heavy engineering division to bring it into line with the lower levels of demand.

During the second half of the review period, Mossgas-related business contributed to the group's level of activity particularily in the marine and heavy engineering side. Mr Mostert expects demand from this area to continue through to end-financial 1990. But he stresses that in any one year Mossgas business is unlikely to account for more than 5 percent of group turnover.

In addition he points out that Mossgas is currently only benefiting activity levels and is not yet being brought into profit as it is management policy only to bring the business to account when the final product is delivered. This will occur progressively over the next two years and should help to lift margins.

For financial 1989 Mr Mostert expects to see a continued real improvement in the figures. He believes that import substitution presents great scope for growth and specifically referred to the new local content programme for the motor industry.

T&N sells Everite, buys Asseng

Star 26/11/88. (189)

FINANCE STAFF

TURNER and Newall Holdings has sold its stake in Everite to buy T & N UK's 76 percent stake in Associated Engineering (Asseng) for R54 million.

T & N UK is the parent company for both companies.

Turner and Newall said that in order to finance the aquisition of Asseng it had sold its 25 percent holding in Everite for R54 million to Old Mutual

A spokesman for the company said that the main reason for the move was that T & N UK had been moving out of building materials world-wide for some time and that the move of selling Everite and placing Associated Engineering in the Turner and Newall stable was the last step in this direction.

Turner and Newall Holdings CEO Mr MC Pretorius said that while it was with reluctance that the group has disposed of its Everite holdings, the aquisition of Asseng would give it the muscle to become a force in the automotive spare parts market, particularly in the replacement market.

It said the components field had been identified as an important growth area in view of the current need for import replacements.

Now Hudaco's profits silence all the sniggers

By JULIE WALKER

HUDACO has been one of the stars in the engineering sector over the last three years.

Four years ago six managers at Hudaco Industries bought out the business from parent Blue Circle for R20-million.

Earnings for 1984 were only R1-million, and to pay a price of 20 times current earnings was sniggered at by some as the hallmark of the inexperienced.

Hudaco's financial performance since the management buyout has more than vindicated the price.

In the year to November 1985 taxed profits were R3,6-million, in 1986 they reached R8,6-million, hit R12,5-million last year and at the interim stage of the current year Hudaco reported earnings of R7-million.

The earnings sum exceeds R33-million. In four years the acquisition has paid for itself, made another R13-million and the asset value now amounts to R34-million.

Hudaco Industries was listed on the JSE in November 1985 following a private placement of shares at 150c. The management reduced its stake from 74% to 27% in favour of institutions, which displayed considerable interest in the new-look group.

This was reflected in the 70c premium afforded by initial buyers long before the heyday of vast stagging profits on first-day traders.

At today's share price of 525c the market capitalisation of Hudaco tops R100-million.

Much of the motivation was provided by chairman Bruce McInnes, who now resides in England. But managing director Kevin Clarke is no slouch — he is something of an MBA success story.

He joined the group nine years ago as a civil engineer and spent 18 months in Cape Town in charge of Deutz Dieselpower — one of Hudaco's four divisions.

Mr Clarke returned to Johannesburg as the marketing manager of DDP and notched two more years of experience under his belt before transferring to the bearings division, of which he became chief executive in 1985 upon joining the board of directors.

He succeeded Dr McInnes as MD last year, and among other deals landed the acquisition of Frencorp — a listed engineering company so little known that even stockbrokers thought it was the holding company of French Bank.

Frencorp ran three subsidiaries, of which Terraquip — a supplier of agricultural equipment — did not fit in with Hudaco's core of industrial consumables. It was sold in a management buyout for R2,7-million.

The businesses of Belting Supply Services and Toolhaven were incorporated into Hudaco's operations and the Frencorp cash shell was sold to Duros.

Primarily involved in distribution Hudaco comprises three divisions — diesel engines, bearings, and power transmission.

During the 1987 financial year Hudaco opened four new branches to add to its national agency network, and started an engine rebuild business to service the gold mines of Klerksdorp, Carletonville and the West Rand.

The industry's move towards trackless mining is a big plus for Hudaco's diesel division, which dominates the market for underground equipment with its air-cooled engines.

A 90% stake in Natal-based bearing distributor Swift was bought for R3,4-million, and nearly 93% of ABES — the leading supplier of oil seals, was bought along with its management for R5,6-million.

Hudaco also came by a stake of a million shares of Charles Baynes plc, of which Dr McInnes is chief executive.

Turnover in the six months to May 1988 reached R120-million — the same as for the whole of the 1985 financial year. The directors expect the earnings to continue to grow.

They state that they are still hungry for acquisitions. The balance sheet says they can — it looks healthy enough, with shareholders' equity of R49-million and borrowings of only R9,5-million. Cash is king, quotes the chairman.

Hudaco's policy on acquisition is to buy a company, adopt a hands-on stance and get the business running properly. There is no point in buying something, changing its name, sticking a token member on the board while expecting it to perform economic miracles.

Shareholders must be more than satisfied with their investments in Hudaco. Those getting on board at 150c have received dividend returns of 63c a share so far.

Hudaco has not been listed long enough to qualify for selection in the Business Times Top 100 Companies survey, but it is only a stone's throw away from due recognition.

ENGINEERING

EXPORTS

1988

RIH

Slowdown expected

RIH EXPANDS

Six months to	Mar 31 '87	Sep 30 '87	Mar 31 '88
Turnover (Rm)	213	233	268
Pre-interest profit (Rm)	11,7	18,6	20,6
Attributable profit (Rm)	9,5	14,6	15,8
Earnings (c)	29,6	45,7	49,5
Dividends (c)	10	22	16

Much of engineering group RIH's 67% leap in EPS in the six months to end-March was derived from an improvement in trading margins, which ballooned from 5,5% to 7,7%. Pre-interest profit jumped by 76% on a 26% advance in turnover. On these figures, the performance for the full year should be well ahead of chairman Brian Connellan's cautious forecast in his annual review of "modest growth" in earnings for 1988.

The interim pace picked up substantially from the rate of the 1987 financial year, when EPS rose by 16,5% after turnover increased by 5,7% and pre-interest profit by 1,5%. But, even allowing for seasonality of half-year periods, the growth phase could now lose momentum. "We are operating in fiercely competitive markets," says MD Jack Crutchley. "I think margins are unlikely to improve further."

He says that already there is concern about weakening offtake in several sectors. The group is detecting slower demand in the mining industry — an important market for RIH — which is seeking to trim operating costs. Last week's restrictive economic package may also encourage a slowdown in certain consumer sectors, such as those which produce refrigerators, stoves and furniture.

Any adverse effects in these markets should be offset to some extent by continued pickup in the engineering and construction sectors, although pressures on margins may dampen the benefits. The contribution from exports is also expected to expand. "We are constantly looking for opportunities in the export market," says Crutchley. "We produce excellent steel in SA. Exports are strategically important to the group."

High export turnover kept the effective tax rate low, but the tax bill nonetheless rose by 126% owing to a larger proportion of products sold into the domestic market. This, and the 89% rise in interest paid to R1,4m, curbed the bottom line advance, but Crutchley says he expects the tax rate will remain roughly unchanged for the rest of the year. However, both normal and deferred tax is absorbing less than 20% of pre-tax income, so any changes to the present export allowances on tax could affect future earnings.

Borrowings have increased from R20,9m to R44,1m, lifting the debt:equity ratio to about 0,26 against 0,14 at September 30. This apparently arises partly from a "strategic" investment in stocks, which have increased from R102,7m to R130,2m, and Crutchley says that borrowings should either be held at current levels or reduced.

In the past the group has earned just over a third of its profits in the first half, largely because of the closedowns in the building and construction industries. With markets broadening, and particularly the build-up in exports, profit flow is becoming more even through the year. This is another reason why earnings growth during the second half is expected to be slower than in the first half. Even so, at 450c the share has attractions. It not only yields 8,4% on dividend and discounts the 519c net worth, but has a profit record that belies the dour image of the engineering sector.

Andrew McNulty

S/Times 11/12/88

(189)

Dorby to grow despite consumer slowdown

DORBYL is confident of good earnings growth next year in spite of an expected contraction in demand for consumer durables, higher interest and tax rates.

Chairman Floors Kotzee says in his annual report: "Prospects for the forthcoming year look favourable."

In an interview, chief executive, Dawid Mostert told me the group order book had improved in quantity as well as in quality. He said it was up 10% in real terms to about R1-billion. Sales in the current year were expected to top R2,5-billion.

The tax rate last year was 22% and due to rise — how much depended on how well Dorbyl could use its tax losses.

Debt

The report shows that at the September yearend Dorbyl had R184-million of interest-bearing debt against shareholders' funds of R620,6-million, giving a debt ratio of only 29%.

By David Carte

But interest cover at 5,6 was less than comfortable, bearing in mind a heavy capex programme, the big rise in interest rates and that the economy appears to be slowing.

Mr Mostert says Dorbyl considered a rights issue but ruled it out because of strong group cash flow and the discount to net assets to which the shares trade. In addition, the group has surplus properties worth at least R16-million.

Satisfied

"The seamless steel tube project is spread over two financial years. I know of no reason why our gearing should deteriorate."

Although Dorbyl does not adjust for inflation, it is certain it is not paying dividends out of capital. He is satisfied with dividend cover — 3,2.

He predicts that car sales will be 205 000 next year after an estimated 235 000 this year, but takes heart from the change from weight to value as the criterion for local content.

Dorbyl is exporting car components. The business has been profitable because it adds to capacity use and partly becuase of export incentives, which are being reviewe,d

Mr Kotzee says: "Motorcar sales are not expected to drop dramatically and import replacement possibilities present continuing opportunities.

"Group companies involved in the manufacture of capital goods have been scaled down and their results will be more favourable."

Thanks to Mossgas and the reorganisation of its shipyards, Dorbyl is looking for a good year in marine engineering.

Types

Tendering and start-up costs on Mossgas totalling more than R3-million have been absorbed. This year the money starts to flow in.

In his chief executive's report, Mr Mostert distinguishes between two main types of business — those influenced by consumer durable spending and those by fixed investment spending.

He tells me that only 20% of sales today are influenced by fixed investment, which has been badly depressed for eight years.

"In the old days, our attitude was that if you could carry it, we were not interested in making it. We specialised in really big capital items. Today we are moving towards smaller components and consumables, for instance, those used in mining."

Spread

A pie chart breaking down sales shows that automotive components (20%) were the biggest division last year, followed by mine supply (15%) and building and construction (13%) — a total of 48%.

The rest are spread in chunks of 3% to 5% each across natural gas, coal mining, chemicals and refining, central Government, metal ore mining, iron and steel, agriculture and railways.

Dorbyl is believed to have a lot of defence work, but Mr Mostert says real peace in Angola is no threat to the group.

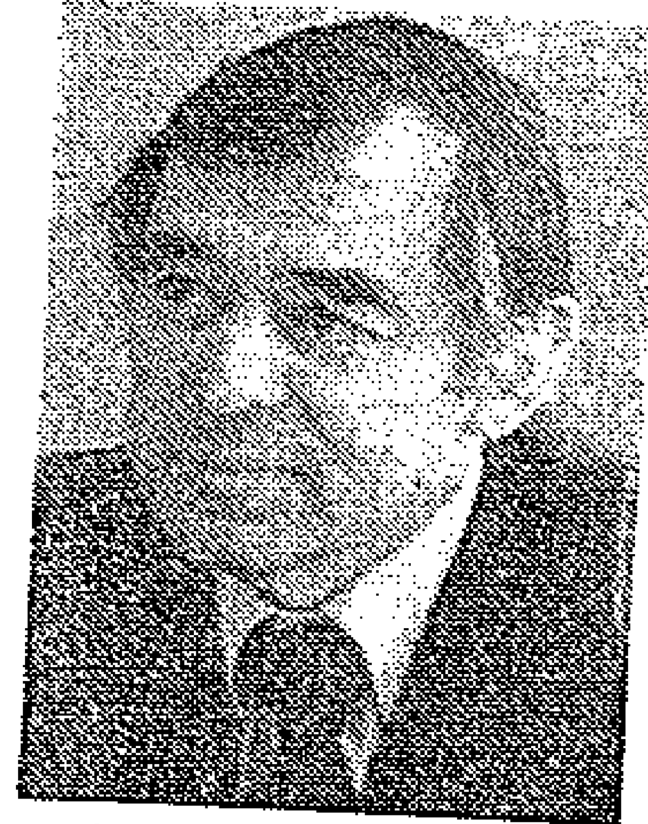
Capex last year was trimmed to R66-million. Together with Iscor, Dorbyl is to build a R100-million seamless tube mill. Its contribution to the project will be R60-million. There will be another R80-million of capex in the rest of the group next year.

Dorbyl does not give segmental information on profits and assets because, Mr Mostert says, it would help competitors more than shareholders.

Strangely, it also does not provide a breakdown of wealth created. This is distributed separately to employees. I was given a copy. Turnover last year was R2,1-billion, of which R1,5-billion went to buy materials and services. Employees took 71% of the R609-million of value added, and shareholders received only 4,7% in dividends.

Disaster

Dorbyl has had a wonderful comeback from the disaster of 1985 when earnings were only 61,6c a share and return on assets a miserable 9,2%. Earnings last year leapt by 36% to 245c a share in spite of losses in heavy engineering and transport products.



DAWID MOSTERT

Return on assets, now at 15,2%, is still less than satisfactory, says Mr Mostert.

As much as it has done to repair itself and to get into consumer durables, Dorbyl is still highly exposed to GDFI, the economic indicator that has suffered most in the depressed and troubled 1980s.

When GDFI recovers, money will spew out of Dorbyl in a tidal wave. At present, most the engineering activities are working only one shift. They can be stepped up to three shifts with little further capex, but there would be a training cost because of skills shortages.

Mossgas, Lesotho Highlands, the mass housing and township improvement programmes, together with other capital projects and the ability to export competitively at present rand exchange rates make the long-term future highly promising.

ENGINEERING

1989

Danech buying spree leads to tears

S/Times 1/1/89 (189)

By Julie Walker

SOMETHING is strange in the state of Danech.

Imprudent acquisitions, the hint of Lefkochrysos-style on-lending of shareholders' funds to other companies, and a loss of grip by management steered the unwieldy group to disastrous losses in the past year.

When the mining-supply company's interim results for the six months to March 1988 were announced, chairman Chick Henderson said "We expect earnings a share for the full year will be at least as high as they were in 1987".

Franchises

But results for the year to September 1988 disclosed a loss of 1,27c a share — compared with the previous year's profit of 18,9c. Earnings of 33c a share had been forecast for the year to 1987.

The number of shares in issue rose by 4,2-million to 26,5-million in that time.

The acquisition of Conway Johnson — a holder of franchises — cost R15,6-million in December 1986. It was a lot to pay for a company which showed losses of R3-million in its most recent statements.

The deal was settled by the issue of 6,9-million shares at 225c. At that time Conway Johnson had nine branches, employing 245 people.

In the year to September 1987, Zenith Electrical was bought for R2,5-million — R1,5-million of which was for cash. Mr Henderson's businesses were bought for R3,7-million, of which 30% was cash. Highveld Hose was bought for R480 000 cash.

Spree

Rust Investments cost R495 000 cash. Norman Cornish cost R1-million cash. Vryheid Mining Supplies and Wellbilt cost R2-million cash, Norderon Properties cost R480 000 cash. Belting and Sprockets SA cost R1,8-million of which R430 000 was in cash.

Modash International cost R125 000 cash.

That adds up to a cash spree of R7,6-million and a total of R28,2-million. Subsequent to the yearend, the businesses of Jomy and GWS were bought for R4,1-million, of which R1,4-million was to be cash. Profit warranties had to be met in certain acquisitions.

One critic says of Danech: "When it makes an acquisition it pays too much for goodwill, changes the company's name, sticks a director on the board and hopes that things will take care of themselves."

More alarming in Danech's results is reference to the extraordinary item of R5,4-million, which reduced profit after tax from minus R336 000 to minus R5,8-million.

Mr Henderson says: "The major portion of the extraordinary item is a provision against an amount due by the ultimate holding company Danech (Pty) Ltd, of R5,18-million, some of which relates to the previous financial year.

"Steps are being taken to recover this money with the full co-operation of the ultimate shareholder."

Danech's 1987 report says: "Included in debtors are loans to Danech Management Services ... the highest outstanding balance during the financial year was R1,6-million ... interest is charged at prime overdraft plus 1% ... the loan is unsecured with no specified repayment period."

Danech's interest bill last year was R1,3-million, yet it will have earned only about R800 000 on its loan to Danech Pty. In the previous year, Danech earned interest of R477 000. Whether it has received the interest due from Danech Pty is not known.

Precious

It is strange that a company which has enough of its own problems should lend its precious cash to its holding company. But when the two companies share common directors, authorisation for such a transaction is not hard to come by.

Ultimate shareholder is probably Neville Parry, who together with Dan Slabbert, bought cash shell Danech in 1985 and secured a controlling interest by injecting into it the nuts and bolts business of Rance-Colly. Mr Slabbert is no longer listed among the directors, having moved abroad.

The change in directorship is interesting in itself. Danech's board now comprises Henderson, Cornish, Daly, De Bruyn, Labuschagne, Minne, Parry, Strydom and Wenteler.

A year ago it was Slabbert, Van den Burg, Mendelow, Fraser Jones, Rabinowitz, Parry, Henderson and Labuschagne. Only three directors remain out of nine a year ago.

Mr Fraser Jones' stay was short — he joined Danech from corporate advisers UAL Merchant Bank in 1987, but resigned last year.

Danech shares have dived from 140c a year ago to an all-time low of 40c.

The Danech group was restructured in the past year. Previously, the controlling shareholders held 54% of Glomine — now Danglo, which in turn owned 95% of Plastall. They also controlled 66% of Danech Industrial Corporation (Dicor), which held 50% of Danech.

Sources

Now, the controlling shareholders own 75% of Dicor, which has 61% of Danglo. Danglo owns 51% of Danech, 91% of Plastall and all the businesses of Glomine.

Danglo's results therefore included the contributions of Danech and Plastall. Turnover reached R326-million, but profitability plunged to minus R6-million. Interest paid rose from R1,2-million to R5,7-million.

But an extraordinary item

● To Page 17

Tears at Danech

S/Times 1/1/89 (189)

● From Page 15

of R32-million made the bottom-line loss R38,1-million. Earnings were minus 9,6c a share.

The extraordinary losses were incurred by three sources — the writing off of premium on acquisitions which were underperforming — R7,7-million; losses from discontinued operations — R22,8-million; and retrenchment, restraints and other costs — R1,4-million.

Current liabilities of R115-million exceed assets by R4,6-million, and capital employed fell by 7% to R49,7-million.

Holding company Dicor's income comes from Danglo. Its loss was 7,7c a share.

It is a brave investor who shares Mr Parry's optimism on the prospects of Danglo.

He says: "These can be considered to be positive, in view of the effects of the rationalisation that has occurred with Plastall, the consolidation under way in Danech and the closure or sale of unprofitable businesses in Danglo."

Six months ago when poor interims were announced, he said: "These can be considered to be positive, in view of the effects of the rationalisation within Plastall ..."

You know the rest. Danglo shares are at a low of 20c and Dicor's at 15c.

Cautionary notices were issued by Danglo and Dicor on December 23.

Has Lucem a finger in too many pies?

Star 2/1/89 (189)

Bottom Line

MICHAEL MENOF

In Lucem's latest annual report, chairman Mr Solly Krok says the group has once again turned in a commendable performance, reaching a new record earnings level and completing three succesive years of growth in earnings per share.

Why then has the JSE market price continued to slide from R1,65 a share 20 months ago to only 38 cents at present? The new asset value per share has climbed to 53,6 cents at end March 1988 and for the second successive year dividends were paid.

Does the group lack a well defined strategy or is it too involved in too many industries?

The group is heavily committed in mining through its engineering and allied interests but it also dabbles in brick manufacturing in the Transvaal, motor spares and accessories, manufactures and supplies gas produced from coal and coal by—products to domestic and industrial users in Cape Town and sells laboratory equipment.

Then there are the associated companies — a 20 percent stake in Bruma Lake Development now changed to a long-term property investment and 50 percent in metal abrasives manufacturing iron shot.

Clearly this mixed bag of investments is lacking single-minded focus by managament. Some make profits and others hold back the group.

Now there's the tax man in the background. With the hefty tax losses almost used up, future earnings will be reduced by the resumption of tax payments.

Sales climbed to R86,96 million (1987: R75,86 million) with operating income R12,48 million (R9,11 million). A net interest gain of R1,08 million (R492 000) meant income before tax of R13,55 million (R9,6 million). The associated companies produced a loss of R9 000 (1987: Profit R15 000) and pref dividends were R292 000 (R286 000).

Earnings for the year totalled R13,25 million (R9,33 million) giving earnings of 17,7 cents (12,5 cents) a share. Despite the accumulated loss to date of R6,79 million (1987:loss R17,01 million) ordinary dividends (1988:4 cents — 1987:3,5 cents) were again paid. The 42 percent growth in ordinary earnings excluded any profit from the Bruma Lake Development, which is a mystery.

The first phase has been completed ahead of time and the undisclosed financial results met budget. The second phase, Fisherman's Village is set to start and there is talk of a third phase. The investment is turning long term so the group is not accounting for profits at interim stages. Could this mean losses ahead?

The engineering and allied companies produced operating income of R9,59 million (R7,04 million). Margins are under attack and the engineering operations will have difficulty achieving 1988's growth.

Poor capex planning caused Brick Manufacturing to miss the unexpected and sudden upturn in demand. Operating profit was only R523 000 (R254 000). Provided demand is maintained brick operators should be a major profit contributor in 1988/88, says management.

Motor spares and accessories produced operating income of R880 000 (R363 000) suffering from greater competition and pressure on margins.

Capegas's profitability was severely eroded by severe, undisclosed cost escalations. The problems are serious and an operating loss budgeted for 1989. Unless a long term solution can be found, Capegas's future is in jeopardy.

The marketing and trading results of NT Lab Supplies were disappointing and management changed.

Heavy capex of R9,58 million is planned for 1989 (1988: R2,73 million) to expand the iron and steel foundry.

Should the company not be concentrating on the money-spinning engineering and allied industries?

A revised management plan appears necessary and investors need to be given the reasons for the steady downward trend in market price as the annual report does not disclose any.

Ailing Danglo dumps Global in new bid for profitability

189 B Day 6/1/89

MERVYN HARRIS

TROUBLED mining and supplies group Danglo has sold Global Abrasives Holdings and its subsidiaries to Hudaco Industries for R15,75m cash to improve its overall liquidity and return to profitability.

Danglo incurred a R31,95m extraordinary loss in the year to September 1988 due to the write-off of goodwill, unprofitable acquisitions, discontinued operations, retrenchment and other costs.

The sale will have a significant effect on Danglo's balance sheet as Global Abrasives has R18,5m of debt in its own balance sheet. Coupled with the R15,75m purchase price, the sale will therefore reduce Danglo's balance sheet debt by R34m on consolidation.

Payment for the disposals, effective December 1, 1988, will be in three instalments — R9m this month, R5m in March and R1,75m in September.

The deal is subject to Norton US not exercising its pre-emptive right to repurchase Global by February 21, 1989. If it does, Danglo will not be affected as Norton US will repurchase Global shares on the same terms and conditions as Hudaco.

Ailing Danglo sells Global Abrasives

189 B Day 6/1/89

From Page 1

Danglo's losses would have decreased from R38,1m to R32,6m and net asset value a share would have increased from 28,3c to 36,8c had the disposal been effective at September 30, 1988.

The financial effects on parent Dicor if the disposal had been effective from end-September would have been to decrease losses from R18,8m to R15,4m and increase net asset value from 19,1c to 25,6c.

The purchase of Global is in line with Hudaco's objective of making a major strategic acquisition.

Hudaco says in a statement that Global was profitable in each of the five years to September 1987, but incurred a loss of R6m last year.

Hudaco again trends upwards

By Ann Crotty

Second half of financial 1988 saw a sustained strong performance from engineering group, Hudaco, enabling it to report a 21 percent increase in turnover and a 23 percent rise in operating profit for the 12 months to end-November.

Earnings were up 38 percent and dividends were lifted 36 percent.

The group looks well placed, in terms of financial and management resources, to assimilate its latest acquisition, Global. The Global deal was struck after the November year-end and has still to be given the go-ahead by Global's US parent, which has a pre-emptive right.

At the half-way stage the group was showing a 33 percent hike in turnover and a 22 percent improvement in earnings.

EARNINGS

Although earnings in the second half are traditionally stronger, the rate of earnings growth in the second half of the review period was expected to be dulled by the fact that performance in the second half of 1987 was bolstered by a number of acquisitions.

But the absence of acquisitive activity in the six months to end-November did nothing to dampen steady earnings growth, a factor which seems to point to fundamental strength within the group.

In financial 1988 turnover was up to R252 million (R208 million) and operating profit increased to R27,4 million (R22,2 million).

The group had to carry a heavy finance bill, up to R2,5 million from R663 000, but still managed to show a reasonable 16 percent increase in pre-tax profit to R24,9 million (R21,5 million).

Utilisation of tax losses led to a sharp reduction in the tax rate, down from 38 percent to 28 percent, and enabled Hudaco to turn in a 40 percent improvement at attributable-earnings level.

Earnings were up to R17,6 million (R12,5 million), equivalent to 85,4c a share.

A final dividend of 23c (18c) has been declared, bringing the total for the year to 38c (28c). Earnings and dividend figures are slightly ahead of market expectations.

RELEVANT

The directors say the 38c dividend is in line with Hudaco's normal 2,2 times dividend cover. "The opportunity has been taken to align the interim and final dividends more appropriately with earnings of the relevant periods."

The hike in finance costs reflects the R20 million borrowings Hudaco had on its books at end-financial 1987. Most of related to the purchase of Frencorp for R18 million in 1987.

At end-financial 1988, borrowings were down to less than R1 million. This reflected the strong cash-generating ability of operations as well as the sale of the Frencorp cash shell to Duros and the sale of Terraquip in a management buy-out.

The sale of both of these assets was effected in the review year.

The purchase of Global will see borrowings surge back up to R24 million. But management seems confident that Hudaco's cash flow will prevent this from acting as a drag on earnings.

Strong cash flow assists Hudaco to 40% profit rise

B/Day 16/1/89. (189)

ZILLA EFRAT

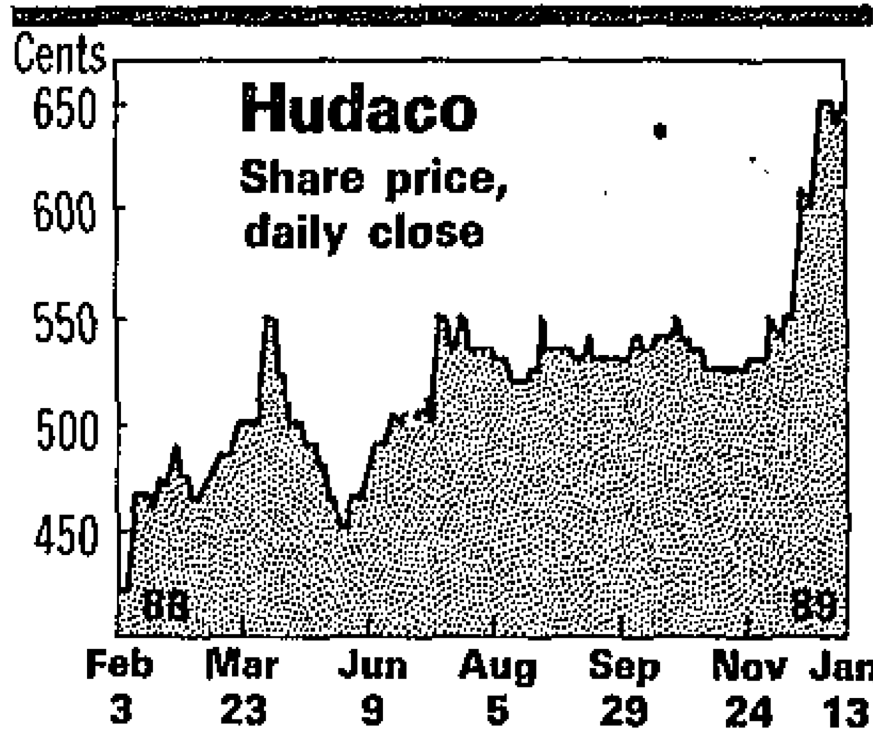
ENGINEERING group Hudaco has achieved excellent results after a year characterised by consolidation and rationalisation of recent acquisitions, record trading performances by all divisions and very strong cash flow from operating activities.

Attributable profits jumped 40% to R17,6m (R12,6m) for the year ended November 1988. And earnings improved by 38% to 85,4c (61,7c) a share.

A final dividend of 23c a share has been declared, increasing the annual dividend by 36% to 38c (28c) a share and keeping it in line with Hudaco's normal 2,2 times dividend cover.

Pre-tax profit rose 16% to R24,9m (R21,5m). Turnover increased by 21% to R252m (R208,4m), while the operating margin of 10,9% was almost the same as the the previous year.

Net borrowings, which dropped from R20m in December 1987 to below R1m as a result of strong cash generation from operating activities, will allow the



Graphic: FIONA KRISCH Source: JSE

R15,75m cash acquisition of the Norton group from Danglo to be funded out of existing resources.

The Norton group, which manufactures and distributes industrial abrasives, showed high borrowings and a loss of R6m in the year ended September 1988, after five previous profitable financial years.

Hudaco previously said reasons for the poor performance had been identified and it was confident that with Hudaco management skills the potential of Norton would be realised in the short to medium term.

Directors expect the trading environment in 1989 to be less buoyant than last year and that high interest rates and the pressure on government spending will provide the company with a new set of challenges. But they expect continued growth in earnings.

In the year ahead, Hudaco will get to grips with the opportunities provided by the Norton group and continue to develop the exciting prospects within its exising businesses, say directors.

8 SUNDAY TIMES, Business Times, January 29, 1989

Unihold adds punch to its mining arm

THE diversified Unihold group has bought Unique Engineering for about R3-million in cash.

By Don Robertson

The purchase strengthens the company's involvement in the mining industry. It is complementary to the Boksburg foundry which provides high-chrome castings for the mines; another subsidiary, Malvern Wedge Wire, which makes steel screening used for washing coal; and Wilco Howard, which manufactures mining consumables such as pumps. Other foundries in the group also produce castings for the mining industry.

Unique, based in Boksburg, makes and distributes hydraulic mine props and high-pressure pipe fittings. It is the largest supplier of props to the platinum mines. It is making progress in supplying props to the gold mines.

The props are made of nickel-based steel. Because of the metal's strength the props are smaller and lighter than conventional ones. Sold under the name Uniprop, they can be used many times as the working face advances.

Chief executive John Butler says the company is looking for further expansion through acquisitions and by organic growth.

The company is due to announce preliminary results for the year to December. All Mr Butler will say about the results is that turnover has risen to more than R100-million from R84-million in 1987. Attributable profits have also increased.

All the group's 13 subsidiaries made a profit last year.

The improvement is a far cry from the loss of R8,3-million in 1984 after the reverse takeover of QH Super, which gave Unihold its listing. Profits recovered in 1986 to R1,8-million and rose to R6,5-million in 1987.

Divisions

Unihold operates three divisions — foundry, engineering and electrical.

All sections of the foundry division will be expanded this year to meet increasing demand. Most are operating at capacity.

Unique Engineering will increase the production of high-pressure fittings. It is the only manufacturer of these products in SA and has between 40% and 50% of the market. It will increase production to meet import replacement. Mine props will be increased from the present 1 200 a month to meet increased SA and export orders.

The Boksburg foundry produces manganese steel and high-chrome iron which is used mainly for linings in ore-crushing mills. The company operates 24 hours a day and hopes to step up exports. The plant uses 900 tons of steel a month, but the figure will rise by June.

The specialist Rely Precision Castings factory which has operations in Boksburg and Chamdor hopes to increase production of investment castings which use a wax mould to produce a variety of components.

JOHN BUTLER

"Demand for this type of product is unlimited," says Mr Butler.

Corrosive

The Boksburg plant is one of only three foundries in the world able to cast silicon iron for highly corrosive applications, such as the transfer of hot sulphuric acid slurries.

A fettering shop is being added to the plant as part of a R1,2-million expansion programme.

After the debacle with QH Super, all that is left of that group is Walro Flex and Walro Automotive.

Walro Flex makes copper-furnace and water-cooled cables — the largest in SA — electrical braid and earth cables. Additional exports are being sought.

Walro Automotive produces wiring harnesses for the motor industry. In spite of the expected decline in car sales this year, the company hopes to increase volumes because of the many new models to be launched.

Also in the electrical division is Zumtobel-Barlite, a joint luminaire operation with Zumtobel of Austria.

Sales volumes rose by 38% last year and are expected to increase by 26% this year from R15,5-million to R25-million.

The company has won contracts for the supply of high-tech light fittings for buildings and plans to increase its presence in this market.

Star 9/2/89 (189)

NEI lifts dividend

By Ann Crotty

Latest evidence of the strength of the economy is the performance reported by engineering group NEI.

For the 12 months to December it recorded a 12 percent increase in turnover and a 25,7 percent surge in operating income.

Earnings per share were up 17,2 percent to 527,6c (450,3c) and the final dividend has been lifted 20 percent to 156c (130c), bringing the total to 211c (180c).

As chief executive Mr Blitz Bieber says, because of the dominance of long-term contracts in the group's total business, operating income cannot be directly related to turnover in any one accounting period.

This reflects management's conservative accounting policy whereby the full profit earned on work undertaken does not appear on the books until that stage of the contract is completed, which may be in another accounting period.

As it is management policy to allow for fairly conservative provisions there tends to be a difference between the initial profit allowed for on a contract, and the subsequent profit realised.

This is why it is more appropriate to view NEI's performance on a long-term basis.

Over the past 11 years NEI has achieved a compound annual growth rate of 21 percent in turnover and 24,6 percent in pre-tax income.

This solid, long-term strength does not appear to have earned the company any extra points in share rating, which has tended to be just slightly below the sector average.

Latest results put the share on a P/E rating of 6,8 times and a dividend yield of 5,9 percent (sector averages: 7,8 times and 5 percent).

The shares are comparatively expensive and tightly held, two factors which can restrain share-performance.

The group tax rate continued to rise in 1988, reflecting the utilisation of the tax loss. Mr Bieber is expecting it to move above 37 percent in financial 1989.

An extraordinary loss of R5,1 million reflected the write-off of consignment stocks after the termination of a franchise operation.

Turner & Newall see 28% rise in earnings

BMDay 16/2/89 (189)

TANIA LEVY

TURNER & Newall has announced a 28% increase in earnings after benefiting from a buoyant automotive-component market in the year to December.

The Durban-based engineering group has declared a 33c (27c) final dividend, bringing the dividend declaration for the year to 44c (34,5c) a share.

The increased demand for automotive components, both in the original equipment and replacement markets, pushed turnover of components up 79% to R151m.

This helped push group turnover up 61% to R234,7m, compared with R145,6m at the same time last year.

Improved earnings from Everite contributed to the 28% increase in earnings to R20,3m (R15,8m) or 87,7c (68,5c) a share.

However, Turner & Newall disposed of its 25% interest in Everite in November in order to finance the acquisition of a controlling interest in Associated Engineering (Asseng).

The acquisition of Asseng, to be approved by shareholders on April 4, will allow Turner & Newall to take advantage of the strong demand for automotive components, expected to increase as a result of the new value rather than mass-based local content programme.

Drivetech to sell its NTN Bearing business

BDay 16/2/89

(189)

TANIA LEVY

DRIVETECH is to sell its NTN Bearing business to Duros Merchant Bank in a deal worth R17,2m.

Drivetech chairman and Tollgate MD Hennie Diedericks said yesterday the cash generated from the sale would be used in a further acquisition for Drivetech.

The disposals will leave a streamlined Drivetech consisting of Monet Holdings and Multimech's automotive engineering and vehicle body-building operations.

Duros will acquire the entire business of Invicta Bearings and Brooks and McLeod (BM), as well as the issued share capital of Mattel's Machinery, Rockstable and other dormant subsidiaries. The acquisition includes Drivetech's preference shares in Talanda and the Multimech production machine and press shops.

"The cash generated in the sale of industrial-based NTN Bearings will be better put to use in line with our objective of concentrating solely on consumer-based activities," said Diedericks.

Tollgate acquired a 64% interest in Drivetech from its own holding company, Duros, last July. In doing so it injected its Multimech division into Drivetech.

Drivetech's financial year-end has been changed to June to coincide with that of Tollgate, so the interim results released are for the 10 months to December.

Asseng overcomes big jump in tax bill

BDay 16/2/89

ASSENG produced record taxed profits of R11,3m last year in spite of a tax bill of nearly R5m.

Pre-tax profits for the year to December were up 53% on a much lower turnover increase of 34%, while earnings a share rose to 28,7c from 26c in 1987 when taxed profits totalled R10m. A final dividend of 8c was declared, making 14c for the year.

Turnover rose to R105,7m (R78,6m). (189)

Trading profit for the year rose from R10m to R16,9m. Finance charges of R800 000 (R400 000) moved pre-tax profits to R16,1m (R10,5m).

The company is busy with an expansion programme costing R20m, of which R11,4m has already been spent. — Sapa.

Trencor well up at the half-way stage

Star 17/2/89

189

By Ann Crotty

Trencor's excellent first-half performance suggests that chairman Neil Jowell's earlier forecast of little earnings growth in financial 1989 is likely to be wide of the mark.

For the six months to December, turnover was up 41 percent and earnings per share surged 53 percent.

The interim dividend has been doubled to 20c a share, although this reflects an attempt to redress the growing disparity between the interim and final dividend.

Management says the increase in the year's total dividend will be roughly in line with the growth in earnings.

Turnover was up to R334 million and operating income rose 54 percent to R33,6 million.

The interest payment was up 153 percent to R3,8 million (R1,5 million), although gearing remained at 41 percent. A drop in the tax rate restored the growth at taxed profit level to a 53 percent increase from R12,7 million t R19,5 million.

The dividend of 20c has been declared from earnings per share of 122,3c (79,7c).

Despite the strength of the first-half performance, management remains cautious about the full year.

"The growth in group income in the first half is not expected to continue in the remainder of the year and we expect earnings for the whole year to show a modest increase over last year's very high base."

This conservative stance reflects the consistently strong profit growth the group has produced since financial 1984.

Feeling in the market is that in view of the bullish forecasts from players in related industries, unless there is a major and sudden change in conditions, it is difficult to see Trencor not reporting a reasonable real increase in earnings.

Management says that all domestic divisions met their budgets, with the engineering division exceeding expectations.

"The export operations continue to make a significant contribution to earnings."

Trencor's holding company, Mobile, reported earnings up 52 percent to 30,5c (20,1c) a share and has declared a dividend of 4,7c (2,35c).

Mr Neil Jowell

Fraser Alexander posts healthy rise in earnings

BD 20/2/89 (189)

LESLEY LAMBERT

WITH interim earnings a share (EPS) up a solid 50% to 50c, Fraser Alexander, the mining services and construction company, seems determined to repeat last year's record results despite setbacks in two of its major divisions.

Net income attributable to shareholders after extraordinary items increased 52% to R5,9m during the six months to December 31. Growth in EPS was slightly less due to a small increase in the number of shares in issue. The 11c dividend which the company has passed on to its shareholders represents a 37,5% increase on the previous interim period.

While all divisions contributed to the earnings growth, there were operational setbacks in the concrete products division, and the traditional mine tailings business experienced "extremely difficult" conditions, according to the directors.

The profitable tailings division which deposits and remines the slimy residue pumped out of mining operations, battled to pass on its full cost increases to the mining industry.

The rate of profit in this division fell as the mining industry, which is in the process of cutting costs, resisted the service charge increases required to cover the full extent of cost increases, says director Les Maxwell.

While this trend is expected to continue during the second half, production problems in the concrete products division, which led to a small operating loss in the division, appear to have been dealt with.

Machine breakdowns at the concrete brick and block factories in Cape Town contributed to operating inefficiencies. According to Maxwell, an action plan had been implemented to improve efficiency and eliminate losses during the second half.

Turnover grew 24% to R82,7m, with strong contributions from the construction and concrete products divisions, despite the losses at the Cape factories. Maxwell said order books for most divisions, particularly construction, were looking healthy.

The coal mining division did well last year at a time when many other coal producers were faltering because it produced a special type of coal suited to metallurgical industries.

Directors do not expect Fraser Alexander to show the type of improvement it normally does during the second half, largely as a result of ongoing cost increases in the mine tailings division. But, even if it repeats the interim results, in line with the director's expectations, it should maintain the strong earnings growth track established during the past two years.

Shareholders of Fraser Alexander's holding company, Fralex, will receive a 6,2c dividend — 37,8% up on the previous six month period — from distributable earnings of 28,2c (19c). Fralex's sole investment is a 74,1% shareholding in Fraser Alexander.

No interim dividend as Genrec builds resources

B/Day. 22/2/89. (189)

GENREC Holdings achieved a substantial profit improvement in the six months to December, but to build up resources the group will not pay an interim dividend.

Operating earnings for the six months to December were 28c a share compared with 14c a share in the 10 months to December 1987 and 49c a share in the 16 months to June 1988, the last accounting period, when a 9c dividend was paid.

● COLEPEPER

Strong management has restored the balance sheet, the group has large contracts (including a R200m contract for the Mossgas project) and its manufacturing base is being enlarged into heavy engineering from medium to light engineeering to provide a full spread of services.

In fact, prospects in the 1990s appear so good that a substantial rights issue is on the cards to widen the capital base to tackle major projects and to make acquisitions, says CE Ian Colepeper.

LIZ ROUSE

Capital employed at present is only about R37m for a group whose turnover might well surge towards R300m in the year to June 1989, judging by the past half-year's R130,66m turnover.

Genrec, with operating profit at R2,9m in the past half-year, achieved an improved margin of 15,6% compared with a 1% margin in the 16 months to June 1988.

Reorganisation

The interim balance sheet shows borrowings (down to R3,2m) and total liabilities at 10% and 139% of group equity, respectively, compared with 67% and 216% at the end of December 1987.

Genrec directors are confident the uptrend will continue in the second half of the year and that earnings will be considerably higher than the previous 16 months' 49c a share.

Colepeper says the beneficial effect of the revamp and large contracts will start to make a marked impression on profits in the first quarter of 1990.

Directors say reorganisation of the group's activities into synergistic trading units — inland fabrication, inland construction and coastal, with thermal insulation and Genrec Offshore trading as separate business units — has been completed.

Genrec has acquired 100% of Lebus Engineering, which manufactures mining equipment. Work on the rationalisation and upgrading of the heavy engineering facilities is expected to be completed in the 1990 financial year.

Work has started on the fabrication and assembly of the FS Jacket for the Mossgas project.

The group is well positioned to consider acquisition opportunities, a number of which have been identified and are currently under consideration and will benefit from capex programmes now being planned, particularly in the synfuels, mining and paper industries.

Based on the board's projections, Genrec at 280c could be considered a recovery stock as it is operating in — at this stage — a continued growth area.

Compiled on a Punch Line Panda PC

Genrec passes payout despite profit rise

Star 22/2/89

By Derek Tommey

Engineering and contruction company Genrec has reported a sharp jump in profits for the six months to December and expects to do as well in the second half.

But in order to save cash it is not paying a dividend.

The chairman, Mr GR Knudsen, also sees substantial opportunities for improving Genrec's activities.

But he says this will need a substantial rights issue at the proper time to increase the level of shareholders' funds.

Genrec had a group operating profit of R2,9 million in the six months under review.

This compares with R273 000 for the 10 months to December, 1987 and with R3,3 million for the 16 months to June last year.

No tax was payable. Earning were equal 28c a share against (after including outside interests) 18c in the 10 months to December 1987 and 49c in the 16 months to June last year.

Mr Knudsen says that the results should be maintained and earnings should be considerablly higher than in the 16 months to last June.

The company has secured a contract, worth R200 million, for the fabrication and assembly of the FA Jacket for the Mossgas project.

It is also well-positioned to consider acquisitions, a number of which are under consideration and expects to benefit from the fixed investment programmes being planned, particularly in the synfuels, mining and paper industries.

But these expansion strategies and the ability to undertake major projects means that it will be necessary consider a substantial rights issue, says Mr Knudsen.

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Simon Africa's turnover hits new highs

BDay 23/2/89 (189)

EDWARD WEST

SIMON Africa achieved a record sales turnover of R78,6m for 1988 compared with R52,1m in 1987, financial director Peter Fitchard said yesterday.

The high turnover allowed the group to achieve a satisfactory profit level in spite of low margins available in the engineering contracting industry over the past three years, a statement released by the Simon group said.

Prospects for Simon Africa looked "exceptionally" encouraging with several major contracts expected to be handed to group companies in the next two months.

Increases of sales of 20% have been budgeted for 1989 which excludes an aquisition in the food engineering industry which is been currently negotiated. The seller, a competitor to a Simon group division, Simon Macforman, is planning to disinvest, Fitchard said.

Steinmuller to start first on Mossgas

EDWARD WEST

THE Steinmuller Group would be the first mechanical engineering contractor to start work on the Mossel Bay oil-from-gas refinery, Steinmuller (Africa) Group said yesterday.

It said during the next 12 months the group would prefabricate, erect and commission the refineries air separation plant, a steam reformer and other components for the refinery such as columns, reactors and pressure vessels.

The plant in construction would supply 2 080 tons of oxygen a day for the reforming process. Steinmuller's increased growth was attributable to the construction of some of the largest power station boilers in the world.

Diversification

The group said the Mossref contract was a clear indication of Steinmuller's diversification into synfuels and related industries.

Other indications of diversification include a recent majority shareholding in the SA subsidiary of Fuller International which strengthens Steinmuller's capabilities in supplying materials, handling and other equipment for the mining, cement, lime and paper industries.

Fine first half for Globe, Grinaker

Cpt Times 28/2/89

Financial Editor

CAPE Town-based Globe Engineering and its stablemate in the Anglovaal group, Grinaker Holdings, both achieved an impressive rise in earnings for the six months to December. And both expect to continue to do well in the second half.

Globe lifted earnings by 55% to R3,5m (R2,3m) or 100,1c (64,4c) a share. Operating profit rose by 98% to R5,1m (R0,7m), on a 20% rise in turnover.

Income from investments rose to R0,8m (R0,6m) and pre-tax profit to R2,3m (R1,3m).

The tax bill rose to R0,7m (R0,3m). But this was offset by a sharp rise in earnings from associated companies to R2m (R1,3m), mainly because of the Grinaker Holdings' profit improvement. After deducting minority interests, consolidated earnings were R3,5m (R2,3m).

Net asset value rose to 1 247c (1 116c) a share.

The directors say there was continued firm demand for the group's services and a more balanced work-flow significantly reduced the amount of idle time. This was "particularly beneficial to Globe's industrial and shipwright divisions."

No marked improvement in the marine and industrial markets is expected in the current half-year, but "with business continuing at current levels, the previous year's results should be bettered."

In the year to June 30, Globe paid an annual dividend of 70c (60c) a share. It is against group policy to pay an interim dividend.

● Grinaker Holdings lifted earnings for the six months to December by 64% to R12,5m. The interim dividend was 43% higher at 10c (7c) a share.

These interim results follow an 83% rise in attributable profits in the year to June 1988 and a 75% increase in the 1986/87 year.

The directors say all divisions in the construction and electronics group performed well and contributed to the half-year's profit increase. Turnover rose by 46% to R594m (R406,5m) and "continuing buoyant trading conditions have ensured that the work in hand remains at a high level with acceptable margins."

Operating profit was 33% higher at R35,3m (R23,9m), and investment income rose to R3m (R1,9m).

The higher level of trading activity and bridging finance on work in progress, combined with higher interest rates, increased the interest bill to R3,3m (R1,8m).

Although the tax rate was slightly lower, the tax bill rose to R16m (R11,6m).

The directors say they expect business to continue at these levels for the rest of the year and forecast year-end results comfortably ahead of last year.

NEI buys controlling stake in A G Walker

B/Day 4/7/89

ZILLA EFRAT (189)

ENGINEERING group NEI Africa has acquired the controlling stake of A G Walker, the petrol pump and service station equipment manufacturer and distributor.

The R4,75m cash deal will give NEI 82,5% of A G Walker's issued share capital effective July 1.

NEI CE Blitz Bieber says the transport industry — in which his group has major investments through Propower and Probuild — has been a growth area.

A G Walker will be placed in NEI's diesel/industrial division and will continue to operate under its own name with its existing management team.

Laser system to cut imports

BDay 9/3/89 (189)

TANIA LEVY

INDUSTRIAL laser systems will be designed and made in SA for the cutting of vehicle body panels after an agreement between the CSIR, Laser Power Products and Dorbyl.

"This quantum leap in SA's technological progress will ultimately free the country completely from having to import this specialised equipment," said LPP MD Richard Pawley.

JSE-listed engineering giant Dorbyl will manufacture the first laser-powered, computer-controlled steel cutting centre, at a cost of between R1m and R2m.

It will be the largest laser system in the Southern Hemisphere and be situated at the East Rand premises of Dorbyl subsidiary Baldwin Steel.

Support will come from the CSIR and LPP which have a technology transfer agreement that will be marketed to prospective laser systems users.

Meter Systems gains a major stake in Hotwork

6 BDay 10/3/89

(184)

SYLVIA DU PLESSIS

METER Systems has acquired a 51% shareholding in combustion engineering group Hotwork.

The company said yesterday the majority shareholding was obtained in exchange for 49% of the Niel Passet Group, and followed Meters's acquisition of 100% of Niel Passet's issued share capital in August last year.

Meters — which moved from the DCM to the engineering sector in January — manufactures and supplies fluid handling and combustion equipment and systems to the petro-chemical and general industries, the mines and parastatals.

In acquiring a majority shareholding in Hotwork, the company has effectively eliminated Niel Passet's major competitor.

The Hotwork companies — three in all — have been moved from Germiston to new group premises in Sebenza.

Meters' director Graham Nel said a new company — Combustion Holding — had been formed which would have 100% of the issued share capital in both the Niel Passet and Hotwork group of companies.

Meters planned to list Combustion Holding within two to three years, he added.

Meters will hold 51% of the shares and the remaining 49% will be held by Hotwork's original shareholders, who will all be executive directors of Combustion Holding.

Meters has shown compounded growth of more than 50% a year over the past four years.

Hotwork's turnover in the last financial year was in the region of R3m, while Niel Passet's was about R3,5m.

He says Meters turnover in the current financial year should exceed R14m.

Language boo-boo in annual report

(189)

S/Times 12/3/89

Business Times Reporter

SOMEBODY boobed in the Northern Engineering annual report.

It appears that the report was intended to be produced in separate English and Afrikaans editions. The report has come out with English and Afrikaans pages arbitrarily mixed.

As a result the chairman's statement is available only in Afrikaans, and the directors' report is in English. Segmental reports are available in one language or the other, leaving the unilingual patchily informed.

Indication

Chairman Len Abrahamsen forecasts "an acceptable increase in earnings" in spite of indications that the economy is slowing from a modest rate of growth of 3%. His confidence is based on a bulging order book.

In the year to December NEI made R50,5-million (1987: R40,7-million) after tax on sales of R438,7-million. The mechanical division contributed 45% of operating income, electrical 19,5% and diesel 35,5%. Turnover has grown at 21% a year and pretax profit by 24,6% annually in the past decade.

Mr Abrahamsen reports attempts to diversify from power supply by way of acquisitions, development of technology and seeking new markets.

Pointing out that 20-million South Africans are still without electricity, he believes there is still a good future in power-station building and maintenance.

Swipe

Mr Abrahamsen takes a swipe at outdated ideology undermining SA's economic potential. He contends that double-digit inflation, the weak rand, the inaccessibility of foreign capital and low productivity are caused primarily by political, not economic, factors.

The directors report that to take part in the emerging SA offshore gas and oil industry, ICAL Offshore was formed in conjunction with the subsidiary of an unnamed foreign company with North Sea experience. The company has secured the order for the construction of the two drilling modules for Mossgas.

Another company formed by NEI is Ical Petrochem. The partner is another unnamed "well-known" foreign company specialising in the construction of hydro-carbon furnaces.

Downturn

Companies in the electrical division made a considerable effort to increase market share and broaden their local manufacturing base for medium- and high-voltage distribution equipment. This not only offset a slight downturn in demand in certain sectors, but enabled individual companies to enter 1989 with broader product bases and greater market potential.

Propower, the diesel and industrial division, reorganised and rationalised its stock holding to permit faster response to customer requirements. A data-procession system was developed and installed.

The remanufacture of heavy trucks at Propower's Isando premises using partly imported gilder kits has been successful. The rand's decline makes it economic to undertake total remanufacture of heavy trucks, including engines, drive trains and chassis. The directors say the trucks can be registered as new vehicles.

NEI has achieved an outstanding track record in a decade of subdued engineering activity. The secret is adaptability and exceptional managemnet.

The share is R34, which is 6,4 times historical earnings. The dividend yield is 6,2%. NEI is another example of a blue-chip institutional favourite that is not overvalued.

Eskom, Concor and Middelburg Steel honoured

BRENT MELVILLE

ESKOM, Middelburg Steel and Alloys, and Concor Engineering took top honours at the prestigious Institute of Mechanical Engineering (SAIME) awards banquet for outstanding engineering projects last week.

Eskom's R5bn Lethaba Power Station and Middelburg Steel and Alloys' DC R21m Plasma Arc Furnace shared the award for projects and systems in the over-R10m category, and Concor Engineering won in the R500 000 to R10m range for its R2,5m Badenhorst test tunnel.

Selection was made on the basis of the degree of SA expertise in design and construction, the amount of SA-manufactured equipment, construction costs and time related to original estimates and the degree of innovation.

B/Day 14/3/89

Explosion

The Eskom power station is the fourth of Eskom's new generation thermal power stations and is due for completion by 1990.

The fully computerised DC plasma arc furnace is the only furnace used to produce ferrochromium alloys from material previously considered waste, while Concor's test tunnel for research into coal flammability under methane-gas-explosion situations has proved an invaluable tool in establishing safety norms in coal mines.

Landlock on long recovery trail

STAR 15/3/89 (189)

Diagonal Street

ANN CROTTY

Landlock's results for the 12 months to end-December show some signs of light but indicate that the group is still far from the end of the tunnel and also far from justifying the current share price of 85c.

On earnings per share of 5,8c (which is before an extraordinary loss of R2,4 million) Landlock is on a price/earnings rating of 14,6 times which is well ahead of the average of 13,7 times for the engineering sector.

Its high rating seems to reflect two consideration — that the company has good recovery prospects and/or that there is a possibility of a change in control.

Rumours of a change in control have been circulating the market for almost a year. To an extent these rumours are inevitable given the poor performance that the company has reported in recent year and the fact that its parent is British-based.

Although there have been a number of changes in top management, a change of control has been consistently denied.

In an attempt to improve the group's prospects and lightening its debt load, management has sold off a number of operations. Tilghman-Lasch, which appeared to have moved into profitablility during the first six months of financial 1988, was sold to Valard during the second half for R2 million.

After the year-end, the group sold its clutch and brake manufacturing operations as well as its automotive component distribution branch in Cape Town.

The R6,5 million proceeds will be used to reduce borrowings which will bring down the gearing from 94 percent to 67 percent.

In view of the expectations for strong growth in the automotive parts market, the sale of these assets seems regrettable but according to management, it has decided to concentrate in areas of this market where it has technological advantages.

After these disposals the group's major assets are Girlock, which is believed to be performing well, and Mintex Don which knocked performance during financial 1987 and continued to hold back the group in 1988.

The group's earnings prospects hang on the resolution of the production problems at Mintex Don. If these can be sorted out, then according to one leading analyst, an earnings figure of around 30c could be achieved.

But shareholders may be a bit weary particularly in view of the need to clear the arrear dividend payments on preference shares before ordinary dividends can be paid.

R5m question for Danech CE

NEVILLE PARRY

By Julie Walker

DANECH directors can expect some probing questions at the company's annual meeting in Johannesburg on Friday.

Much will hinge on chief executive Neville Parry's explanation about how his company Danech (Pty) was able to borrow R5,18-million from the listed Danech.

Mr Parry told me in January after disastrous group results were announced that half the amount had been repaid and the balance would be repaid on a programme.

He said it was borrowed in the normal course of business. This week he said that some of the money had been repaid.

The solvency of Danech (Pty) is important to the fortunes of Danech because it is the major debtor.

Technical

Another query surrounding the technical solvency of Danech (Pty) is its purchase of Turncliffe Mining from Global Mining, now Danglo — another member of the Danech group and also managed by Mr Parry. Turncliffe was bought for R45 000.

At the time of the disposal in October 1986, Danglo shareholders had to suffer an extraordinary loss of R2,2-million. So it is surprising that the 1988 accounts for Danglo explain to shareholders that they have had to accept losses of R10,8-million on a company sold two years before.

The notes say: "Subsequent to the sale of the Turncliff group in 1986 to Danech (Pty), that company has been unable to fulfil the terms of sale agreement by obtaining the release of Danglo Limited from its guarantees to the bankers of the Turncliff group.

"A provision for the estimated losses, after realisation of the assets of Turncliff, has therefore been created."

In other words, Danech (Pty) owed the banker R10,8-million, could not pay, so poor old Danglo had to cough up the cash. Together with the Danech (Pty) R5,18-million debt to Danech, known debt totals R16-million.

Mr Parry is the sole shareholder of Danech (Pty), but minority members of Danglo have forfeited some of the the company's earnings because of these losses.

He says it is nonsense to suggest that Danech (Pty) is technically insolvent, but the balance sheet shows that debt exceeds R26-million, including R7-million owed to the Trust Bank. It took on that debt from UAL when co-founder Dan Slabbert left the group.

The assets, comprising Dicor shares and properties, amount to barely R4-million, leaving a shortfall of R22-million. Mr Parry himself is personally liable for the debt.

Mr Parry denies that Danech (Pty) is insolvent. But with interest rates at 19% it is hard to see how Danech (Pty) will be able to service the debts, let alone repay the capital.

Danech (Pty) owns 26-million Dicor shares, which are worth perhaps R3-million. Dicor itself is in no position to pay dividends for at least two years.

To compound the problems, many of the group's directors have been either fired or have resigned. Group flagship Norton was sold to Hudaco for R15,75-million.

Mr Parry holds a million debentures in Danech Ltd in Jersey. He says he borrowed foreign funds to pay for them. He denies suggestions that he is emigrating, saying he is the happiest he has been with the group for more than two years.

Even if he is able to satisfy shareholders' queries at Friday's meeting about why the money was borrowed in apparent contravention of section 38 of the Companies' Act, he will be pressed to convince them.

Karos heads for JSE through New Bernica

By Udo Rypstra

KAROS Hotels Holdings is to be listed on the JSE.

It will do so through a reverse listing, using near-cash-shell New Bernica.

The Karos group owns 10 of the 11 hotel and timeshare resorts in its stable and will virtually be ungeared.

Current Karos shareholders, including joint managing directors Selwin Hurwitz and Stan Hoffmann, will remain in control of the new Karos Holdings (KHL).

New Bernica will acquire the entire issued share capital of Karos Hotel Holdings for R28-million from April 1 this year. Bernica is confident it will be a cash shell by then.

Combination

The price of R28-million will be settled by a combination of cash and the issue of shares in Bernica. Lifegro Assurance will retain its current shareholding, giving it a 23% stake in KHL.

Karos shareholders will acquire at least 47,7% of the issued share capital in Bernica-KHL. New shares will be allotted as fully paid at an issue price to be determined by Bernica's net asset value on March 31 this year. It is expected to be between R27,5-million and R30-million.

The Karos vendors will make an offer to Bernica minority holders for all or some of their shares for cash. The offer will also depend on Bernica's net asset value on March 31, but will not be less than 190c a share.

Potential

Bernica managing director Arnold Witkin says there were three qualifying contenders for the reverse takeover. Karos, with its growth potential and management expertise, was the best.

Momentum Life is backing the deal through subsidiary Lifegro. Momentum director Peter du Toit says: "We are not looking for a jobbing opportunity. The deal gives us properties, security in control and the will to develop."

The parties decline to comment on future earnings, saying they depend on the outcome of the conversion.

Bernica has sold its interest in Mercedes Holdings and is confident the sale of its stake in Mercantile Securities will be settled by March 31.

Karos's value of R28-million is based on R4,5-million in warranted taxed profits for the 13 months to March 31 and net asset value of R41,8-million. Momentum will put shares representing 10% of Bernica's issued capital into a voting pool with Karos's. Karos shareholders are expected to do the same.

Luxury

The Karos group, born of the merger of the Hoffmann family hotel interests and the old Karos Hotels in late 1987, recently embarked on a refurbishment and acquisition programme.

It bought the Mont-aux-Sources hotel-timeshare complex in 1987. It has spent R5-million on refurbishing the hotel and building 10 luxury timeshare mountain lodges.

Its latest business resort project is the R17-million Karos Kruger Hotel and Bush Lodge timeshare development on the Sabie River near Kruger Gate. It has spent R1-million on expanding its Wilderness Hotel. It plans to spend another R8-million on alterations to the Arthur's Seat Hotel in Cape Town.

A total of R2,6-million has been spent on the Safari Hotel, Rustenburg. The group is looking for hotel sites in Port Elizabeth and Durban.

Budding investors

THE JSE's Schools Investment Game attracted a record number of entries this year.

A total of 868 teams from 362 schools have entered. Each team has a hypothetical R20 000 to invest in units of 100 ordinary listings on the JSE. The team with the largest gain or smallest loss after seven months will be the winner.

The JSE will act as a central stockbroker and brokerage and tax will be charged at actual rates. Teams must have enough funds to pay for their orders, and may make changes each week.

Buying spree

SYFRETS member H Lewis-Trafalgar, the R60-million-a-year property group, is still on a shopping spree for blocks of flats it wants to convert to sectional title.

Group managing director Neville Schaefer believes the blocks of flats.

"We are looking for blocks in good middle- to upper-class areas which can be converted into flats and sold at reasonable prices, but which

E L BATEMAN'S INTERIM PROFIT UP 111% AFTER RESTRUCTURE

BRENT MELVILLE (189)

RECENTLY restructured Edward L Bateman (ELB) has boosted earnings by 111% in the six months to December to 198c (94c) a share.

Operating income rose 51% to R6,5m (R4,3m) on a 76% turnover increase to R453,8m (R258m), with margins dipping slightly to 1,4% (1,7%).

The engineering group restructured its equipment and engineering divisions earlier this year into subsidiaries Elbquip and Elbeng, respectively.

The reorganisation utilised an executive share scheme to provide management with an incentive to increase profits, says chairman Bill Bateman. B (Day) 30/3/89

The strategy seems to have worked, with attributable profits climbing 348% and being passed on to shareholders as an interim dividend of 45c (32c).

"Results are considered satisfactory and the company anticipates an improved year-end result, with Elbquip and Elbeng expected to contribute significantly higher profits than in the same period last year," says Bateman.

Tight-lipped directors explain the relationship between turnover and profit figures varies between accounting periods due to the phasing of certain large projects.

ELB is currently trading at R24,50 on a historical dividend yield of 5,3%, slightly above the industry average of 5,0%, and a PE even with the average of 7,7%.

Elbquip and Elbeng will apply for a listing within the next two years, says Bateman.

Cape Times 3/4/89

Dicor back in black

JOHANNESBURG. —The anticipated interim results announced at the Danech Industrial Corporation Limited (Dicor) ACM held on Friday, indicate an impressive profit turn-around for the troubled Danech group of companies.

Reflecting actual figures for the five month period to end February and estimated figures to 31 March 1989, turnover is estimated to be R134,5m, with after tax net profits for the investment holding company of R2,6m, compared with a loss of R5,9m at the equivalent stage last year.

Chick Henderson, Deputy Chairman of Dicor, comments that the results are satisfactory and are a result of previous efforts at rationalization within the group, increased financial controls and improved operating procedures.

Dicor is the investment holding company of Danglo, Danech Mining Supplies and Plastall.

The Danech Mining Supplies Group is one of the largest distributors of mining and industrial supplies in Southern Africa, and its client base includes all the mining houses, Escom, Iscor, Sasol and agricultural co-operatives.

DIAMOND

Danech group set for impressive turnaround

B Day 4/4/89

LIZ ROUSE (189)

THE troubled Danech group is heading for an impressive profit turnaround, shareholders were told at the AGM of Danech Industrial Corporation (Dicor) on Friday.

Reflecting actual figures for the five-month period to end February and estimated figures to March 31, 1989, turnover will be R134,5m, and taxed profits R2,6m, compared with a loss of R5,9m at the equivalent stage last year.

Deputy chairman Chick Henderson says the figures are satisfactory, resulting from rationalisastion efforts, increased financial controls and improved operating procedures.

Dicor is the investment holding company of Danglo, Danech Mining Supplies and Plastall.

Hudaco takes over Angus Hawken

Star 7/4/89

By Ann Crotty

Engineering distribution group, Hudaco, has acquired 74 percent of the Angus Hawken group of companies for R2,4 million.

The Angus Hawken group is the largest manufacturer of oil seals in Southern Africa and so fits in with Hudaco management's stated objective of achieving an element of local manufacture of products it distributes.

The R2,4 million consideration will be paid in cash, of which R1,2 million will be paid immediately and the remaining R1,2 million in October, subject to certain warranties being met relating to stock, debtors and tax.

For the period to October, the R1,2 million will bear interest at prime rate, less two percent.

According to the announcement, the acquisition, effective from January 1 1989, will have negligible effect on Hudaco's earnings per share for the year to November or on the group's net asset value at end-November.

But Hawken's is expected to make a positive contribution to earnings in 1990 and subsequent growth should be enhanced by the opportunities flowing from the new value-based local content programme for the automotive industry.

Hawken dovetails with Hudaco subsidiary, Abes, which is SA's largest distributor of imported oil seals. In addition, the directors say that oil seals are used with ball bearings, a market in which Hudaco has a dominant position, a factor adding to the attraction of the deal.

Mr Beau Hawken, founder of the Hawken group, is to retain a 26 percent stake in the business and will be the non-executive chairman. Mr Denis Human of Hudaco has been appointed MD and it is intended that he will acquire 10 percent of the 74 percent of the equity on similar terms and conditions.

Mr Hawken has entered into a restraint of trade agreement with Hudaco effective throughout Southern Africa. No cash payment was made for this agreement.

The Star Finance

Danech's write-offs and losses

Bottom Line

MICHAEL MENOF

Did Dan Slabbert quit Danech last year and move overseas, leaving Leo Neville Parry with a mess?

The R19 million loss in Danech Industrial now poses serious questions.

Where does the JSE stand when a CEO holds more than 50 percent of the group through his private company, which has borrowed more than R6 million from the listed subsidiaries and can't repay?

The advances to Mr Parry's companies were unsecured, with no fixed terms of repayments. Where did the R6 million end up and what were the funds used for?

Mr Parry should sell his shares and repay the listed companies — otherwise minority shareholders will have been been severely prejudiced.

Both the Companies and Tax acts are remarkably lax when it comes to culpability. In the US, Mr Parry would find himself facing irate shareholders and the SEC (Securities & Exchange Commission) would most likely force him to sell off control to repay the bad debt his private companies have saddled Danech with.

There are five JSE-listed companies in the Danech group — Dyramid Dicor, Danech Industrial Corporation, holding 61 percent in Danglo, which, in turn, holds 51 percent in Danech Mining Supplies and 92 percent in Plastall.

The ultimate controlling shareholder is Mr Parry's Danech (Pty) and its wholly owned subsidiary Danech management Services (Pty), which owns 51,5 percent of Danech Industrial and provides the group with management and secretarial services.

What kind of management services did Mr Parry and his company provide when Danech Industrial's loss for the year was R18,81 million, a debt which has soared to 500 percent of ordinary and outside shareholders' funds.

Working capital has plummeted to a negative position. With a September year-end, the annual report only reached shareholders almost six months later in March 1989.

Even more surprising is that in September last year Mr Parry told me how well the group and all his subsidiary MDs were doing.

Surely he had his finger on the pulse and the numbers at his fingertips.

It's no use the captain sleeping in his cabin when his ship is heading for the reef!

Sales increassed to R326,4 million (1987: R150,6 million), but net operating income was a mere R2,67 million (1987: R5,2 million) — R10,89 million from continuing operations and an R8,22 million loss from discontinued operations.

With finance costs spiralling to R6,8 million (1987: R499,000) and "management, technical and consultancy fees" suddenly R3,32 million (1987: R392 000), the pretax loss was R4,12 million (1987: profit R4,73 million) — a swing of 200 percent.

Despite the tax losses standing at R24,14 million (1987: R706 million), tax still totalled R2,14 million (1987: R493 000). After accounting for outside shareholders' share of losses of R2,28 million (1987: profit R2,12 million), the net loss was R4 million (1987: profit R2,12 million).

Worse was to follow. Below-the-line extraordinary write-offs totalled R34,73 million (1987: R1,36 million), comprising R6 million provision for losses on advances to Mr Parry's private companies, R10,86 million losses in the Turncliff Group, R7,69 million goodwill written off, R8,71 million losses on sale or closure of subsidiaries and divisions and R1,52 million factory removal costs, retrenchments and restraint payments.

Outside shareholders bore R19,92 million of these extraordinary losses, leaving the income statement with extraordinary losses of R14,82 million.

Overall, the net loss for the year was R18,01 million, compared with 1987's R350 000 profit. Shareholders need to ask who the R3,32 million management and consulting fees were paid to *and why the Turncliff Group that* was sold to Mr Parry's Danech (Pty) in 1986 caused Danech Industrial a R10,86 million writeoff in 1988.

Chairman P Fatherly's statement was an apology that management failed to do its work properly.

The deterioration was not noticeable until the trend was clearly established. New management control and reporting systems, a revised organisational structure and increased focus on general asset management are now being implemented.

The balance sheet has weakened. Ordinary shareholders funds have declined more than 50 percent to R9,94 million (1987: R19,95 million), with outside shareholders totalling R13,15 million (1987: R11,51 million).

Total debt (including convertible debentures of R10,23 million) is R67,69 million (1987: R17,31 million). Working capital is a negative R5,45 million (1987: nil).

After digesting all the losses I found myself asking what the arrangement was between Dan Slabbert and Nevill Parry?

One left South Africa and the other remained with the shambles.

Somehow it doesn't add up and shareholders would have every right to call for an independent investigation.

Why are five listed companies necessary unless paper is needed to finance the deals which never produced any meaningful profit, anyhow?

Engineering to gain new control body

B/Day 11/4/89 CHRIS CAIRNCROSS (189)

CAPE TOWN — A new single body of control to oversee the affairs of the engineering, technologist, technician and certified engineering professions, the Engineering Council of SA (Ecsa), is to be established in terms of draft legislation tabled in Parliament.

The Engineering Profession of SA Bill, aims to replace the Professional Engineers' Act, and provides for the registration of professional engineers and engineers in training, and for separate boards of control for the registration of professional technologists, engineering technicians and registered certificated engineers.

It sets down that the new Engineering Council will be made up of 27 members representing the engineering profession, designed to bring about a more compact and efficient single body to control the four professions.

In terms of the Bill, the Ecsa will be vested with extensive powers to regulate and manage its own affairs and to register persons in terms of the Act. It will also be empowered to take steps considered expedient for the protection of the public in their dealings with persons registered in terms of the Act.

Restructering as Stan Eng resumes dividend

Finance Staff

Goerge Coucourakis, chairman of Standard Engineering, formerly Standard Brass, has left the group after being responsible for its succesful turnaround as evident in the latest interim results.

Mr Coucourakis, who was also a director of Malbak, Standard Engineering's holding company, is leaving the group for personal reasons and will be replaced by Klaus Zirker, who has been associated with Malbak's engineering interests for some time.

Standard Engineering has resumed dividend payments with a 10c per-share interim payment for the six months to February 1989.

At the same time, it has announced improved earnings after its reorganisation as the vehicle for most of Malbak's engineering interests.

Apart from the Standard Engineering core business, these interests include the earnings of Abertech Industries, Fluid Holdings, 58,2 percent of Hall Longmoreand 46,6 percent of Union Carriage and Wagon.

Turnover for the half-year was R157,7 million, against R27,1 million for the comparable six months in 1988 and R56,9 million for the the previous financial year.

Attributable earnings were R6,6 million, up from R501 000 for the comparable half-year and a loss of R4,6 million for the year to August.

Earnings per share rose to 29,5c from 15,9c at the half-year and a full year's loss of 147,2c.

The group's debt position also looks satisfactory with the ratio of borrowings to permanent capital at an acceptable level of 28,8 percent.

The directors say the results for the second half should be even better than in the first six months and that earnings for the year should not be less than 80c per share.

The greater asset base will also enable the group to seek further growth opportunities.

189

Star 12/4/89

any final decisions.

Quick change of top brass at Standard

STEPHEN RICHTER

FORMER Malbak director and Standard Brass chairman George Coucourakis, who only two months ago was instrumental in restructuring the group's engineering interests into a more dynamic company — Standard Engineering — has left the group.

Coucourakis, who had been with Malbak for four years, said yesterday: "The main reason for leaving was that I will get a lot more satisfaction pursuing my own interests".

Speaking for Malbak, executive chairman Grant Thomas would not specify the reason for Coucourakis's departure, saying it was a "personal matter between him (Coucourakis) and Malbak".

Thomas said Klaus Zirker, who has always been closely involved with Malbak's engineering interests, is Standard Engineering's new chairman. Thomas insisted that prospects for the group remained similar to those announced when the reorganisation took place.

● To Page 2

Standard Engineering chairman resigns

● From Page 1

Interim results released today will be a pleasant surprise to shareholders who will receive their first dividend payment since 1985. The 10c interim payout covering the six months to February was declared out of earnings amounting to 29,5c for the same period.

In addition to the Standard Brass Foundry and Engineering earnings, the above results include attributable earnings of Fluid Holdings, 58,2% of Hall Longmore and 46,6% of Union Carriage and Wagon from September 1 1988 and Abertech Industries from February 1 of this year. As a result of the restructuring, issued ordinary share capital increased dramatically to 22,3-million shares (3,2-million shares).

The directors say there has been a marked improvement in the performance of Standard Brass Foundry and Engineering operations. The newly acquired businesses had provided greater stability to earnings and a larger asset base.

Second-half results are expected to exceed those of the first six months.

Acquisitions dilute Abercom earnings

BIDay 14/4/89 (189)

BRENT MELVILLE

ACQUISITIONS and the subsequent issue of new shares diluted the earnings of engineering group Abercom to 13c (December 1987: 15c), although the group's restructuring has not allowed for directly comparable figures.

Attributable profits rose 80% to R3,2m compared with the R1,8m achieved in the six months to December 1987.

Sales more than doubled to R88m (R39,2m) and margins were slightly higher at 8,4% (8,2%), leaving operating income of R7,4m (R3,2m).

However, borrowings — to fund the acquisitions — leaped to R97,3m, pushing gearing up to 129% (20,2%) and causing interest charges to shoot up to R4,1m (R233 000).

The directors have passed the dividend payment in an attempt to conserve funds and reduce foreign borrowings.

The Malbak-controlled company sold Abertech, in February, as part of the restructuring of the group's engineering interests. It simultaneously acquired 86% of UK-based industrial holdings group MY Holdings, in accordance with chairman Peter Beningfield's stated objective of investing in overseas operations.

MY results were marginally better than expected at 6,3p a share and management is confident of longer-term benefits, says Beningfield.

PIs on abduction charge

Cape Times 21/4/87

Own Correspondent

JOHANNESBURG. — Charges of abduction — and possibly of theft and assault — are to be brought against a detective agency here whose personnel allegedly abducted, held for 25 hours, and interrogated the central figure in this week's Haggie Rand strike.

Shop steward Mr Moses Mogodi said that he had been "arrested" at his Soweto home at 2am on Monday. His room was searched and many union documents taken. He was eventually released at 3am on Tuesday.

He now fears returning home as he was warned that if he disclosed these events to anyone he would "be prosecuted or shot".

Some of the five people who detained him identified themselves as municipal policemen, and he spent the first hour at the Dube municipal police barracks.

However, Mr Mogodi said that two of the detectives involved are the head and an employee of the agency.

Mr Mogodi said that the agency head told him that the agency had been retained by Haggie to investigate the shooting, during the six-week Haggie strike last year, of the then-personnel officer, Mr Tom Kekana. Mr Mogodi was accused of having organised the shooting, which he denied.

However, Haggie managing director Mr John Milburn flatly denied any company involvement. "It is not our way. I am very disturbed to hear what occurred."

Streamlined Dicor shows turnaround

BDay 28/4/89 (189)

BRENT MELVILLE

STREAMLINED Danech Industrial Corporation (Dicor) has shown a healthy turnaround with taxed profits up 28% to R3,7m (R2,9m) for the six months to end-March.

Dicor, the investment holding company for Danech mining supplies, Danglo and Plastall, posted results which closely matched forecasts made by deputy chairman Chick Henderson at the AGM earlier this month.

Attributable income jumped into the black at R2,3m from a loss of R5,9m over the same period last year — just shy of Henderson's predicted R2,6m.

This was mainly due to a positive extraordinary item of R1,2m, mostly due to the sale of Global Abrasives, as against an extraordinary expense last year of R6,9m.

Operating margins increased to 2,8% (2,5%) on reduced turnover of R135,9m (R151m), slightly up on the forecast of R134,5m.

Severe

Chairman Peter Fatharly credited the turnaround to severe rationalisations, strong financial controls and improved operating procedures.

The company has improved gearing to 135% from its "unacceptable" level of 166% to last September and Fatharly hopes to improve the ratio.

Net current assets jumped to R86,6m during the last six months from its negative of R5,5m, still well below the figure of R23,6m for the same period last year.

No dividend was declared.

B Day 28/4/89

Engineers need 'to specialise'

BRENT MELVILLE

ENGINEERS faced a highly competitive future in which specialisation and development of business skills would become vital, Murray and Roberts (M & R) CE David Brink told guests at a Wits University faculty of engineering prize-giving recently.

The prize-giving saw more than 100 prizes awarded to students in six engineering disciplines who had excelled in the past academic year, and was the first official function to be held at the faculty's new west campus Chamber of Mines building.

Brink stressed the need to increase the rate of wealth creation to keep a handhold on SA's population growth and avoid a progressive decline in *per capita* standard of living.

He added that government had taken the lead in promoting change in business, clearly illustrated by its commitment to privatisation and deregulation.

"The effect of this is likely to be a reduction in available posts in relatively sheltered employment for 'pure' engineers," said Brink, saying engineering specialist stills employed would have to be highly qualified and specialised.

Increased competition would be accentuated by the globalisation of world trade, he said, adding that SA's resistance to international sanctions depended on its creativity in achieving the necessary import substitution.

He questioned the ability of SA to support more than two or three 'Ivy League' class engineering schools, of which one would "undoubtedly" be Wits.

Definitely no change of control at Landlock

Star 2/5/89 (189)

Diagonal Street

ANN CROTTY

Landlock's controlling shareholder, British-based BBA, is emphatic that it is staying in the country.

In the short-term it may not be such good news for minority shareholders who were hoping to make a quick buck from a change in control.

The two major influences on the price of any share are the prospects for earnings and; the possibility of a change in control. In Landlock's case, the outlook for the former (in the short to medium-term) is far from exciting. And now, after months of speculation, it seems that there is no prospect of a change in control. BBA MD, Dr John White is emphatic: "BBA is not selling-period."

Frequent approaches

Both Dr White and Landlock MD, Richard Newby acknowledge that they receive frequent approaches from SA parties interested in acquiring the British stake.

Dr White says that it is difficult to value BBA's investment in Landlock but estimates that the initial stake was below £5 million which is minimal in the context of the group's worldwide interests.

"But more important than the financial investment was the managerial investment, which has been significant. In addition Landlock has access to important UK technology."

The local operation pays loyalties to the parent but pays no management fee.

Critical to Landlock's ability to report a decent earnings figure in financial 1989 is management's ability to turn around Mintex Don which was injected into Landlock by the new parent back in 1986.

Problems at Mintex Don have dogged the group since its manufacturing facilities were re-located in Benoni in 1987. Last year's earnings of 5,8c a share was more than wiped out by an extraordinary loss of R2,4 million, most of which related to a provision for the restructuring of an operation.

Second quarter

According to management, Mintex Don did not break even in the first quarter of 1989, but is expected to break even in the second quarter: "We believe we have broken the back of the Mintex Don problems and it should show a profit in the second half."

In a move designed to focus the group's activities in areas where it has technological advantages a number of the group's operations were sold at the beginning of the current financial year.

This not only helps to focus management's attentions but also helps to lighten a massive debt burden — reflected in the group's year-end gearing of 94 percent. In financial 1988 the interest bill knocked R4,1 million from operating profit.

Although the sale of assets will help to reduce gearing, there may not be much immediate relief from the interest burden

If Mintex Don does come right this year and if the interest bill is kept under control, then Landlock should produce a positive earnings figure for financial 1989.

Management would not be drawn on an estimate noting that: "It would be imprudent to stand on a specific forecast at this juncture. Mintex Don is our achilles heel and we would first like to see a pattern of consistency on this front."

But shareholders will have to wait until the R1 million arrear dividends on preferred shares is paid out before they are able to enjoy any of the benefits of recovery.

Landlock expecting profit hike

B104 2/5/89 184

EDWARD WEST

ENGINEERING products manufacturer Landlock is expecting higher operating profits for the first half of this year than for the same period last year, says chairman Gerard de Rauville.

He told last week's AGM Landlock suffered a taxed loss after extraordinary items of R1,4m in 1988. De Rauville told shareholders the group had been battling with subsidiary Mintex Don.

The group is operating normally after some disruption with the closure of Automotive Products' central warehouse in Germiston and the sale of Veltol Parko and the Autoproducts Cape Town branch at the end of February.

Subsidiaries Girlock, Rutherford and Vivian Regina continued to trade profitably in the first quarter.

Director of Landlock's British parent, BBA, John White said he was pleased with the progress Landlock had made, and that BBA had no plans to disinvest.

Danech back in black but still passes dividend

BD 2/5/89 (189)

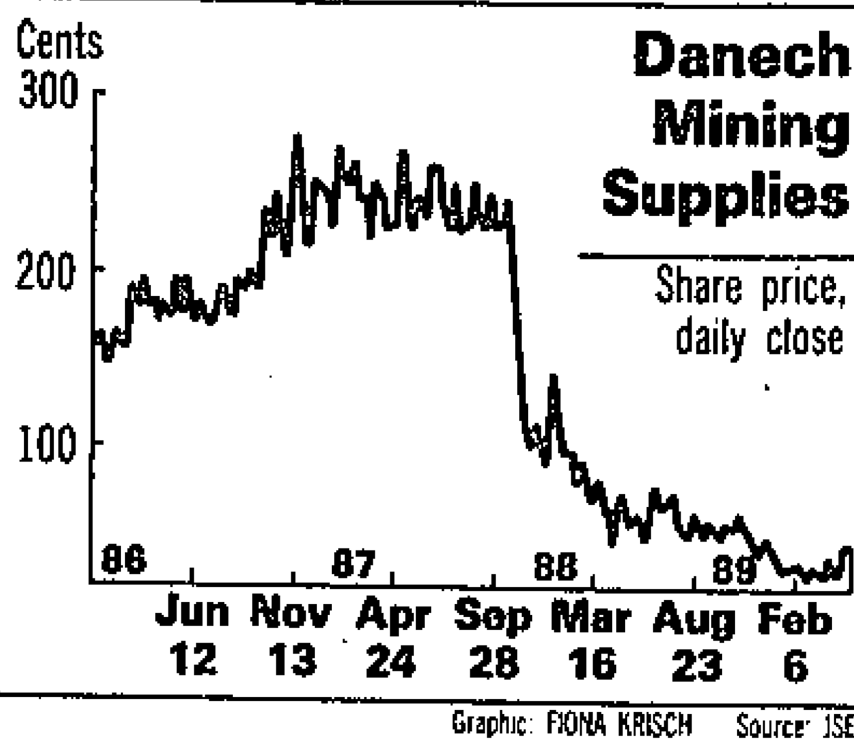
BRUCE ANDERSON

DANECH Mining Supplies (DMS) returned to profitability for the six months to March as forecast in the group's last annual report.

DMS, which supplies equipment and other material to the mining industry, has, however, again passed payment of an interim dividend. The group has not paid final dividends for the last two years after failing to meet expectations.

In the six months, attributable profit (after extraordinary items) rose by 134% to R5m (R2,1m), giving earnings of 18,9c a share (8,1c).

Most of an extraordinary item of R2,5m is a partial recovery of the loans to Danech Management Services provided for last year, say directors.



Last year DMS made a loss of R5,7m. Brokers also expressed concern over a R5,2m loan to unlisted holding company Danech (Pty) Ltd which was provided for in DMS's results last year. Danech (Pty) is owned by DMS director Neville Parry.

Attributable profit and earnings a share before extraordinary items are at R2,5m (R2,1m) and 9,7c (8,1c) respectively.

Directors say decreased reliance on the mining industry and continuous attention to asset management are the main reasons for the change in the group's fortunes.

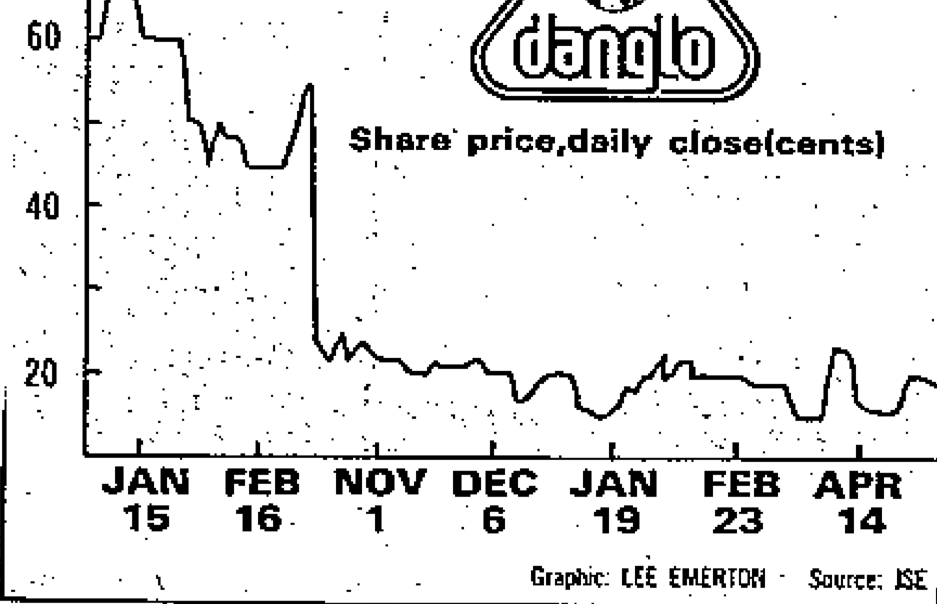
DMS chairman Chick Henderson says in the current reporting period the group has diversified into the supply of products to a broad industrial customer base.

In addition, says Henderson, overheads have been trimmed and operational management has been decentralised.

On DMS's prospects, Henderson says current indications are that the trend towards recovery will be sustained during the balance of the financial year.

In the period under review turnover rose 6,3% to R92,4m (R86,8m).

COMPANIES



Danglo reverses fortunes, but passes dividend

5 Day 3/5/87

BRENT MELVILLE

DANGLO has posted promising results with earnings a share up 14% to 3,2c (2,8c) a share for the six months to March.

The troubled mining and supplies group has remedied its liquidity problems and echoed the good interim results of siblings Plastall and Danech Mining Supplies, all stabled within the Danech Industrial Corporation (Dicor) investment holding company.

Danglo, which sold Global Abrasives Holdings to Hudaco early in January in an effort to improve liquidity, reduced its gearing to 109% (142%) and returned to profitability, with attributable income showing a turnaround of R21,6m from the previous quarter's loss to a positive R7,5m.

Operating margins increased to 2,9% (2,6%) on reduced turnover of R135,9m (R151,6m) and an unchanged pre-tax profit of R4m. However, no interim dividend has been declared.

Ordinary shareholders' funds have increased by 41% (about R7,5m) while net current assets have shifted from a negative R4,6m to a positive R12,47m, representing a turnaround of about R17m.

Chairman Neville Perry said he was pleased with the results, which were closely in line with those anticipated at the AGM last month.

"The past 12 months have seen some hard decision-making that has in turn resulted in overall improvement," he said.

Perry expected to maintain the current trend and improve gearing by returning to core activities and controlling overheads.

Danglo is currently trading at 18c, up slightly from its low of 15c early in April.

Danech improves income by 34%

Financial Staff

DANECH MINING SUPPLIES's (Danech) net income attributable to ordinary shareholders has increased by approximately 34% to R5,006m.

Management states that continual attention is being given to asset management thereby improving the employment of working capital.

Chairman Chick Henderson comments. "In this current reporting period the group has, moreover, continued to decrease its reliance on the mining industry.

"We have diversified into the supply of product to a broad industrial customer base."

Refferring to the group's future prospects Henderson has been cautiously optimistic stating that shareholders can expect that on the basis of current indications there is reason to believe that the trend towards recovery will be sustained.

Iscor a natural for Dorbyl

(189) Star 8/5/89

Bottom Line

MICHAEL MENOF

During the last four years the SA economy has suffered from the declining rand and a loss of confidence.

Disinvestment has compounded the problem.

However, amid all the gloom and doom, one positive aspect is the re-evaluation of imports in the economy.

Import replacement has made businessmen sharper and smarter.

Dorbyl is an excellent example, with its gearing forcing the mining and transport industries to re-evaluate their capex programmes.

Dorbyl incurred substantial losses in its divisions servicing these industries in 1988.

The buoyant automotive industry helped seven of Dorbyl's nine operating divisions that are closely linked.

Group sales exceeded the R2-billion mark for the first time, with the bottom line the best ever recorded.

Continuing trend

The trend is continuing because car sales are not expected to drop dramatically and import replacement possibilities present compensating opportunities, says chairman Floris Kotzee.

The strategy a number of years ago to reduce the group's traditional dependence on heavy engineering has worked.

Important acquisitions made in the recent past, plus rationalisation and scaling down in certain divisions, made a major contribution towards reducing the group's dependence on fixed investment in capital goods, says Mr Kotzee.

The takeover of the shipyard in Durban last year is producing positive results for the group's combined shipyard.

Orders, mainly for the Mossgas project, will help group income.

The annual report is not perfect.

Sales and income contributions from the nine major divisions are missing and, while the pictures are pretty, shareholders certainly need divisional performance and comparisons for evaluatiom.

Dorbyl's performance and proven management makes it the ideal candidate to control Iscor/Vecor with privatisation around the corner.

Already the group works closely with Iscor through its 60/40 joint venture, Tosa Tubes.

Iscor's managing director, W van Wyk, Rembrandt's representative cast resources and Dorbyl's marketing and management expertise feature prominently in any Iscor flotation.

Sales increased to R2,08 billion (1987: R1,73 billion), with operating income before interest at R129 million (1987: R97,5 million).

Despite high debt of R162 million (1987: R141 million), net interest expense was only R23,17 million (1987: R19,58 million).

With the effective tax rate at 52,9 percent (1987: 38,9 percent) tax was R22,24 million (1987: R15,38 million).

After deducting virtually unchanged outside shareholders' income, earnings of associated companies and pref dividends, attributable earnings were R78,27 million (1987: R57,54 million).

Earnings per share were 245,5c (1987: 180,4c), with the dividend payout 77c (1987: 62c).

The extraordinary gain of R5,5 million (1987: extraordinary loss of R12,72 million) arising from the discontinuation of certain operations made the income statement comparison look attractive.

The bottom line for the year was R83,76 million (1987: R44,82 million).

Low levels of activity resulting in under-recoveries of costs and contract losses on high technology work undertaken in SA for the first time caused losses in the heavy engineering and transport products division.

Exports made a meaningful impact on the results and are receiving high priority, says Mr Kotzee, without disclosing any numbers.

Capex for 1988 was R66 million.

The roll works of Dorbyl Heavy Engineering were expanded and modernised, helping import replacement and increasing exports.

Modernisation of Tosa will need R90 million.

Surplus properties disposed of realised R11 million (1987: R15 million), leaving property valued at R16 million still for sale.

The balance sheet at end-September strengthened — shareholders' funds totalled R652 million (1987: R618 million), with working capital improving to R340 million (1987: R294 million).

Shareholders' funds

Eye-catching was the 15,5 percentage operating income to net assets and 12,6 percent earnings to ordinary shareholders' funds.

The work force of 23 385 is virtually the same as four years ago, but sales have increased 50 percent.

Yes, it could be inflation but, the bottom line has improved substantially from R19,6 million to R78,3 million.

With a net asset value of R19,46 per share, compared with a current JSE market price of R17, the market is underrating Dorbyl.

It is the jewel in dull holding company Metkor's crown, but has a sound strategy and management team which has proved it can deliver the goods.

The challenge could be an Iscor flotation where it must certainly be one of the key players.

The interim results due on May 19 should substantiate chief executive DB Mostert's prediction that Dorbyl is better placed to achieve earnings growth than ever before.

APE gets Mossgas pump contract

(187) Star 17/5/89

Orders worth many millions of rands have been placed with pump specialist APE Africa for the supply, delivery and commissioning of 88 Byron Jackson pumps for the Mossgas onshore refinery project.

All the pumps will meet the stringent API610 specification and, with the exception of four imported multi-stage units for the pumping of butylene in high-head applications, will be manufactured in South Africa with 100 percent local content.

APE, a company in the NEI Africa engineering group, holds the sole franchise to manufacture Byron Jackson pumps in South Africa.

The orders include large double-suction pumps with 300 kW motors for boiler water circulation and other units, mostly single-stage process pumps of various sizes for the pumping of naphtha, light oils, diesel, stabilised condensates and other petro-chemical liquids.

Pump castings will be sub-contracted to local foundries and the machining will be done in-house at APE's Kew works. A new factory will be opened at Wadeville to provide additional facilities for the assembly and testing of the units.

The reason why the multi-stage have to be imported is because there is no local facility for machining them. They will, however, be assembled and tested locally by APE.

One of three CNC machines, part of a total investment of R750 000, at the Swift Engineering workshop in Alrode. Swift manufactures and distributes axles, suspensions and tipper and trailer parts and the machines will be used for the production of hubs, stubs, brake carriers and shoes.

Vanadium plant

A R13 million contract for a turnkey supply of a vanadium pentoxide production plant at Vereeniging for Union Steel Corporation (USCO) has been awarded to IMS Process Plant.

IMS-PP is a company which was formed after IMS took over the staff and assets of the former Process Plant. The company had 15 years' experience in the process industries, particularly in various aspects of vanadium production. One of its major achievements was the detailed engineering of Vansa Vanadium's plant which went on stream last year.

USCO's plant, apart from it becoming one of the world's largest V205 producers, will be highly efficient in terms of chemical usage and energy consumption.

The salt recovery plant, for example, will use a mechanical vapour recompression (MVR) Swenson crystalliser, offering considerable energy savings over conventional steam-driven multiple effect units.

Ash-handling system

A sophisticated dense-phase pneumatic ash-handling system is to be installed at Eskom's Kriel power station at a cost of R12,5 million.

The project will be managed by Simon Carves, with the system and equipment being provided by Simon Macawber, the materials handling division of the Simon Africa group.

The Simon Macwaber dense-phase pneumatic conveying systems are fast gaining in popularity because they are cost-effective and profitable to operate. They also please the environmentalists because they are totally enclosed and are clean and silent in operation.

Because there are few moving parts, maintenance and service costs and downtime are reduced considerably.

The ash collected by the electrostatic precipitators from the gas before discharge from the stacks will be gathered and delivered pneumatically by the custom-designed Simon Macawber system to storage silos.

On receiving signals that there is ash to be moved in the precipitator hoppers, programmable logic controllers will automatically control the dome valves regulating the flow of dust into the system and the supply of compressed air required to move the dust along the pipes to the silos.

COMPANIES

Confidence grows as NEI outperforms JSE indices

ANALYSIS: STEPHEN RICHTER

INVESTORS have been pushing up Northern Engineering Industries' (NEI) share price since the end of last month because the recent spate of higher interest rates is not viewed as having a major impact on the group's near-term, bottom-line performance.

The engineering group's share price has advanced by 11,1% — or 400c — since the last trading day in April when it stood at 3 600c.

NEI has, as a result, outperformed both the industrial and engineering indices since then. The industrial index has fallen by nearly 100 points from its April 28 close of 2 581, while the engineering index is down marginally from the 881 close.

NEI is primarily involved in a number of projects which require months of planning before being finalised and placed into the production stage.

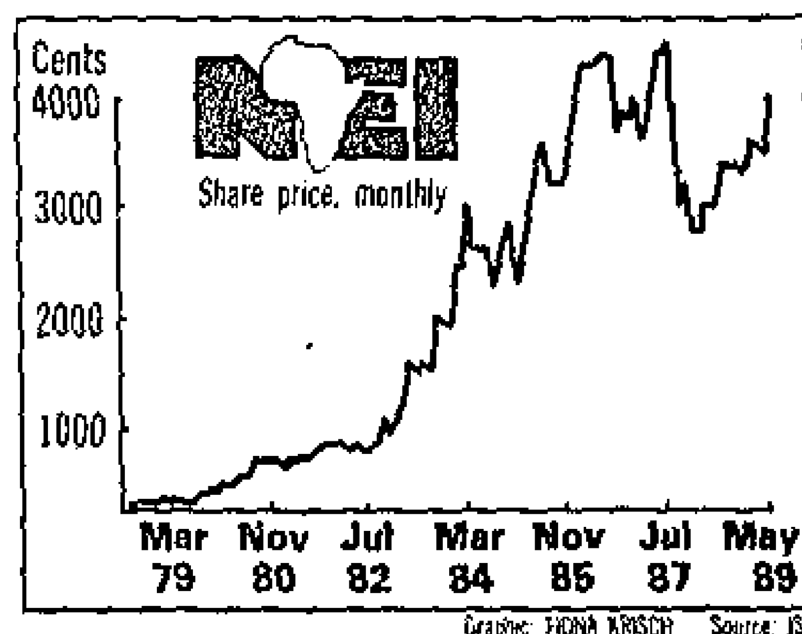
Unconditional

Since companies backing these projects have most likely already arranged for the necessary financing, it is unlikely that short-term interest rate movements will cause their cancellation.

Another encouraging development for the group this year is the proposed merger of the UK Rolls-Royce and NEI operations subject to approval by shareholders.

Group CE Blitz Bieber says that up to Monday 65% of NEI UK shareholders had approved of the merger and Rolls-Royce had made the offer unconditional. But Rolls-Royce shareholders will not be asked to vote on the proposal until May 23 — the day of its AGM.

Bieber is unable to list all the advantages which the Rolls-Royce merger will have for the local NEI operation until the marriage becomes official. However, he does indicate that the combined financial strength of both groups will allow NEI Africa to participate in major export schemes. NEI Africa should have no trouble remaining competitive as it has access to the latest technology through various overseas sources both within the NEI UK group as well as other major engineering companies.



Another spin-off from the merger Bieber says would be that at present, there is a tendency to maintain smaller power plants.

The efficiency of these facilities is enhanced by using steam and gas turbines in tandem. Since Rolls-Royce is a major gas turbine producer, more work should come NEI's way.

The group's diesel/industrial division is NEI's fastest growing operation. This activity's contribution to group turnover rose to 39,2% (35,5%), while it provided 35,5% (28,3%) of operating profit during 1988 compared with the previous 12 months. Bieber expects this activity to account for a higher portion of group turnover and profitability during the coming years.

The reasons for this division's relatively stronger performance, according to Bieber, are the tremendous growth in the SA branch network, which distributes these products, and the decision to enter the automotive filter market. In addition, when NEI took over the ADE franchise, there were few ADE engines in the marketplace.

But, as the number of this product has grown, there has been an increasing demand for maintainance and repair services relating to the ADE engine.

NEI Africa also sees many opportunities related to import substitution with regard to its electrical and diesel activities.

Anniversary

To be more specific, a steady demand exists for switchgear and motor control gear. Also, since the beginning of the year the group has begun a diesel engine component remanufacturing programme.

Bieber is confident that such major manufacturers as Toyota, Delta and Mercedes-Benz will be attracted by the price and quality of these products. This should help insure the group's strong growth record remains intact.

In June NEI celebrated its 10th anniversary since being listed on the JSE. The group has produced annual compounded growth rates for turnover and pre-tax income of 21% and 24,6% respectively. During this entire period it has not had a decline in annual EPS or dividend figures. That is a major accomplishment considering the cyclical nature of the engineering industry.

The Star Finance

Hudaco exceeds even its own tough goals

189

Star 22/5/89

Hudaco's management monitors its performance against seven stated financial objectives and policies.

Tough targets set were bettered and the five-year trend has consistently improved.

But it doesn't stop there. Being a sales/service-driven company, management recognises that sales are the lifeblood of its business.

Since its market is of paramount importance, says chief executive Kevin Clarke, the financial goals may have to be subordinated.

With record sales in 1988 and the chance to improve substantially in 1989 through an acquisition that should boost sales by more than R50 million, it can concentrate on improving the target ratios.

The goal for operating margins is 10 percent of sales.

Over the last three years Hudaco has consistently improved this, with 10,9 percent in 1988, 10,7 percent in 1987 and 10,5 percent in 1986.

Suicidal price-cutting

Management does not believe in suicidal price-cutting and counters it with better service, greater product availability and long-term contracts of supply — all of which has worked well in the past, says Mr Clarke.

In January 1989 the group acquired Norton Abrasives from Neville Parry's ailing Danech group.

Strange that Nortons was profitable in each of its previous five years to September 1987 before Neville Parry acquired it and lost a cool R6 million.

Chief executive Kevin Clarke obviously had his eye on Norton's R50 million annual sales. Having satisfied himself the reasons for this reversal of fortunes had been identified, together with Hudaco's skills in distribution, asset management and prospects of industry rationalisation, he is confident of what this will do to the group's bottom line.

The purchase involved a cash outlay of R15 million and assumption of R18 million in debt.

Eye-catching was the mature way goodwill — the intangible asset — was treated.

Bottom Line

MICHAEL MENOF

Hudaco's accounting policy is to amortise the R20 million paid over 10 years so that the income statement is not burdened with each year's extraordinary write-off.

I find it odd that shareholders in most companies fail to ask why their managements paid such exorbitant sums for goodwill.

Why do shareholders only look at earnings potential, which is really hope, instead of at the net asset value and what this made up of.

If the JSE collapses, surely they can rest easier if their investment is supported by a sound asset base?

In Hudaco's case, goodwill was reasonable, backed by sound product and an expanding client base, and not forgetting the company's most important asset, its staff.

Sales increased to R252 million (1987: R208 million), yielding an operating profit of R27,4 million.

Net interest increased to R2,48 million (1987: R663 000).

Pre-tax profits were R24,9 million (1987: R21,5 million).

The effective tax rate declined to 28,1 percent (1987: 38,5 percent), making for tax of R7 million (1987: R8,3-million), mainly due to increased dividend income from associated companies of R6,47 million (1987: R2,58 million), which was tax-exempt, and use of assessed losses.

After deducting the insignificant minority shareholders' profit, the bottom line was R17,61 million (1987: R12,56 million).

Earnings per share were 85,4c (1987: 61,7c) and the annual dividend increased to 38c (1987: 28c).

The group has three divisions - Deutz Dieselpower, Bearings and Power Transmissions.

All reported increased sales and expect further real growth in 1989.

Acquisitions included a further 1,3 percent of Frencorp and the remaining 3,4 percent of Belting Supply Services.

Associate company Klockner Humboldt Deutz SA acquired 60 percent of the Henaven group — Henles Engineering and Aven Engine Reconditions.

Disposals from certain companies in the Power Transmissions division netted virtually the same cash as the acquisitions had cost: about R5,4 million).

In the balance sheet, total shareholders' funds had grown to R58,18 million (1987: R51,32 million) at end-November 1988.

Management has set off the large cash resources of R18,32 million (shown under current assets) against a debt of R18,72 million to show virtually no debt.

This is not really true as the cash resources are working capital needed to pay current liabilities.

True working capital improved to R33,37 million (1987: R28,47 million).

Unlisted investment

I am sure shareholders would like to know more about the unlisted investment — the 10 000 shares in Lotus Investments, representing an indirect interest in Charles Baynes PLC at a directors valuation of R700 000 (market value at end-November 1988 of R1,1 million).

Forex loans of R8 million (1987: R7 million) are insured.

Directors and five major institutions own 61,3 percent of share capital.

With a net asset value of R2,82 per share (tangible assets R2,13) and current JSE market price of R8,15, shareholders are giving management a vote of confidence.

The acquisition of Nortons will increase debt significantly and with rising interest rates, finance costs must increase.

However, the income contribution from Nortons should more than compensate.

Mr Clarke predicts real growth this year.

With an average age of only 43, the youthful management team has displayed a no-nonsense approach in producing a commendable 1988 annual report — good textbook stuff for all to aspire to.

The Star
Finance

Star 27/5/89

Cenmag boosts profits by 79%

Finance Staff (189)

DCM-listed Cenmag Holdings has increased turnover by 21 percent to R40,7 million for the year to end-February.

Operating profits have risen by 70 percent to R2,6 million, while attributable profits were up by 79 percent to R1,3 million.

Earnings per share increased from 8c to 14,3c and a final dividend of 3,5c was declared.

Financial Director Mr Victor Farkas attributes the group's success over the past year to the penetration of new markets together with improved cash management.

Dorbyl does it again

By Derek Tommey

Dorbyl has reported another set of excellent profit figures.

In the six months to March turnover rose 19 percent to R1,1 billion, operating income by 58 percent to R74,6 million, pre-tax income 62 percent to R58,9 million and attributable income 44 percent to R35,4 million, equal to 110,9c (76,9c) a share.

The interim dividend has been raised by 32 percent from 19c to 25c.

The results follow a 36 percent rise in earnings last year from 180,4c to 245,5c a share.

Dawid Mostert, the chief executive, says improved earnings are the result of real growth in some divisions, reduced losses in others and greater productivity.

Mr Mostert says group earnings are expected to show a satisfactory improvement. The company has been helped by its acquisition of a wider spread of investments giving it a more stable income.

Dorbyl is operating at full capacity. But some slackening in the demand for car components is expected.

Dorbyl has been watching the move towards increasing local content of cars and has been preparing for this for the past two years.

In the six months to June it spent R38 million on replacing and buy new capital equipment.

Borrowings at March 31 were R223,6 million, against R184,0 million at September 30 last year and R213,7 million a year ago.

Cenmag Holdings earnings rocket 79%

(189) BDay 23/5/89

BRENT MELVILLE

DCM-LISTED Cenmag Holdings has posted an impressive 79% increase in earnings to 14,3c (8c) in its maiden year to end-February.

The group, which is involved in manufacture and servicing of the electromagnetic and motor rewinding requirements of heavy industry through its wholly-owned subsidiary Afmag, has declared a final dividend of 3,5c, bringing the total for the year to 5c, covered 2,9 times.

Cenmag also supplies electrical and engineering equipment to the mining sector, and last year established the Castle Group to broaden the group's product range to include the supply of steel, special alloy tubing, PVC and alloy tubing.

On bettered margins of 6,3% (4,5%), operating profit jumped 70% to R2,6m (R1,5m) on a turnover rise of 21% to R40,7m (R33,5m). Despite an increased tax bill of R932 000 (R696 000), the group saw attributable profit climb 79% to R1,3m (R720 000).

Financial director Victor Farkas says that in spite of the expected downturn in the economy, solid growth could be expected over the course of the next financial year. The group was well positioned to benefit from the upcoming Synfuel projects.

"In the past year the group has capitalised on the wealth of local expertise available. This has resulted in the ability to develop import-replacing technology, as well as creating potential export markets," says Farkas.

In addition, Afmag's recent establishment of a new test laboratory equipped with the the most powerful high-gradient, high-intensity magnetic separator in SA, would improve demand for the group's products and services, says Farkas.

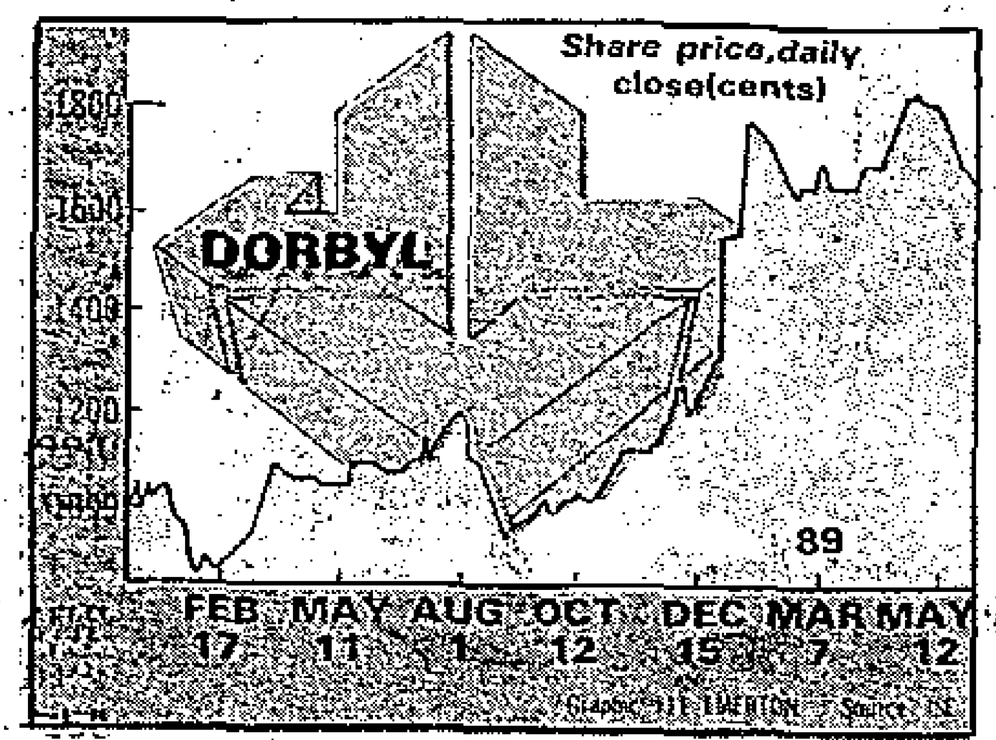
On a current share price of 75c, well down on its February high of 97c, Cenmag shows an historical dividend yield of 6,7% and an earnings yield of 19,1 against sector averages of 4,8% and 10,1 respectively.

The group would be hoping for a move to the main board later this year, "as soon as the shareholder base was enlarged from 134 to the required 300," says Farkas.

Dorbyl shines brighter in spite of setbacks

BDay 23/5/89

BRENT MELVILLE



DORBYL *Group has shrugged off labour* disputes and capitalised on the buoyant automotive industry to post excellent results for the six months to March.

The Rembrandt-controlled heavy engineering group, with interests in automotive component manufacture and shipbuilding, increased earnings by 44% to 110,9c (76,9c) a share.

Notwithstanding a considerable increase in tax to R21,3m (R9,5m), attributable income jumped by 44% to R35,4m (R24,5m) to allow an interim dividend 32% higher at 25c (19c) — covered 4,4 (4) times.

Turnover rose by 19% and substantially improved operating margins of 6,8% (5,1%) saw operating income jump by 58% to R74,6m (R47,2m). Pre-tax income rose by 62% to R58,9m (R36,4m).

Net interest paid was 44% higher at R15,6m (R10,9m), while total debt increased to R223,6m (R213,7m).

Group CE Dawid Mostert said the increase in interest charged was contained through strict management of borrowings in spite of additional funding required for increased capex and working capital. Capex is planned at about R80m this year.

Earnings are expected to exceed last year's and turnover will show an increase of 15%-20%, he said.

Mostert cited major supply problems from Iscor over the past few months as limiting Dorbyl's growth.

In addition, National Union of Metalworkers of SA disruptions also limited earnings, said Mostert.

The 60:40 venture with Iscor, to modernise Tosa Tube *mill, due to be commis*sioned next year, will cost Dorbyl R80m.

Dorbyl's share price closed yesterday at R17, off its high of R18,50 at the beginning of the month. *The group is operating on an* historical dividend yield of 4,5% and a PE ratio of 6,9 — as against sector averages of 4,6% and 8,3 respectively.

The Star Finance

Star 27/5/89

Cenmag boosts profits by 79%

Finance Staff

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Operating profits have risen by 70 percent to R2,6 million, while attributable profits were up by 79 percent to R1,3 million.

Earnings per share increased from 8c to 14,3c and a final dividend of 3,5c was declared.

Financial Director Mr Victor Farkas attributes the group's success over the past year to the penetration of new markets together with improved cash management.

Heat exchangers for Ergo

S Times 28/5/84

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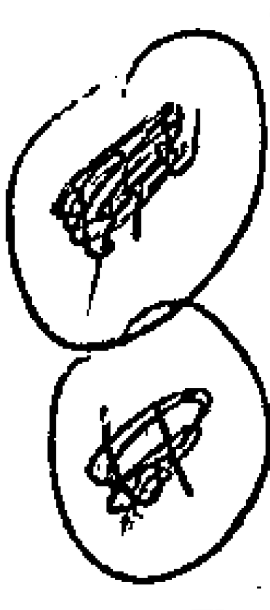
A R3,4-MILLION contract for the manufacture and erection of five heat exchangers for the Ergo gold reclamation project has been won by Fraser & Chalmers, the construction and heavy fabrication company in the Simon Africa group.

The largest unit, with a diameter of 60 metres and weighing 135 tons, will be assembled on site.



UK parent has sucked Asseng dry

Last year I queried why Asseng had paid out such massive dividends (R16,55 million) leaving the distributable reserves with a negative R304 000.

Major beneficiary was T&N Plc, the 76,3 percent UK controlling shareholder who received a cool R12,62 million of the dividends.

Asseng had sold subsidiary Silverton Engineering for R11,42 million (at a R2 million loss) to listed T&N South Africa. I assume these funds were needed to pay the huge dividend as Asseng's closing debt in 1987 was only R4,3 million.

Now in 1988, UK T&N Plc, which also owns 51 percent of SA-listed Turner & Newall Holdings Ltd (T&N SA), sells its 76,3 percent investment in Asseng to — you guessed it — T&N SA Ltd.

The price is not disclosed but the transaction takes place just after the close of the 1988 year end and is subject to shareholder approval. But as T&N Plc has control, the sale will go through.

This means the UK company has coolly taken out all Asseng's distributable reserves and then sold its investment to a company it still controls — a neat way of disinvesting and getting your funds out of the country but still sticking around.

The next question is what do they plan to do with T&N SA? All this has left Asseng in an unhappy position at end December 1988 as:

- Debt has risen 329 percent to R14,15 million — and remember interest rates are rising.
- Fixed assets were revalued during the year by R8,4 million, presumably to improve the net asset value. Without the revaluation, the net asset value is only 85 cents.
- The ratio of current assets to current liabilities has fallen to 1,87 to 1 (1987: 2,63 to 1) but, more important, the acid test shows a major problem developing.

Because year-end stocks have doubled to R31,97 million (1987: R16,78 million) this ratio has fallen precariously below 1 and stands at 0,56 to 1 (1987: 1,41 to 1),further underscoring the deteriorating illiquid situation.

- Just why was Silverton Engineering sold to T&N SA in 1987 at a loss of R2 million when it is performing so well now, according to that company's annual report?

Stamp Duties

I don't quite know what all the fuss is about in taking advantage of the moratorium granted by the fiscal authorities regarding the payment of transfer duties.

Asseng will apparently save on stamp duties as it has reorganised its financial and operational structure into three main entities: Asseng Automotive Ltd, Asseng Industrial Ltd an Asseng Property (Pty) Ltd.

The stamp duties saved amount to nickels and dimes compared with the huge amounts UK T&N Plc has taken out of both Asseng and the country.

Why Asseng just doesn't become a wholly owned subsidiary of its new holding company, T&N SA, time will tell because to all intents and purposes they are in the same industry. How long is it before UK T&N pulls the same stunt on T&N SA?

At first glance, earnings per share looked the same for both years — 29 cents. In actual fact they were as 1987 was for 15 months while in 1988 the company changed its basic accounting policy for deferred tax and showed R2,4 million more profit.

Sales reached R105,7 million (1987: 15 months R93,6 million). Trading profit after interest was R16,1 million (1987: R115 million). With the R3 million in tax assessed losses used up in 1988 tax rose to R4,8 million (1987: R480 000).

Below the line extraordinary losses were R784 000 — closure of sand foundry and insignificant goodwill written off — compared with the R3,8 million gain in 1987, leaving net profit for the year R10,5 million (1987: R14,8 million).

Reasonable dividends of 14 cents were paid compared with the 43 cents in 1987.

The 14 pages of group structure and three pages from the chairman featured mainly marketing chat and product pictures but no divisional sales numbers or income contributions were given, leaving shareholders again in the dark.

In the balance sheet, existing plant and machinery was revalued upwards by R6,1 million along with land and buildings by R2,4 million.

These two amounts swelled non distributable reserves by R8,5 million and helped shareholders' funds rise to R46,8 million (1987: R32,3 million) by end December 1988.

Working capital is virtually unchanged at R21,3 million (1987: R22,4 million) but the composition of current assets is both vastly different and worrying — cash of R10 million at 1987 has been reduced to only R21 000 and stock has doubled to R32 million (1987: R16,8 million).

Chairman Sir Francis Tombs from England has little to say about Asseng's prospects apart from "the demand for replacement parts is firm and the order load remains buoyant."

He doesn't have to say more as he has turned his eyes to T&N SA now that there is little left to take out of Asseng.

The next episode of the serial will focus on T&N SA to see how the UK holding company could move.

For a country starved of funds it is amazing how, with a little planning, foreign exchange regulations can easily be overcome.

S/Times 4/6/89

All right for Alrite oven-braai

Business Times Reporter

ALRITE Engineering has won a three-year court battle against the Weber Stephen group of America which will enable it to make and market its own oven-braai.

Weber Stephen Products instituted proceedings against Alrite after it brought out its Mirage oven-braai in 1986. It alleged that Alrite was "passing off" the product. Weber claimed the product was the same as its own.

The market in oven-braais has been dominated by the Weber Stephens product, with a few Taiwanese versions achieving small sales. The market is worth about R15-million a year.

The court granted an order requiring the products to be properly distinguished. Alrite is selling its unit with notices disclaiming any connection with the Weber product.

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Ray Joseph, a director of Alrite, says that "by going local we are saving the country a fortune in foreign exchange, at the same time providing jobs".

"The Mirage oven-braai was developed by us from bottom up and we had to learn many lessons the hard way."

S/Times 15/6/89

Abrasive merger against the grain

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By Don Robertson

THE merger of the abrasive operations of Hudaco and M&R Industrial has annoyed some in the industry.

Newco, a subsidiary of Hudaco, will acquire Hudaco's interest in Norton and M&R's interest in Cumar. The jointly owned company will have more than 50% of the abrasive market. Turnover of the combined group will be more than R100-million a year.

Other major manufacturers of abrasives are 3M and Pferd.

The deal, subject to shareholder approval, was given the go-ahead by the Competition Board.

Investigation

Pierre Brooks, chairman of the Competition Board, says complaints have been made since the announcement of the deal two weeks ago.

He says that if they are received officially, the board will investigate to establish whether the merger is against the public interest.

Dr Brooks says that in terms of SA law, companies are not required to submit details of mergers to the Competition Board before an announcement.

Hudaco and M&R consulted the board and after discussions and on the understanding that the merger could be in the public interest, the green light was given.

Hudaco chief executive Kevin Clarke says that the industry has been inefficient and unstructured. The merger is expected to rectify the position.

The merger will also have favourable foreign-currency implications for SA by reducing imports. Norton and Cumar had planned expansion programmes to meet increasing demand, but they will not be necessary. As a result no equipment need be imported.

Mr Clarke says the joint company will be able to increase exports and costs will be reduced.

NEI Africa enjoys impressive growth

Bottom Line

MICHAEL MENOF

After 10 years on the JSE, NEI Africa can boast an impressive trend: from sales of R65 million in 1978 to R439 million in 1988 — a compound annual growth rate of 21 percent.

Operating income grew from R5,6 million in 1978 to R51 million — a compound annual growth rate of 24,6 percent.

Net worth of R4,75 a share in 1978 now stands at R25,03. This superb trend is due to management's careful strategy aimed at achieving a growth rate in excess of domestic inflation by:

- Searching for suitable acquisitions fitting logically into its role in the energy conversion and distribution fields and certain energy-related specialisation.
- Having an on-going programme of in-house rationalisation.
- A drive to diversify and introduce new technologies into the system, including international knowhow and import substitution.
- Searching for new logical market sectors.
- Improving asset management and the better utilisation of resources, while fine-tuning financial parameters, says chairman L G Abrahamse.

The strategy has worked well since NEI is today a force in the manufacture, supply and maintenance of energy conversion and distribution equipment.

Because of lower load growth projections than originally expected, major client Eskom is not placing additional power plant orders.

To counter this, NEI has strengthened support for its international combustion division with NEI/ICL in the UK and Combustion Engineering of the US's life extension programmes.

Today 20 million South Africans still have no access to electricity, which must give NEI the potential for growth.

The real problem says Mr Abrahamse is that outdated ideology is frustrating SA's potential. Double-digit inflation, the declining rand, the denial of foreign capital and low productivity are rooted primarily in political, not economic, policies.

However, these problems have given impetus to the group's local manufacture and import substitution programmes.

Despite these inhibiting factors, NEI has a satisfactory order book in all companies and again hopes to achieve an acceptable profit improvement.

Sales improved to R438,74 million (R391,63 million), with operating income sharply up at R57,27 million (1987: R45,56 million).

Net financing costs rose to R6,78 million (1987: R4,89 million), which must be due to a growth in Bills Payable as debt is less than R6 million.

These are not true financial costs and a substantial part should have been included with cost of sales as an expense. But then a proportion would have been carried with closing stocks.

This would have meant higher taxable income, and tax due sooner.

With an effective tax rate of 37,6 percent (1987: 34,2 percent), tax was R18,97 million (1987: R13,9 million). But it had little effect because taxed net income rose to R31,52 million (1987: R26,77 million).

Earnings per share were 527,6c (1987: 450,3c), with dividends upped to R2,11 (1987: R1,80).

Below-the-line extraordinary write-offs of R9,37 million (R5,11 million after tax) were due to the cost of re-organising the pump and valve division and the costs of discontinued franchises.

The mechanical division's contribution to sales declined to 34,9 percent (1987: 38,7 percent), while the diesel division increased its contribution to 39,2 percent (1987: 35,5 percent).

The electrical division's percentage remained unchanged.

Strangely, exports were only 3,1 percent (1987: 2,5 percent) of sales.

Rebuilding of International and Mack heavy trucks has, owing to the high cost of new vehicles, found ready acceptance in the transport industry.

Top marks to the directors for a most informative report.

Shareholders' funds have grown to R149,55 million (1987: R135,1 million). Working capital has improved to R90,3 million (1987: R78,17 million).

Eye-catching is the large cash resource sum of R44,3 million (1987: R45,3 million).

NEI Africa is owned 55,3 percent by NEI Africa Holdings, which, in turn, is owned 53,3 percent by NEI in the UK.

Unlike two annual reports I analysed recently, the controlling UK shareholder is giving its SA invesment all the help it needs.

If all companies had such a well-defined strategy instead of just a mission, shareholders would have no problem.

But then again, not all companies are well run.

Change of emphasis at bustling Hudaco

Diagonal Street

ANN CROTTY

Hudaco's announcement of the acquisition of Norton Abrasives at the beginning of this year made some investors a bit nervous.

Their concern was that management, which during financial 1988 had successfully bedded down a number of fairly sizeable acquisitions, had finally taken on more than it could handle.

Norton looked like quite a handful — it had good products but it had serious systems problems in both the manufacturing and finance areas.

At the end of financial 1988, the old management at Norton completely cleaned up the balance sheet which resulted in the income statement showing a R6 million loss for that year.

Early in 1989 Hudaco announced that it was paying an effective R33 million (R15 million in cash) and the assumption of R18 million debt. The immediate effect was a massive increase in group gearing.

At the time, analysts believed that it would take the new owners at least 2-3 years to sort out the problems at Norton and that meanwhile Norton's low margins and the high related debt-carry cost would seriously dull Hudaco's record.

Hudaco chief executive, Kevin Clarke was more confident. Norton had been bought on the assumption that the abrasives industry would be rationalised with a number of the manufacturers getting together to streamline operations and allow for longer production runs.

So rationalisation was set to reduce capex requirements and boost margins.

In early June the 50:50 joint venture deal between Norton and M&R's abrasive subsidiary, Cumar was announced. The new company will be proportionately consolidated by Hudaco.

As a result of this master stroke (some five months in the making), Norton has acquired excellent management from the Cumar stable, and the combined operation will run much more efficiently. In addition the debt picture at Hudaco will look far healthier at year-end.

One analyst speculated that debt (R40 million at mid-year) could be as low as R20 million at the end of the year. This reflects the benefits of the Norton re-organisation, which included the issue of 2 million additional shares, as well as the cash generating capacity of other parts of the group.

The abrasive interests add a fourth arm to Hudaco. The other three are: Deutz Dieselpower (DDP); bearings and; the power transmission division. By financial 1990, the abrasive division is expected to make a significant contribution to group turnover and some contribution to earnings.

Hudaco's other acquisition this calendar year was oil seal manufacturer Angus Hawken for R2,4 million. This fits well into the bearings division and has exciting earnings potential assuming the new management can lift capacity utilisation. Mr Clarke has little doubt about his team's ability and points out that within just four months of taking over, they have already managed to lift production utilisation from 25 percent to 40 percent.

This year's two acquisitions represent a shift in emphasis for Hudaco — which to date has chiefly been a distribution operation with excellent working capital management.

The acquisitions are in line with the group's objective of reducing reliance on imports to around 50 percent. They have resulted in a reduction in the dependence on imports, which now account for about 65 percent of sales — down from 75 percent.

The strengthening of the balance sheet following the establishment of the Norton/Cumar joint venture deal means that from a financial perspective Hudaco could take on another acquisition.

But the group's amazing success to date does not appear to have locked the executive team into a dizzy takeover trail. Mr Clarke states that they are currently looking at a number of possibilities. He likes operations with high local content and strong market share that produce basic, strategic items.

But right now he does not appear to be an aggressive buyer. This is probably due to his awareness of the dangers of over-extending.

It's the kind of attitude that endorses the general market feeling that Hudaco management is "tops".

New structure for Fluid

NEIL YORKE SMITH (189)

FLUID Holdings, a subsidiary of Malbak's R500m Standard Engineering group, is undergoing restructuring. B Day 13/7/89

Fluid comprises five companies in the fluid control and pump sectors.

Previously the group kept a low profile, allowing operating companies to work autonomously. The restructuring will facilitate active involvement by group management, which plans to be involved in divisional affairs as well as in co-ordinating group marketing.

Fluid directors say the company is on the aquisition trail.

Goodall shareholders strike it rich . . . at last

Star 17/7/89

189

By Derek Tommey

Minority shareholders in the DCM company, Goodall, have had a rough ride in the past two years, but they now can look forward to much better fortune.

Sharrinhuisen Holdings, one of the leading open-cast mining contractors, with strong growth prospects, is to be reversed into it.

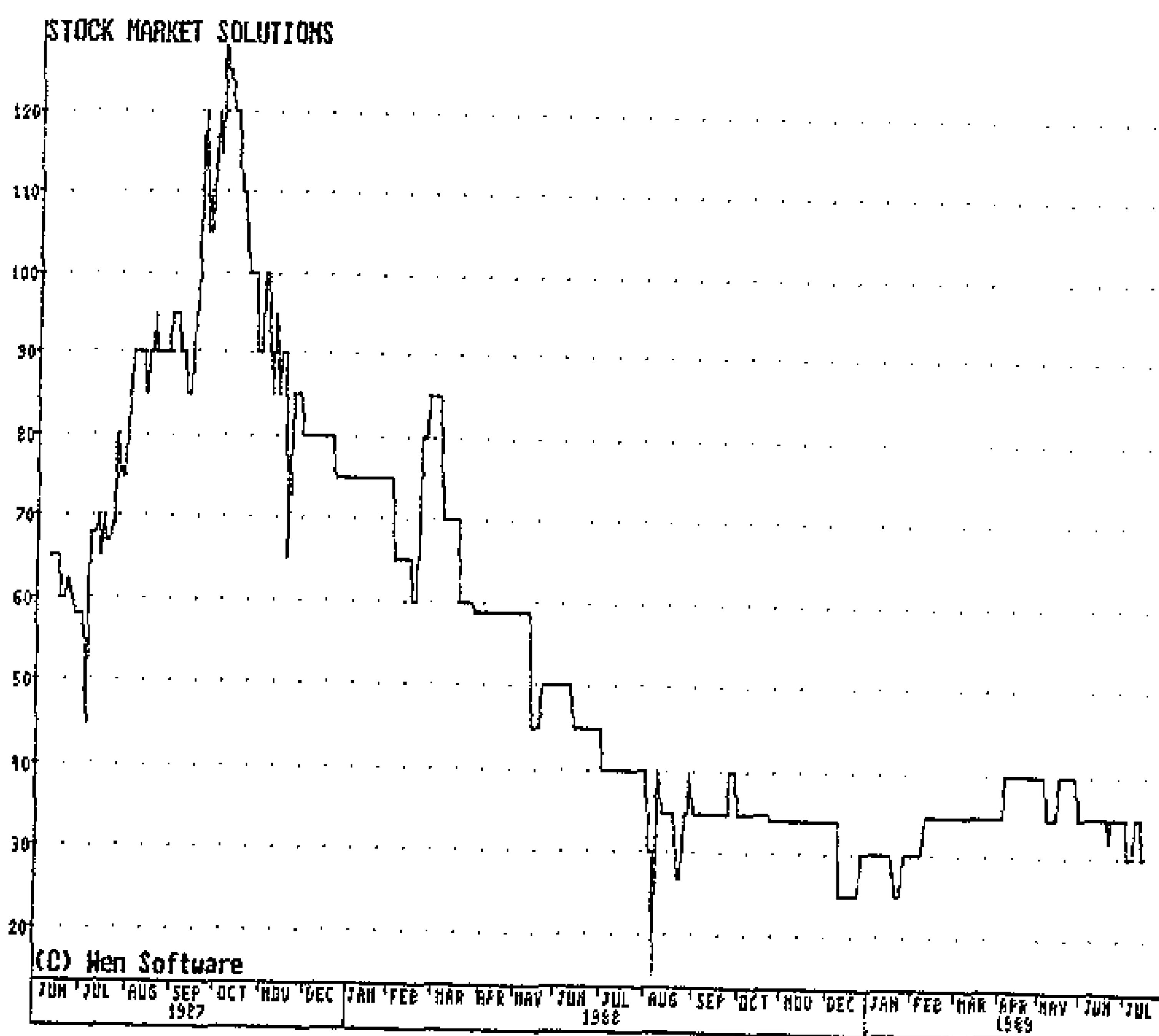
For Goodall shareholders this is like finding a Krugerrand in their pockets and should help make up for much of the unhappiness they hve experienced since the share was listed two years ago.

Goodall shares, issued in the middle of 1987 at 45c, quickly soared to a peak of 130c and then steadily dropped to reach their current 30c, having paid a dividend of only 1c in this period.

The Sharringhuizen group operates in one of the major growth areas and, from contracts already written, expects to increase earnings by 70 percent in the next 12 months.

Once the take-over has gone through it is planned to change the name of th company from Goodall to Sharrig.

Jeff Wiggill of Columbia Corporate Finance, which is arranging the deal, said yesterday that the Sharringhuizen group was started in 1972 when Cas Sharringhuisen came to South Africa from Holland and secured an earth-moving contract in New-castle.



Goodall shareholders have been on a long slow slide since October 1987. Now that Sharrig is to backed into Goodall, the share price should improve

Subsequently he was joined by his two brothers. The three, aged 34 to 45, run the company.

The group owns over 120 earth-moving machines and operates from premises in Ladysmith, and Jet Park, Johannesburg.

It is engaged in open-cast operations on behalf of Gencor, Rand Mines and Anglo American, and is also involved in roadbuilding, the construction of dams and the clearing of industrial sites. It also has a plant hire division.

Brothers Tony and Cas Sharringhuisen, say that the increasing tendency to employ open-cast mining methods, the development of toll roads and the coming on stream of the Highlands Water project make the future increasingly promising.

The three brothers have agreed in principle to buy the Goodall family's holding of 80,9 percent of Goodall shares for R2,87 million, which is equal to 35c a share — the net asset value of the shares when they were listed two years ago..

The listed company, Goodall/Sharrig, will buy the business interests and operations of the Sharringhuisen group for R29,15 million, to be settled by a cash payment of R3,3 million and the issue of 73,8 million Goodall/Sharrig shares of 35,0c each.

The resultant 84 million shares will be consolidated on the basis of one new share for every four.

Goodall will change its name to Sharringhuisen Holdings and move to the main board.

The management of Sharrig is forecasting pro-forma earnings for the year to June 1990 of not less than R6 million, equal to 28,6c a consolidated share.

This compares with pro-forma earnings of 15,7c by the Sharringhuisen Group for the 1988 calendar year, and 16,8c by Goodall/Sharrig for the year to June 30 1989.

It is estimated that at June 30 1989 the reconstituted Goodall/Sharrig will have tangible assets equal to 95,2c for each consolidated share.

People who know the Sharrig operation say it is conducted with efficiency.

In accordance with JSE requirements, an offer of 35c a share is being made to minority shareholders.

While this offer will be above the current market price of 30c a share, it certainly seems that minority shareholders would be better rewarded if they stayed with the company.

NTC expected to improve on interim

Engineering merchant and manufacturer NTC is expected to disclose improved interim results early next month.

Managing director Mike Davis is satisfied with the performance of all operations and expects the present trend to be maintained in the second half of the year.

NTC has a trading division, comprising a 50 percent stake in Natmac Holdings, which wholly owns NTC Trading, and a manufacturing division. The latter comprises subsidiaries Bonar Long NTC, National Flanges, and Main Industries.

NTC Trading, whose products include steel, pipes, valves, sealing devices and industrial maintenance products has received reasonably significant orders related to the Mossel Bay project, according to Mr Davis. In addition, he says new orders continue to be received.

Bonar Long NTC is in the business of electrical distribution and medium power transformers, high voltage switchgear and high voltage test systems. The company has been operating below its potential due to price cutting in the market. However, Mr Davis says the situation has now improved substantially.

National Flanges, a manufacturer of steel flanges, is expected to increase its profits in the current year.

Main Industries manufactures

Diagonal St
LYNNE PEACH

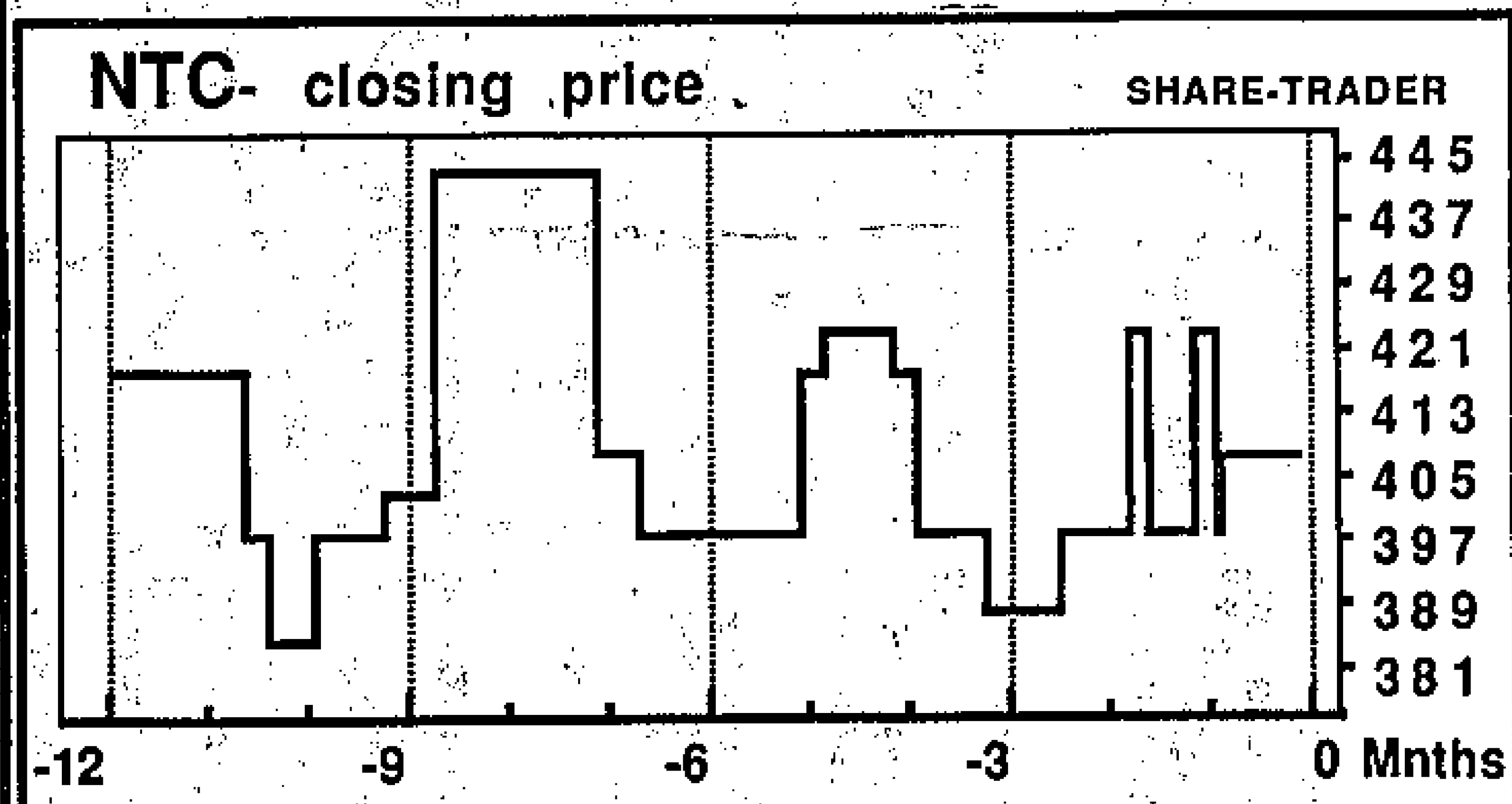
extruded plastic pipes and fittings in polyethylene and PVC. Last year the company merged its activities and relocated its factory which resulted in a loss of almost R2 million. A reversal is expected in 1989. Mr Davis confirms that this operation is performing well.

In the year to December, NTC's total sales increased 28 percent from R251,6 million to R322,8 million. Better efficiencies pushed operating profit to R17,4 million, 36 percent higher than R12,8 million in 1987.

But interest and finance lease charges rose 59 percent to R7,6 million and the effective tax rate soared from 24 percent to 54 percent. In addition, an extraordinary loss of R4,9 million occurred on disposal of a 50 percent interest in the trading division to Macsteel.

Ordinary shareholders were left with 74,6c a share compared with 94,8c in the previous year. The 1988 dividend was reduced from 35c to 25c.

The balance sheet disclosed an increase in net current assets from R42,1 million to R70,4 million and a reduction in gearing from 68 to 56 percent. Mr Davis says the group hopes to reduce this level to about 50 percent.



The big steps in the price chart reflect poor tradeability. For the past 12 months NTC's price performance has been unexciting and would have to exceed 425c before it can be expected to climb to new heights.

CT 15 4/8/89

Court to decide on strike bid

ENGINEERING giant Dorbyl has brought an urgent application in the Industrial Court for an order declaring a planned national strike by more than 7 000 workers unlawful and unfair, a National Union of Metalworkers of SA (Numsa) spokesman said yesterday.

The court action follows 94% of Numsa's members at 50 Dorbyl plants country-wide voting in favour of a legal national strike, set to start on Monday, Numsa's Dorbyl national organiser Mr Bobby Marie said.

Between 900 and 1 000 Numsa members at four Dorbyl engineering and automotive plants in Cape Town are affected by the dispute, he said.

Numsa is demanding that the company agrees to refer all disputes the right to private arbitration; to negotiate a service allowance; to negotiate severance pay in the event of unavoidable retrenchment, and to grant shop stewards 10 days paid training leave.

A strike ballot was held last week after Numsa failed to reach a settlement with Dorbyl, Mr Marie said.

Strike averted at Dorbyl

CAPE TIMES 8/8/89

Own Correspondent

JOHANNESBURG. — A threatened strike by 7 000 Numsa members at 50 Dorbyl plants has been averted by a last-minute settlement.

A Dorbyl spokesman announced yesterday that the company had accepted union proposals.

The company agreed to grant a paid leave for the training of shop stewards.

NTC provides good and bad news for shareholders

Star 9/8/89 (189)

By Derek Tommey

National Trading Company's (NTC) shareholders should be happy with the strong recovery in profits in the six months to June.

But they are likely to be unhappy with the small dividend increase.

Earnings of this manufacturer and supplier of engineering equipment, rose to 70,8c a share.

This is 74 percent more than the 40,6c earned in the same period last year and almost equal to the 74,6c earned in the whole of 1988.

But the interim has been raised from 14c to only 16c, which is jut a fifth of attributable earnings.

Turnover rose 37 percent to R200,9 million.

Operating margins rose from 5,4 percent to 8,4 percent and operating income by 110 percent to R16,9 million.

All group companies earned higher net profits than a year ago, say the directors.

Main Industries, the plastic pipe manufacturer, which was a drag on profits last year, returned to profitability.

This company has also completed the purchase of a 51 percent stake in Polyflow (Pty) to strengthen its position in the polyethylene and polypropylene piping markets.

The directors say the engineering sector of the economy has become a tighter, more competitive market.

But they are confident that earnings for the remainder of the year will continue to show a strong advance over 1988.

Balance-sheet figures show total interest-bearing debt rose from R24,4 million at December 31 last year to R32,2 million on June 30 this year.

This need for extra cash helps explain the small dividend increase.

Total interest-bearing debt and lease commitments rose from R36,6 million at December 31 to R48,0 million at June 30.

The current asset ratio declined from 2,3:1 at end-December to 1,9:1 at end-June.

Haggie earnings up 40%

CN 10/6 11/8/89

JOHANNESBURG. — Haggie increased share earnings by 40% to 207c (148c) for the six months to June 30.

Attributable earnings were R39,95m (R28,5m), in spite of higher tax and interest charges.

An interim dividend is 47c (34c) was declared.

The group said increased borrowings, in the non-ferrous metals division, arose from the continuing high rand price of copper, which had a significant impact on working capital.

However, total borrowings, including preference shares, remained low at 28% of shareholders' funds, minorities and deferred tax.

The tax rate for the half-year increased to 39% from 35% in 1988, since assessed tax losses in some subsidiaries was still available last year.

In the current half-year, Haggie expects the mining industry's demand for wire rope to remain constant, though demand for wire and other products by the agricultural and building industries is likely to be affected by the economic slowdown. — Sapa

Cit Times 17/8/89

(189)

Globe, workers urged to settle overtime dispute

Supreme Court Reporter

A SUPREME COURT judge yesterday urged a shipbuilding company and its workers — against whom an interim interdict had been granted — to try to negotiate a settlement.

Mr Justice E L King made this appeal on the return date for a final order in an application brought by Globe Engineering Works against 391 workers compelling them to work overtime.

The court was packed with the workers, who were not represented by counsel and who had decided to individually argue their case.

Yesterday's proceeding was a sequel to an interim interdict granted on July 27 restraining the workers from refusing or failing to work overtime at the request of the company.

The workers were also interdicted from instigating, supporting or failing to prevent an illegal strike and; from in any way obstructing the normal operations of Globe Engineering Works.

Some of the workers said that since they had been served with the interdict, they were required to work 12 hours a day, seven days a week and that the long hours were physically and mentally exhausting.

The judge suggested that worker representatives and management meet yesterday afternoon to negotiate a settlement. By agreement between the parties, Mr Justice King suspended the operation of the interim interdict till 10am today.

Mr R D McClarty, instructed by Mr Malcolm Douglas of Routledge-MacCallums, appeared for Globe Engineering Works.

Overtime dispute settled

Supreme Court Reporter

AN interim interdict, compelling workers of shipbuilding firm Globe Engineering Works to work overtime, was yesterday discharged in the Supreme Court after the dispute was settled.

By agreement between the company and the 391 workers, Mr Justice E L King discharged the rule nisi granted on July 27 and made no order as to costs.

The settlement is a sequel to an unusual event in the Supreme Court on Wednesday — the return date of the interim interdict — when aggrieved workers packed the court to argue their case individually.

Globe Engineering won the order restraining the workers from refusing or failing to work overtime, instigating, supporting or failing to prevent an illegal strike and from in any way obstructing the normal operations of the company.

Mr Justice King urged the company and the workers to try to negotiate a settlement and by agreement suspended the operation of the interim interdict.

Mr R D McClarty, instructed by Mr Malcolm Douglas of Routledge-MacCallums, appeared for Globe Engineering Works.

Bearing output increased

189

S Times 20/8/89

AE BEARINGS, a division of Asseng Automotive, is to spend R4-million on increasing production by 35%.

When completed in April next year, the additional production will meet the increased demand of original equipment manufacturers, the after market and exports.

This is the second expansion in a year and follows the installation of a plain bearing line and small batch line in January. This required expansion of the Pinetown factory by 1 400m² and added 30% to capacity.

The latest expansion will add 1 500m² to the factory and will include another plain bearing line, a second small batch line and a doubling of the thrust bearing line.

The company is studying the possibility of introducing another manufacturing line in 1991.

Executive director Malcolm Hickman says turnover this year will rise by 40% in real terms and by 50% in 1990.

Datakor Engineering acquires GBS division

B/Day 7/9/89 (189)

MELANIE SERGEANT

IN the latest turn in the GBS liquidation procedures, Datakor Engineering yesterday acquired GBS's customer engineering division.

The division was estimated to have contributed about 50% of GBS's income.

With some R300m worth of GBS equipment installed countrywide, hundreds of clients were left high and dry without support when GBS was placed under liquidation.

Users include companies such as Liberty Life, Webber Wentzel, Waltons, Willis Faber Enthoven, Teljoy and Cape Investment Bank.

Although Datakor will not disclose figures, as part of the deal it has bought all existing spares- and maintenance-related equipment from the GBS liquidators.

Datakor Engineering director, Bill Bouwer says: "Datakor Engineering will continue the support of Wang users and will honour all existing maintenance contracts."

Datakor Engineering divisional manager Philip Delport says his company has already employed about 25 of GBS's support or technical staff, and is looking at employing more.

And his division has users queuing up asking for quotes on support of their equipment. "We find our quotes are generally 10% to 15% lower than those of GBS, and for this reason, we had taken over some of GBS's support sites even before that company's closure," he says.

Rumours

Bouwer says Datakor has been actively supporting Wang installations on a third-party basis for two years, so experience and spares infrastructure is already in place. "We employ more than 230 technical support staff operating from more than 30 service centres countrywide."

Rob Rorrison of Willis Faber says his company had heard rumours that GBS was in trouble, and had begun looking around for alternative sources of supply and support even before the GBS problems became public.

Like many other users, his firm is obtaining quotes from Datakor Engineering as well as other players in the support market, such as Technicare, to ensure on-going support.

Teljoy, with its R2m Wang installation, is not concerned about recent developments. Chairman Theo Rutstein says: "Even before the GBS collapse, we organised back-to-back agreements with other Wang users so that in the case of equipment failure on either side, we would use their machines and vice versa.

"Also, when the first rumblings took place at GBS, we took on some of that company's staff to ensure on-site support for our computers."

There's no doubt that GBS's demise locally and Wang's international setbacks have made local managers of Wang sites a trifle nervous. It is understood that many of them are investigating their options with a view to future growth and development — apart from the support and maintenance issue.

Malbak sells Astas stake in regrouping

(189) Star 7/9/89

Finance Staff

Malbak has further rationalised its engineering interests by selling its stake in axle and gearbox manufacturer Astas to its subsidiary Standard Engineering.

In terms of an agreement announced yesterday, Standard will acquire Malbak's 67,6 percent interest in Astas, which is valued at R37,2 million, for 4,2 million ordinary shares in Standard and R20 million cash.

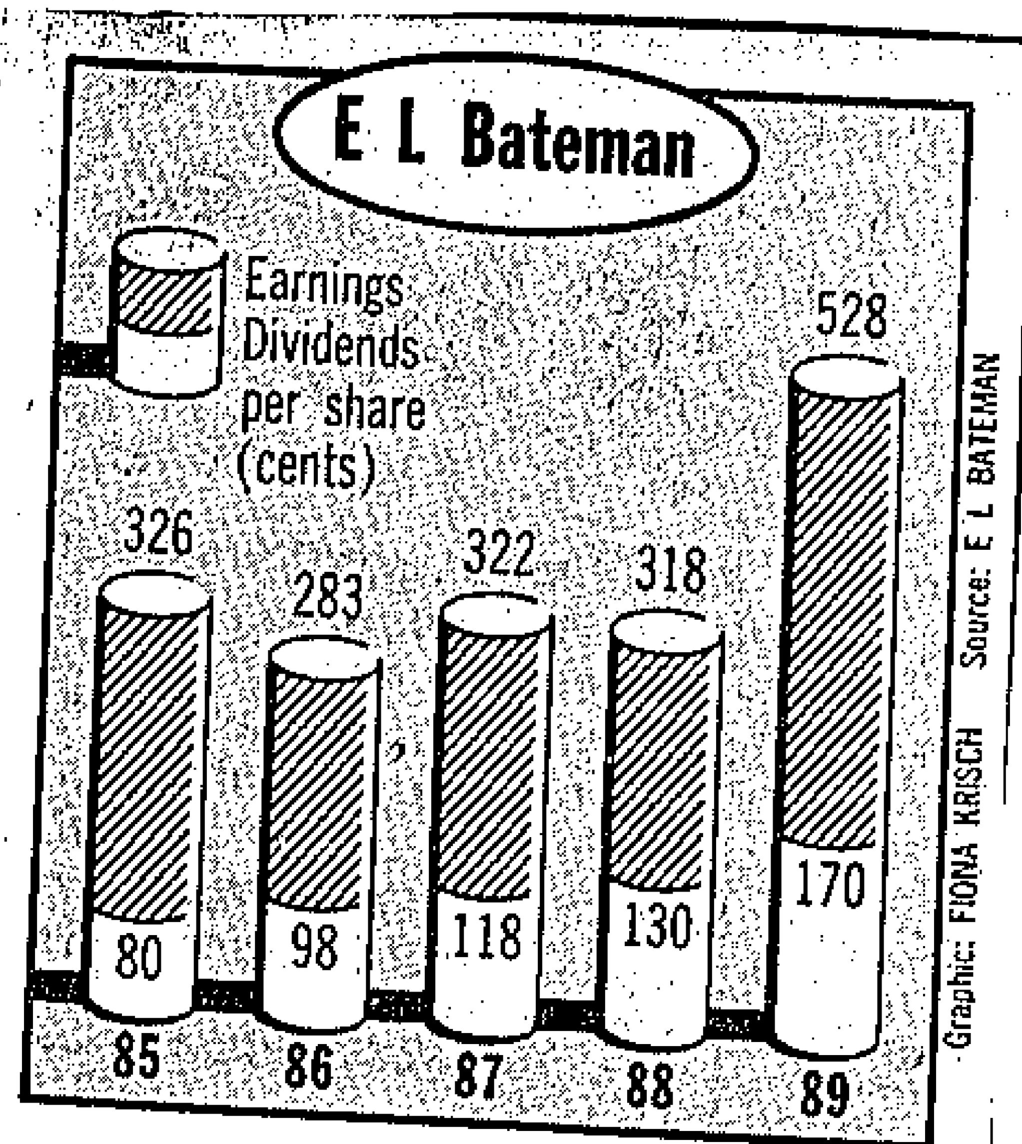
The transaction will not have an immediate material effect on the earnings or dividends of Malbank and Standard, nor on the net asset value of their shares.

Klaus Zirker, chairman of Standard and an executive director of Malbak, said the move, which was in line with Malbak's policy of grouping its businesses together in focused, listed entities, completed the consolidation of its engineering interests under Standard.

The only Malbak engineering investment now not in the Standard stable is the 36 percent-owned Haggie, which is is listed in its own right.

Astas has a 68 percent holding in AS Transmissions & Steerings, the major manufacturer of gearboxes and axles for heavy vehicles, and owns Protea Axles, which supplies the trailer and after-sales market.

In addition to Astas and its own steel castings business, Standard Engineering owns Fluid Holdings, which produces pumps, valves and meters, and Abertech Industries, which produces steel roofing tiles, springs, pressings and expanded metals. It has a 58 percent interest in steel pipe manufacturer Hall Longmore and a 47 percent interest in locomotive and coach producer Union Carriage.



Bateman results in line with optimism

BDay 14/9/89 (189)

BRENT MELVILLE

ENGINEERING contractor and equipment supplier Edward L Bateman (ELB) has posted results very much in line with assurances by its management of an excellent year to end June.

The group's recent decision to clearly define its interests into two separate subsidiary companies — creating engineering division Bateman Project Holdings and equipment supply division Bateman Industrial Holdings — has clearly had no detrimental affect on its share or profit performance.

Vindication of the optimism shown by chairman Bill Bateman, both in last year's annual report and at the interim stage, comes in the form of a final dividend of 125c, bringing the total to 170c (130c) for the year, covered 3,1 times by earnings which rose by 66% to 528c (318c) a share.

Ahead of the excellent results, the share price yesterday moved by 50c to R24, placing it on a dividend yield of 7,1% and a p:e of 4,5 times — as against sector averages of 5,2% and 7,2 respectively.

Improved margins allowed a 46,5% surge in operating income to R18,6m (R12,7m) off only a 13% rise in turnover to R830,1m (R735,6m). And with both interest and tax charges — due to export allowances — dropping, attributable profits climbed a hefty 67% to R14,1m (R8,4m).

The textbook managing of the company has turned an extraordinary loss of R1,1m into a profit of R2,1m.

Bateman claims the restructuring manoeuvre had a lot to do with the exceptional

□ To Page 2

Bateman

BDay 14/9/89 (189)

□ From Page 1

results. It has effectively given key management a "meaningful participation in the profits of the group".

Managerial motivation comes in the form of convertible redeemable participating non-cumulative preference shares, which are issued to "certain selected key executives" of the two companies. Bateman says these shares will effectively reward the respective managements for the performance of the companies under their control.

At the interim stage Bateman said there was a "very strong commitment to long-term profit growth by operating management" and the aim of the restructuring was to give management and shareholders a common agenda.

VIC LEWIS 'NOT SOLD TO FINANCE OZZ-LUCEM DEAL'

NEIL YORKE SMITH

OZZ chairman Gary Zulberg has denied rumours that the company sold its Victoria Lewis (Vic Lewis) holdings to help finance an Ozz-Lucem deal.

Zulberg said the Vic Lewis transaction was independent of negotiations Ozz was having with Lucem and had simply made good business sense to Ozz.

He said Ozz agreed to sell its 24% Vic Lewis holding to Supreme Industrial Holdings (Supreme) for 33c a share, conditional of minorities receiving the same offer.

However, Zulberg confirmed the Ozz-Lucem negotiations involved decisions concerning various "financial permutations".

But he stressed these did not involve Vic Lewis. The companies would decide on the arrangement most beneficial to all parties.

B/Day 15/9/89 189

Intricate

Reacting to analyst sceptism concerning Ozz's Bruma Lake Fisherman's Village investment, Zulberg said the project had been largely self-financing from the beginning.

Fisherman's Village is a joint venture between Ozz (40%), Lucem (20%) and the Krok brothers (40%).

He detailed an intricate deal in which the consortium had effectively financed the entire project in a single back-to-back deal with Anglo American. "We got the land and onsold the project to Anglo for R32m conditional of our developing it," said Zulberg.

Zulberg said the group would also end up with substantial land holdings which would either be developed or sold. "We also expect net income of R200 000 a month from the Fisherman's Village project," he said.

Ozz, which last year earned R4,9m (including extraordinary items) on turnover of R8,7m, is believed to be acquiring the much larger Lucem.

The debt to equity ratios of Ozz and Lucem are 19,5% and 1,3% respectively.

Given these low debt levels and both companies' strong asset bases analysts say a Lucem-Ozz deal would make sense.

Both companies' shares have been suspended on the JSE since August 16.

Berzack/Elcentre deal unlocks a lot of value

(189)

Star 26/9/89

Diagonal Street

ANN CROTTY

The market seemed a bit perplexed by the Elcentre/Berzack/H&J deal that was announced over the weekend. Yesterday it responded by doing almost nothing - some of the shares involved moved a few cents, but this was a pittance in view of the size of the deal that had been put together.

Part of the reason for the delayed response was the absence of an official statement in Monday's English press. This seemed to add to a certain sense of confusion about a deal which sees such a massive creation of wealth.

The initial response is not that the merger makes good operational sense but rather that so much financial engineering has managed to unlock so much value.

It is definitely a case of one plus one making significantly more than three. Particularly at the level of net asset value, but also at the earnings level for Berzack and Bivec.

Although it is the centre of the action, H&J has little to gain from this financial engineering. This is because it is paying market prices for the assets it is acquiring to become a major player in the electrical cables market — on a par with the industry leader, Powertech — and will be issuing shares for these assets.

At a later stage, H&J should reap significant operational benefits.

Elcentre will sell its assets (excluding its DIY hardware interests) to H&J for R420,3 million — payment will be made in shares and debentures. Elcentre's 1989 annual report (for February year-end) shows fixed assets of R10,9 million and total capital employed of R169 million.

The assets that Berzack is bringing to the party are cable, pipe, design and heavy engineering, plastics and injection moulding divisions and related properties. These will be sold to H&J for R305,2 million — payment will again be effected through shares.

The most recent Berzack annual report available is for financial 1988 (June year-end). This showed fixed assets of R50,2 million and total capital employed of R111,8 million.

These figures suggest that Berzack and Elcentre have sold their assets to H&J at market prices significantly above the book values — book values incorporating reasonably conservative accounting practices.

To this extent they have unlocked the considerable value that existed in their asset bases.

Before the deal Elcentre's net tangible asset value was 119c a share. After the deal it rises to a massive 713c. Similarly for Berzack where the respective figures are 331c and R11,55.

On the earnings front, Berzack also appears to benefit from a more favourable tax structure. Earnings for the 12 months to June are expected to be a little over 100c. After the deal this rises to 146,5c. Assuming some synergistic benefits, the saving on tax looks to be about 33c a share.

Festive Christmas likely for Standard shareholders

BD 20/10/89 (189)

BRENT MELVILLE

STANDARD Engineering's recipient status as the locus for Malbak's considerable engineering interests has had a rejuvenating effect on the steel group.

In its results for the year to end-August the group has declared a final dividend of 9c, bringing the total for the year to 29c — covered 3,2 times by earnings (after making partial provision for deferred taxation) of 92,1c a share.

The dividend will probably be viewed as a Christmas bonus by Standard shareholders grown accustomed to an unproductive share. In fact Standard has not declared a final dividend since 1985 (and the first interim since 1985 was declared in February).

The results saw operating profit jump to R43,2m from a loss of R3,8m last year on a hefty leap in turnover to R408,9m (R56,9m). After R7,2m in financing charges, a taxation figure of R9,7m, and the allotment of R5,m to outside shareholder's, the group's bottom-line figure remained at R20,5m (-R4,6m).

Purchased

Standard chairman Klaus Zirker said he was happy with the speed at which the group's broadened base of operations had settled into a cohesive unit.

During the year Standard purchased 100% of Fluid Holdings, 100% of Abertech Industries, 58,2% of Hall Longmore, 46,7% of Union Carriage & Wagon Company and recently announced the acquisition of 67,6% of Astas Holdings.

In order of contribution to earnings, Zirker placed pipe producer Hall Longmore first, SA's largest supplier of springs to the motor market, Abertech Industries, second, and pump and meter manufacturer Fluid Holdings third.

He said Standard's emphasis on exports had a large bearing on the improved results. Union Carriage, in turn, multiplied earnings by 10 times in the past 18 months.

Hall Longmore had built up exports worth more than R20m in the same period and Union Carriage had brought in export orders exceeding R100m. Abertech was planning a R13m plant expansion programme for exports.

Stronger in mining

S Times 29/10/89 189

CAMEC has acquired the trackless division of Subroc Mining Equipment and the commercial hydraulic division of Macari Engineering to strengthen its position in the mining industry.

Camec, a member of the KNJ Group, is a major supplier of cranes and material handling equipment.

Argus 31/10/87

Union clashes: 3 die

JOHANNESBURG. — Three workers have been killed and others injured in union clashes at Haggie Rand's Germiston plant. The conflict involves Cosatu's National Union of Metalworkers and the Inkatha-linked United Workers' Union. — The Argus Correspondent.

189

B/Day 24/11/89

Arban's performance dictated by Malbak

189

ANALYSIS: STEPHEN RICHTER

ARBAN Group Holdings is heavily involved in the mining industry and this should enhance the group's bottom line performance if the gold price continues to forge ahead. But for the time being, Arban's share price will be dictated by the movements of Malbak on the JSE.

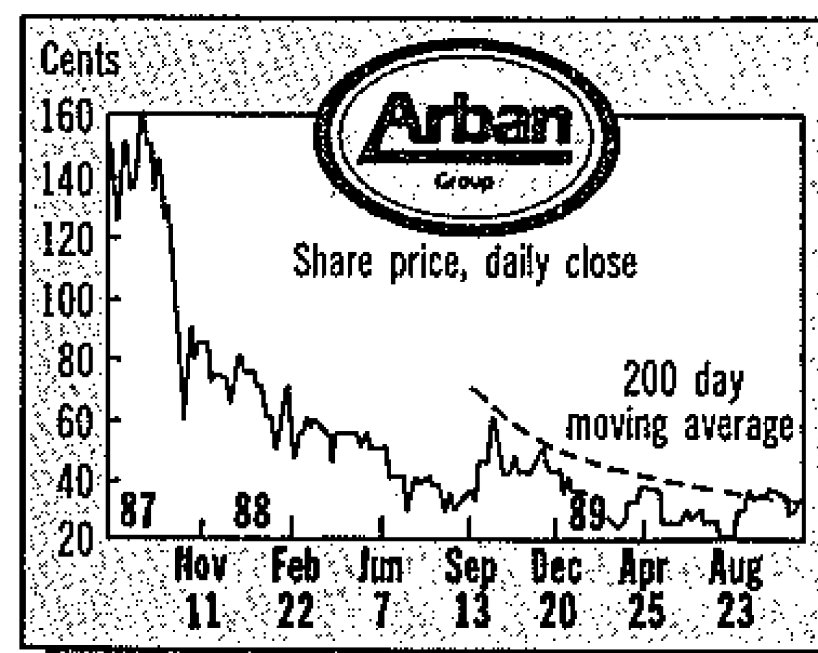
Arban is committed to the gold and coal sectors, while the group's market shares in the base metals and platinum markets are improving rapidly. The Arban Engineering division has traditionally provided a range of conveyor belt maintenance and splicing equipment to most of SA's coal mines, and gold producers are using them more and more.

The Deebar and Martco divisions manufacture, market and distribute sophisticated electrical and electronic equipment to a significant number of gold and platinum mines. The coal industry is also making use of these products, while the group has found a significant overseas market in Australia.

The MCE division specialises in industrial process glassware and glass-lined equipment for platinum refining as well as other industrial uses.

Group MD Paul Langerman believes that the gold price must maintain its current strength for another six to eight months before this will convince the mining companies to increase capital spending. If this occurs, he feels that there is growth potential in Arban's major businesses.

After financial 1988 results were affected by the sanctions imposed on the local coal producers as EPS dipped to 4,3c (8,2c), Arban's interim performance showed substantial improvement for the six months ended March as EPS recovered to 2,3c from 1,3c.



Graphic: FIONA KRISCH Source: JSE

Langerman indicates that the group's recent restructuring (where it sold two divisions which did not fit in with its overall objectives), as well as the improved outlook for the local coal mining industry should allow earnings for the current financial year to recover to between the 6c to 8c area. Consequently, the directors are optimistic that they will be able to pay a final dividend of approximately 3c a share.

Arban could therefore theoretically be selling for a much higher price than yesterday's closing level of 32c. This is because, at this level, Arban is selling on a forward earnings yield of 21,9c assuming earnings of 7c. The forward dividend yield is 9,4%. This represents good value for a company on the verge of benefiting from the improved outlook for the mining sector.

Unfortunately for potential investors, Malbak is also attracted to Arban and Malbak plans to make Arban the vehicle for its mining supplies operations. Consequently, Malbak took control of roughly a 50% stake in Arban effective October 1.

The purchase consideration will be settled by the issue of one Malbak ordinary share for every 24 Arban ordinary shares held. A similar offer will be made to minorities this year.

Using this formula, Arban appears to be selling at a slight discount in relation to Malbak, which closed at 850c yesterday. Therefore, Arban must rise to 35c for their values to be equal according to this formula.

The only way that Arban will show substantial gains from yesterday's closing price will be for Malbak's share to increase significantly. Otherwise, it appears that Arban should continue to trade around current levels.

Berzack's strong showing set to continue the trend

BI Day 29/11/89

SYLVIA DU PLESSIS (189)

BERZACK Brothers had experienced further growth during the first quarter of the current year to June 1990 and the group's order book remained at acceptable levels, according to late chairman Maurice Berzack.

In the engineering group's annual report, he said the extent of future growth depended on a number of factors, including the expansion in low-cost housing schemes, the penetration of overseas markets, political stability, anti-inflationary measures and international pressure.

The group produced record results last year, with turnover rising 37% to R470,4m (R344m) and earnings climbing 84% to 119c (64,6c) a share.

These results were attributable to the production efficiency of the group's modern sophisticated factories and a reduction in gearing to 24% from 112% over the last three years, Berzack said.

"The continued upward adjustment of prime overdraft rates, increased surcharges on imports and the ever-weakening rand are all major obstacles we overcame."

Success on line at R1bn

MYRON BERZACK ... aiming for the top 10 next year

THIS YEAR sees Berzack Illman Investments racing up the Top 100 chart to a comfortable 12th position.

The engineering group has gone from strength to strength since 1982, capping its triumphs this year by joining with the Elcentre Group to buy control of H&J Cables.

The deal means the joint venture will be in a position to generate sales of R1-billion a year and control about 40% of the electrical cable market.

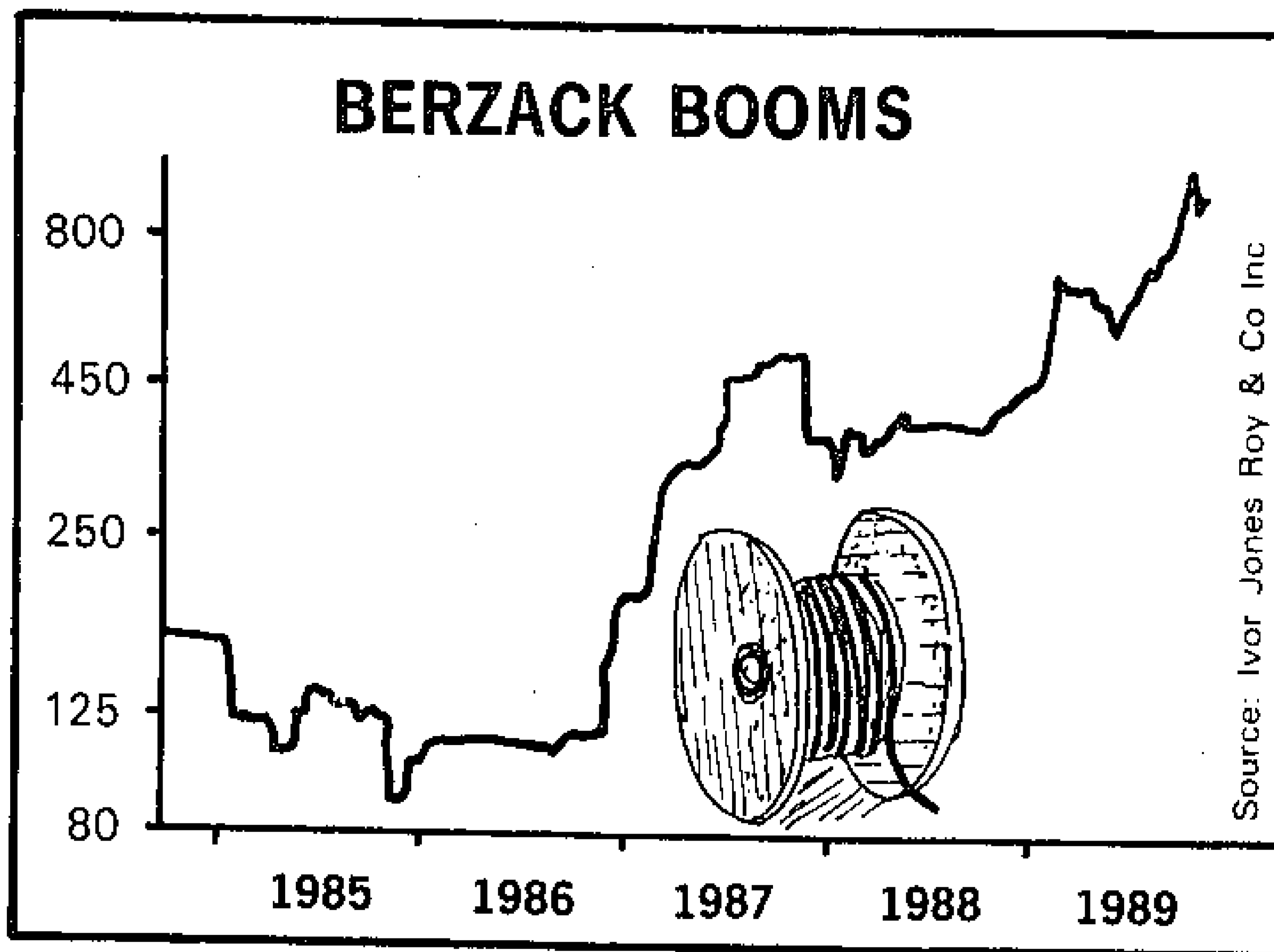
Family business

Berzack has been a family business since it was started 52 years ago by Maurice Berzack as a sewing machine distributor. Slow but steady growth followed after a merger with cable manufacturer Illman 24 years ago.

The merger with Illman meant that Berzack broadened its activities to include underground cables, extrusions and injection mouldings.

When demand for cable and related products burgeoned in the past few years, large-scale investment in machinery and equipment left Berzack sitting pretty.

Technologically, it remains ahead of the pack, being the only SA cable manufacturer which also manufactures its own cable-making machinery.



The year 1984 witnessed a hiccup in the steady pace of growth which previously characterised the firm. Heavy investment in overseas machinery coincided with a collapse of the SA market, and Berzack EPS fell from 23,5c to 12c by 1985.

Rallied

Berzack rallied strongly, however, and EPS has risen sharply ever since. Following a 20:1 share split in January 1989, EPS by end-June this year stood at 119c.

Berzack financial director Myron Berzack believes 1986 was a turning point in the company's history.

"We had always kept the organisation as a mainly family orientated business maintaining a low profile.

By Robyn Chalmers

"After 1986, however, we realised that we had to come out of our shell and show our hand a little more. We had developed the infrastructure, so we were better placed to do so."

Having created the asset base, Berzack began to expand after 1986 and adopted a more liberal dividend policy. Dividend cover stood at 3,8 by end-JUne this year.

The 1989 share split solved one of the major problems experienced by Berzack — tradeability of shares. Prior to the split, investors virtually ignored the company.

Says Mr Berzack: "We recognised this as a problem and addressed it. Our alternative to a share split was a rights offer, but as the share was trading at a discounted price, they would obviously take up the right.

"Since the split, the share has traded extremely well. Some deals have been done off the JSE, so the extent of the volumes have not necessarily been reflected."

Concern

Another concern which has been addressed by management has been the high gearing, which hit 112% during 1985.

The reason for this, says Mr Berzack, was that the company paid cash for the extensive imported equipment and machinery purchased during this period. Gearing now stands at a comfortable 24%.

Berzack has undoubtably hit a new high this year.

The merger between Elcentre and Berzack puts the two organisations in a position to reap huge benefits, and Mr Berzack believes the company will continue going full-steam ahead.

The reason behind the merger rests more on a business principle than the fact that Elcentre director Nathan Mowzowski and Mr Berzack go back a long way — they were at school together.

"Elcentre holds a large percentage of the electrical wholesaling business. By consumating a deal with them, we were securing our position in the marketplace.

"We had traded extensively with Elcentre in the past, and we knew and understood the company. We have a lot to do together."

Mr Berzack says further acquisitions are definately on the books, initially locally and then overseas in the not-too-distant-future.

No 12
1984: R10 000
1989: R73 933

The aim is to expand the company's asset base.

The company is presently involved in negotiations with other organisations, and Mr Berzack hints that announcements on this score will be forthcoming.

Structure

From its start in the business of sewing machines, Berzack's range of activities today is impressive. The manufacturing structure includes design and heavy machinery, cable, extrusions, the manufacture of cloth cutting machines, plastic profiles and injection mouldings.

The distribution structure includes waistband and haberdashery, plastic and sheeting, industrial sewing and pressing machines, labelling equipment and suppliers and household sewing, pressing and knitting machines.

He puts the success of Berzack in the past few years down to an excellent management team — which includes six members of the Berzack family and two of the Illman.

"If our merger this year does not cause us to be disqualified from the 1990 Top 100 Companies survey, we will be looking to climb substantially up that top 10 list!"

B/Day 5/12/89

Woodrow to move to JSE main board

(189

LIZ ROUSE

DCM-LISTED Woodrow Holdings will move to the main board following the acquisition of the balance of engineering sector-listed Meter Systems (now 66% held) and the acquisition of Valve & Switch Investment Company (VSI).

Total cash involved is over R7m — R5,4m for Meters and R1,66m for VSI. Part of the consolidation of Woodrow into as a major company is a R3m rights offer of subordinated convertible debentures.

Meters shareholders will be offered 100 Woodrow shares-cum-rights for every 125 Meters shares held. They will also benefit by taking up rights on favourable terms in the R3m rights offer. Meters will then become a cash shell.

The complete takeover of Meters will rationalise the activities of both, remove conflict of interest and eliminate the need for two listed companies in a group of this size.

Objective

The Woodrow group will then consist of four strong companies — Woodrow, Meters (which in turn has a 51% holding in The Combustion Group)), the 70%-owned Hydraulic Steel Tube (which owns 80% of Powerflow) and 100% held VSI — associated with the manufacture and supply of high quality fluid handling, hydraulic and combustion equipment to the petrochemical, mining and general industries of Southern Africa.

All companies are resistant to economic cycles and downturns.

The group's objective of growing at double the annual rate of inflation should easily be achieved over the years ahead, says CE Graham Nel. Each company should achieve a R10m annual turnover and turn in a R1m net profit.

Woodrow's estimated turnover for the year to February 1990 is R30m, compared with a turnover of R5,97m for the eight months to February 1989 (R7,6m annualised), and estimated net income for 1990 is R2,1m, compared with R443 000 in the eight months to February 1989 (R665 000 annualised).

Highs

Shares in issue will increase from 7-million to 13-million, making estimated earnings a share 16c for 1990 against 6,3c for eight months (9,5c annualised). Dividend payment for 1990 is estimated at 5c. The eight-month payment was 2c.

Assuming the VSI acquisition, the Meters acquisition and the rights offer had been in effect from July 1, 1988, to February 28, 1989, Woodrow's annualised earnings a share would have increased from 8,4c to 11,8c, an increase of 40,5%.

Both Woodrow and Meters shares have been trading at year's highs — Meters rose 10c to 85c yesterday while Woodrow was quoted at 70c bid/75c sell.

Modules for Mossgas project

BDay 7/12/89 (189)

DORBYL Shipbuilders, in conjunction with Roevin of the UK, formed the Sanro consortium which has won contracts to build two complete modules for the Mossgas offshore platform.

The first contracted for was the accommodation module, including the helideck. Work on this began in August 1987.

The 36m-long module is over 17m wide and 18,3m high. When completed it will weigh 2 048 tons and provide accommodation to match that of a three-star hotel.

The module was designed to accomodate 129 people who will operate the Mossgas platform.

It includes four levels, each designed as a self-contained pressurised unit that can be totallly isolated from the rest of the platform in an emergency.

Withstand

Each independent unit can withstand extremely high temperaturs in the case of on-board fire.

The first level will include all mechanical equipment. The second will house entertainment facilities, including a galley, mess room, freezer rooms, laundry, library and gym.

Above the third floor, which houses sleeping cabins, are a mini-hospital, some sleeping cabins, offices and the radio room.

Work on the second module, including the support frame, began in August 1988.

The most difficult part of the outfitting, and a significant feature of the engineering process, is the large amount of pipework on this module.

The module includes 4 200m of carbon and 200m of stainless steel pipes. These are made by Dorbyl Shipbuilders.

A high level of expertise and technology is required for the module construction. The contracts involve technology and quality as used in the North Sea platforms.

According to DSE, the successful transition from a shipyard to an offshore yard is largely due to the experience bought into the consortium by Roevin.

Trained

DSE trained the artisan welders to the level where they could work on offshore contracts.

In all, two years were spent training 433 welders, of which 271 qualified and 112 are still engaged in welding the modules.

It is interesting that 116 new weld procedures were required at Dorbyl Shipbuilders during the development of the two modules.

Other Dorbyl companies offered support in areas as diverse as manpower requirements, CAD facilities, mobile cranes and welding equipment.

Both modules are being built at Dorbyl Shipbuilders premises in Durban and will be loaded out together onto the same barge for transporting in October 1990.

189

Dorbyl

Growth momentum to be sustained in 1990s

DORBYL is set for a forceful and successful entry into the '90s, says Group CE Dawid Mostert.

"Our main aim is to enhance our position as the number one mechanical engineering group in SA," says Mostert.

Growth and development will be maintained within the framework of Dorbyl's broad engineering base which has "so carefully been put together over the past years".

Mostert emphasises the benefits of operating across the engineering spectrum, with interests as diverse as heavy engineering, such its Mossgas involvement, to light consumer orientated engineering, as well as automotive and shipping interests.

"Our product mix is structured to minimise the effect of economic slowdown on Dorbyl's performances."

Mostert says demand for consumer orientated products is closely linked to every movement in the economic cycle, whereas heavy engineering capital goods are normally affected later in the economic cycle.

Grace

"This in itself gives us an 18 month contra-cyclical grace period."

But he confirms that expenditure on capital items is likely to slow, especially as the Mossgas contracts came to an end.

Other large petro-chemical projects, including those proposed by Gencor and AECI have been shelved.

"We have a well-structured organisation. It is in our interests to maintain this, as well as to seek improvements wherever possible," he says.

Dorbyl is aiming for rapid earning and production growth in the next decade.

This means reducing costs, asset utilisation and fine tuning existing structures.

One area offering growth potential is the Tosa seamless tube mill, says Mostert. Tosa is currently undergoing a R90m upgrading programme, the benefits of which will come on stream in the new year.

Dorbyl is excited by the prospects and potential of the new facilites. The Tosa seamless project is expected to break even within two years of coming on stream.

Feat

Mostert says, considering the size of the project, this in itself will be a remarkable feat.

Dorbyl will continue to seek areas in which potential exists for either export sales or import replacement

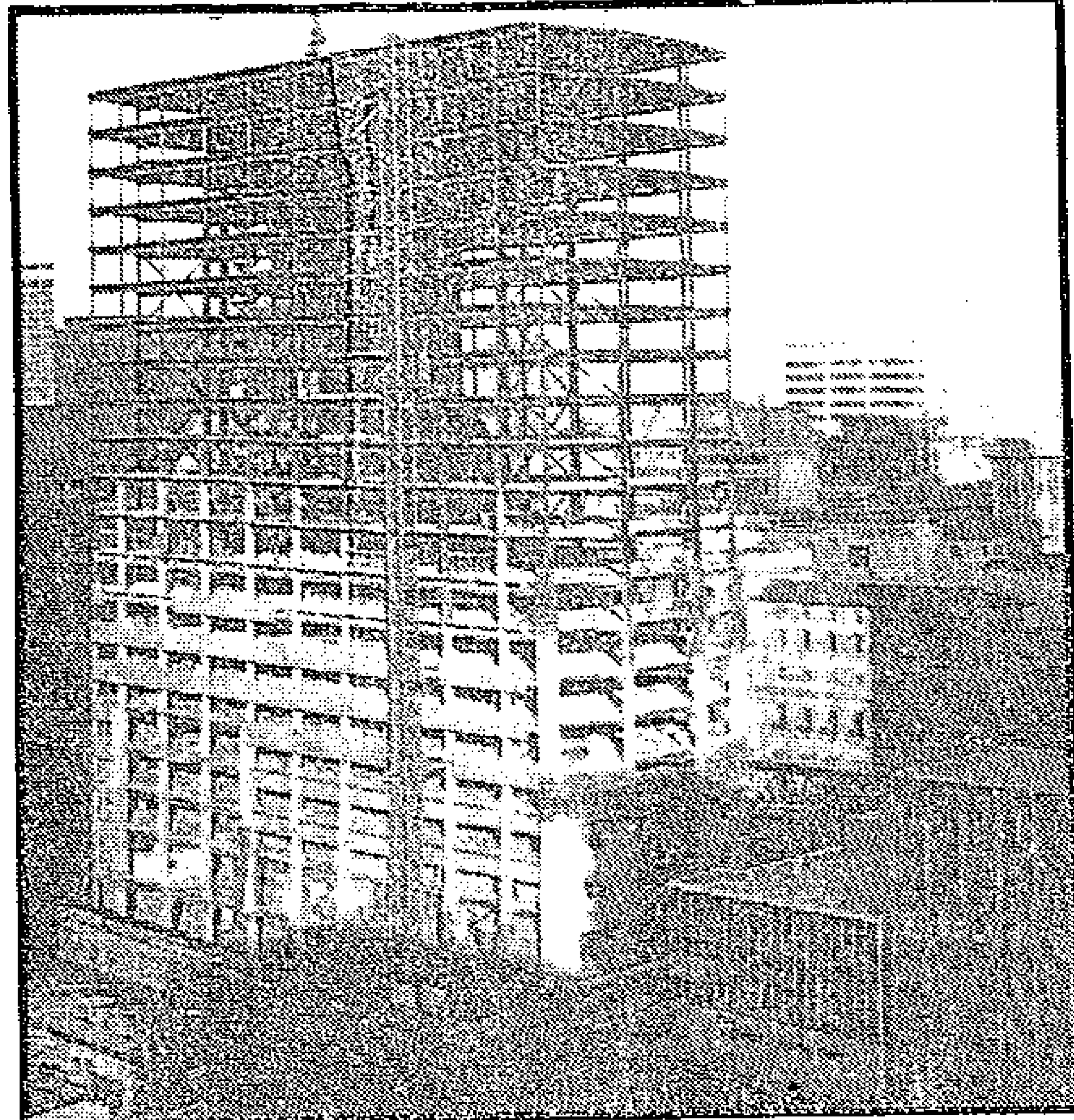
He emphasises Dorbyl's long-term prospects. "We continue to seek growth potential."

Since 1985, when Dorbyl made a number of major acquisitions, including the Stewarts and Lloyds and Afgate operations, growth has been organic.

Mostert says Dorbyl is always looking at acquisition opportunities, but these tend to be relatively small scale.

"Our policy is to acquire new operations when the sum of the parts exceeds the value of the independent operations.

"Our major investors seek consistently good returns. If they wanted major acquisitions they would do them on their own account."



Old Mutual's Project Mutual building in Johannesburg.

Saving time by usi[ng] steel frame metho[d]

REVOLUTIONARY steel frame design can dramatically improve construction times for high-rise office buildings.

Old Mutual's Project Mutual building in Johannesburg provides a prime example of the time and cost benefits of using structural steel frames in high rise construction.

Dorbyl Structural Engineering (DSE) played a vital role in developing the R46m project.

Project Mutual was erected in far less time than Old Mutual's Ten Sixty Six project, which was constructed on an adjacent site.

The incredibly rapid nine-month construction period resulted in the structural completion of Project Mutual being only weeks apart from that of Ten Sixty Six. This was despite the fact that construction on the latter began almost a year before.

Inflation

Although at R32m, the Ten Sixty Six project cost substantially less than Project Mutual's R46m, a large proportion of the difference can be attributed to inflation.

Reduced finance charges resulting from the much shorter construction time for Project Mutual must be accounted for.

Project Mutual is a 20-storey office [...] four storey [...]

DSE grou[p] [...] conjunction [...] consultant[s] [...] Crutchfield [...] ners.

Although [...] more costly [...] crete alterna[tive] [...] cost involved [...] the steel fram[e] [...] the develope[r] [...] ly "buy back [...]

This facto[r] [...] nificant in d[...] the steel fra[me] [...] steel is highl[y] [...] quality pers[...]

The steel [...] under rigid [...] factory con[...] ensures the [...] the highest [...]

Earnings are up by 39,7%

B/Day 7/12/89

(18 9)

DORBYL produced outstanding results for the financial year to September.

This maintains the momentum of the group's impressive 1988 performance.

Turnover increased by almost 21% to over R2,5bn (2,1bn).

This growth was reflected in more than proportionate gains in pre-tax earnings which at R156,1m were an impressive 47% higher than the previous year's R105,9m.

An improvement in gearing levels, as well as higher operating margins were carried through to after-tax earnings of R116,4m, 37% up on last year's R83m.

This was achieved despite significant increases in the tax bill which at R39,8m was almost double the previous year's R20,8m.

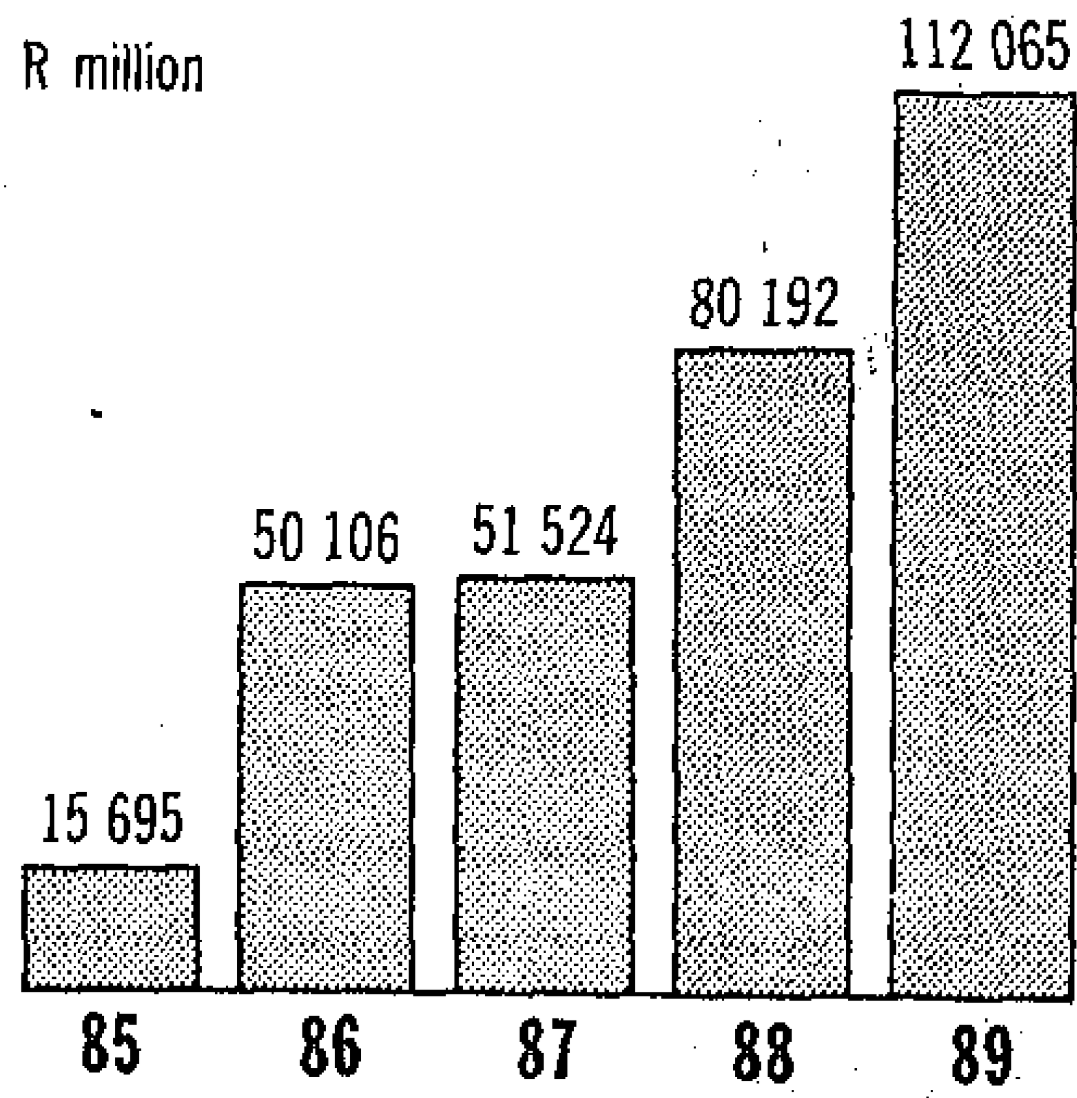
These figures translated to earnings a share of 251,5c, 39,7% higher than the previous year's figure.

A final dividend of 75c was declared, increasing the full dividend to 100c (77c) a share.

Group CE Dawid Mostert says the results reflected the group's emphasis on productivity and on growing markets.

However, he adds there is always room for improvement.

"The level of returns are still not meeting our objectives. This will receive further attention."



He says the group will continue to focus on improved asset management, better productivity and organic growth, as opposed to growth via major acquisitions.

While Dorbyl companies confirm there has been a drop in recent economic activity, they stress the outlook for the coming year remains positive.

At current levels around R21, Dorbyl shares are on a price:earnings ratio of 6 and dividend yield of 4,8%. This compares with the sector average of six and 5,7% dividend yields.

Ozz spells out offer to Lucem minorities

STAR 16/12/89 (189)

Finance Staff

Following the recent acquisition of control in the Lucem group by Ozz Limited, a deal expected to revitalise both companies, Ozz has announced the formal offer to acquire the shareholdings of Lucem's minority shareholders and a reduction in the company's capital by R38,94 million.

As announced in September when Ozz bought the Krok brothers' 37 percent stake in Lucem at 85c a share — a deal that boosted Ozz's 23 percent holding to a controlling 57 percent — Lucem's minority shareholders would be made an offer for all or part of their holdings.

The basic formula comprises a R52 cash component and 55 Ozz shares issued at 60 cents each for every 100 Lucem shares. Shareholders are offered the option of varying that mix to suit their circumstances to the extent that their preferences balance out.

They may either take more Ozz shares at 60 cents each in lieu of cash up to the issue of a maximum of 17 768 880 new Ozz shares or they may prefer additional cash in lieu of shares to the extent that such cash is available from those who took the option of additional shares instead of cash.

Those accepting Ozz shares will qualify for that company's annual dividend for the year ending March 31, 1990 which is forecast at 3,4 cents a share.

The remaining alternative is to stay on board for the ride, a not unattractive proposition. Those shareholders in Lucem who elect to remain as such will receive the 52 cents cash payment in reduction of capital and Lucem is destined to become a cash shell with a net assets value of some R24,41 million or about 32,6 cents a share — making a total value approximately equal to the 85 cents paid to those who sell.

The interim reports of both companies are due for publication in February 1990 following an extension from the Registrar of Companies.

At the announcement of the deal in September 1989, it was forecast that Ozz's net assets could increase by 25 percent, its earnings by at least 12 percent and the dividend by about 36 percent for the year to March 31.

Today's projection of a 3,4 cents distribution confirms this, representing a 36 percent increase on the 2,5 cents paid last year. The transmuted listing statement and other relevant documentation is due for publication on 11 January.

portfolio managers as well as losses. The simulation runs for 25 positions."

Foster father Fenner's orphans a happy family

S Times 17/12/89

(189)

FENNER group has more than silenced critics who questioned the risks it took in buying three of Barlow Rand's discards.

Knowing little about the engineering group's roots, I went to see managing director Tony Clegg.

Part of the global British company Fenner, the SA division was established in 1961 when a foundry and machining shop was bought in Isando.

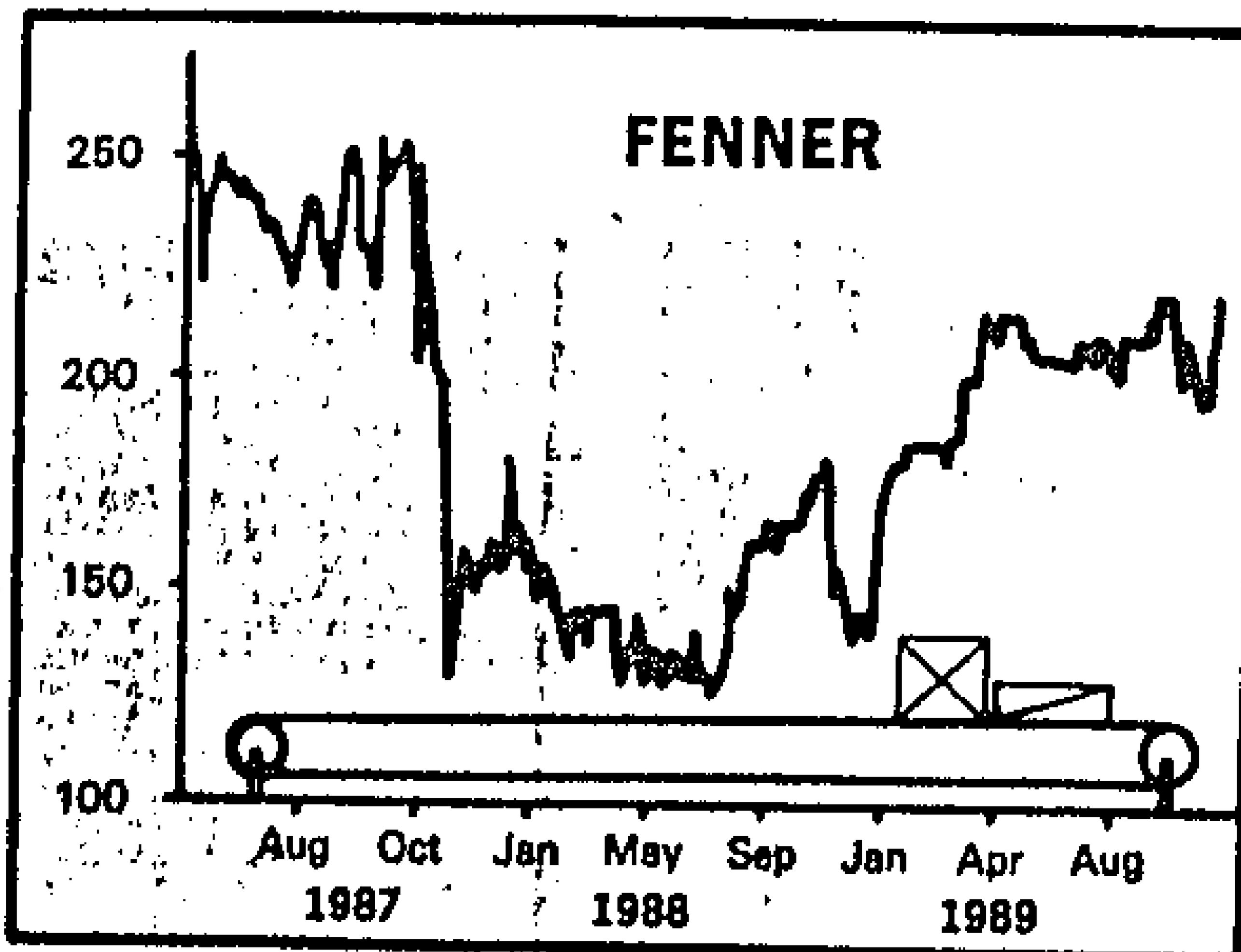
The group expanded, entering the rubber conveyor belting business in 1970 and later, solid-woven, plastic-impregnated belting for use underground. Fenner had a close relationship with Reunert & Lenz, control of which was bought by Barlows in the early 1980s.

ADVANTAGE

Fenner became jointly owned by the British parent and Barlows in 1983. The main advantage to Fenner was the national distribution outlets — now 28 — through which it could market its products.

"It put a stop to internal arguments about who makes the profits — the manufacturer or the distributor," says Mr Clegg.

But in 1986 Barlows decided to sell its stake in Fenner as well as three small manufacturers, which it claimed did not fit in with the great order of things.



First option was given to Fenner to buy the operations. A decision was taken to take the new grouping to the JSE during the listings boom. Into Fenner came KSB Pumps, Control Specialists and Furmanite.

Free of charge came a kind of orphan stigma. Fenner took in these parentless companies for better or worse. Would it be a good foster father?

SIBLINGS

They have all lived happily ever after. The original Fenner SA is by far the largest component of the group, but the siblings are making their mark.

Fenner SA has three divisions. A complete range of mechanical, electrical and electronic power-transmission products is made, and specials are imported. Bearings are also sold through some branches.

Small castings will now be housed under the newly acquired Trek Engineering in Rustenburg, and the larger ones will still be made at Isando.

The conveyor belting division makes flame-resistant belting to SABS rules. The plant is being updated to meet the demands of the newer mines for wider belting, particularly in the coal industry.

Hydraulics assembles imported gear pumps, valves and other products to customer requirements. It also sells air motors.

Fenner bought Trellex, a supplier of rubber parts and linings to complement its rubber-based businesses. Trellex previously bought its products, but will now make them to international specifications.

KSB Pumps specialises in making centrifugal pumps, and more recently started to make slurry and submersible pumps. It has also supplied most of the water circulating pumps to power stations in SA.

A KSB Pumps company has been opened in Botswana as part of an export drive. KSB has won orders for Mossgas, as has Control Specialists.

This company has expanded its local content capabilities so that only the electronic controllers and other specialised items are imported.

Control Specialists has entered into a 10-year licensing agreement with the multinational Fisher group to make the valves.

The local content for Mossgas orders will be about 75%. Control Specialists also provides technical back-up.

Last but not least, Furmanite captures the imagination as a really useful service. Furmanite specialises in on-site leak-sealing without the need to shut down the faulty equipment.

When a leak is spotted, Furmanite appears with magic muti which is applied and works like a gasket — like a dream.

MARGIN

Mr Clegg is confident on Fenner's prospects. In the year to August 1989, it redeemed R2-million in preference shares, bought Trek and funded turnover of R176-million — a third up on the previous year — without hurting the balance sheet.

The profit margin of 11,5% before interest and tax is in the upper bracket for a manufacturer. Fenner earned 50,7c a share — four times 1986's figure. The share price is 220c, slightly more than four times historic earnings and well below the sector average of 6,3. The 16,5c dividend yields 7,5%.

Fenner's balance sheet looks reasonable. In spite of the slowing economy, the order book is better than it was last year. Management expects further growth in earnings, while noting that 1989 provides a high base.

The share price has picked up to 220c, having been 140c a year ago. So it has already enjoyed a considerable rerating.

It has probably done enough for now, but can be bought on weakness.

ng

Case No: 24915/89

ted 12 December 1989 in the above matter, the Supreme Court of
has directed that a meeting of the ordinary shareholders of the

NEI expands diesel share

CHARLOTTE MATHEWS

189

THE PURCHASE of Kilber Automotive Products for an undisclosed number of Northern Engineering Industries (NEI) shares is part of NEI's diesel vehicle expansion strategy, CE Blitz Bieber said yesterday.

Kilber, which Bieber said had a turnover of about R20m a year, makes commercial and industrial exhaust systems and handles special orders for exhausts used for dynamometers, compressors, locomotive engines and off-road construction equipment. B/Day 21/11/89

NEI already has a subsidiary, Propower, which distributes a range of diesel engines, trucks, transmissions and filters, and remanufactures diesel engines at Atlantis.

Bieber said Kilber's purchase would have a very small effect on earnings, possibly about a 1% increase, but had "tremendous potential".

ENGINEERING

EXPORTS

1989

Expansion allows NEI a 17% earnings increase

BDay 9/2/89 (189)

ZILLA EFRAT

NEI Africa engineered a 17% increase in earnings in the year to December after expanding both its local manufacturing capability and exports.

Earnings improved to 527,6c (450,3c) a share and the engineering group has declared a final dividend of 156c, bringing the annual total to 211c (180c) a share, covered 2,5 times.

Turnover increased 12% to R438,7m (R391,8m), while operating profits rose 24% to R50,5m (R40,7m).

But CE Blitz Bieber says the operating income in the NEI companies with large long-term contracts cannot be directly related to turnover in any one year because of the conservative method of reporting profits.

Assets of R5,1m were written off in closing a foundry and terminating two franchises.

The interest bill increased 38,5% to R6,8m (R4,9m) because of increases in interest rates and financing costs by way of bills of exchange for the higher turnover, says Bieber.

The threat of sanctions and the declining value of the rand have given impetus to NEI's local manufacturing and import-substitution programmes.

Prospects

"Our local manufacturing capability has expanded considerably and is being marketed in various export territories. As a result, exports accounted for 31% of group turnover in 1988 and we expect further export growth this year."

He is optimistic about the prospects for 1989. Package boiler manufacturer John Thompson began the year with the largest order book in its history.

"Three electronic division companies, Reyolle, Chi Control and Power Engineers, have developed new products and enter 1989 with greater market potential," says Bieber.

He says NEI Africa is always on the lookout for suitable acquisitions and one will be announced shortly.

● BIEBER

NEI's shares, currently trading at 3 600c, are on a new p:e ratio of 6,8 and dividend yield of 5,9% against the engineering sector averages of 7,8 and 5,0%.

The group's holding company NEI Africa Holdings (NEH), which has as its sole investment a 55,9% stake in NEI Africa, increased its earnings by 16% to 261,4c (225,3c) a share and declared a final dividend of 78c, bringing its annual total to 105,5c (90c).

NEH is currently trading at 1 750c with a p:e ratio of 6,7 and a dividend yield of 6%.

Increased domestic production and exports boost NEI

CM TIMES 9/2/89

Financial Editor

EXPORTS and import substitution helped Northern Engineering Industries Africa (NEI) to turn in impressive results for the year to December with a 24% rise in net operating income to R50,5m.

The final dividend is 156c (130c) making a total of 211c (180c) for the year with cover by earnings maintained at 2,5 times.

Net income was 18% higher at R31,5m (R26,7m). Earnings per share were 17% higher at 527c (450c). This was achieved on a 12% rise in turnover to R439m (R392m).

But the tax bill was 36,5% higher at R19m. And assets of more than R5m were written off in closing a foundry and terminating two franchises.

CE Blitz Bieber points out that the operating income in NEI companies with large long-term contracts cannot be related directly to turnover in any one year because of the conservative method of reporting profits.

Bieber says the threat of sanctions as well as the declining value of the rand has given impetus to NEI Africa's local manufacturing and import substitution programmes. "Our local manufacturing capability has expanded considerably."

As a result, increased exports accounted for 3,1% of group turnover in 1988 "and we expect further export growth this year."

He says he is optimistic about prospects for 1989. Boiler manufacturer John Thompson Africa has begun the year with the largest order book in its history and utility and industrial water-tube boiler specialist Ical is involved in ongoing contracts for the Mossel Bay project and Eskom.

"The three electrical division companies, Reyrolle, CHI Control and Power Engineers, have developed new products and enter 1989 with greater market potential.

"In the diesel and industrial division, Propower's remanufactured diesel engine component programmes and its move into remanufacturing of heavy trucks using partly imported kits, has met a market need.

"Meissner Power Systems has developed an advanced series of small and medium uninterruptable power systems which have not only been successful locally but also have strong export potential."

- Holding company NEI Africa Holdings, which has as its sole investment 55,9% of NEI Africa, lifted its final dividend to 78c (65c) making a total of 105,5c (90c). Earnings were 261,4c per share.

Independent to seek listing next year

Own Correspondent

LONDON: — The Inde-

These investors currently trade their shares

crease his stake. It now stands at around 4,8pc.

The Independent has

A year Haggie would prefer to forget

star 10/2/89 (189)

By Magnus Heystek, Finance Editor

Engineering group Haggie has reported an increase of 12 percent in attributable profit for the year to December.

But, frankly, it was a year that Haggie would prefer to forget because only a substantial drop in the tax rate made it possible for the company to increase bottom-line earnings.

Turnover grew by 10 percent to R874,6 million, which was a continuation of the deceleration in turnover that has characterised the company since 1984.

Turnover growth in 1985 was 29 percent, but subsequently slowed to 18 percent in 1986 and 12 percent in 1987.

Turnover levels

In mitigation, the company says turnover levels could have been much higher were it not for a series of crippling strikes, which reduced production considerably, resulting in loss of market share.

The slowing in turnover is also ascribed to anti-South African sanctions in the US, formerly Haggies' largest international market.

This badly affected export volumes.

But the company says the export market has once more gained prominence and now roughly constitutes 20 percent of total production.

Whereas the company in previous years relied heavily on one export market (the US), this market has now been substantially diversified into a total of 65 countries.

Net income before tax declined slightly from R115,25 million to R114,816 million as margins came under pressure, declining from 14,5 percent in 1987 to 13,2 percent.

The tax rate was down, mainly because of export incentives and the partial utilisation of certain assessed losses.

It fell from 41 percent to 35,2 percent.

The tax bill, as a result, dropped from R47,16 million in 1987 to R40,43 million, enabling Haggie to declare an earnings rise roughly matching the inflation rate.

Earnings per share increased from 285,4c to 319,7c.

A final dividend of 94c a share (1987: 86,5c) has been declared.

Group managing director Mr John Feek yesteday expressed his disappointment with the effect the industrial actions had on the company's performance.

Industrial disputes

"With the booming economy, we could have substantially increased local sales," he said.

He said, however, that many of the problems relating to the industrial disputes had now been solved and he forecast sound, if not spectacular, growth in the year ahead.

Order books are full, while the export markets are expected again to make a substantial contribution to profit in the year ahead.

Haggie's resilience beats year's labour disruptions

B Day 10/2/89

TANIA LEVY

HAGGIE's pleasing export growth helped offset the labour disruptions which plagued the engineering group in the year to December.

FEEK

Earnings increased 12% to R61,5m (R54,9m) or 319,7c (285,4c) a share, compared with a 20% increase a year ago.

Nevertheless, the 2,5 times dividend cover has been maintained and a final dividend of 94c (86,5c) has been declared. This brings the dividend for the year to 128c (114c).

Group MD John Feek said yesterday that Haggie had shown remarkable resilience in an extremely disruptive year.

Overall sales volumes only fell marginally since 1987 as pleasing export growth offset a decline in domestic sales. The decline was due to industrial stayaways and plant lockouts, rather than to a lack of available orders.

Turnover increased 10% to R874,7m (R794,1m) but labour disruptions and general cost increases caused a 1,1 percentage point drop in margins, resulting in operating profit of R116,8m, just 1% up on the previous year's figure of R115,5m.

A reduced tax charge accrued from the rand-hedge benefits of improved export volumes and a partial recoupment of previous year's assessed tax losses.

Taxed profits therefore increased 9% to R74,4m (R68,1m). Haggie's gearing is a modest 19,4%.

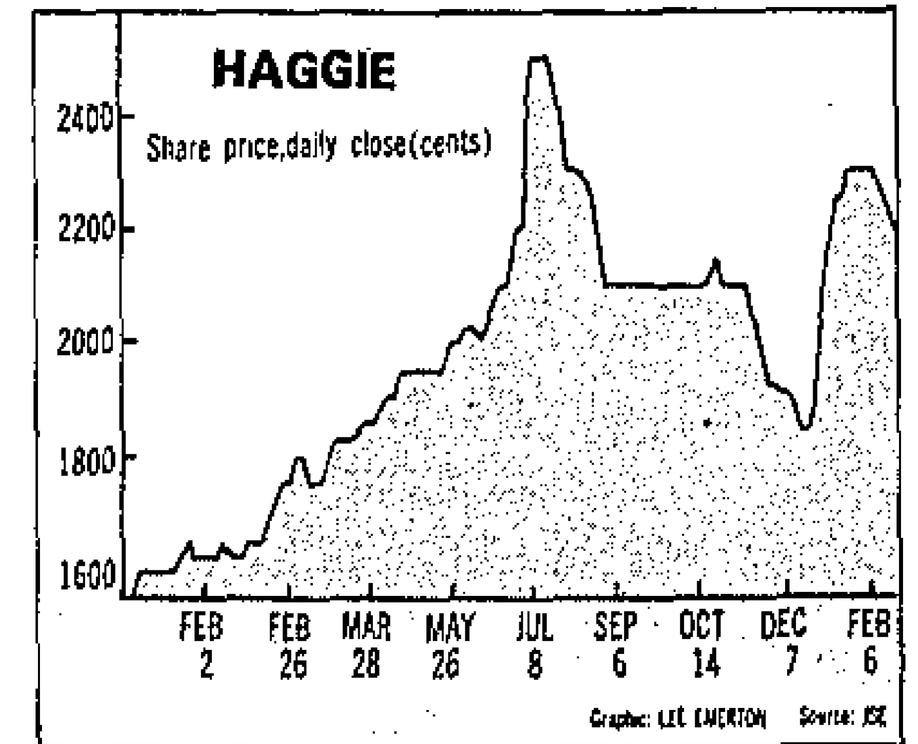
Strong currencies

Feek estimated that Haggie's exports had increased by about 7% in volume but said it was difficult to quantify the improvement because of the different performances by the various companies under the Haggie banner.

He declined to disclose the amount earned by Haggie through exports but said the group had been allocating 20% of production to the export market for a long time.

"We would like to see that 20% realised in sales in the future," he said, "and will concentrate on markets with strong currencies like the yen."

Over the past 10 years exports have experienced a 13% compound growth as opposed to a mere 3% domestic growth rate, explained Feek.



"We will continue to focus on exports withouting neglecting our local market," he said.

Haggie became the controlling partner of hacksaw-manufacturer James Neill SA in Cape Town this year.

Last year it diposed of Jackson's Metals and Osborn Aluminium, realised its remaining investment in Chloride SA and increased its interest in Copalcor to 100%.

UNIHOLD (189)

Some solid foundations

The bullish outlook for engineering shares makes Unihold well worth watching

A recovery in fixed investment, booming consumer spending and rising exports by the manufacturing sector are reasons why a number of engineering shares have recently reached new highs. The market has recognised that certain basic industries have become attractive investments.

Unihold's share price has yet to reflect such prospects fully — but the group does appear to be looking towards bullish profits. And there is more behind the pickup than active markets. After the group was created

as Unihold Superite at the end of 1984 out of the merger of Quinton Hazell Superite (QHS), with Jimmy Haslam the CE and the controlling shareholder, large losses followed in several group companies.

There were operating losses of R6,9m in 1984 and R3m in 1985; debt soared, pushing gearing to more than 150%, and the group made a net loss of R8,3m in the year to end-December 1985. The way out involved substantial closures and disposals.

A major QHS division, Walro Safeway, specialists in electrical cable and seatbelt manufacture, was closed in mid-1985. About six months later the Superite Automotive and Mr X-haust/Mr Tyre divisions — about a third of the group's assets — were sold to a competitor for R10,2m.

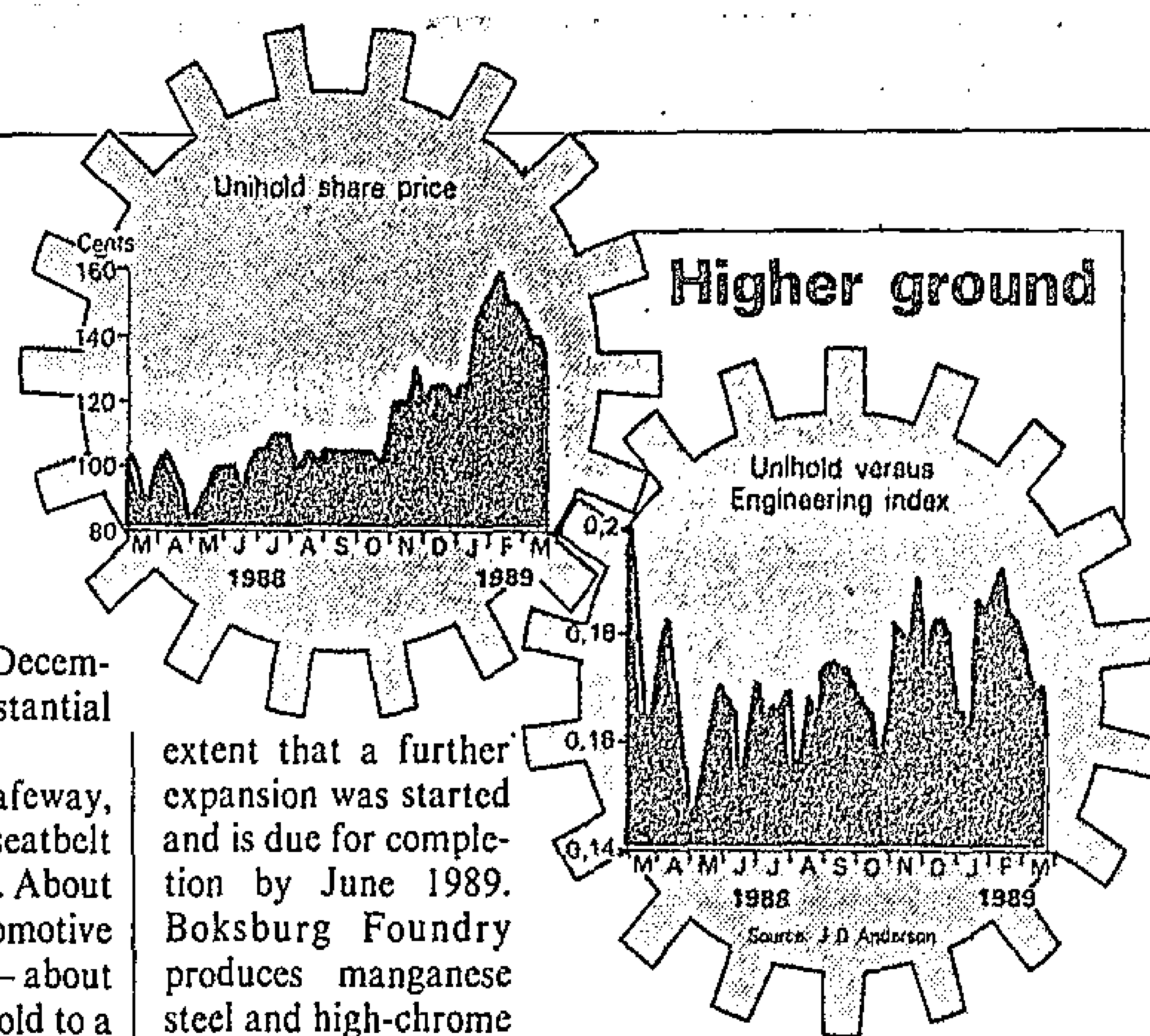
This enabled repayment of debt and changed the profile of Unihold's activities, one effect being to reduce the exposure to the automotive industry. Profits have continued to rise since earnings moved into the black in 1986, when EPS were 6,4c against the 1985 loss of 26,3c per share. In the 1988 year EPS grew to 36,9c, to give a return on equity of 37,4%. Resumption of dividends in 1986 brought a pay-out of 6c, up to 9c last year, offering a yield of 6,7% on the 135c price.

Operating income climbed last year by 48% on a 39% turnover advance to R116,7m and an increase in margins from 10,5% to 11,2%. Total pre-interest income of R13m came from three divisions: foundries (R5,89m), engineering (R5,1m) and electrical (R3,2m).

Foundries remained the most profitable, with a margin of 15,2% on turnover of R38,8m, followed by engineering with a margin of 13,1% on turnover of R38,9m. Least impressive was the electrical division — the area CE John Butler thinks has the big potential — where the margin was 7,4% on turnover of R43,5m.

What helped EPS to rise so rapidly was the fact that virtually no tax was paid in the last two years. Losses available for offsetting against tax have run down, and financial director Graham Crimp expects the tax rate to jump this year to a maximum 30%-35%. Haslam, now chairman, says this will inevitably mean a drop in EPS, but is nonetheless expecting an increase in the dividend in 1989. Main reason for optimism is that management believes higher margins and profitability will be achieved. In 1989 the group is targeting a pre-interest return on average total assets of 25% against last year's 20,3% and a pre-interest margin on turnover of 12,5% (11,1%).

The prosperity of Unihold's foundries contrasts with the results of some other large groups which have large foundry activities. Unihold's foundries, says Butler, not only supply markets which are generally stable, but capacity expansions have been needed to meet demand. After completion last year of an extension to the Boksburg Foundry, local and export demand continued to grow to the extent that a further expansion was started and is due for completion by June 1989. Boksburg Foundry produces manganese steel and high-chrome iron wear resistant castings used in milling gold and platinum ores and base minerals.



Rely Precision Castings makes precision investment castings and high-alloy sand castings at Boksburg, and makes precision stainless steel and high alloy sand castings at Chamdor. A centrifugal cast facility installed at Rely's Chamdor plant recently started production; and, to accommodate demand for investment castings, a major extension to Rely's Boksburg plant was completed last month.

Rely's Boksburg plant produces high technology products. Its growth has been fuelled by import substitution and by exports, both believed to have more potential.

The engineering division comprises three companies, much of whose output is linked to the mining industry. Wilco produces snatch blocks, incline shaft rollers, mono rope conveyors and other mining consumables. Unique Engineering makes process equipment, slurry pumps, stainless steel wedge wire hydraulic mine props and tube fittings. Wilflo Pumps makes and distributes a range of pumps and tank cleaning equipment.

Rationalisation and acquisitions in the engineering division will influence its performance in 1989. Acquisitions have included the pump and process division of Joy Manufacturing for R2,3m from March 19 1988; and the trading assets of Unique Engineering were bought for R2,9m with effect from January 1 1989 from Standard Brass. Activities of Bitcon Industries were sold or closed because they were considered unable to meet the targeted return on assets.

Activities of Unique, Denver Orion and Malvern Wedge Wire are being consolidated at Lilianton and will trade under the name of Unique Engineering. The Jetin SA division is being merged with the specialist pump division of Wilco Howard, creating a new division to trade as Wilco.

Butler points out that the hydraulic mine props produced by Unique absorb products made by Rely's new spun casting facility. Unique is new in the prop market, and is having to work hard for market share, but the group believes it is offering latest technology in a prop that could see growing demand because of its cost effectiveness. Success has come in areas like platinum mines.

While the divisional return on average total assets managed (ROAM) last year was the lowest in the electrical division at 11,9%, this figure was almost triple the previous year's level of 4,4%. Butler is forecasting the division's ROAM will reach 20% in 1989 and the target is 30%. In particular, substantial growth is expected at Walro Automotive in Port Elizabeth, which supplies wiring harnesses to Volkswagen and Delta Motor Corp.

Walro has been helped by the increase in new motor sales in SA and the larger market share enjoyed by the Port Elizabeth motor companies. There are also big hopes for Walro Flex, a producer of industrial flex.

"We have identified world markets we want to get to," Butler says. Some R3m has been committed for expansion of the company: the first phase is aimed at domestic demand, with a further phase for exports. In the electrical division, Zumtobel, a 50%-held managed subsidiary, makes and distributes sophisticated lighting equipment. Exports are a small but growing element in Unihold's sales. The plan is to lift these to 5% of group turnover. Part of last year's capex is expected to enhance 1990 export sales.

Another aim is to continue investing in assets: last year capital spending on replacement and expansion totalled R5,8m and will be somewhat higher this year. Butler says that expansion will be confined to the three core divisions — after the traumas of a few years ago, management wants to stay with its areas of expertise. However, the stock market may see a negative in the group's debt:equity ratio — it rose in 1988 to 0,42 (0,31), an above-average figure for industrial companies these days.

Overall, the management approach appears tight, conservative and profit orientated. Haslam, now living in the UK, still has 46% of the equity but the local directors, who themselves own 10,2%, say he is not considering selling at present. However, some analysts think a sell-out may well be a possibility in the longer term. Southern Life, whose investments' GM Des Bradford is a director of Unihold, is believed to have a significant involvement via the automatically convertible debentures. These are due to be converted or redeemed by May 1991.

At 135c, the share stands 36% above net worth of 99c. If the group can achieve the profitability targets being set by management then a higher price should be seen over the next year. What Unihold does not have in its favour is an established track record and it may take time to build up a good enough record to impress the market. Meanwhile the company is worth watching. *Andrew McNulty*

Haggies steps up export drive

Finance Staff

Haggie Limited increased earnings per share by 40 percent to 207c (148c) for the six months to June 30 on turnover that rose 40 percent to R584,7 million.

Attributable earning rose to R39,95 million (R28,5 million), despite higher tax and interest charges.

The interim dividend was raised to 47c (34c).

The group said increased borrowings, especially in the non-ferrous metals division, arose from the continuing high rand price of copper, and had a significant impact on working capital.

The improved results flowed from all the group's activities, including exports which, according to the managing director John Feek "continues to form a meaningful part of overall sales".

The stepped-up export drive focuses on exporting a wider range of products to markets already opened in more than 60 countries.

However total borrowings, including preference shares, remained low at 28 percent of shareholders' funds, minorities and deferred tax.

The tax rate for the half-year increased from 35 percent in 1988 to 39 percent, as during last year assessed tax losses in certain subsidiaries were still available.

BACKLOG

Haggie Rand eliminated the backlog of orders resulting from the six-week lock-out at its Jupiter and Germiston plants in the second half of last year.

In the current half-year, Haggie expects the mining industry's demand for wire rope to remain constant, though demand for wire and other products by the agricultural and building industries is likely to be affected by the economic slowdown.

"In the case of chain production, which we entered last year, our capacity is being doubled to meet demand," Mr Feek added.

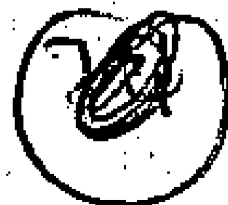
Building ships for export

AFTER a break of eight years, Dorbyl Marine has successfully secured a shipbuilding contract for two vessels for export.

Due to the recession in world shipping in the early '80s, as well as the withdrawal of the government subsidy in 1984, the SA shipbuilding industry underwent severe decline.

However, Dorbyl Marine is today the only remaining SA company involved in large-scale commercial shipbuilding.

Present orders were secured using a financial package developed by Dorbyl Marine.



Create

In addition the work will create many new jobs, both directly and indirectly.

The vessels currently being built are a multi-purpose cargo vessel and a roll-on-roll-off cargo vessel which are due for completion in 1990.

Worldwide demand for new ships has risen substantially over the past two years.

This, together with the closure of many international shipyards has meant the remaining shipbuilding capacity is largely committed until 1992.

ENGINEERING

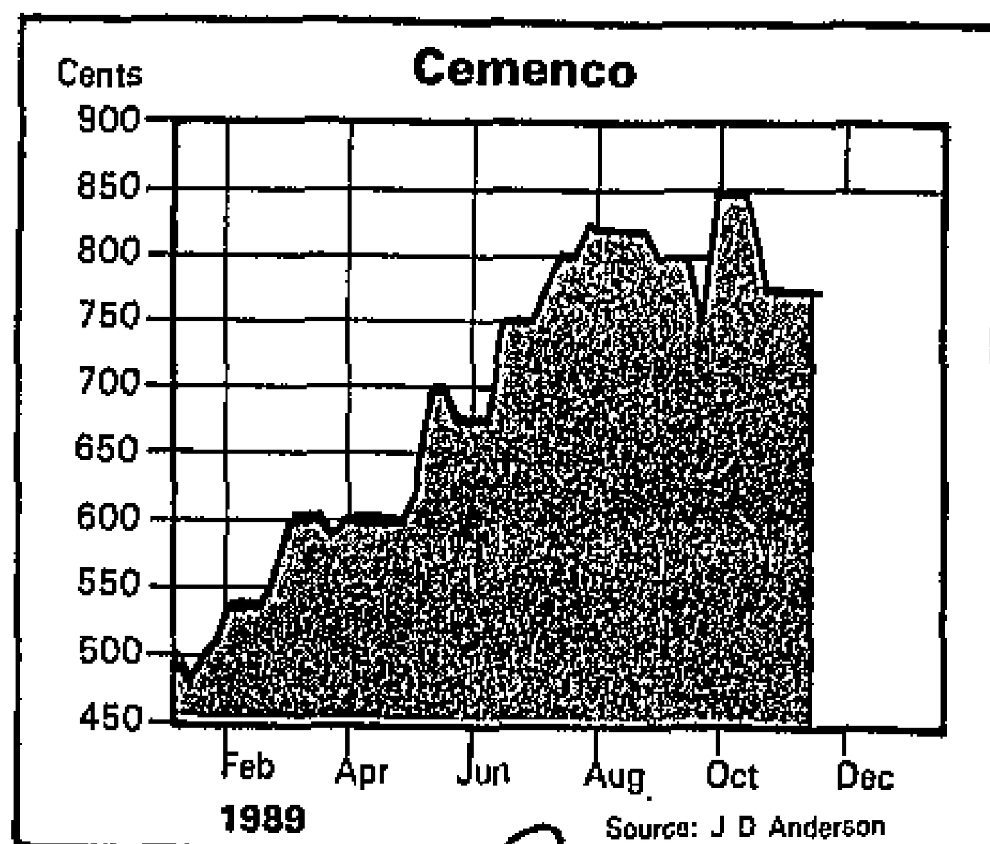
1990

→ F|M 12|1|90 (189) (2??)

CEMENTATION F|M 12|1|90

Waiting on gold

Not unexpectedly, Cementation's operating results marked time in fiscal 1989, though comparatively slow turnover and operating profit growth were converted into better earnings and dividend advances. The performance remains affected by gold's difficulties and cuts in State capital spending. The mining contracting division suffered a drop in its exploration drilling business but lifted turnover as shaft sinking and underground development contracts continued.



(189) (2??)

At the end of financial 1988, chairman Ron Shaw reported improved demand for backfilling from the mining industry and now reports demand has further improved. Fundamentally, though, services to gold mines remain affected by the industry's belt-tightening.

The same is true in SA of the railway division, whose track laying business is "at a severely depressed level" according to Shaw. The division has lifted its export sales and has acquired the old Racec company to strengthen its position in local track manufacturing. Benefits are likely to be more longer-term than immediate.

A year ago there were hopes that legislation on the compulsory use of self-rescuers would boost sales of the equipment to the gold mines. The legislation has been delayed, though Shaw hopes it will be passed this year.

Considering the year-end order book rose by only 7% to R213m, this year, too, will be one of marking time. The gold mines are unlikely to start increasing expenditure while gold fails to break decisively above US$400. Shaw believes there will be little increase in demand from mining houses in the immediate future. The bottom line is also likely to be affected by a substantially higher interest charge due to higher rates and greater net borrowings.

Last year's dividend increase to 75c (42c) swallowed virtually all the 35c earnings rise and appears to have been made to trigger automatic conversion of the 10,3m convertible prefs held by GFSA. This year's earnings and dividend growths are likely to be more modest.

Jim Jones

Cementation's Shaw . . . watching the bottom line

Activities: *Civil, mining and mechanical engineering.*
Control: *Trafalgar House Plc has a controlling interest. GFSA has 23% of the equity.*
Chairman: *R T Shaw; managing director: G B Lotter.*
Capital structure: *6,89m ords of 50c; 150 000 6% cum prefs of R2; 10,3m non-red convertible cum prefs of 50c. Conversion took place on Oct 1 1989 on a 5-for-1 basis. Market capitalisation: R72m.*
Share market: *Price: 800c. Yields: 9,4% on dividend; 19,3% on earnings; PE ratio, 5,2; cover, 2,1. 12-month high, 850c; low, 480c. Trading volume last quarter, 25 800 shares.*
Financial: *Year to September 30.*

	'86	'87	'88	'89
Debt:				
Short-term (Rm) ..	12,9	19,7	22,3	30,6
Long-term (Rm) ...	33,8	20,2	13,5	10,8
Debt:equity ratio	0,96	0,51	0,32	0,50
Shareholders' interest	0,31	0,29	0,30	0,30
Int & leasing cover .	1,6	2,1	3,8	3,1
Debt cover	0,37	0,54	0,79	0,58
Performance:				
	'86	**'87**	**'88**	**'89**
Return on cap (%) ..	8,4	8,0	10,5	10,7
Turnover (Rm)	242	273	314	335
Pre-int profit (Rm) ...	13,0	13,9	19,4	22,1
Pre-int margin (%) ..	5,4	5,1	6,2	6,6
Taxed profit (Rm)	3,1	4,5	9,6	12,2
Earnings (c)	44,6	45,8	120,5	155,1
Dividends (c)	22	22	42	75
Net worth (c)	633	662	737	816

R10m contract for Concor

ROBERT GENTLE (189)

CONCOR Engineering has been awarded a R10m contract for the construction of a bulk sample plant at the huge De Beers Venetia diamond mine project in the northern Transvaal.

The plant, scheduled for completion in 1990 and commissioning the month after, follows similar work done at the Orapa diamond mine in Botswana.

It includes R1m worth of earthworks, R1m of civil engineering work, R750 000 of electrical work and will require 300 tons of steel. Concor will also refurbish an earlier pilot plant built some years ago.

The Venetia mine, near Alldays, west of Messina, is De Beers' single biggest investment and could ultimately cost R1,1bn.

It is expected to yield more than four-million carats of medium quality diamonds a year during its projected 20-year life. BDay 9/1/90

B/Day 16/1/90

Directors act to keep grip on Unihold

SYLVIA DU PLESSIS (189)

UNIHOLD directors have taken steps to avoid losing control of the engineering group when 9,2-million unsecured debentures are compulsorily converted in May by proposing to form a pyramid holding company called U-Control (U-Con).

But their proposals to Unihold ordinary members and convertible debenture holders entail an offer to debenture holders to replace their existing debentures with new debentures in the pyramid company.

U-Con, which is expected to be listed on the JSE, will hold at least 75% of Unihold's issued ordinary share capital.

Directors say the proposals are motivated by the conversion of the 15% unsecured automatically convertible debentures of 90c each into ordinary shares by the end of May. This would dilute their existing 53% control of Unihold.

Their proposals would transfer control of Unihold to the listed pyramid and allow for the further issue of ordinary shares without a change in ultimate control, they say.

These proposals are contained in two offers by U-Con. The first, to Unihold ordinary shareholders, is to exchange 75% of their Unihold ordinary share in the ratio of 150 U-Con ordinary shares of no par value for every 75 held.

Certain associates have agreed to waive their rights to receive this offer to enable the remaining Unihold ordinary shareholders to acquire a pro rata percentage of new ordinary shares in U-Con.

They have also agreed to make up their total holding of ordinary shares in Unihold available for conversion into U-Con ordinary shares, if necessary, to ensure that U-Con will hold at least 75% of the ordinary shares in Unihold.

The second offer is to Unihold debenture holders to exchange 75% of their holdings for U-Con 15% automatically convertible debentures of 45c each in the ratio of 150 U-Con debentures for every 75 Unihold debentures held.

These new debentures will have "substantially" the same rights as those attached to the Unihold debentures.

Unihold directors say implementation of the offers will have no effect on the earnings per ordinary share or the net asset value of an ordinary share in Unihold, and expenses relating to the proposals will be borne by U-Con.

Afrox looks to be a share for all seasons

Star 16/1/90

Engineering group Afrox tends to perform relatively well in periods of downturn and brokers are not expecting this year to be an exception.

In the annual report chairman Peter Joubert says the group structure, together with its range of products and customers, ensures that cyclical swings in the economy are evened out.

Mr Joubert expects group markets to remain bouyant in the current financial year and believes there is great potential for further organic growth.

He says the productive capacity of the gases division will continue to be expanded and that the returns from healthcare should start increasing this year as expenditure tails off.

Afrox, though its manufacturing companies and trading outlets, makes and markets gases, welding products, fluid-handling systems and a range of high-technology industrial products.

The group operates and has interests in several private hospitals.

In the year to September 1989, the gases and welding operations maintained their contribution to group profit before interest and tax at 82 percent.

The contribution from the healthcare division rose from 12 to 14 percent.

Other businesses accounted for less than five percent of group pre-interest profit, compared with more than six percent previously.

Group turnover climbed 28 percent from R566,7 million to R728 million in the 12 months to September.

Improved operating efficiencies pushed trading profit up 31 percent from R112,1 million to R147,3 million.

After a 60 percent rise in the share of trading profits of associated companies, pre-interest profit increased 32 percent from R113,4 million to R149,3 million.

However, a fivefold increase in net interest paid from R3,1 million to R16,7 million and a higher effective tax rate of 48,6 percent (46,4 percent), resulted in taxed profit rising by 15 percent from R59,2 million to R68,2 million.

After charging additional depreciation of R15,6 million to reflect the current cost of assets consumed and deducting outside shareholders' interest of R1,6 million, attributable profit grew 16 percent from R44 million to R51,1 million.

This provides inflation-adjusted earnings of 170,46c a share (146,72c).

On an historical accounting basis, the increase in earnings is 15 percent from 193,42c a share to 222,47c. The dividend for the year was lifted from 75c a share to 100c.

As a result of expenditure to upgrade and expand operations, net borrowings almost doubled to R200 million, bringing gearing to 28 percent, which is still regarded as conservative for a capital-intensive industry.

Net asset value appreciated 13 percent from R13,04 a share to R14,74. Inflation-adjusted earnings place Afrox, priced at R28,25, on a P/E ratio of 16,6. If historical cost earnings are used, the P/E ratio reduces to 12,7.

Both these figures exceed the sector average of eight and brokers say the share is probably fully priced in the short term.

COMMENT: Afrox's share price has recently risen steeply to new heights on good demand. Although the share is in a primary bull trend, profit-taking could result in a short-term correction.

STANDARD ENGINEERING (189)

Bolder than brass

Activities: *Holding company for Malbak's engineering interests.*
Control: *Malbak 92,1%.* FM 19/1/90.
Chairman: *K Zirker.*
Capital structure: *27m ords. Market capitalisation: R149m.*
Share market: *Price: 550c. Yields: 5,3% on dividend; 16,7% on earnings; PE ratio, 6,0; cover, 3,2. 12-month high, 550c; low, 320c. Trading volume last quarter, 46 500 shares.*

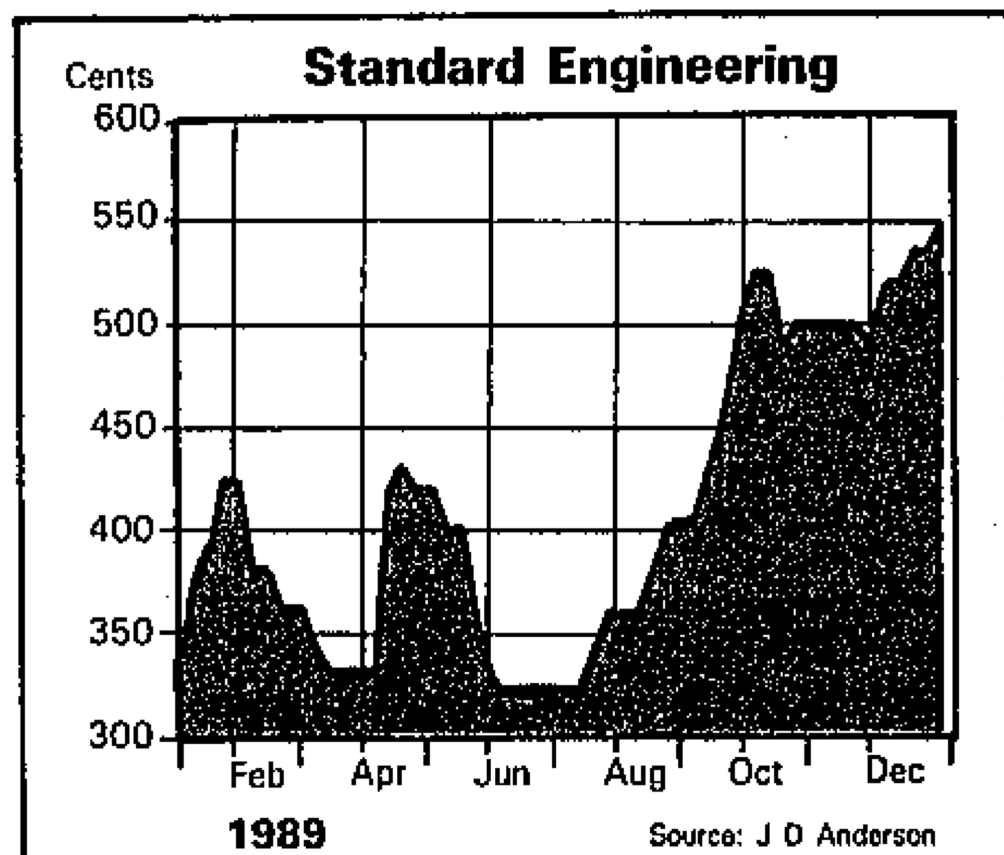
Year to Aug 31	'89
Debt:	
ST debt (Rm)	35,0
LT debt (Rm)	4,7
Debt:equity ratio	0,26
Shareholders' interest	0,53
Int & leasing cover	5,9
Return on cap (%)	16,2
Turnover (Rm)	409
Pre-int profit (Rm)	43,2
Pre-int margin (%)	10,6
Earnings (c)	92,1
Dividends (c)	29
Net worth (c)	458

Consolidation of Malbak's engineering interests under one corporate roof has had one advantage: earnings beat the pre-merger forecast. Not by much — the pre-merger circular forecast 80c and, if the effects of altered accounting policies are stripped out, the revamped group earned 81,7c.

If that advance over forecast is a measure of the synergies available from the merger, immediate prospects are not particularly inspiring. At the financial year-end, Standard's subsidiaries and associates made railway rolling stock, automotive parts, steel roof tiles, large diameter pipes, water pumps and foundry products.

Since the year-end the foundry products have gone and been replaced by some more motor components — transmissions, steering and axles. The hope is that the acquisitions will flourish as Phase 6 of the motor industry's local content programme gets under way.

Meanwhile, management reckons domestic trading will be sticky. That is one inter-



FM 19/1/90 (189)

pretation of the emphasis on exports, presumably needed to maintain factory loadings while the economy flirts with recession and capital spending plans remain in abeyance. It also implies this year will be devoted to improving efficiencies, probably accompanied by further strengthening of the balance sheet. This year will be crucial for the share's longer-term rating; management has to prove that synergistic benefits can be wrung from the diverse operations.

Chairman Klaus Zirker promises higher earnings. Standard already has an effective additional 5,7c a share under its belt with its post year-end sales and acquisitions. At the very least, EPS should exceed 100c. How much better might depend more on the economy than on management. *Jim Jones*

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Skw 23/1/90.

Skw 23/1/90

The Star Finance

Hudaco's earnings improve

By Derek Tommey

Engineering supplier Hudaco had an excellent year in 1989. It increased its operating profit in the 12 months ended November by 56 percent to R43,6 million (R27,8 million). This was achieved from a 45 percent rise in turnover from R252,1 million to R364,7 million.

However, earnings a share showed a less exuberant rise — by 26 percent from 85.4c to 107,3c.

A final dividend of 28c has been declared making a total payment of 48c for the year — a 26 percent increase on last year's 38c.

Mr KF Clarke, Hudaco's chief executive, says trading conditions were buoyant. The surge in operating profit was the result of a strong drive to improve operating efficiencies.

However, outlays were heavy. Finance costs more than doubled, rising from R2,9 million to R6,9 million. Tax payments rose by 70 percent from R7 million to R11,9 million.

This and other expenditures were partly financed by borrowings of R29 million and the issue of 2 million shares which brought in R15 million.

Mr Clarke says that the company is expecting a slow-down in 1990. But it largely supplies replacement markets whose activities tend to hold up well under these conditions.

Although the rate of tax will increase, Hudaco expects another year of real growth in earnings.

Fabcos aiming for own finance house

By Jabulani Sikhakhane

Negotiations are at an advanced stage between the Foundation for Business and Consumer Services (Fabcos) and several financial institutions to establish a financing house for Fabcos members.

The chairman of Fabcos Marketing and former CE of the African Bank, Gaby Magomola, says several financial institutions have shown great interest in the project.

A source at Fabcos says June has been set as the deadline for launching the company.

"We have a team of experts looking at what the needs are and how best to address them. What we need is a scheme to accommodate financing needs of our constituents who have continous need for finance," Mr Magomola says.

The company, whose equity is still to be decided, but will be black-owned, will provide finance for Fabcos members, who include stokvel members, small builders, taxi operators and members of the 600 000-strong National Black Consumer Union (NBCU).

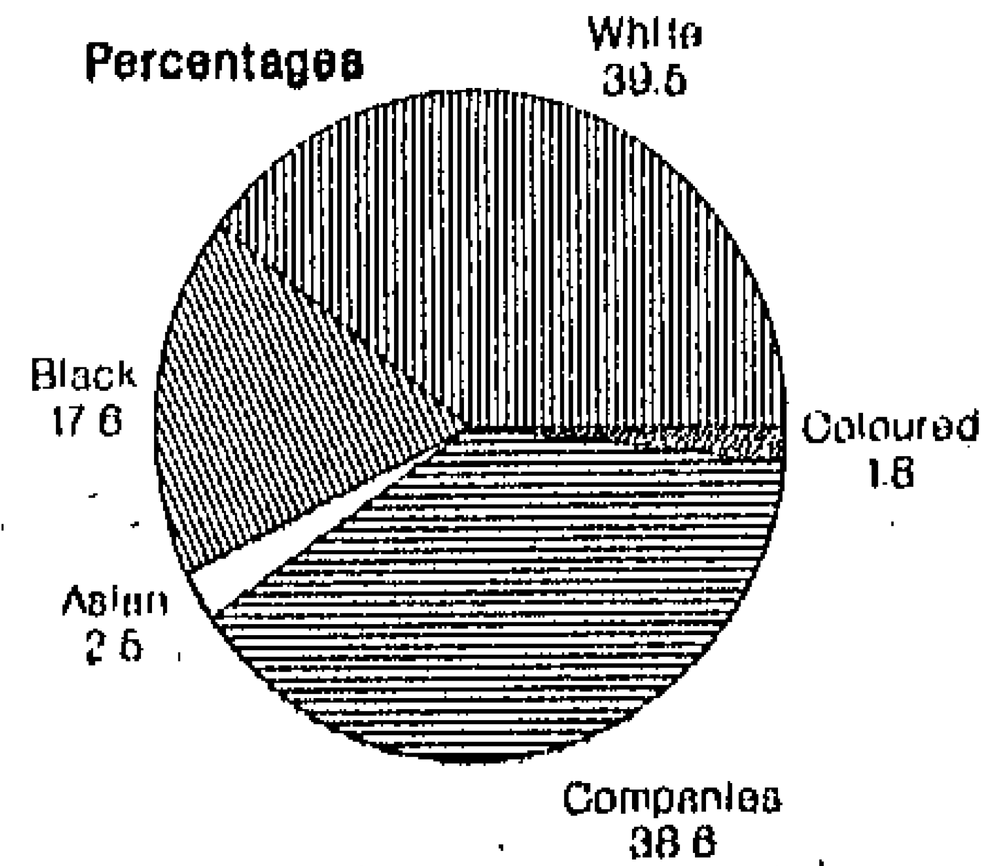
Negotiations have also been held with motor manufacturers and oil companies as possible joint partners in the project.

However, sources point to the Perm as the financial institution likely to take up partnership with Fabcos.

The Perm has strong links with the small savings clubs (stokvels).

The formation of a financing house comes in the wake of growing concern within the Southern Africa Black Taxi Association (Sabta) over the increasing number of whites entering the industry, mostly using blacks, either as fronts or drivers.

MINIBUS OWNERS



13 347 registered January to September

According to estimates, over 30 percent of taxis are now owned by whites.

Figures from Central Statistical Services (CSS) show that of 13 347 minibuses registered from January to September 1989, 5 274 were registered by whites, against only 2 348 by blacks.

Companies and close corporations accounted for 38,6 percent, while Asians and Coloureds made up for the other 2,5 percent and 1,8 percent respectively.

However, compared with the same period in 1988, the number of minibuses showed a decline of 380 from 13 727.

Conference to highlight Mozambique economy

Finance Staff

More and more South African businesses are looking at expanding their operations into Mozambique.

A conference aimed at highlighting the latest economic and political trends is now planned over the weekend of February 23-26 in Maputo's Polana Hotel.

The conference is organised by Action Conferences, a Johannesburg-based company, which has been doing business in Mozambique for two years.

Speakers at the conference include the head of the SA trade mission, representatives of Mozambique government ministries and Maputo-based private enterprises. Further information can be received from Action Conferences at (011) 887-7870/78/82.

Hudaco share price hits record 1 000c ahead of year-end results

BRENT MELVILLE

ENGINEERING group Hudaco's share price was bumped up 50c to a record 1 000c yesterday ahead of today's announcement of its year-end results to November.

Shareholders will not be disappointed. With a dividend of 48c (38c) declared on a 26% increase in earnings to 107,3c (85,4c) a share, Hudaco is now operating on a dividend yield of 4,8% and a p:e rating of 9,3 times.

Buoyant trading conditions saw operating profit jump by 56% to R43,6m (R27,8m) on a 45% increase in turnover to R364,7m (R252,1m).

However, this improvement was reduced slightly by a big rise in net finance costs to R6,9m (R2,9m).

An effective 32% tax rate bit off a further R11,9m (R7,0m), leaving attributable profits 31% improved at R23,1m (R17,6m).

The lessened tax rate was due to brought-forward tax losses in recent acquisitions and the impact of the change in accounting policy on the results of Deutz Dieselpower division.

Abcor

The group increased its holding in Deutz Dieselpower from 50% to 70% in October, with the disposal of the agricultural and project divisions of KHD (SA), which had been managed directly by Klockner Humboldt Deutz AG of Germany.

On the balance sheet net borrowings shot up to R30m (R876 000). Property and fixed assets climbed by 173% to R38,3m (R14m). Stock on hand increased to R111,5m (R60,5m) with debtors up to R62,8m (R43,3m).

In addition the group spent R45m in acquiring a 50% interest in Abcor and 64% in Angus Hawken.

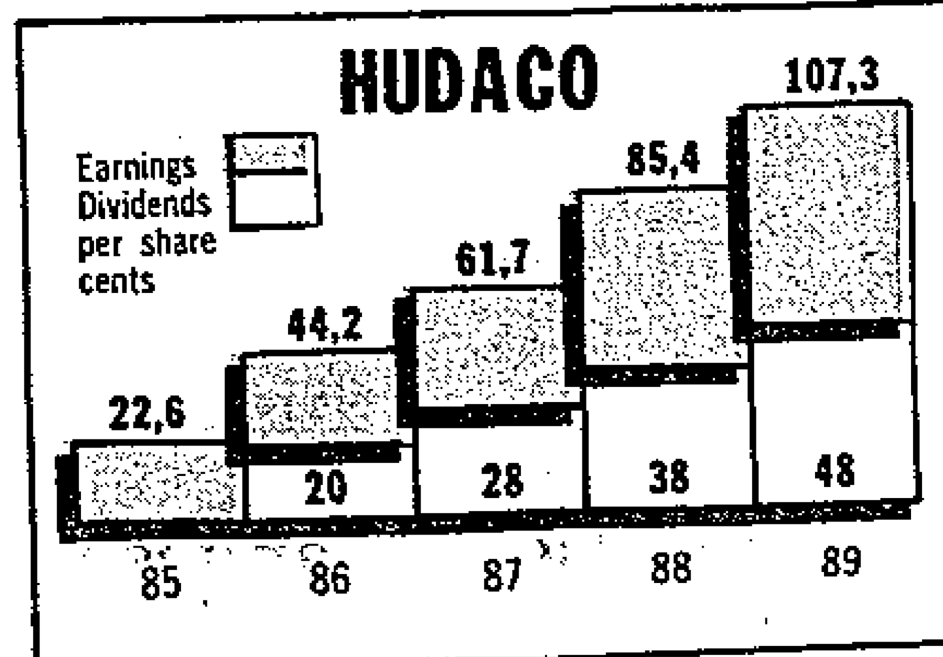
CE Kevin Clarke said the companies had performed in line with the group's initial expectations and contributed marginally to earnings.

He said the group spent a total of R96m. Of this R26m was on additional operating assets, while finance charges, tax and dividends absorbed R25m.

Clarke expected an economic slowdown in 1990, although the group activities were largely focused on various replacement markets which tended to hold up well under depressed conditions.

Hudaco recently entered the abrasives market, through the acquisition of Norton, to provide a hedge against the level of imported products sold by the group.

Consistent organic growth from core businesses and further progress from recent acquisitions was expected, Clarke said.



BDay 23/11/90

189

BIDM 13/2/90.

Good results for Genrec Holdings

BRENT MELVILLE (189)

THE interim results of reorganised Genrec Holdings, the engineering arm of Murray & Roberts (M & R), are nothing short of remarkable.

Attributable earnings shot up by 155% to R7,5m (R2,9m), translating into an earnings rise of 132% to 65c (28c) a share. A dividend of 12,5c was declared, covered 5,2 times.

Much heightened margins enabled a 185% jump in group operating profit before taxation to R8,3m (R2,9m), on a 93% leap in turnover to R252,7m (R130,7m).

After allowing for R1m to the taxman, after tax operating profits were left at R7,3m. Non-operating profit — reflecting the sale of certain properties and assets — added an additional R215 000 (R24 000).

On the balance sheet borrowings were down 43,8% to R1,8m (R3,2m), reflecting 4% (9,6%) of group equity. Including total non-interest bearing debt of R62,8m (R43,7m), the percentage increases to 150% (139%).

However directors say that both are within the group's internal upper limit constraints of 50% and 175% respectively.

Directors add that all prior-year acquisitions, including Consani Engineering, Lebus Engineering and Dragline Construction, are performing above expectation and making a substantial contribution to earnings.

In addition the forward order book is bulging with over R100m worth of contracts, including the award of the Marion draglines contract and the group's share of the hook-up contract for the Mossgas offshore platform.

Analysts suggest that the major profit advance might spur investors into taking a closer look at the share, still labouring at 320c.

Asseng improves profits by 27%

CAPE TIMES 20/2/90 (189)

BY ARI JACOBSON

ENGINEERING group Asseng constructed a 27% increase in taxed profits to R13,3m (R10,5m) for the financial year end-December on the back of increased product demand and improved margins.

This translates into earnings a share of 33,8c (28,7c) pushing the total dividend up to 15c (14c).

Turnover jumped 23% to R130m and with raised margins boosted trading profit by 25% to R21m.

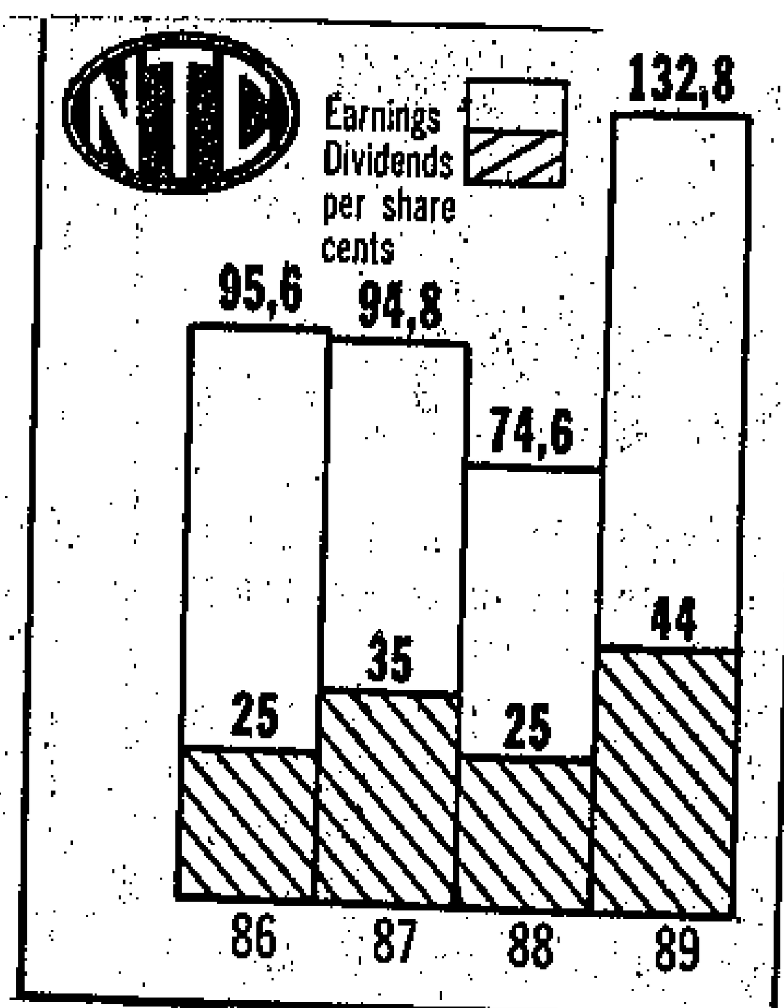
MD Johan Meyer says sales would have been higher but for limited capacity influencing the output of group factories.

"Emphasis was placed on improving margins and controlling cash flow to support the funding of the R25m capital expenditure programme," says Meyer.

The capex programme is reflected in finance charges which rose from R800 000 to R3,7m, leaving profits of R17m (R16m) at the pre-tax level.

Continued investment in new facilities saw tax charges at an effective rate of 23%.

Turning to future prospects, he said the slowdown in the economy was likely to impact on sales of new vehicles in the coming year but this made up only a small part of the group's sales.



NTC justifies investors' faith

BRENT MELVILLE

IN ANTICIPATING good results from diversified engineering group NTC, investors who pushed its share price to a peak of of 425c earlier this week will be far from disappointed with its performance for the year to end December.

Despite operating in a tight, competitive and unwieldy market, NTC has managed an exemplary set of results, pushing earnings up a hefty 78% to 132,8c (74,6c) a share, and declaring a final dividend of 28c (11c), leaving the total dividend for the year at 44c (25c).

The results put the group on a P:E of 3,2 and a dividend yield of 10,4%, versus sector averages of 6,7 and 5,3% respectively. Analysts said yesterday that the share could easily bear an upward rerating.

Turnover increased by 28% to R410m (R319,8m) with operating income, on bettered margins, jumping by 90% to R33,1m (R17,4m), attributed by chairman Douglas Adler to the return to profitability of Main Industries.

Finance lease charges took R4,5m (R3,4m) with interest charges 55% up at R6,6m (R4,3m), leaving pre-tax income at R22m (R9,8m).

Accounting for the rise in the interest bill was a 25% increase in interest-bearing debt to R30,1m (R24,4m), reflecting the increased volume of the group's business. Gearing rose to 59% (56%). Adler said he hoped to reduce gearing.

Net income after taxation was at R11,5m (R4,5m), which, after allowing for R2,7m to outside shareholders, was reduced to R8,7m (R4,9m). The income statement also shows an extaordinary item of R213 000, a loss stemming from the acquisition of a controlling interest in Polyflow by Main Industries.

Last year's extraordinary item of R4,9m reflected the loss on the disposal of 50% of the trading division to Macsteel.

The group is hoping to augment profits this year by exporting flanges.

ANIES

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Unihold plans growth after R22,1m profit

BDM 23/2/90.

BRENT MELVILLE

ENGINEERING and electrical group Unihold is budgeting for substantial growth during the current financial year after bolstering operating profits by 70% to R22,1m (R13m) for the year to end December.

The rise, on a turnover increase of 36% to R159m (R116,7m previous year), was achieved by improved operating margins.

Interest charges were increased to R5,6m (R3,6m) because of borrowings of R15,8m used to finance capital expenditure.

The remaining tax loss carried forward from prior years in the main operating company was fully utilised. Taking the residual balance of this loss into account plus other credits and permanent tax differences, the effective tax rate was 30%, or R4,9m.

Directors say there are still unutilised tax lossess amounting to R8m, carried forward to the 1990 financial year in Zumtobel-Barlite, a 50% owned subsidiary.

After tax income was R11,5m (R9,5m) and after taking into account R843 000 due to outside shareholders and R27 000 to preferential dividend holders, attributable income was R10,7m (R9,4m) — translating to earnings a scant 2,7% up at 37,9c (36,9c) based on an additional 2,8-million weighted average number of shares in issue.

A final dividend of 8,0c (6,0c) was declared, bringing the total for the year of 12c (12c, including a special 3c dividend).

Directors have followed up an announcement made on January 15 stating that an offer would be made to ordinary shareholders and convertible debenture holders to constitute a pyramid holding company — U-Con.

Today's announcement proposes that the offers to shareholders be increased to 80 out of every 100 shares held in Unihold, for a consideration of 160 new ordinary shares in U-Con. The same offer is to be made to holders of Unihold debentures for 160 new 15% automatically convertible debentures of 45c each.

The original offer entailed the acquisition of 75 out of every 100 ordinary shares for a consideration of 150 new ordinary shares and 75 out of every 100 Unihold debentures for 150 new 15% automatically convertible debentures of 45c each.

Shareholders are referred to today's advertisement in Business Day, for changes.

Haggie's turnover soars above R1-bn

STAR 9/2/90 (189)

Finance Staff

Engineering group Haggie Rand's earnings per share for the year to December 1989 rose 27 percent to 406,2c (319,7c), the company reported today.

Attributable earnings were up by 28 percent to R78,5 million (R61,5 million). Higher interest rates and the economic downturn slowed the first-half earnings growth of 40 percent.

The company joined the ranks of the billion-rand-turnover companies in 1989 with a 34 percent increase to R1,18 billion (R875 million).

The final dividend is 17 percent higher at 110c (94c) after an interim of 47c (34c), bringing the total for the year to 157c, a 22 percent increase.

Commenting on the results, chief executive John Feek said: "The Cosatu national ban on overtime in protest against the Labour Relations Amendment Act also had its effect in the second half. Normal working was disrupted and there were delays in output and loss of earnings for workers. Nevertheless, the year's turnover increased in volume as well as value terms."

He said the overall margin had fallen to 12,8 percent (13,4 percent) as a result of partially absorbed increases in the cost of materials. "This was particularly so in the case of copper-based products, where alternative materials compete in the same markets.

"All three sectors of the group's activities — steel rod conversion, non-ferrous metal products and light engineering — succeeded in improving their results significantly," Mr Feek said.

During the last six months Haggie acquired the Ropes & Twins division from Romatex and Tital Chain from Metkor, "which are complementary to the company's existing activities and strengthen its competitive position."

Mr Feek said that the group's borrowing to shareholders funds had increased from 18 to 25 percent due to working capital requirements, the two acquisitions and capital projects. Net interest paid rose to R11,5 million (R1,9 million,).

Looking ahead, Mr Feek sees export pricing and marketing facing problems with South Africa's high inflation rate and the recent weakening of the US dollar and instability in commodity prices.

"The group budget for 1990 reflects improved earnings, and management remains optimistic that targets will be reached."

ST Times 18/2/90.

Genrec back in pound seats

189

By Ian Smith

THE signals are green for Murray & Roberts' 65%-held engineering group Genrec Holdings.

The group produced scintillating results in the first half-year and chief executive Ian Colepeper is confident that earnings will improve in the second.

He says that little of the 155% improvement in the bottom-line figure came from the group's plum order — the construction of the R280-million jacket for the Mossgas project.

The conservative way in which proceeds from major contracts are brought to account means that the major impact of the Mossgas work will be reflected in the results for the year to June. There will also be a carryover into the next year.

Dividend

Genrec, which went through a major restructuring in 1987, has returned to interim dividend payments with 12,5c.

The group confounded sceptics who doubted that it would be able to continue the strong growth shown last year when earnings jumped by 206%.

In the six months of the current year turnover leapt by 93% to R252,7-million and pre-tax profit was up 185% to R8,3-million. Taxed profit rose by 150% to R7,3-million.

Profit from the sale of property helped attributable earnings move up by 155% to R7,5-million. Earnings jumped from 28c a share to 65c.

Mr Colepeper says all group companies are operating well. Three acquisitions in the 1989 year — Consani Engineering, Lebus Engineering and Dragline Construction — are doing better than expected and a making a large contribution to earnings.

Genrec's order book is strong, recent contracts adding more than R100-million.

R66m in kitty as Group 5 prospers

By Julie Walker

GROUP Five continues to pave the way to prosperity with another fine rise in earnings.

Turnover in the six months to December climbed by 80% to R652-million and earnings a share were 15c up at 70c.

Chief executive Peter Clogg says the Goldstein companies and Gough Cooper made profits and have good prospects.

Group Five has R66-million cash which will be applied to acquisitions, products and services to the building industry and to public utilities.

Difficult

Mr Clogg expects road building to decline and building and properties to remain stable, although housing will be difficult because of high interest rates. Civil engineering work is declining, but increasing in other countries. Mechanical work will be buoyant. Group Five is well placed to take advantage of the next economic upturn.

Basil Read was also able to turn in a good show in the same reporting period. Its earnings were up by 35% to 49,5c a share on turnover only 4% higher at R171-million. The company reports that its housing division made fewer sales.

It says that granite arm Aurora has not yet met expectations, but its earnings will have no effect on Basil Read's profits or finances. Aurora represents 36% of its net asset value of 413c. The share price is 335c.

Mervyn King expects Frame's earnings to exceed last year's in spite of difficult trading conditions.

The textile giant added a quarter to its turnover to R458-million in the half-year to December, but earnings a share of 54c were only 8% up.

Blame

Tighter margins and higher interest rates took most of the blame. Some customers also cancelled or delayed their orders, leading to higher working capital requirements at Frame.

Frame has adopted the partial method of providing for deferred tax, and restated last year's results for comparison.

Seardel raised its earnings by 12% to 62c a share on turnover 22% up to R470-million for the six months to December.

Accompanying great results from Hiveld, chairman Leslie Boyd hopes that sanctions against SA steel exporters will be lifted, reopening markets in America and Europe. This could help to stabilise the rand in the 1990s.

Nevertheless, Mr Boyd expects Hiveld to earn less in 1990 than in 1989, but more than in 1988. Last year it earned 450c a share from turnover of R1,6-billion. A well-covered dividend of 130c was paid.

A decision on the proposed stainless-steel plant is expected soon.

Palabora also featured among mineral producers reporting this week. Its 1989 profit before tax climbed by 62% to R682-million, and attributable earnings by 71% to R298-million. It paid 875c in dividends compared with 565c in 1988, putting it on a historic yield of 16%.

Fraser Alexander improved its margins in the half-year to December. Turnover was up by 19% at R98-million, yet earnings were lifted by a quarter to 62,5c. Economies of scale helped it to contain costs and price competitively to maintain growth in all divisions.

Chemserv felt the pressure last year. The special-chemical maker's turnover was 18% up at R336-million, but earnings edged up by 1% to 305c and the 100c dividend was no improvement on 1988.

Of the 36 companies reporting this week, 30 made more profit than in the previous comparable period, and the earnings of 15 were at least 20% up.

Everite was a casualty of lost production in the half-year to December. Turnover dropped by 10% to R162-million, and earnings were 30% lower at 10,3c a share, using replacement cost depreciation.

Management says Everite's factories are operating satisfactorily, and outstanding orders should ensure this continues.

COMPANY ROUND-UP

PRELIMS	Turnover (Rm)	% change	Profit before tax (Rm)	% change	Earnings a share (c)	% change	Div a share (c)	% change
Hiveld	1613,9	+36	566,1	+153	450,0	+165	130,0	+128
Masonite	102,0	+13	15,1	−6	140,0	+4	56,0	−16
Chemserv	336,0	+18	N/A	—	305,0	+1	100,0	0
BTR Dun	631,8	+19	106,9	+52	310,0	+88	140,0	+33
Stanbic	—	—	529,5	+30	340,0	+26	112,0	0
Smithmin	45,8	+18	7,6	+15	19,6	+32	6,5	+30
Palamin	—	—	682,4	+62	N/A	—	876,0	N/A
Aries	17,9	+11	3,2	+11	16,4	+2	5,0	+11
Adcorp	31,7	+36	2,6	+35	20,0	+37	9,0	+28
Ninian	—	—	10,9	+3	261,0	+10	73,0	+12
Utico	360,9	+16	35,9	+15	307,4	+18	163,0	+39
INTERIMS								
Genreo	252,7	+93	8,3	+185	65,0	+132	12,5	N/A
KNJ	161,2	−9	10,4	−20	11,6	−36	—	—
Group 5	652,3	+80	17,2	+40	70,0	+27	23,0	+5
GSHold	652,3	+80	17,2	+40	68,0	+26	22,0	+5
Goldstein	—	—	2,8	N/A	29,0	N/A	42,0	N/A
Retprop	—	—	0,3	+80	33,0	+10	33,0	+10
Frame	457,8	+25	27,0	+17	54,0	+8	30,0	0
Confram	457,8	+25	27,8	+15	31,7	+7	18,0	−0
Sunbop	316,6	+34	111,7	+36	67,6	+39	45,0	+38
Seardel	470,6	+22	25,2	+12	62,0	+12	8,0	0
QData	32,4	+48	3,4	−4	10,9	−11	4,1	0
Bas Read	171,6	+4	7,1	+36	49,4	+35	10,0	+54
Klipton	39,8	+41	3,7	+63	26,5	+30	—	—
Indsel	—	—	24,8	+31	8,7	+29	5,5	+22
Natsel	—	—	25,3	+33	10,4	+29	6,5	+18
Distillers	N/A	+13	97,2	+17	33,4	+18	10,0	+81
Afmin	9,6	+116	1,6	N/A	3,3	N/A	0,5	N/A
Conshu	286,1	+42	28,7	+22	30,1	+6	10,5	+12
Everite	162,2	−10	13,9	−41	10,3	−30	7,5	0
Evhold	162,2	−10	13,8	−32	29,6	−32	21,0	−4
Sondor	9,5	+13	2,5	+4	7,35	0	2,5	N/A
Consol	631,7	+61	76,8	+23	56,3	+12	—	—
Alexandr	98,1	+19	—	—	62,5	+25	14,0	+27
Fratex	98,1	+19	—	—	35,1	+25	8,0	+29
Wayne	57,6	N/A	4,6	N/A	4,3	0	1,5	0

N/A — not applicable

THE WEEK IN BRIEF

A SUMMARY of the week's corporate anouncements.

Monday — Ozz transmuted listing statement. Lucem minority accepts Ozz shares and cash in respect of 18,6-million shares.

Furnfair members agree to disposal of assets to Rusfurn. Offer to minority accepted by 16%.

Members of Bidvest — formerly Curries — approve acquisition of 55% of Afcom.

Tuesday — Hyperette issues another warning.

Wednesday — Sankorp to increase ownership of UGI, the holding company of Unitrans, to 51%.

Macmed bonus offer results in the issue of 10,47-million shares.

Thursday — Mortgage Securities 101 lists Class A and B debentures.

Midas expects much lower earnings for the year to February 1990.

Friday — Noristan, Aurochs, Citizens and Crest issue warning. Last day to register for Aurochs shareholders to participate in Noristan offer 2/3/90.

Tiger Oats buys 50% of Durban Confectionery Works, maker of Beacon sweets.

Farm-ag, Staalchem issue warning.

T & N bolsters results with Asseng injection

BRENT MELVILLE

INJECTING the results of Associated Engineering (Asseng) into its results for the year to end December has served as a strong buffer against a relatively uninspiring performance from UK-controlled Turner and Newall (T & N).

With turnover notching up a 67% improvement to R391,4m (R234,7m), lowered margins saw operating profit increase by 40% to R36,8m (R26,3m). Major capex requirements pushed up finance charges, which chopped out a hefty R16m (R5,8m), leaving pre-tax profits 14,6% up at R23,5m (R20,5m).

A lowered tax rate (stemming from allowances relative to capex for the year of R33m and losses in the chemical and plastics division) resulted in a reduced tax charge of R4,9m (R6,2m), allowing a 30% improvement in after-tax profits to R18,6m (R14,3m).

However, the disposal of its remaining 25% interest in Everite effectively knocked R6,3m in after tax income from associate company from the income statement.

Added to this a jump in minority share to R2,6m (R300 000) depressed attributable profits by 21% to R16m (R20,3m), translating to an equal drop in earnings to 69,3c (87,7c) a share.

On this basis the final dividend declaration dipped by 40% to 20c (33c), leaving a total dividend for the year at 31c (44c) a share and placing cover at 2,25 times. Further bad news was gearing which leaped to 64,7% (38,1%).

The problem areas for T & N were chemicals & plastics, friction products and FHE Automotive Technologies. However CE Matthys Pretorius said that in all three areas indications were that the markets had stabilised and he expects an improvement over the coming financial year.

Silverton Engineering and Services, gasket operations and the group's industrial and mining operations have performed above expectations.

Also performing well was recently acquired Asseng which experienced firm demand for its products, and an improvement in margins which pushed turnover up 23% to R130,1m (R105,7m) and trading profit 25% to R21,1m.

T & N's 76% stake in the engine component manufacturer (funded by the sale of Everite), netted the group R10,1m.

For its part Asseng showed a 27% rise in bottom line profits to R13,3m (R10,5m) — or earnings of 33,8c (28,7c) a share. The final dividend was at 9c (8c), pushing the total for the year of 15c (14c). MD Johan Meyer said the cover was raised to account for capacity expansions and the economic conditions.

Capex funding is reflected most seriously in the finance charges, which leaped to R3,7m (R800 000). The tax charge was reduced to R4,1m (R4,8m).

Pretorius is optimistic that the introduction of phase six of the local content programme will place increasing dependence on the local manufacturers for automotive components.

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21-2-90. SPR

Business Report

Ozz on steady growth path

CAPE TIMES 28/2/90 (187)

JOHANNESBURG. — The restructured Ozz Limited is on course towards achieving its forecast earnings growth for the current financial year, posting a 16,6% improvement in earnings at the 30 September 1989 half way mark.

Seven months ago, Ozz chairman Gary Zulberg took control of Lucem to give Ozz an almost 57% stake in Lucem.

Since then, Ozz has merged Lucem's substantial engineering operations — Eclipse Engineering, Kimberley Eclipse, West Rand Engineering and Natpump — with Ozz's property development, including the Bruma Lake project and construction interests, all under the Ozz banner.

Businesses seen as non-core, including the motor spares dealerships, plastics and brickworks and gasworks have been sold or are targeted for disposal.

The restructuring culminated in February 1990 in the establishment of Lucem as a cash shell and its delisting prior to the probable sale or voluntary liquidation of the company. Some R24,4m of its cash resources were consolidated into Ozz. The Ozz listing was transferred from the property to the industrial holdings board.

The transmuted listing statement, which accompanied this transfer, forecast earnings for the current financial year ending 31 March, 1990 of 9,3c —13,4% up on the previous year's 8,2c — from which a 36% higher dividend of 3,4c is expected.

Earnings apart, the results for the half year are not comparable with previous figures and have in any event been largely overtaken by subsequent events.

Turnover, incorporating the previous Lucem companies has leaped from R3,77m to R24,4m and operating profit from R509 000 to R3,1m.

Interest is substantially higher in line with the increase in borrowings with the debt/equity ratio at 30 September 1989 standing at 139% from which it is since calculated to have dropped to around 87,5% based on the realisation of some non-core investments.

The net assets value per share has strengthened significantly, being a 40,5% higher 71c at 30 September 1989. This incorporates a revaluation of the company's 50% stake in Bruma Lake from R3,1m to R6,4m based on market value.

The interim report notes that Fishermans' Village, the speciality shopping centre at Bruma Lake is complete and fully let and that further developments there are being evaluated.

Ozz shares are currently listed at about 46c at which level the 9,3c earnings forecast for the year ending 31 March 1990 would yield 20,2% and the 3,4c dividend would yield 7,4%. — Sapa

Haggie set to consolidate in the year ahead

PIERRE DU PREEZ

HAGGIE's year to December will primarily be one of consolidation for the engineering giant, says chairman Grant Thomas.

He said in the group's annual report that recent expansion, by acquisition and through investment in new capital plant, would have to be integrated into a "larger but sounder base" for future growth.

On exports, Thomas said commodity prices declined, and the competitiveness of Haggie's products was changing.

Internally, management would continue to focus on improving the group's base by keeping plant and processes abreast of technological advances, said Thomas.

He said the group's budget for 1990 reflects improved earnings, and management remained "cautiously optimistic" that targets would be reached.

Haggie's earnings rose 27% to 406,2c (319,7c) a share for the year to December and dividends 22% to 157c (128c).

Bateman on good profit course

Star 9/3/90 (189)

By Ann Crotty

With earnings per share up 28,3 percent at the half-way stage, engineering group EL Bateman looks well on the way to achieving the real growth in full-year profits forecast by chairman Bill Bateman in the annual report.

For the six months to December it reported EPS of 254c (198c) and has declared a dividend of 57c (45c).

The interim figures highlight the irregular relationship between turnover performance and profit performance in the engineering industry, which involves much work on long-term capital projects.

This in turn highlights the importance of accounting policies in determining the level of profit earned in any one accounting period.

In the review period turnover dropped 30 percent to R314,3 million (R453,8 million), but income shot up 49 percent to R9,7 million (R6,5 million).

The directors say: "Because of the phasing of certain large projects, the relationship between turnover and profits varies from one accounting period to another."

Interest payments rose to R1,1 million (R762 000). The tax rate was up to 10 percent from 3,9 percent.

It is still relatively low because of a combination of export allowances and assessed losses.

After allowing for a sharp increase in outside shareholders' interest, attributable income showed a 32 percent advance to R6,9 million (R5,2 million).

The improvement at the EPS level was diluted by the increase in the number of shares in issue.

Despite the sharp drop at the turnover level, the directors seem confident with the current workload which, they say, is satisfactory. They say prospects are promising.

The directors are looking to earnings growth for the year in line with the 28 percent achieved at the half-way stage.

This suggests EPS for the 12 months to June of about 680c and puts the current share price of around R33 on a prospective P/E rating of 4,8 times.

short of working capital and no longer measure up to commercial bank- ed to invest in less sophisticated companies."

make it extremely difficult to re-list the same assets, the firm warns.

Leaner times force NEI into a cost-cutting exercise

ANDREW GILL

THE limited growth rate in the economy of 2% in 1989 and recent political developments have curtailed real growth in the engineering sector, Northern Engineering Industries Africa Limited (NEI) directors said in their annual report.

Citing the lack of major capital investment projects and SA's inability to attract significant foreign capital, the report said economic growth would continue to be limited in the forseeable future.

NEI's operating companies have embarked on cost-cutting programmes to eliminate unprofitable activities and improve working capital utilisation. BDay 15/3/90

Import surcharges and the rand's depreciation adversely affected working capital ratios where imported parts and components constitute a *large portion of capital.*

Exports, however, had better prospects. "The improved political climate, together with export incentives, has given SA manufacturers a competitive edge in the export of manufactured goods, especially into southern African countries," the report said.

The group's interest in Mossgas now involved R115m.

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The Star
Finance

NEI's new chief takes over with order book at R400-m

Star 16/3/90 (189

By Stan Kennedy

According to his track record, Lawrence Hyslop, managing director designate of Northern Engineering Industries Africa (NEI), is a forceful and dynamic leader, but he is in no haste to make changes to the major thrust of the group.

In the job for only two weeks — he becomes MD on July 1 when Blitz Bieber retires — he clearly feels comfortable and believes he will get a lot of support from the staff.

"It is a very successful company, with a magnificant growth record over the past 10 years," he says.

"Obviously, it has good management and I think it would be foolish of me to walk in and start rattling the cages. It is well-positioned and exceptionally competent in what it is doing".

He comes in at a time when the affairs of NEI are looking rosy, despite a downturn in the economy. With an order book for the current year of R400 million, it appears set for another solid performance.

In the year ended December 1989, the group had a turnover of almost R600 million. Net income was R32 million and net worth per share 2 723c, earnings a share 519c and the total dividend 211c a share.

NEI is the holding company of a group of 11 engineering companies engaged in the mechanical and electrical engineering, diesel and automotive fields serving construction, transport, marine and power generation sectors of industry.

The majority shareholder is NEI of Britain, which holds 53 percent of the issued ordinary shares. The balance is listed on the Johannesburg Stock Exchange.

Lawrence Hyslop

Mr Hyslop's extensive experience and qualifications make him consummately suitable to manage and direct the multifarious activities of NEI. He is a man who knows the ins-and-outs of the many faceted sides of engineering.

"I probably know only about 10 percent of what is going on; in three months it will be 80 percent and in the next five years, I'll learn the next 20 percent. As to what makes it tick, I am still an outsider."

Mr Hyslop (47) obtained a BSc in electrical engineering at the University of Cape Town and stayed on another two years for his MSc.

He joined Sappi as a pupil engineer and worked his way up to become senior engineer.

"It was a tremendous learning experience for me. I saw what happens at the lower levels and I mixed with both black and white workers, becoming aware of their problems and aspirations. It is something which has helped me develop healthy communication channels between workers and management."

After five years, he returned to Cape Town University where he graduated with an MBA.

In 1972 he joined STC in Boksburg as special assistant to the operations director. He was responsible for setting up a manufacturing engineering function and was then appointed operations manager of purchasing, production and testing of telecommunications products.

His next position was managing director at Flather Bright Steels, a subsidiary of Scaw Metals, which was engaged in the production of cold finished steel profiles.

"It was a small company that was under-performing and we built it into a R12 million-a-year turnover enterprise with extensive export markets.

"There was a lot of synergy that was all tied up and had never been realised. We got the people motivated and organised.

"People at the coalface are no different from the rest of us at the top. The flavour of their needs may be different but the basics are the same — they want security, recognition and, by and large, want to participate."

His reward for this success was to be pushed up to head office, a position, he felt, he was not ready for.

"It was not really my style. I think it was too soon for me to be in a staff job when all the time I wanted to get into the action."

So he moved and after an 18-month stint as managing director, Process Control Instruments, a Malbak subsidiary, he joined Lennings as divisional manager responsible for the fastener interests of the group.

The division consisted of seven base companies involved in electronics, motor rewinding, heavy engineering, fabrication, safety critical mining equipment and electro-plating.

With all his wide engineering experience, he joins NEI with, perhaps, a very special quality — a willingness to learn. He is eloquent and knowledgeable and gives the impression he can overcome all obstacles if given the chance to do so.

Apprenticeship

"In a way," he says, "I look at my previous career as a professional apprenticeship and while being exposed to many interesting companies and products, I have worked for some of the best names in the engineering industry. They have taught me a lot."

Did he have any misgivings about taking on the heavy responsibility of managing such a prestigious company as NEI?

He replies: "I don't think one can take on the running of a group as large as this with 6 000 people and take it on lightly. You have got to realise that if you do something wrong, you put a lot of other people in trouble.

"There is also the shareholders, which is a new dimension in my life. So, yes, not really misgivings but very conscious of the responsibilities.

"Shareholders are a major component of the business and we have to satisfy them at the same time as we satisfy our customers, markets and workers.

"I think we are skilled enough to somehow optimise the benefits for all of them."

Long-term growth in SA 'promising'

CAPE TIMES 26/3/90

Financial Editor

THE longer term outlook for real growth at an acceptable level is "more promising than it has been for years," Len Abrahamse, chairman of Northern Engineering Industries (NEI) Africa, says in the annual report.

"There is no doubt that we can manage ourselves out of this situation, given an acceptable programme of reform in terms of substance and time.

"We need no longer be forced to grow at too low a level in real terms."

Abrahamse says there are signs of a new pragmatism in Southern Africa. "The situation is fluid but encouraging and events in Eastern Europe are not irrelevant to this process of rethinking."

Warning, however, that the path ahead will not be smooth Abrahamse says:"Those on the extreme right and left will continue to attempt to undermine the prospects for a renewed SA. We, the majority of all South Africans, must not allow them to succeed.

"In the interim the economy continues to be relatively strong given the constraints of an outflow of capital, the effect of sanctions, the high rate of inflation, the low level of reserves and the poor level of productivity."

Discussing prospects for NEI, Abrahamse says the company has broadened its access to offshore technology and has increased its export activity.

"I am pleased to report that we move into the new year with a forward order book in excess of R400m."

The directors say that in spite of the limited growth of the SA economy last year, NEI companies "secured a record order intake for 1989, exceeding budget, and more than 33% above that of the previous year.

"The order intake in all operating companies reflected real growth, well above inflation rate."

However, they say, the intense competition in certain sectors of the economy has led NEI's operating companies to start cost reduction programmes.

Hudaco's management strategy gets good results and hits targets

HUDACO's sound management strategy has again produced solid results for the year ended November 1989.

In Hudaco's latest annual report, it displays a list of operating and financial ratios which have achieved their target levels. This is important as these indicators help management monitor group performance very closely.

The directors indicate that their prime objective is to maximise the return on shareholders' equity over the long-term. This is subject to the constraint of operating within the gearing target. The figures indicate that they were successful on both counts.

The return on shareholders equity (the percentage of attributable profit to average shareholders equity) has been climbing for the past five years and rose to 35,1% in 1989, compared with 19,5% during 1985. This comfortably exceeds the group's 30% target.

With regard to the gearing ratio (net borrowings to total shareholders' funds), the target is less than 50%. Management has kept it well within this range for the past five years, with the latest reading being 34%.

Hudaco is involved in four primary areas of operation — diesel engines, bearings, power transmission and abrasives. The diesel engine activity manufactures and markets Deutz diesel engines for the agricultural, industrial

Business Day Reporter

and mining markets. This division generated the largest proportion of group sales — followed by the bearing sector.

With effect from December 1988, 100% of Norton Abrasives was acquired for R15m and the assumption of R18m debt. In July 1989, this interest was merged with Cumar, the abrasives activity of M & R to form Abrasives Corporation (Abcor) in which Hudaco and M & R each own a 50% stake.

Commenting on prospects, the directors say that the returns from Hudaco's core businesses are exceptional and significantly higher than from those operations which are acquired. The effect of acquisitions, therefore, is to reduce returns, but it is hoped this is a temporary situation while the acquired businesses undergo "the Hudaco treatment".

Hudaco will continue to promote growth by acquisition and seeks candidates that meet its strategic objectives.

The latest results have reached new highs as earnings advanced to 107,3c a share (85,4c), while the dividend was raised to 48c a share (38c). This performance has impressed investors who pushed the price up to a new peak of 1 125c on March 15. This compares with its yearly low of 650c established in October 1989.

Buffcor hit by reduced margins and economy

BDay 29/3/90 NEIL YORKE SMITH (189)

BUFFCOR, the engineering group involved in number plate manufacture and distribution, had suffered from reduced operating margins and the overall slowdown in the economy, CE Isaac Menashe said yesterday.

Commenting on disappointing results for the six months to December 31, he said Buffcor had been faced with rising costs in an increasingly competitive market.

"Some divisions did not perform as well as expected and we have taken steps to rectify this," he said.

Despite boosting turnover to R9,8m (R8,9m), operating income slipped to R1,3m (R1,5m). Interestingly, the tax rate was lower at 18% than the 25% figure seen in the corresponding period last year. The higher interest bill reduced after-tax income to R0,55m (R0,70m).

It was only the positive inflow of R0,14m in respect of extraordinary items which boosted attributable earnings to R0,7m. Menashe said the extraordinary items related to the partial recovery of bad debts written off as well as the sale of a capital item.

"We expect to improve performances in the second six months," he said.

Earnings a share were 10,9c (10,6c) and no dividend was declared. The shares trade at around the 75c a share level on the JSE. At this price they offer an historic earnings yield of 46,3%.

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Reference is made to a newspaper on 23 March

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Johannesburg
29 March 1990

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BDay 30/3/90 (189)

Alexander stays strong

ANALYSIS: STEPHEN RICHTER

FRASER Alexander (Alexander), derives the majority of its sales from the mining industry, but the sudden gold price plunge has done little to shake investor confidence in the share.

The group's share price has risen unabated for the past few months and continues to establish fresh peaks. In fact, in less than a year the share price has nearly trebled from its April 1989 low of 450c.

Alexander owes most of its early growth to the mining industry, but management has tried to diversify the group away from its traditional base of operation over the past five years.

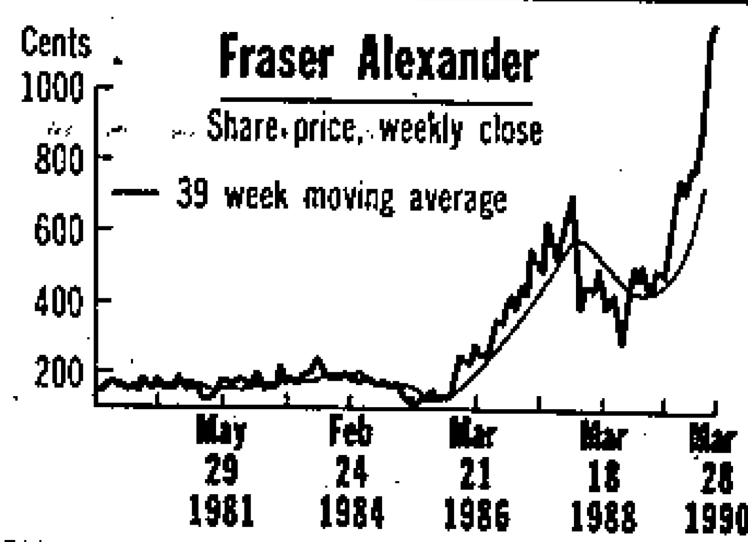
Consequently, only 40% of Alexander's business is derived from the gold and platinum mining industries at present.

The mining and mining services division is divided into three major sectors. The tailings activity handles mine tailings and industrial waste, while the mining services arm is engaged in such services as contract mining, shaft sinking, underground track laying and construction. In addition, the division operates a coal mine for its own account.

Alexander has built up an outstanding reputation over the years.

Chairman Peter Flack indicates that the group serves every gold and platinum mining client in SA with the exception of Severin.

Because Alexander is primarily involved in the service side of the gold and platinum industry, its fortunes are closely tied to those of its major clients. The group has a number of long-term contracts with these mines, and the major decisions regarding the opening or closing of these operations depend primarily on annual and long-term variations in precious metal prices.



Graphic: FIONA KRISCH Source: JSE

Consequently, the sudden gold price plunge is not expected to change the thinking of its customers. This was confirmed by a random check of clients carried out soon after gold's sharp fall.

With regard to Alexander's other operations, the construction division showed a sharp improvement in results for the year ended June 1989. In the latest 12-month period this division earned a pre-tax profit of R8,7m compared with only R722 000 for the corresponding period of the previous year.

The directors explain that two major loss-making contracts were eliminated, and this division has shown a consistent earnings trend over the past five years.

The Utility Services division is to be renamed Fraser Alexander Bulk Materials Handling in the near future. This activity is involved in providing materials handling and waste management services to major industrial and mining clients. Flack says demand for these services are growing with vigour, as is the group's market share.

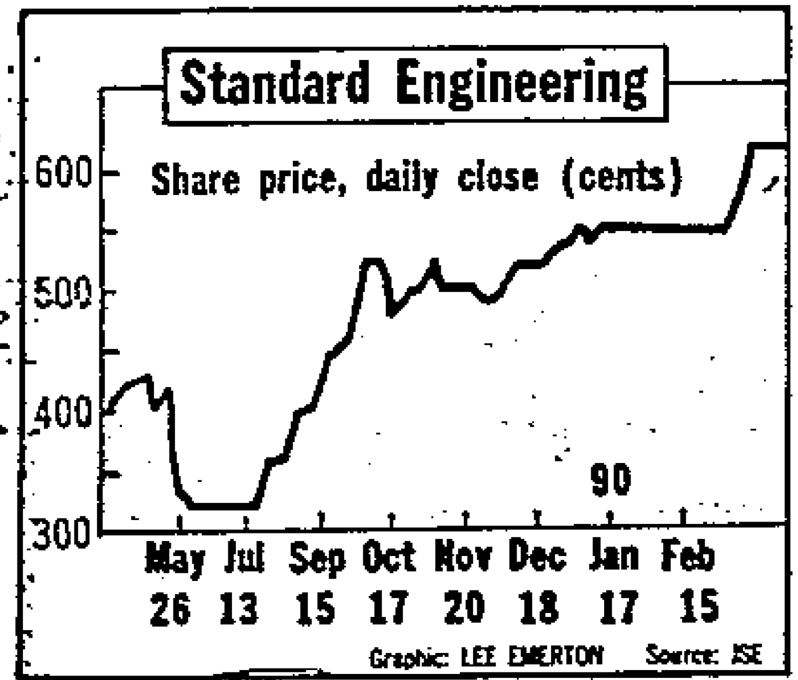
Another area related to the mining industry showing remarkable growth prospects is that of underground mining services. It appears the group's major clients would prefer to contract out any service not central to their own operations.

During the six-month period ended December 1989, EPS advanced by 25% to 62,5c (50c) while the interim dividend was raised by a similar percentage to 14c (11c). This is an impressive performance, given the fact that earnings doubled during the most recent financial year to 133,8c compared with 66,6c during financial 1988.

The directors are confident Alexander will produce further growth during the final half of the current year, resulting in EPS rising by roughly 25% for financial 1990.

BDay 10/4/90 (189)

Standard Engineering begins to show mettle on the JSE



ANALYSIS: STEPHEN RICHTER

ENGINEERING holding company Standard Engineering has been gaining momentum on the JSE recently as its share price continues to move into new high territory.

The share is showing strength and its price has nearly doubled after reaching a July low of 320c.

The group was known as Standard Brass but in April last year acquired its new name when holding company Malbak took the decision to focus its engineering interests within Standard Engineering.

The company was enlarged with the acquisition of a 100% interest in Fluid Holdings and Abertech Industries. In addition, the group added a 58,2% interest in Hall Longmore and 46,7% of Union Carriage and Wagon.

Later on in the year, the group acquired from Malbak a 67,6% interest in Astas Holdings which in turn has a 68% shareholding in AS Transmissions and Steerings and a 100% shareholding in Protea Axles, in addition to other related interests.

Standard Engineering also disposed of the foundry and complementary engineering divisions.

Controlling shareholder Malbak used 1989 as a year to mold the enlarged group into a cohesive entity. This was accomplished by improving efficiency and productivity, in addition to restructuring businesses where necessary.

Prior to the reorganisation and name change, Standard Brass' performance left much to be desired as earnings became somewhat cyclical.

The last year the group paid a dividend was in 1985, and investors had shown little interest in the group.

But judging by the accompanying chart the market rating of the share is improving steadily. From its July lows, Standard Engineering rose above 500c during the next few months.

Since then, the price has held relatively steady at the higher levels.

It appears investors are expecting satisfactory results for the six months ended February, due out shortly.

Management is confident each division of the group is poised for further growth which will translate into higher earnings for this financial year.

Call for plan to boost technical skills training

Cape Times 11/4/90

Critical shortage of engineers in SA

189

AUDREY D'ANGELO
Financial Editor

SA is facing a critical shortage of engineering and technological skills that will hinder the raising of living standards and the creation of wealth, delegates to the annual congress of the SA Institution of Civil Engineers heard yesterday.

The congress, at the Cape Sun, voted unanimously for a long-term national strategy to attract more engineering students and improve the quality of their education.

It also called for the restoration of a government department and minister of technology.

Stressing the need for this, Cliff McMillan, chairman of the Engineering Education and Training Committee, said: "SA is pitifully short of qualified engineers and managers.

"Compared even with Australia, we have about a quarter of the number of qualified engineers for a total population which is nearly double Australia's.

"Meanwhile Australia is taking steps to rectify what it perceives to be a shortage of qualified engineers compared with its major competitors such as Japan and Pacific rim countries, and plans to produce 40 000 graduate engineers over the next decade.

"SA is likely to produce little more than a quarter of that."

Afterwards McMillan explained: "Many governments are giving priority to engineering education because it is the clearest creator of wealth in any country."

SA, on the contrary, had taken a step backwards because there was no longer a minister of technology — a portfolio held by Danie Steyn in the last government.

This, said McMillan, was "really serious because of the implication that since something had to give, technology was not really important.

"The nations that are prosperous are making a serious commitment to technology and developing themselves.

"This country has the potential to become quite forgettable in investment terms.

Alan Kemp, dean of the Faculty of Engineering at Wits University, agreed: "It is a fallacy to believe that all we have to do is put our political house in order and investment will come."

Fred Hugo, a professor of civil engineering at the University of Stellenbosch, said: "The creation of wealth — rather than just the sharing of existing wealth — should be top of the list.

"Technology will create more wealth to be shared. It will create more jobs, with a multiplier effect."

In his speech to the congress, McMillan said: "The parlous state of academic research in engineering at SA universities should again be drawn to the attention of the government and the Council for Scientific and Industrial Research (CSIR) by the Engineering Council.

"The need for pro-active support for engineering needs to be emphasised to avoid a continuing deterioration of the academic base relative to overseas countries.

"SA's isolation is having a negative influence but our weak position is made worse relatively by the innovative and positive approach to university research in engineering being adopted overseas.

"A desperate need exists for the introduction of some of these approaches, such as a five-year fellowship scheme paid by the government in Canada to attract acadamically-minded engineers back to university to undertake doctorates and establish research bases while fulfilling relatively light teaching loads.

"Or (there could be) link schemes between the CSIR, industry and the universities to provide generous support for research by teams of existing academics in broad fields relative to industry.

"Engineering does not need to be the poor relation in research at universities and a long-term strategy is required to reverse the situation for the benefit of the profession, industry and the country."

BUSIER SHIPYARDS

FMail 13/4/90

With SA's improved image abroad, economics are transcending politics more and more. Latest to jump on the bandwagon is British Steel Corp, which has committed its 118 790 t bulk carrier, Abbey, to Anglovaal's Globe Engineering for a refit at the Cape. It is likely to cost R1,5m by the time the ship sails out to load an ore cargo in the next few days.

In addition to a complete sandblasting of the carrier's hull, contractors will put about 15 t of SA steel into the 11-year-old ship to replace corroded sections.

The contract is the latest of several that the dry docks of Cape Town and Durban have received in recent months. A chemical tanker repaired at the Cape last month absorbed 150 t of SA steel and the industry believes more business is on the way, including the vessels serving the oil rigs in operation off the Equatorial African coast.

(189)

The pick-up in business is straining the supply of artisans in nearly all trades and the availability of workers with shipyard experience is extremely limited. "We could employ all we can get," says one shipyard official.

In addition to the better political climate, the new foreign business is being drawn by SA's normal advantages — the favourable exchange rate and the good weather for painting and other outside work.

says the potential for improvement in the 1980 when inflation in the major econo-

MBO Simon Carves thrives in tough area

(189) S/Times 15/4/90

LIFE is no bed of roses in the cyclical engineering industry — as the sector's average dividend yield of 4,7% against the JSE's overall average of 3,2% testifies.

But the executives who bought one of South Africa's largest project engineering groups, Simon Africa, from its UK parent three years ago have no cause for complaint.

The buy-out was achieved by the purchase of the entire issued share capital of Simon Holdings, holding company of operating subsidiaries.

Covered

The Simon group has completed a highly successful year in which sales increased by 30% to top R110-million and the return on capital employed was a healthy 17,5% after tax. Even after several carefully selected acquisitions long-term debt is covered 10 times by equity.

The order intake last year jumped by by 66% to R136-million.

By Ian Smith

Simon Holdings chairman Jim Black, who initiated and led the MBO bid, says: "We are pleased with our performance, and the current year looks good.

"None of the sectors in which we operate has been severely hit by the economic downturn, but in this business we have learned never to be too confident."

Mr Black says the group has set realistic targets, and he hopes growth in 1990 will match 1989's performance.

The secret of Simon Holdings' success as an SA-controlled group lies in its strategy to stick to sectors which it knows and where a fairly high level of technology is required.

"We don't go for everything in sight, and we have maintained a high reputation in the areas in which we operate," says Mr Black.

The biggest acquisition coup came at the end of 1987 when the group took over long-established Fraser & Chalmers, a leader in Southern African construction and fabrication, from Mitchell Cotts.

It was merged with Simon Construction to form a powerful company specialising in sophisticated chemical, petrochemical, refinery, metallurgical, environment control and industrial plants.

The group also acquired 100% of food equipment supplier Thomas Robinson & Sons, which was merged with its Macforman operations. Robinson-Macforman provides a complete service in food and agricultural processing.

Measurement

Simon Holdings has also taken a 51,5% stake in ENI, which operates in the electrical, instrumentation and plant control field.

More recently it has bought a 57% controlling interest in Datatrol Systems, a leader in the supply and engineering of flow measurement and control systems.

It has established Controlled Projects as a joint venture with Aitken & Peat Management Services to carry out feasibility studies and project control.

Simon-Macawber is a major player in the design, manufacture and supply of materials handling equipment. Simon-Carves has nearly 40 years' experience in undertaking complete turnkey projects in the process plant field, drawing on SA and foreign technology and know-how.

Simon-Carves has won a R20-million contract to convert a mechanical fly-ash conveying system to a highly efficient pneumatic system at Eskom's Matla power station.

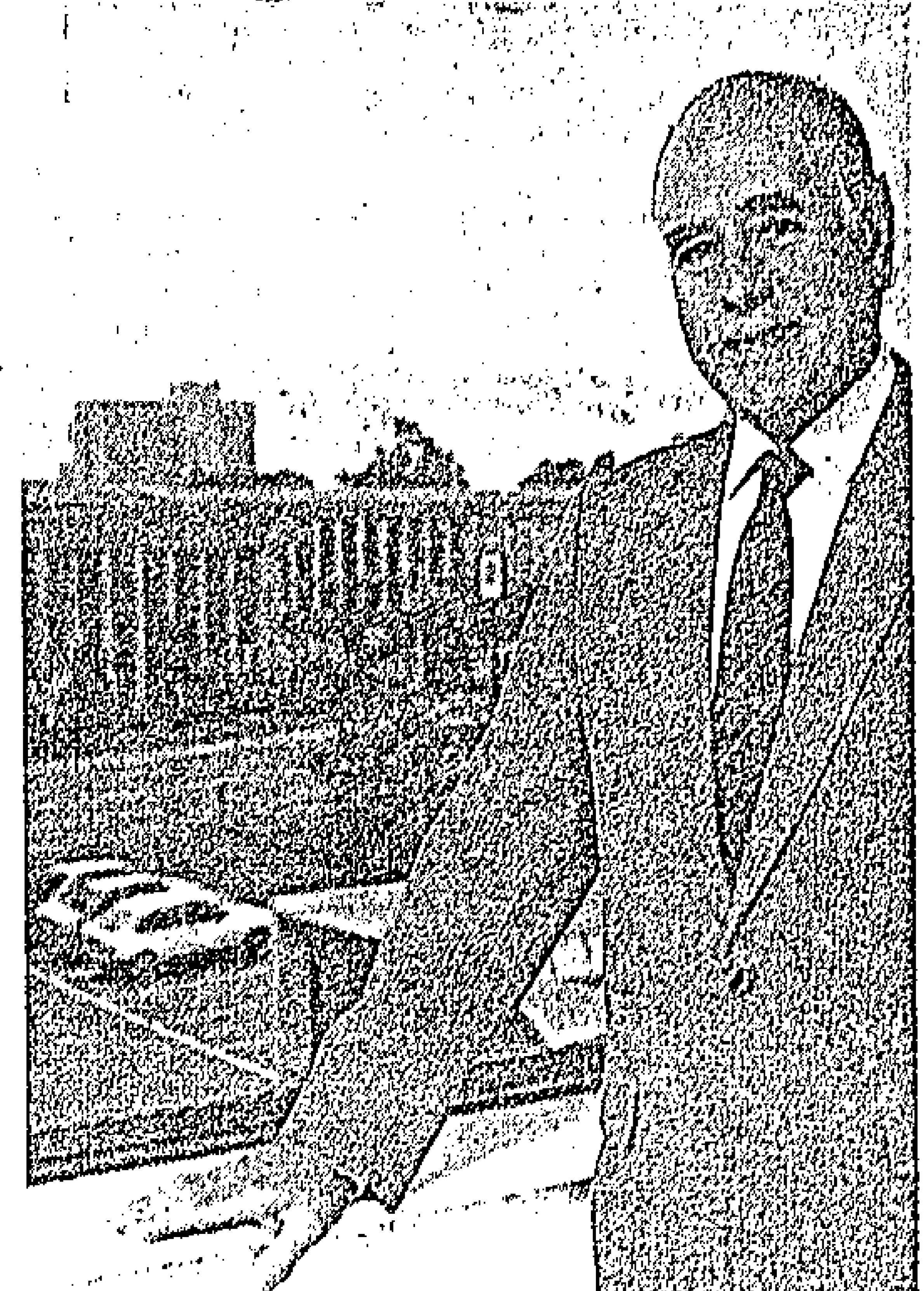
Under SA control the group has more than maintained the technology and licence agreements inherited from the UK parent.

"We are continually adding to our licences and technology sources," says Mr Black. "We are confident we can find the technology we need anywhere in the world."

The group began the manufacture of food-processing equipment when the low rand made the cost of imports prohibitive.

The development has been so successful that negotiations are under way for the export of equipment made here under licence.

"Exports will play an increasing part in our operations," says Mr Black. "We are negotiating new representation and some of our equipment will be exhibited in Lisbon this month."



JIM BLACK . . . beware of being too confident

R20m clinic ready

AN up-market R20-million clinic at Midrand, near Johannesburg, will open at the end of the month.

The Carstenshof Clinic — conceived and designed by Hilke Potter-Walton — was financed largely by TrustBank.

Ovcon projects manager Richard Bodenstein says: "Since February beds and other equipment have been moved in and on-site and staff training has started."

The 10-block project has a three-storey consulting block for doctors, six operating theatres and an administrative building. One block has been set aside for patients undergoing single-day treatment.

The complex has its own dining block, restaurants and kitchens.

COMPANIES

BDay 18/4/90

(189)

Malbak's engineering nucleus shows benefits of rejuvenation

BRENT MELVILLE

REJUVENATED Standard Engineering, Malbak's engineering arm, has performed according to market expectations for the six-month period to end February.

Analysts were forecasting a strong performance based on expected healthy results from satellites Fluid Holdings, Hall Longmore, Union Carriage, Abertech and Astas Holdings.

In fact, aside from enlarging the asset base by 79% to R427,3m (R239,8m), Malbak's new engineering nucleus upped operating income by 153% to R42,7m (R16,9m) on turnover which more than doubled to R321,4m (R157,7m).

The results were attributed by directors to a sound general business undertone, though worries were expressed about shortening order books due to reduced orders from the struggling motor industry.

In addition the acquisition of a 67,6% interest in Astas Holdings pushed borrowings by 141% to R90,4m (R37,5m), reflected in financing costs of R7,6m (R2,4m).

The tax man was also alloted a hefty R12,5m (R4,4m), leaving after tax income at R22,6m (R10,1m).

Outside shareholders nipped off a futher R10,3m (R2,6m) and attributable earnings were left at R12,3m (R7,5m), translating to earnings — with 30-million (22,3-million) shares in issue — up 36% to 45,5c (33,5c) a share. A dividend of 14c (10c) was declared, leaving divdidend cover at 3,2 (3,3) times.

With the substantial increase in borrowings, gearing leapt to 42% (28,7%), which directors describe as acceptable. The ratio of current assets to current liabilities remained at 1,6:1. Net asset value increased slightly to 440c (429c) a share.

Directors say that earnings are expected to be satisfactory despite steps taken by the authorities to dampen demand and lower inflation.

Growth prospects at NEI looking better

ST 19/4/90 (189)

Engineering company NEI Africa has moved into the current financial year with a forward order book in excess of R400 million.

Despite adverse economic factors, brokers are cautiously optimistic about the resumption of earnings growth after last year's disappointing decline.

In the annual report the directors say all manufacturing companies have reasonable forward loading, thus providing a solid base for the current year.

The one major current construction project in the public sector, apart from Eskom power stations, which are still being erected and commissioned, is Mossgas.

The directors say virtually all NEI companies are participating to a greater or lesser extent in the project and that the group currently has orders in progress valued at over R115 million for Mossgas.

NEI Africa is principally engaged in the manufacture, supply and maintenance of energy conversion and distribution equipment and specific engineering products and services.

Markets include a broad spectrum of public corporations and private sector companies in South Africa.

The group also supplies equipment and services to a growing number of export territories.

Last year the mechanical division contributed 58 percent to group net operating income, the electrical division accounted for 12 percent and the diesel/industrial division for the remaining 30 percent.

NEI Africa's holding company is NEI Holdings, which has 53,3 percent of the issued ordinary shares.

The latter, in turn, is 53,3 percent-owned by NEI of the UK.

In the year to December 1989, group turnover climbed 34 percent from R438,7 million to R587 million.

Diagonal Street

LYNNE PEACH

Operating income rose a lower 21 percent from R57,3 million to R69,1 million.

After a 40 percent hike in net interest expense from R6,8 million to R9,5 million, pre-tax profit increased 18 percent from R50,5 million to R59,6 million.

Attributable profit, however, edged up only one percent from R31,5 million to R32 million because of a significant rise in the effective tax rate from 37,6 percent to 46,1 percent.

Based on a higher number of shares in issue, earnings fell marginally from 527,6c a share to 519,7c.

The dividend for the year was maintained at 211c a share.

Lack of major capital investment projects has had an adverse effect on both the mechanical and electrical engineering industries, say the directors, who believe SA's present inability to attract significant foreign capital will continue to limit growth for the foreseeable future.

The balance sheet shows a fall in long-term borrowings from R5 million to R4,2 million and an increase in cash holdings from R44,3 million to R47,7 million.

Net asset value at end-1989 was R27,23 a share — nine percent up on the R25,03 of a year ago.

NEI Africa, priced at R30, is trading on a P/E ratio of 5,8 and provides a dividend yield of seven percent. Brokers say the share offers fair value and should be held in the long term.

COMMENT: NEI Africa's share price has been in a downtrend since mid-1989. The price is currently at a support level of R30 and will have to rise to about R33 before the charts confirm a trend reversal.

Str 24/4/90

'Insist on talks for a new SA'

The president of the South African Institution of Civil Engineers, Mr Louis de Waal, commented on the country's economic and political problems during a speech at the institute's recent annual meeting. **JANET HEARD** reports.

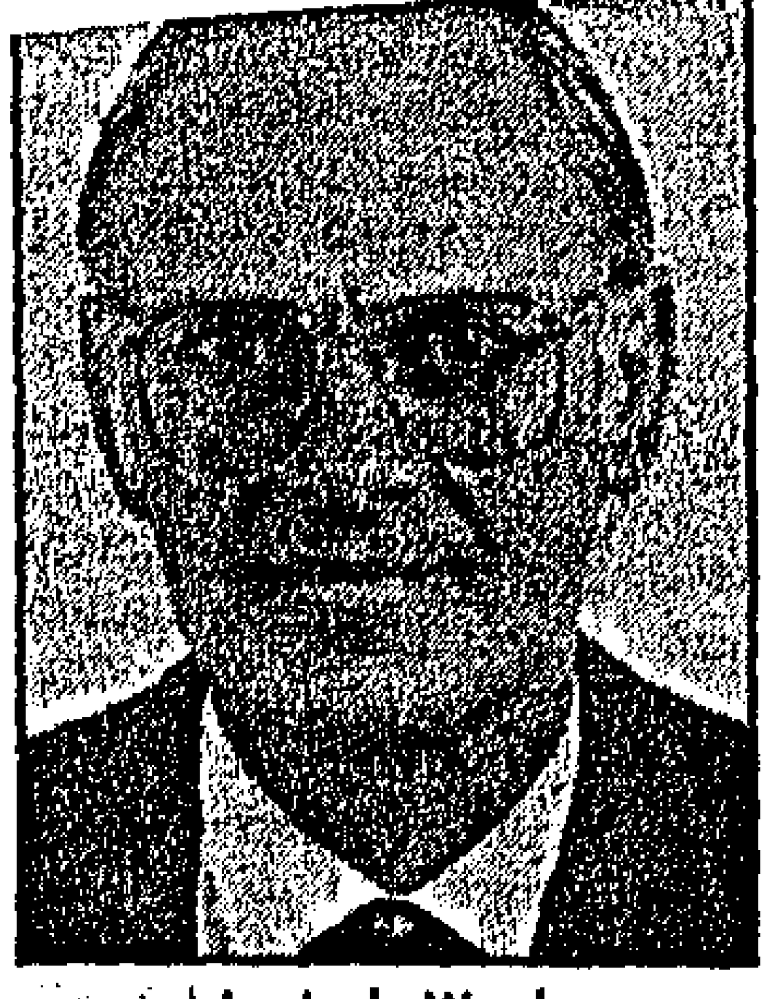
The most effective way to influence political events was to insist that all political leaders gathered around the conference table to thrash out a new political dispensation, Mr de Waal said.

"It is only in a peaceful environment that we make our maximum contribution to living standards, ... that foreign investment will be encouraged and economic growth will flourish."

Quoting statistics on violence, Mr de Waal said in 1989 a person was murdered every 45 minutes, a serious assault took place every four minutes, someone was raped every 26 minutes, a motor car was stolen every nine minutes and a burglary was carried out every three minutes.

On education, Mr de Waal said South Africa required at least a 50 percent annual increase in civil engineering graduates to be able to cope with its necessary development and maintenance.

During the last 15 years the first year civil engineering registration at universities had dropped by a



Louis de Waal.

third and the rate of civil engineers graduating from technikons was not as high as it should be.

Education of all young South Africans on a compulsory basis and the quality of mathematics and science teaching was of major concern to civil engineers.

He said there were positive examples of what could be done to improve the standard of education. He compared the matric results of the DET's 42 percent pass rate with that of the private All Saints College in Bisho at 76 percent, and St Luke's College in Johannesburg at 82 percent. The matric exemption percentages were nine percent, 56 percent and 51 percent respectively.

Mr de Waal said the Programme for Technical Careers (Protec) had obtained a matric exemption of more than 50 percent — "a tribute to those who teach and those companies and individuals who administered and financed this project".

Moving to urbanisation, Mr de Waal said it was the lack of capital that had prevented the country from keeping pace with the demand for housing.

He said by the year 2000, the urban PWV region would have a population of 12 million.

"Urbanisation should, however, be seen in a positive and challenging light. It affords better education and greater work and recreational opportunities for the city dweller and reduces the cost of necessary services".

He said for SA to benefit from urbanisation, transportation had to be improved.

"In the new South Africa let us make our contribution through support of reform initiatives, assist with the elimination of poverty and unemployment through infrastructural development and spread our technological expertise into Africa for the benefit of all who live in the subcontinent.

"The expertise of the South African engineer coupled with the natural resources of southern Africa could result in a subcontinental economic market that would rival other economic groupings."

Hudaco on growth path

Diagonal Street
LYNNE PEACH

Engineering group Hudaco should perform relatively well this year. (189) STAR 26/4/90

Stockbrokers point out that the group derives some protection from the ravages of economic recession due to the particular markets it serves.

The majority of group businesses are directed primarily at servicing various replacement markets which tend to be less vulnerable to economic recession than the markets for new or original products.

In the latest annual report, chairman Bruce McInnes says that the benefits from the investment in Abrasives Corporation (Abcor) and Angus Hawken should start coming through this year and these, together with continued strong performance from the group's core businesses, is expected to result in real earnings growth in 1990.

The principal activity of the Hudaco group is distribution. The products, which fall into the category of engineering consumables and carry world-leading brand names, are sourced from international principals and from local manufacturers.

Important developments in the past year include the formation of Abcor, in which Hudaco and Murray & Roberts each own 50 percent, and the acquisition of a 66 percent interest in leading oil seal manufacturer Angus Hawken.

Mr McInnes says Hudaco will continue to promote a strategy of growth by acquisition.

In the year to November 1989, group turnover climbed 45 percent from R252,1 million to R364,7 million. Operating profit advanced a more impressive 56 percent from R27,8 million to R43,6 million.

However, after finance costs more than doubled from R2,9 million to R6,9 million, pre-tax profit rose 47 percent from R24,9 million to R36,7 million. An increase in the effective tax rate from 28,1 percent to 32,5 percent limited the rise in after-tax profit to 38 percent from R17,9 million to R24,8 million.

Attributable income advanced 31 percent from R17,6 million to R23,1 million following a greater share of profit attributable to minority shareholders.

Based on a higher number of shares in issue, earnings per share rose 26 percent from 85,4c to 107,3c. The dividend for the year amounted to 48c a share, compared with 38c in the previous year.

The balance sheet showed a sharp rise in net borrowing from R1 million a year ago to R30 million, representing 34 percent of shareholders' funds.

The increase is the result of substantial expenditure, including R45 million spent on acquisitions. The level of debt is expected to be reduced by operating cash flows during 1990.

Hudaco, priced at R10,25, is trading on a price:earnings ratio of 9,6 and provides a dividend yield of 4,7 percent.

COMMENT: Hudaco's share price has maintained an upward trend since the stockmarket crash in October 1987. The price peaked at R11,25 about six months ago before steadily declining to its current level of R10,25. A trend reversal could be in the offing if the price falls below R10.

Clyde posts a 14% slide in earnings

BDay 21/5/90 (189)

SYLVIA DU PLESSIS

EARNINGS from engineering-listed Clyde Industrial Corporation, dismal a year ago, continued their downward spiral in the year to end-February.

The manufacturer and distributor of steel products to the mining and industrial markets has posted a 14% slide in earnings to 7,7c (8,5c) a share.

However, the decline in growth at this level is slower than the 31% drop posted in February 1989 when labour unrest and tight competition eroded profitability.

Turnover during the period under review grew 8% — negative growth if adjusted to inflation — to R67,2m (R62m), while net income before interest and taxation grew 12% to R3,7m (R3,3m).

After interest paid of R1,2m (R833 000), retained income amounted to R937 000 from a corresponding R1m. A final dividend of 1,25c lifted total distribution for the year to 2c.

Directors say the upward trend in performance and profitability, evident at the midway stage, continued into the second half.

Their decision to rationalise the company's activities were justified by a substantial improvement in gearing and the re-establishment of a sound base for future controlled growth and profitability, they say.

The share, which peaked at 38c a year ago, closed untraded at 25c on Monday after a low of 15c.

Sale of troubled Landlock on the cards

6 Day 8/5/90 (189)

BRENT MELVILLE

THE poor financial state of engineering group Landlock, disclosed in its latest annual report, reinforces opinion that UK-based BBA is keen to sell its 57% holding in the automotive and industrial group — most likely to turn-about specialist Valard.

After improving its first-half performance from a loss at end 1988 of 7,8c a share to +2,7c, and sparking hopes of a revival among shareholders (particularly holders of preferred ordinaries who have not received a dividend in five years and who are now owed R1,3m) the group again tripped over its friction material parts headache Mintex Don.

Gearing is now up to 121% (95%) on a 37% rise in interest-bearing debt to R31,2m (R22,8m).

The effect of the increased borrowing was to push financial expenses to R5,7m (R4,1m). The current ratio dipped slightly to 1:1 (1,1:1) on a 32% hike in the amount due to bankers to R27,5m (R20,8m).

In his annual review, MD Richard Newby positions automotive parts and accessories subsidiary Girlock as the prize performer, with sales up by 32%.

This strong performance was more than offset by disappointing results from woodworking machinery importer Rutherford, due to high interest rates and the import surcharge, and a sharp deterioration in market conditions for Mintex Don.

Vivian Regina, for its part, increased exports of its primary glass fibre tissue product by 44% although local sales declined in volume.

Neither Newby nor chairman Gerhard de Rauville mention the reason for Landlock's cautionary announcement on March 13, but sources say BBA is negotiating to sell Landlock to Valard for about R21m — or 115c a share. Landlock is dealing at 105c.

Engen in line for successful JSE listing

(189)

Star 21/5/90

Finance Staff

Trek Beleggings makes way for its expanded successor Engen on the JSE today, as the market is confident about the financial performance of Gencor's new energy arm.

Since the announcement of the Engen deal in February Trek's share price has risen by almost 50 percent and Engen debut is likely to boost the price even further — Engen predicts earnings per share of 182c for the year to end-August on turnover of R5 billion and after tax profits of R200 million.

At a Trek general meeting on Friday shareholders approved all the resolutions to create and list Engen, which is the first wholly South African owned intergrated energy group.

Dorbyl's profit growth weakens

Star 22/5/90

By Sven Lünsche

A combination of the slowdown in the economy and increased labour unrests has adversely affected the performance of engineering group Dorbyl in the six months to end-March.

In its interim report released today Dorbyl states that attributable earnings rose by 12 percent from R42,74 million to R47,89 million, which translates to a rise in earnings per share from 134c to 150,2c. The interim dividend has been lifted by 12 percent to 28c (25c) a share.

Commenting on the results the directors say:

"The decline in the country's economic activity and the labour unreast have affected the group's results negatively. All operating divisions and their customers have been affected."

Turnover in the six months improved by 13 percent to R1,243 billion (R1,097 billion), but slightly improved margins, achieved through "further productivity gains", resulted in operating income rising by 16 percent to R86,58 million (R74,59 million).

Despite the slowdown capital expenditure remained high. The replacement and modernisation of capital equipment and new projects, including the Tosa Seamless steel facility, which is a joint venture with Iscor, amounted to R101 million over the interim period.

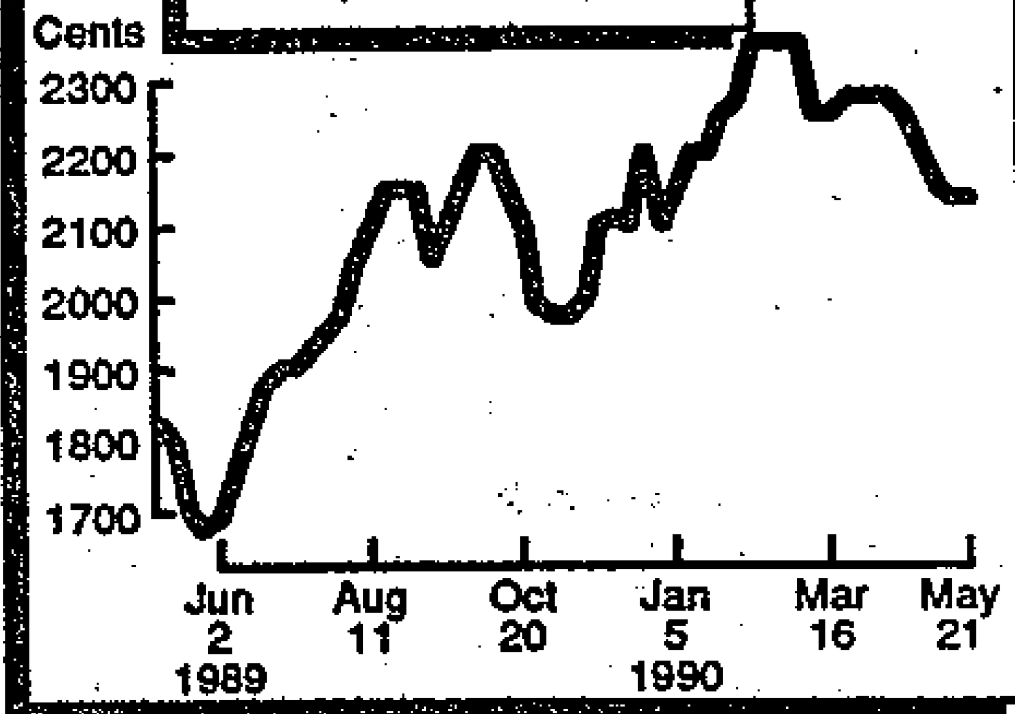
As a result of the increased working capital requirements borrowing have soared to R297 million, although the directors forecast a decline in the borrowing levels in the second half.

Nevertheless, they expect the slowdown in the economy, coupled with increased labour and political unrest and higher interest rest, to continue to impact adversely on the group's earnings in the second half of the financial year.

BIDG 22/5/90 (189)

Dorbyl results mirror general slowdown

BRENT MELVILLE



Graphic: FIONA KRISCH Source: JSE

HEAVY engineering group Dorbyl appears to be finally showing the strain of depressed economic conditions, with a 12% rise in earnings to 47,9c (42,7c) a share for the six months to March.

Attributable profits were at R47,9m (R42,7m). An interim dividend of 28c (25c) was declared, maintaining cover at 5,4 times.

Directors attribute the relatively poor showing to the decline in SA's economic activity and labour unrest: "All operating divisions and most of their customers were affected."

However, further productivity gains allowed a 16% rise in operating income to R86,6m (R74,6m) on a 13% hike in turnover to R1,2bn (R1,1bn).

Net interest took R16,9m (R15,6m) however, as a result of increased expenditure on replacement and modernisation of capital equipment and new projects.

The bulk of the capex, which amounted to R101m for the period, was spent on the new Tosa Seamless facility in which Dorbyl's interest is roughly R72m.

Iscor has a 40% interest.

Borrowings increased to R297m (R223,6m) over the same period.

Directors are still happy with the gearing ratio of 40% and are forecasting reduced borrowings by year-end.

However, the directors also say that the slowdown of the economy, the general labour and political unrest, as well as continued high interest rates will have a detrimental effect on the group's year-end results.

FM 1/6/90 (189)

DORBYL FM 1/6/90 (189)

Squeezed lightly

The economy's slow-down has mostly affected the light industrial side of Dorbyl and hurt the engineering group's interim results. The component manufacturing division, for example, has been hit by a drop in vehicle sales.

Final profits are now not expected to improve on last year. The directors also believe the economic slow-down, combined with high interest rates and labour unrest, will hurt the year's earnings.

The heavy engineering side of the business, however, has not suffered. Generally this sector lags the economic cycle because of the long-term nature of contracts. Dorbyl hopes that once the slow-down on the heavy engineering side is felt, an economic up-tick will have lifted other sectors' performances. Profits on contracts being worked on at the moment will be brought to account only in the 1991 financial year and 1991 figures in 1992.

SLOWING DOWN

Six months to	Mar 31 '89	Sep 30 '89	Mar 31 '90
Turnover (Rm)	1 097,0	1 407,8	1 243,2
Operating inc (Rm)	74,6	111,4	86,6
Attrib income (Rm)	42,7	69,3	47,9
Earnings (c)	134,0	217,4	150,2
Dividends (c)	25,0	75,0	28,0

Tax misery

However, the poor performance of the light industrial side restricted turnover's growth to only 13% — below the rate of inflation — to R1,2bn. In contrast, better productivity helped lift the operating profit by 16% to R87m, though the rise would have been greater had it not been for labour unrest in Port Elizabeth, Durban and the Vaal Triangle. A large 45% increase in the rate of taxation meant taxed profit grew by only 10% to R49,4m. Dorbyl says the increased rate of tax is mainly because of the reduced availability of assessed losses.

As things stand, the year-end's earnings and dividend should at least match last year's. That will be something of an achievement as industrial corporate profits are under attack across the board. *Heather Formby*

Haggie lifts profit — and debt

In 1989 Haggie "seized the day", says chairman Grant Thomas, by boosting sales 35 percent and operating income 29 percent in its three sectors — steel-rod conversion, non-ferrous metals and light engineering.

MICHAEL MENOF

This was no mean performance since labour disruptions affected production and the completion of orders, margins were under attack, while copper-based operations faced steep increases in basic commodity prices and competition from alternative materials.

Mr Thomas and his Malbak management team certainly know how to increase debt.

By December 1989 it was up 42,2 percent at R114,5 million (1988: R80,4 million), caused by capex, acquisitions, high interest rates and increased working capital demands needing the funds, says Mr Thomas.

Interest expense more than doubled to R16,9 million (1988: R7,02 million).

Acquisitions included Ropes & Twines bought from Romatex for R16,5 million, Titan Chain from Metkor for R3 million and the remaining 50 percent of Fascor.

Reclam bought a Pietermaritzburg business, 60 percent of James Neill was bought for R5 million and Wirecor sold its steel indows division to Wispeco.

Capex for 1990 is R75 million, with management having the burden of controlling working capital, reducing interest and producing the cash flow, says Mr Thomas.

Haggie has always been con cerned with the welfare of its workforce.

Why then is there labour unrest caused by issues unrelated to the workplace? Perhaps the workers feel that a fairer distribution of wealth is overdue.

The world labour trend is leaning towards socialism, so maybe capitalism is too one-sided. Does the system need an overhaul? The workers seem to think so.

Sales increased to R1,10 billion (1988: R874,7 million), with operating income R150,2 million (1988: R116,04 million). After deducting net interest expense of R11,47 million (1988: R1,96 million), pre-tax profits were R138,7 million (1988: R114,08 million).

After tax of R47,87 million (1988: R40,44 million), outside shareholders' interest of R11,7 million (1988: R10,35 million), and pref dividends of R1,58 million (1988: R2,48 million), the bottom line was a record R78,48 million (1988: R61,54 million).

Earnings per share were 406,2c (1988) 319,7c — with dividends at 157c (1988: 128c).

The sales and income contribution from the three divisions is omitted. So, too, is the figure for export sales.

Net earnings from foreign countries were only R7,35 million (1988: R5,1 million) — less than 10 percent of both 1989's and 1988's bottom line.

It is unclear whether these "foreign countires" include SA's neighbouring states.

But in the tax note, "incentive allowances" represents 10,6 percent (1988: 10,2 percent) of the normal 50 percent company tax rate, indicating an export drive.

The steel-rod conversion division has gained widespread markets overseas after being excluded from the US in the mid-80s, making its exports less vulnerable to boycotts and sanctions. "Group operating profits were boosted substantially by increased sales values and volumes," says Mr Thomas. But how much did the recent acquisitions contribute and what were the increased volumes?

The light engineering division seemed to be battling with recently acquired Neill Tools, turning in a poor performance. Fascor suffered a turnover loss and reduced profits, while Osborne Industries experienced weaker demand and margins were under pressure.

Ordinary share capital and reserves increased to R377,07-million (1988: R324,13-million) at end-December 1989.

Borrowings were shown net of cash balances. Short-term debt of R108,3 million (1988: R76 million) included bank overdrafts of R67,88 million (1988: R24,66-million).

Working capital, including the short-term loans, overdrafts and cash resources increased from R175,4 million to R201,6 million.

Net worth per share was R19,38 at end-December 1989, compared with the current JSE price of around R26,75.

What are the prospects? A year of consolidation is forecast for 1990.

Recent expansion by acquisition and capex needs integrating into a larger but sounder base for future growth, says Mr Thomas, while SA's high inflation rate and decline of the US dollar will reduce export revenue and earnings.

But have no fear, shareholders — Haggie's budget reflects improved earnings, with management cautiously optimistic that targets will be reached.

With Gencor (holding 36 percent through Malbak) and Anglo American (holding 36 percent through Scaw Metals), why shouldn't this materialise — even if labour raises its powerful fists.

B/Day 12/6/90

Valard hits snags over Landlock

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BRENT MELVILLE

THE sale of Landlock to engineering group Valard has hit snags at the European end of negotiations, Valard chairman David Makins said yesterday.

Makins said although all the details of the purchase were in place, Landlock's parent — UK-based BBA — did not seem able to "get its act together".

In terms of the deal, Valard would be paying 115c a share, translating into R21m for 100% control of Landlock.

The purchase follows last year's R2m acquisition by Valard of Landlock's crane company Tilghman Lasch.

Makins said that although the results of Tilghman had been unsatisfactory over the past year, major management changes had now been made and the company relocated to more suitable premises. In addition Kragfontein had withdrawn from the generator market which was not commercially viable.

Walk away

Following the Landlock purchase, Valard would sell the automotive parts manufacturer's one profitable subsidiary — Girlock.

Makins confirmed that Valard already had a buyer lined up for Girlock but BBA was holding up the entire process. BBA has a 56,6% holding in Landlock.

"In fact if we do not have the entire deal tied up soon we will walk away from it," he said.

During its last financial year, Valard, renowned as "turnaround specialists", reported bottom line earnings of R7,5m — a 46% increase over previous year's earnings of R5,2m.

And despite buying Jegkurt Engineering for R2,2m cash during the year, gearing was reduced to 52% (55%).

The current ratio remained at 1,9:1 and group shareholder's funds versus total assets increased to 48% (45%).

Makins said that Valard would be able to shrug off the prevailing economic downturn and post sound results in the coming year.

Answer to Landlock woes

Diagonal Street

STAR 13/6/90

ANN CROTTY

Valard's acquisition of Landlock looks like being the solution to Landlock's recurring losses that former parent, UK-based BBA, was unable to stem.

The deal values Landlock shares at 116c, which is significantly above the level at which the share has traded in the past 12 months, but represents a discount on Landlock's net asset value of around 141c a share.

The price reflects the company's poor operating performance and analysts believe it would have been considerably lower but for on-going speculation about a takeover.

The deal sees Valard acquiring control of Landlock from BBA and injecting its assets into Landlock in exchange for an 82 percent stake in the enlarged Landlock.

Valard will then be a holding company with its only asset being the enlarged Landlock (incorporating the former Landlock assets and the Valard assets).

By injecting the Valard assets into Landlock, the profits generated by Valard assets can be offset against the assessed tax loss Landlock has built up.

Creating the pyramid structure gives Landlock the scope to fund acquisitions through share issues without threatening the control situation.

The deal ascribes a value of R19,7 million to Landlock (116c for each of the 17 million shares). Valard has managed to secure control through the outlay of R8,5 million in cash. It has bought the 10,3 million shares (58,4 percent) held by BBA, but will immediately sell off three million of them to insitutional investors for R3,5 million (116c a share).

With regard to the outstanding 6,7 million shares, Valard will not have to pay out cash to the shareholders. It has received commitments from holders of 3,6 million that they will stay on board. UAL has agreed to place any of the remaining 3,1 million shares that holders want to cash in.

As part of the deal, agreement has been reached to sell Landlock subsidiary Girlock to Auto Industrial for R28,4 million.

At first glance this looks extremely attractive for Valard — paying out R8,5 million and immediately receiving R28,4 million in cash and the remainder of the Landlock asset base.

However, as Valard MD Stephen Connelly says, with Landlock's assets comes about R35 million of debt. Gearing in enlarged Landlock will be around 80 percent, which, at current interest rates, represents an awesome burden.

Mr Connelly intends to have it down to 60 percent within 18 months. This rapid reduction reflects the expected benefits of not having to pay tax and plans to reduce stock levels at Landlock substantially, thereby releasing cash.

Mr Connelly is confident the Landlock losses (coming from Mintex Don) will be stemmed within months. Members of Valard management were involved with Mintex Don about ten years ago and so will be familiar with the assets they are acquiring.

Quick Holdings posts a drop in earnings

(189)

PIERRE DU PREEZ

DCM-listed Quick Holdings' acquisitions generated a high turnover but its earnings for the six months to end-February fell 12,5% becaue of the dramatic increase in the number of shares in issue.

During this period, after-tax profits increased 331% to R207 000 (R48 000), on a turnover of R12m (R1,6m). However, the earnings per share showed a drop of of 12,5% from 0,24c to 0,21c as issued shares increased from 20-million to 100-million.

Quickco, which has a freight division and is also involved in civil engineering, is controlled by a Hong Kong company, Yin Wo. B/Day 14/6/90

Shares were issued to acquire a civil engineering group and two industrial properties for R5m and to raise about R8m by means of a rights issue.

Helical liquidation move expected today

PIERRE DU PREEZ

AN APPLICATION for the provisional liquidation of DCM-listed Helical Holdings would be on the roll of the Rand Supreme Court today, Merchant Trade Finance (MTF) MD Robert Taylor said yesterday.

Investigations regarding possible "substantial misrepresentations" to the board of directors were under way, a source said.

MTF was involved in the granting of loans to the engineering company until it became apparent the group was in a critical financial state.

Taylor also confirmed that subsidiary, Helical Trading, was placed under provisional liquidation yesterday.

He added that as far as he was concerned, there was no light at the end of the tunnel for shareholders.

Taylor did not know whether charges against anyone closely associated with the company were being looked at.

A person involved with Helical said yesterday he thought the company had been grossly mismanaged.

"You had the basis of a fabulous company here," he said.

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Investigation

A non-executive director of the company echoed this sentiment more strongly.

"To say the company has been mismanaged is a gross understatement. We are looking at the possibility of substantial misrepresentations having been made to the board," he said.

GM of listings on the JSE Richard Connellan confirmed yesterday the company was under investigation, but he would not comment futher.

On Friday, a market analyst said he thought Helical would not be the only company to experience problems with cash flow in the volatile economic climate.

But he did not feel it reflected badly on the DCM, saying it was rather a sign of the times.

The non-executive director felt the Helical experience reflected badly on the DCM sector, but an investigation would help answer a lot of questions about the past conduct of the company's management.

A number of issues were still being investigated, he said, adding that the outlook for shareholders was not very bright.

Helical was listed on the DCM in 1988. At one stage a move to the main board was even anticipated.

However, shares were suspended at the beginning of this month and the group vacated its premises in Parktown last week as it could no longer afford to pay the rent, Taylor said.

Long-term Eskom contract a blow to Titaco's earnings

BDay 19/6/90 (189)

LINDA ENSOR

WHILE Titaco Consolidated Investments' results to end-February were disappointing, the engineering group has passed its annual dividend.

Earnings per share fell 48% to 10,6c (20,4c) because of a long-term contract, the negative effect of which was not apparent at interim stage.

The contract was a materials-handling deal for Eskom valued at R20m-R25m in current money terms.

Financial director Basil Smidt said the underpriced contract had been bid on unrealistically tight margins in a competitive area.

MD Reinier Meyjes said in a profit announcement action had been taken to ensure the final phase of the contract did not affect future results.

"To a lesser extent, profits were also affected by certain contracts yielding lower than anticipated margins, as well as the cost of funding," he said.

Titaco, which is involved in the management, design, construction and commissioning of engineering and construction projects, increased turnover 64,5% to R88,7m (R53,9m).

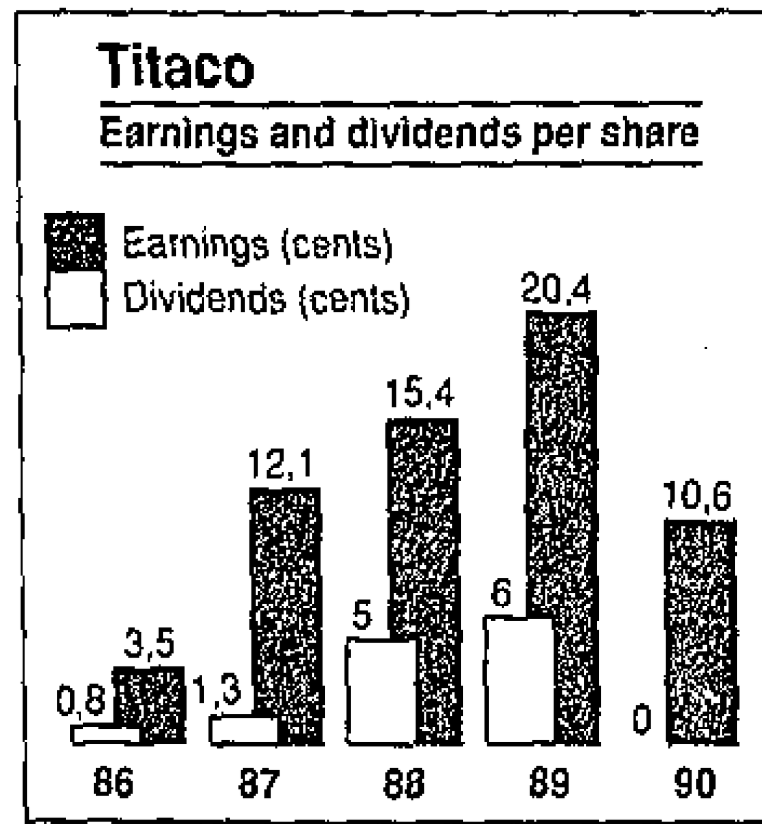
Smidt said the large increase in turnover adversely affected the group's cashflow and required high finance charges to sustain.

Margins plummeted to 2,1% (4,9%), generating an operating profit of R1,8m (R2,7m).

Interest and finance charges rose to R1m (R962 000) and attributable income fell to R639 000 (R1,2m).

Meyjes said that although the cyclical cash flow was at an unacceptable level at interim stage, it reached a satisfactory level at year-end.

"The high interest burden and magnitude of the cash flow cycle, however, remains an area of concern at the reported level of turnover.



"Management, recognising the limited capital base of the group, has implemented a rationalisation programme designed to substantially cut turnover, yield improved margins and reduce funding and the cost thereof.

"In line with this approach, the current group order book is at a satisfactory level, with large contracts being of the cost re-imbursable type."

Smidt said turnover would be cut in order to reduce finance charges. Unprofitable areas of the business were being wound down and the quality of the order book improved.

"We are optimistic we have reversed the trend," he says.

Helical: 'millions might be missing'

PIERRE DU PREEZ

SEVERAL million rands could be missing in Helical, which is currently the subject of an investigation by the JSE, a former director of the company said yesterday.

However, he cautioned against any speculation, saying the investigation would hopefully provide a proper understanding of how the company's financial affairs were conducted.

All the directors of Helical have resigned, the last one on Friday last week.

This was after MD Graeme Whitcutt was relieved of his post on his return from a holiday which he took from March 25.

Whitcutt indicated yesterday this action would be the subject of court proceedings. 6 Day 20/6/90

He released a statement dissociating himself from any decision made by the group since March 25. As far as he was concerned the company had been in a reasonably good state while he was in office. (189)

He admitted the group could have been strapped for cash, but did not feel the situation was critical.

Helical Holdings, listed on the DCM in September 1988, consisted of four factories. One was situated in Nigel, another near Soweto and two in Germiston. It could not be ascertained whether some staff were still employed yesterday.

The group described itself as a "focused engineering group" consisting of several different companies.

Products included gears for use in steel mills, plastic products for the mines, specialised mass-produced fibreglass products, and air conditioning insulation.

The directors of Helical held about 80% of the equity. They were Pierce Newton-King (chairman), who died late last year, Fred Brunton (vice-chairman), Graeme Whitcutt, William Halsted, Pieter Jerling, Johan Vey, Adrianus van de Griendt and Charles Booth.

Helical acquired Walter Meano Engineering for R5m last year.

Judge rules on Helical companies

SUSAN RUSSELL

DCM-listed Helical Holdings and a subsidiary, Helical Trading, were placed in provisional liquidation in the Rand Supreme Court yesterday following urgent applications by one of its creditors, Merchant Trade Finance (MTF).

The provisional orders, which were opposed, were granted by Mr Justice MacArthur.

In an affidavit, MTF MD Robert Taylor said his company was owed R1 996 151 by Helical.

He said Helical Trading was liable for the amount in terms of a suretyship executed by the company together with other subsidiaries in the Helical group.

Taylor said he had seen a report in Business Day on June 1 to the effect that Helical's listing had been suspended.

He had telephoned Helical deputy chairman Frederick Branton to ask him the true reason for the suspension of its shares. Branton told him the reason for the suspension was a boardroom dispute and not a financial one.

However, at a subsequent meeting Branton said in contrast to previous statements — that the company had made a profit of R1m for the financial year ending February 1990 — the holding company had in fact made a R1m loss.

One of the contributing causes given was that the Plastiforce business carried on by Helical Trading had failed to account for certain accrued interest.

Taylor said Branton also stated Helical would not be able to meet its commitments to MTF.

He said that because of rumours about Helical's affairs, certain key personnel had threatened to leave.

It was therefore necessary for a liquidator to be appointed to try and retain the services of these employees to ensure the continuation of business in the hope of disposing of them as a going concern, said Taylor.

Sandock Austral sold to Reunert

ZILLA EFRAT

REUNERT has acquired Gencor's Sandock Austral for R39m in cash in a move that complements its existing mechanical engineering activities. B/Day 27/6/90

Both companies have been engaged in mechanical engineering fields for many years. With the contraction of the economy, coupled with cutbacks in government expenditure, it was decided that some consolidation in the productive capacity of the two companies was necessary.

Logical (189)

The first steps in this direction were taken about three years ago when Sandock's research and development facility was placed in a joint venture with Reunert, the electronic, telecommunications and electrical engineering group.

Reunert MD Tony Ellingford said: "We are able in a combined unit to more aggressively exploit export opportunities and diversify the business."

The rationalisation was a logical development and Reunert was well placed to develop and promote the interests of the combined unit, Ellingford said.

The acquisition, effective from April 1990, will be financed out of Reunert's own cash resources.

Upbeat report for Ozz shareholders

PIERRE DU PREEZ

OZZ shareholders could expect year-end results to be in line with or better than those published in February, company secretary Ian Walker said yesterday.

Commenting on trading conditions he said: "We are finding things surprisingly buoyant at this stage."

He added that, despite the reduction in the gold price, growth in earnings should still be achieved.

A "substantial amount" of Ozz's business emanated from the gold mines, he said, and Ozz intended to continue disposing of its non-core businesses to further streamline it.

Ozz is an industrial holding company with interests in the construction and engineering fields.

It has a 50% stake in the new Bruma Lake complex, which incorporates Fisherman's Village.

"All the shops at Fisherman's Village have been fully let and we are putting the finishing touches on our projects there," Walker said.

He described the engineering division of the company as the "bread and butter" of its business, but added that none of its sector's was doing badly at present.

A market analyst said yesterday he thought Ozz was a good buy, especially at 40c.

"The company doesn't look too bad at all in the long term; I would advise shareholders to buy, especially since the gold price seems to have a negative affect on the market at present," he said.

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Ozz group beats its earnings forecast

PIERRE DU PREEZ

INDUSTRIAL holding group Ozz has posted a 15,9% increase in its earnings per share, from 8,2c to 9,5c, beating the forecast figure of 9,3c for the year to end March.

An annual dividend of 3,4c (2,5c) was announced, showing an impressive 36% rise on the previous year's figure.

Results also showed net asset value up by 43% to 72,2c (50,5c).

Earlier this week the company, whose key areas are in engineering, construction and property development — particularly its 50% holding in Bruma Lake — reported the sale of its Brickveld Brickworks south of Johannesburg, to reduce borrowings.

The year's operating profit was R10,7m — representing almost double the overall margin in the previous period.

Conditions hamper Hudaco growth

SYLVIA DU PLESSIS

DIFFICULT trading conditions have slashed growth in midway earnings for engineering group Hudaco to 7%.

The distributor of diesel engines, bearings, belting, abrasives and transmission components posted earnings of 47c (44c) a share and declared an interim dividend of 21c (20c) to end-May.

CE Kevin Clarke says directors expected an economic slowdown in 1990 but the scale and pace of the decline came as "a surprise". Bday 21/7/90

Figures are not strictly comparable: the group's Norton Abrasives interests were merged into 50%-held associate Abcor in July last year, and its effective interests in Deutz Dieselpower, which became a subsidiary with a 30% minority in October, were restructured.

These changes had the effect of inflating increases in turnover and operating profit without a corresponding increase in earnings a share.

Clarke says comparable results in the underlying businesses constituting the group show that turnover fell to R205m from R214m in the period under review, while operating profit climbed to R26m (R25m).

Directors intend driving down borrowings over the next year in view of continuing high interest rates.

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Star 3/7/90

(189)

The Star
Finance

SA faces crisis in training of engineers

South Africa needs a Ministry of Technology, says Robbie Parker, president of the South African Association of Consulting Engineers.

He told a group of engineers and clients recently: "The crisis in engineering education in South Africa should be addressed urgently at Cabinet level.

"We should follow the footsteps of those countries which have become model nations — Taiwan, Korea and Singapore — with booming economies, work opportunities and sufficient accommodation.

"Japan produces 500 engineers per one million head of population annually, the US 370 engineers, Germany 340 and Britain 250.

"South Africa's engineering graduates number only 28 per one million head of population.

"We therefore face a crisis at the turn of the century when today's older engineers will no longer be economically active.

"The crisis cannot be prevented as it is not possible to import sufficient engineers, especially with the present economic circumstances and political uncertainty."

'New force' with launch of GEC Alsthom SA

Business Day Reporter

THE official launch today of GEC Alsthom SA, a joint venture between European-based GEC Alsthom and Barlow subsidiary Reunert sees the entrance of a new force in the electrical engineering and power generation industries.

GEC Alsthom SA will absorb all the existing electrical engineering activities of the GEC SA group, says Clive Parker, chairman of Reunert and GEC SA.

There are plans to expand the operation at a later stage, Parker adds.

"GEC Alsthom SA will have a significant impact within its market sectors.

"The availability to the new company of new products and technologies will be of immense benefit."

The formation of GEC Alsthom SA follows the merger last year of GEC Power Systems of Britain and Alsthom of France which created a new world leader in electrical engineering.

The SA group employs about 5 000 people while the new international group, including SA, employs more than 80 000 and has annual sales of over R20bn.

NEI profits continue their downward trend

BDay 25/7/90 (189)

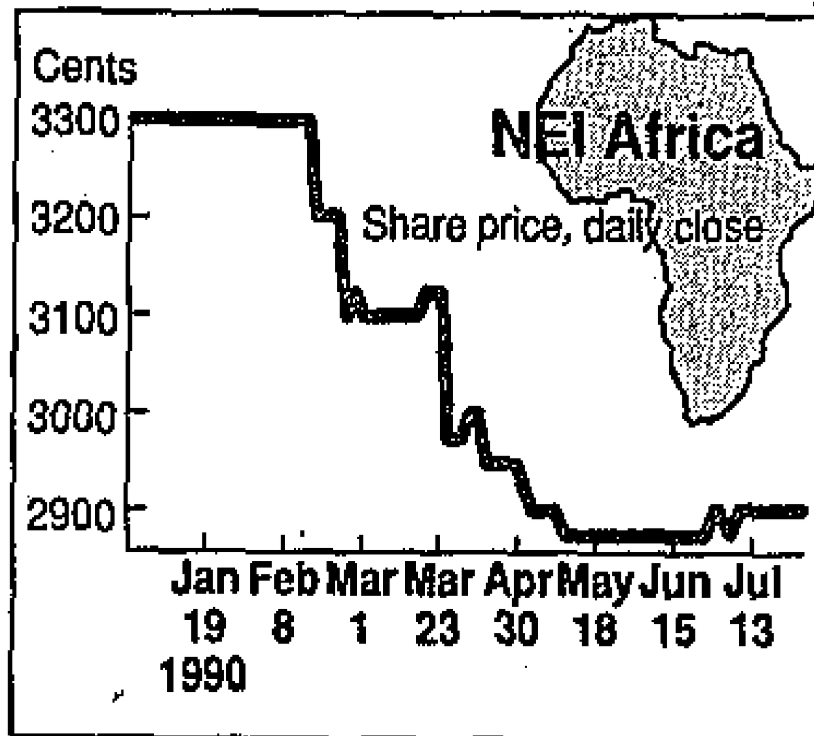
SYLVIA DU PLESSIS

NORTHERN Engineering Industries (NEI) Africa has reported reduced earnings and an unchanged dividend for the six months to end-June after margins tightened and overheads rose.

Turnover improved by 19,7% to R308,5m, but earnings for the engineering-listed group dipped to 176,6c a share from 219,9c on an increase in the number of shares in issue, and dividends were maintained at 55c.

Equity increased by 227 800 shares as a result of NEI Africa's recent share-financed purchase of petrol pump and service station equipment manufacturer and supplier A G Walker and specialist exhaust manufacturer Kilber Automotive Products.

The midway results, based on operating income which fell 1,5% to R28,5m and net finance costs which surged 80,1% to R7,1m, come on the back of a poor performance at year-end, when earnings declined to 519,7c (527,6c) a share.



Graphic: FIONA KRISCH Source: JSE

Recently-appointed CE Lawrence Hyslop, commenting on the latest figures, said yesterday thinning margins were due to a more competitive market, while productivity had failed to improve in line with overheads.

"The fact that turnover in the major contracting companies within the NEI group does not accurately reflect invoiced sales because of the long-term nature of large contracts should also be borne in mind," he said.

There had also been an overall drop in business confidence, which appeared to coincide with the "accelerated pace" of political change, he added.

Commenting on prospects for the manufacturer and servicer of energy conversion and distribution equipment, Hyslop said trading conditions had begun to improve since May.

Directors remained confident this trend would continue in the second half, provided the political climate did not "suddenly deteriorate".

NEI Africa Holdings, whose sole investment is its 53,3% interest in NEI Africa, declared an unchanged dividend of 27,5c for the same period on earnings which fell to 88,3c a share from 109,9c.

NEI Africa's shares closed unchanged at R29 yesterday and were offered at that price by sellers.

This is just off their low of R28,75 earlier this month, which represents a steep decline from a yearly high of R35,50 in August.

Shares for the holding company, at a high of R18,75 a year ago, were bid at their last traded price of R14,25.

Star 26/7/90 (189)

Civil engineering suffering from lack of major contracts

By Sven Lünsche

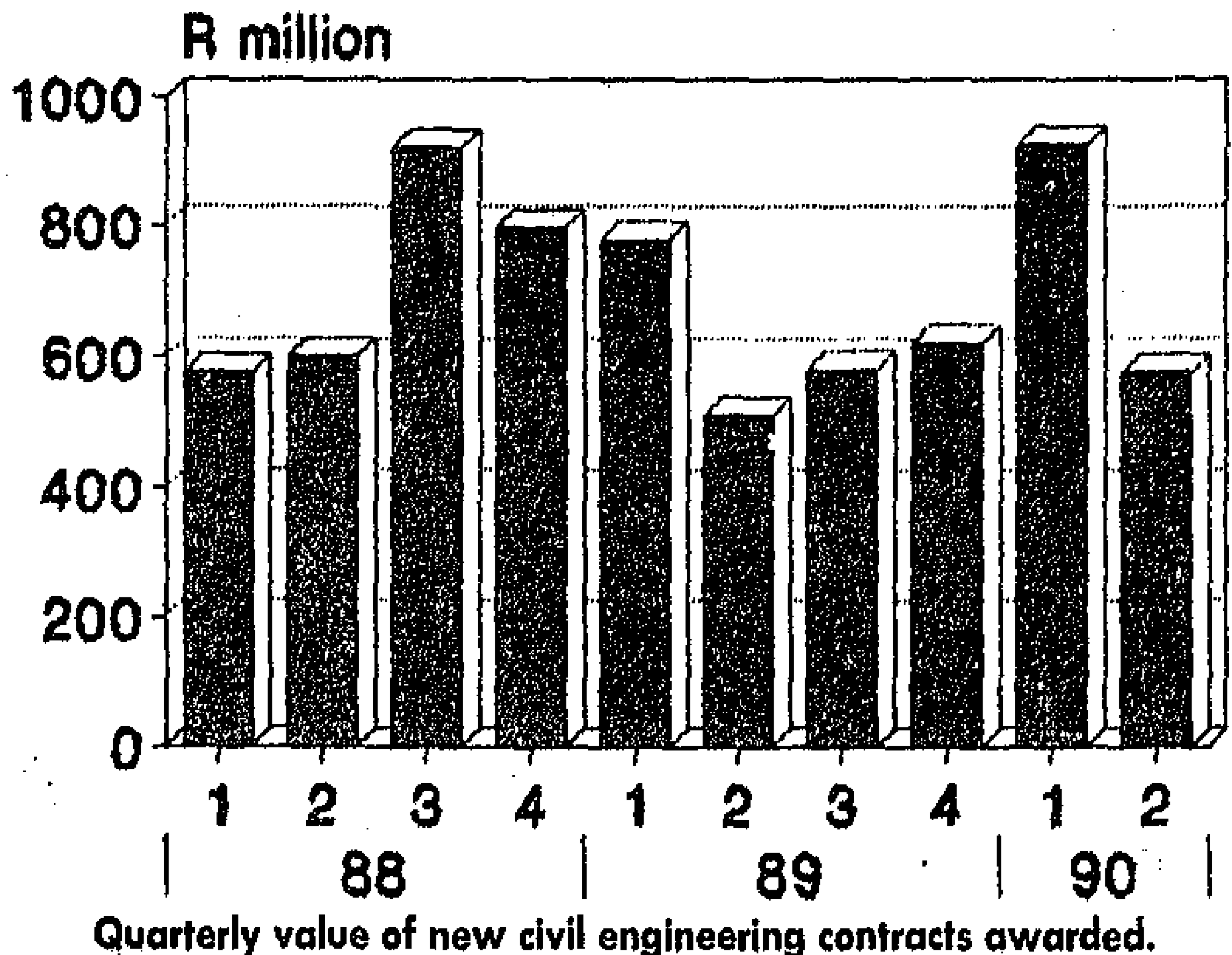
The civil engineering industry is beginning to feel the effect of the recessionary economic conditions, judging from figures released by the South African Federation of Civil Engineering Contractors (Safcec) yesterday.

New contracts awarded to civil engineering companies in the second quarter fell to R575 million compared with an unusually high R925 million in the first three months of the year.

The R1,5 billion worth of new contracts awarded in the first half of 1990, however, compares favourably with the R1,3 billion of contracts in the same period last year. In the second half of last year the figure was R1,1 billion.

Awards reported to Safcec represent about two-thirds of all new civil engineering contracts in South Africa.

The weekly average of new work for 1990 to date is R57 million, which in both monetary and real terms is above the average of R45 million in 1989, thanks largely to the unexpected high level of awards in the first quarter of this year, Safcec reports.



Quarterly value of new civil engineering contracts awarded.

June work

A monthly breakdown shows that the value of awarded work in June rose to R275 million compared with R125 million and R175 million in April and May respectively.

The Federation says that a feature of the first half year awards was the near absence of major *contracts.*

Looking ahead Safcec executive director Keith Lagaay says the industry's overall assessment of expected conditions has deteriorated since the beginning of the year.

"The 1990 budgets of the public sector have generally been disappointing with the increase in funds below the inflation of construction costs," Mr Lagaay says.

"An exception appear to be the Regional Services councils, which are increasingly becoming an important source of work for the industry.

"The Socio-Economic Fund — valued at about R2 billion — will presumably also contribute to township development in future, but appears unlikely to have much impact in 1990."

State toll roads, such as the Natal North and South Coast routes, will probably be a source of some new work, but in the light of recent developments the position of private toll roads is uncertain.

Private sector capital expenditure is not compensating for the decline in public sector work, although contracts from the mining and manufacturing industries are reported to be maintaining their levels, Mr Lagaay says.

Confirming the slowdown in civil engineering contracts is the low tendering activity reported so far this year. Tender activity precedes contract awards by some months.

"There is a reasonable flow of tenders from R1 million to R10 million, mostly from local and regional authorities, but very few in the R10 million-to-R20 million range and very few large tenders," Mr Lagaay says.

The notable exception is the mega tenders for the Lesotho Highlands Water project.

Tenders for the Katse dam and three tunnels for the Lesotho *water scheme closed in April, with* the lowest price totalling more *than R1,7 billion (the dam alone was priced at R800 million).*

On the South African side of the border, tenders for two smaller tunnels closed last week, with lowest prices of R210 million for the Caledon tunnel and R193 million for the Ash tunnel.

Anglo awards R25m plant design contract

PETER GALLI

VAN ECK & LURIE (VEL), a member of the Bateman Project Holdings Group (Batepro), has been awarded a R25m contract by Anglo American Corporation (AAC) for the engineering and design of the R300m main treatment plant for De Beers's new R1,1bn Venetia diamond mine in the northern Transvaal. B Day 6/8/90

The process plant was developed by AAC in conjunction with VEL. The Venetia project is the first major new diamond mine development in southern Africa since the early 80s. (189)

It is expected that the commissioning of the plant will be completed by mid-1992.

Batepro executive chairman John Herselman said the mine would incorporate the most up-to-date diamond recovery technology.

Standard Engineering buys up shares

BRENT MELVILLE

STANDARD Engineering, Malbak's engineering arm, is to make an offer worth about R50m to buy out the minority shareholders in three of its largest subsidiaries.

The group issued a cautionary announcement on Friday. B|Day 6/8/90

In terms of the bid — aimed at cleaning up the group's ownership structure — Standard will be buying out the minorities of Hall Longmore, Union Carriage and Astas.

Anglo American and Gencor jointly hold 47% of Union Carriage and 41,8% of Hall Longmore and Sankorp has a 32,4% stake in Astas. A Malbak source said the offer was likely to be made on a cash and shares basis and that Anglo would retain a 24% holding in Union Carriage. (189)

Standard chairman Hugh Brown would disclose only that the group was seeking to acquire certain minority holdings within certain of its subsidiaries.

Hall Longmore, SA's largest supplier of springs to the motor market, is the group's biggest contributor to earnings. Union Carriage multiplied its contribution to Standard tenfold last year and Brown said he expected gearbox manufacturer Astas to improve its contribution substantially over the current financial year.

GIC an attractive bet for long term

Despite higher interest rates, a general cooling of the economy and steel supply problems, engineering group GIC managed to increase earnings by 31 percent in the past year.

Diagonal Street

189 Star 9/8/90

LYNNE PEACH

As far as the future is concerned, chairman Michael Frye remains positive. He says in the latest annual report that the business is soundly based, that the steel supply position has improved and that order books are up and continuing to rise.

Thus, despite poor economic circumstances, he expects further benefits from the major training programmes that have been introduced, the capital equipment that has been installed and the plant rationalisation that has been completed.

The GIC group operates through its wholly owned subsidiary, Strip Steel, which has been around for 38 years and has three factories in the Transvaal.

Strip Steel is a leading supplier of flat-rolled steel strip to a diversity of industries, including automotive components, domestic appliances, packaging and footwear.

The controlling shareholder of GIC is UK-based B Elliott Plc, which holds 62 percent of the issued share capital.

The directors have less than four percent of the equity, which leaves more than 34 percent of the shares in the hands of the public.

In the year to March, group turnover climbed 12 percent from R68 million to R76,2 million.

An improvement in operating margins from 9,4 percent to 10,1 percent saw operating profit increase by 20 percent from R6,4 million to R7,7 million.

Interest expense

After interest expense declined five percent from R1,3 million to R1,2 million, pre-tax profit rose 26 percent from R5,1 million to R6,4 million.

A decrease in the effective tax rate from 46 percent to 42,7 percent resulted in taxed profit increasing 34 percent from R2,8 million to R3,7 million.

Mr Frye attributes the improvement in profits and profitability to better management controls, greater productivity and enhanced manufacturing performance and efficiency.

Based on a higher weighted number of shares in issue, earnings per share advanced 31 percent from 70c to 92c. The dividend for the year amounted to 50c a share, compared with a payout of 40c in financial 1989.

The balance sheet showed an improvement in financial strength.

Group borrowings grew from R1 million a year ago to R2,7 million while, at the same time, the cash balance leapt ahead from R0,5 million to R7,3 million.

Net asset value stands at about 500c a share.

Capital expenditure amounted to R3,6 million, well up on the previous year's R0,7 million. Commitments for capital expenditure in the current year amount to R0,1 million.

GIC, priced at 470c, is trading on a P/E ratio of 5,1 and provides a high dividend yield of 10,6 percent.

Brokers believe the group has attractive long-term potential and recommend accumulation of the share.

COMMENT: GIC's share price will have to rise and maintain a level above 495c before the charts confirm the start of a bull trend.

Genrec sustains its recovery with sharply higher earnings, dividend

(189) Star 16/8/90

By Magnus Heystek

Genrec, the engineering manufacturing company in the Murray and Roberts fold, continued its remarkable recovery, with earnings and dividends in the year to end-June rising sharply.

Another year of rising profits has been forecast for the current financial year.

Attributable earnings rose by 112 percent to R21,5 million (R10,13 million).

Earnings per share rose by 100 percent from 95c to 189c thanks to a slight increase in the weighted number of shares in issue.

Shareholders have also been favourably treated, with the final dividend per ordinary share rising from 25c to 40c to bring the total payout to 52,5c a share, an increase of 110 percent.

The sharp increase in profitability reflects widening of margins and tight control of costs.

Turnover for the year rose by 59 percent from R326,45 million to R519,48 million, with group operating earnings rising by 124 percent to R22,219 million.

The tax charge rose quite heavily — up from R510 000 to R2,2 million as assessed tax losses continued to fall away.

The consolidated balance sheet reflects a satisfactory financial position, with ratios of borrowing and total liabilities to group equity at two percent and 131 percent respectively.

According to the group, this is well below the internal upper-limit constraints of 50 percent and 175 percent respectively.

The company is forecasting higher profits in the current financial year, but the growth rate will slow down, the directors say.

A contributing factor will be the impact of tax, which is set to rise from the current level of around 10 percent to between 25 and 30 percent.

With further expansion planned, and several potential acquisitions identified, the directors say it is necessary to conserve cash resources.

In order to facilitate this, shareholders are being offered the option to receive bonus shares in lieu of the final dividend.

Genrec Holdings' earnings soar 99%

BDay 16/8/90 (189)

LIZ ROUSE

GENREC Holdings forged ahead during the second half of the year to June after achieving scintillating results in the first half.

Total earnings a share soared 99% to 189c from 95c in 1989.

With the declaration of a final dividend of 40c (25c), shareholders get a total payment of 52,5c, a 110% rise on 1989's only dividend of 25c.

Further improvement is forecast by Genrec directors in the preliminary report, but at a slower pace than the past year's rapid acceleration.

The group's assessed losses have been largely absorbed and the tax bill will rise.

Nevertheless, good growth is assured by the group's current order book of more than R360m, thanks to continued satisfactory export demand for tank containers and additional orders for draglines and major structural contracts.

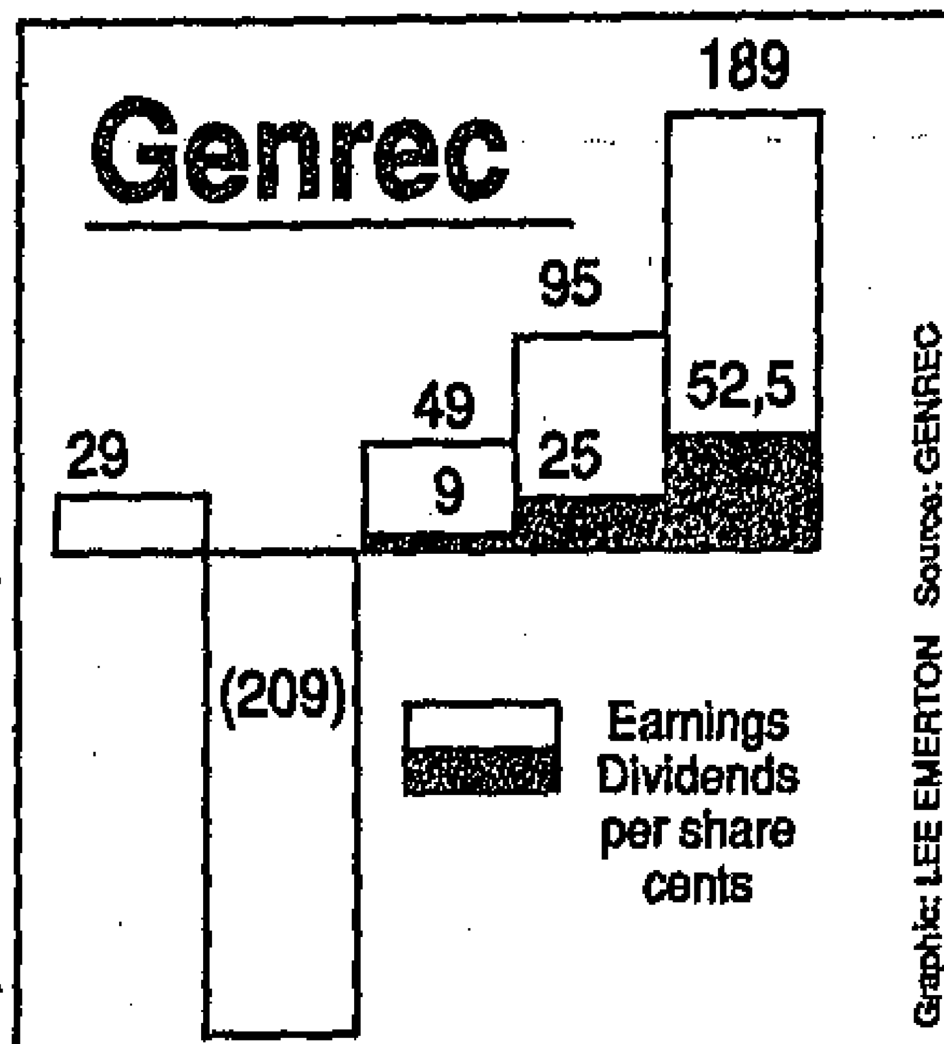
The Mossgas project contract is obviously a winner for the group.

Development

Group turnover increased 59% to nearly R519,5m (R326,45m) while operating profit shot up 124% to R22,2m (R9,9m), partly because of a sharp rise in interest received of nearly R4,56m (R1,67m).

Attributable taxed profit was up 112% to R21,5m (R10,1m).

The balance sheet is sound, with ratios of borrowings and total liabilities to group equity of 2% and 131% respectively. These are below the internal upper limit constraints of 50% and 175% respectively, say directors. However, with further expansion planned and several potential acquisitions identified, it is necessary to continue to conserve cash resources.



During the past year the group completed and commissioned a heavy manufacturing facility for Wadeville Engineering at the Dekema Road premises and started installation of a major grassroots development in the high-precision machining field, which would require an investment of about R40m.

Since the June year-end Genrec has concluded arrangements to acquire 100% of Falcon Engineering, a manufacturer of stainless steel vessels and tankage for the brewery, petro-chemical and beverage industries.

Genrec's 1989 acquisitions — Consani Engineering, Lebus Engineering and Dragline Construction — obviously contributed to the group's excellent results.

Genrec directors accurately forecast at the interim stage — when earnings were 65c a share — that earnings would be higher in the second half of the year.

TITACO *F/M 24/8/90*

Contracts fused (189)

Activities: *Operates in the engineering field and deals in management design, construction and commissioning of engineering and construction projects.*

Control: *Directors 60%.*

MD: *R P Meyjes.*

Capital structure: *6,04m ords. Market capitalisation: R3,9m.*

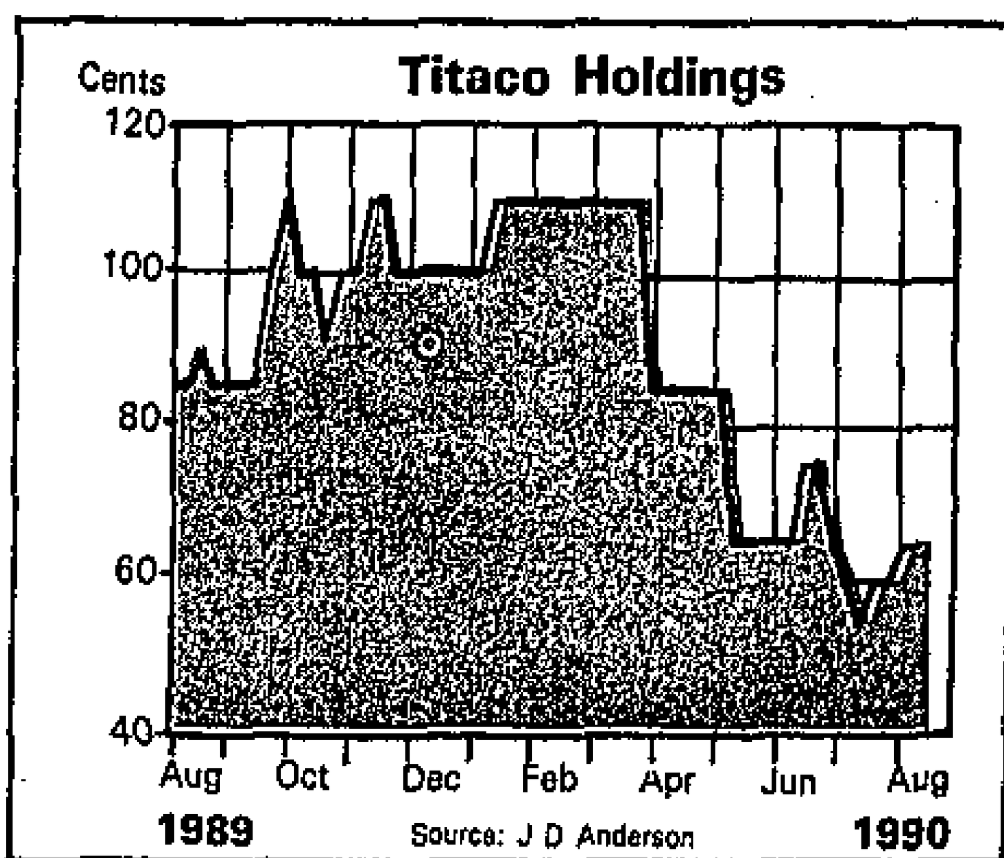
Share market: *Price: 65c. Yields: 16,3% on earnings; p:e ratio, 6,1. 12-month high, 110c; low, 55c. Trading volume last quarter, 60 600 shares.*

Year to Feb 28	'88	'89	'90
ST debt (Rm)	1,8	4,8	0,5
LT debt (Rm)	0,45	0,12	0,35
Debt:equity ratio	0,57	0,82	0,06
Shareholders' interest	0,23	0,15	0,19
Int & leasing cover	15,5	3,2	1,8
Return on cap (%)	9,3	7,5	4,7
Turnover (Rm)	45,4	53,8	88,8
Pre-int profit (Rm)	1,6	2,5	1,8
Pre-int margin (%)	3,5	4,6	2,1
Earnings (c)	15,4	20,4	10,6
Dividends (c)	5	6	—
Net worth (c)	65,1	82,1	126,5

Earnings crumbled in the 1990 year after trading margins were squeezed by a long-term contract that went sour.

This involved a R20m-R25m Eskom materials handling contract that was evidently carried out at narrow margins. Part of the problem was that subcontracting prices rose sharply after Titaco submitted its bid for the contract. Management now hopes the downturn will ease upward pressure on these prices and, thereby, improve the group's margin for the remaining period of the contract.

Financial director Basil Smidt reckons all the adverse effects of the contract are reflected in these results; the final phase is not expected to hurt future profit. Two of the three phases have been completed. The third, for completion by year-end, should benefit



F/M 24/8/90

from better efficiencies. There are said to be no technical problems. (189)

Though the Eskom contract caused the biggest headache, others also contributed to the margin slide. An electrical contracting subsidiary barely broke even.

Despite the worsening trading conditions, turnover rose 64% to nearly R89m — indicating management was chasing growth at the expense of profitability and cash flow. One favourable development was a sharp drop in borrowings. Gearing was almost nil at year-end.

A programme has been enacted to cut turnover, improve margins and reduce funding requirements. Smidt says the order book for the year is 80% full and the large contracts are of the cost reimbursable type.

With the dividend skipped, the price stands at 65c compared with the 12-month high of 110c. Investor interest is unlikely to revive until the group can show profitability has recovered. *Gerhard Slabber*

(189)

Cullinan earnings suffer drop despite sales success

BDay 30/8/90

CHARLOTTE MATHEWS

CULLINAN Holdings pushed up sales by 21% to R668m in the year to end-June from R554m in 1989, but competitive conditions and the closure of an unprofitable division knocked earnings down 24% to 135c (177,8c) a share.

The group has interests in electrical engineering, property and ceramics.

A dividend of 53c a share has been declared, the same as last year, on attributable profits of R19,1m (R24,7m) before the extraordinary item. The number of shares on which earnings a share is based has increased by 247 000.

According to the directors, the electrical division, particularly heavy power contracting and electrical cables, increased its contribution to profits, as did the property division.

But the ceramics division was hit by losses in the general engineering operation and by one-off costs incurred by the brick operation in changing over to a new plant.

In June a management buy-out took over the electronics division, now operating as Kinetic Technologies. The loss incurred by Cullinan on the division is represented by an extraordinary deduction of R6,8m from the income statement.

Interest charges came close to doubling at R19m from R10,2m in 1989. On the balance sheet, interest-bearing short-term debt rose to R50,5m (R40,1m) and long-term debt to R66,5m (R36,2m).

This was due to a recently completed capital expenditure programme.

However, the group has changed to the partial from the comprehensive method of providing for taxation, which has had the effect of reducing the tax charge to 21% from 32%.

Wage talks nearing end

TALKS to end the grinding dispute in the engineering and metal industries continued late yesterday with the parties locked in discussion on resolving "technical points", a spokesman for the National Union of Metalworkers of SA said.

Any outstanding matters would be dealt with on Monday, he added.

Mr Hendrick van den Heever, spokesman for the Steel and Engineering Industries Federation of SA, said there were hitches, but the meeting was still in progress.

National talks determining the wages and conditions of service in the sector began in March, and a national strike was averted in mid-August. — Sapa

Engineering industry strike averted

By Brendan Templeton

The five-month threat of strike action involving about 400 000 workers in the engineering industry ended yesterday when the National Union of Metalworkers of SA reached agreement with employers on wage demands.

But strikes involving 3 000 members at companies not covered by the agreement with the Steel and Engineering Industries Federation of SA (Seifsa) started yesterday and strike ballots involving 10 600 members will be held at three Iscor plants today.

The agreement leaves the Metal and Electrical Workers Union as the only union still in dispute with Seifsa.

SA metal workers win wage dispute

CIT TIMES 4/9/90

JOHANNESBURG — A number of major breakthroughs, including the highest wage agreement yet attained, were achieved in the settlement of the five-month wage dispute in the iron, steel and engineering industry, the National Union of Metal Workers of SA (Numsa) said at a press conference yesterday.

The agreement, reached in last-minute talks following Numsa's strike ballot, will affect more than 400 000 workers in the industry.

Wage increases announced are 19% at the lowest rates and 15,5% at the highest rates, with a new minimum rate of R4,18 an hour.

The increases will be backdated to July 1.

Another breakthrough — described as significant by Numsa — is the reduction of the working week to 44 hours. Leave bonuses have been increased and June 16 will be regarded as a public holiday.

Numsa added that major gains were made in job security and employers were now required to give notice of retrenchments, redundancies and plant closure or transfer. — Sapa

स्टार 4/9/90

Engineering industry strike averted

By Brendan Templeton

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METAL INDUSTRY

GENEROUS OFFER (189)

FM 7/9/90

Annual wage talks in the metal and engineering industries — lasting more than five months — ended in agreement this week. Thirteen unions and the Steel & Engineering Industries Federation (Seifsa) signed the industry's 1990-1991 agreement.

The Nactu-affiliated Metal & Electrical Workers' Union (Mewusa), representing some 30 000 workers, was the only union not to accept settlement and is still in dispute. But the union represents only 8% of workers in the industry and the dispute is not expected to jeopardise the agreement.

Talks on wages and conditions of service for 380 000 workers in the industry began in March. Both the National Union of Metalworkers (Numsa) and Mewusa declared a deadlock in negotiations two months ago, but other unions — including those affiliated to the Confederation of Metal & Building Unions and the Nactu-affiliated Steel, Engineering & Allied Workers Union — accepted the employers' final offer.

Numsa, the largest union in the industry, recently called off a proposed industry-wide strike. It said that though members were not satisfied with offers ranging from 19% on the lowest grades to 15,5% on the highest, they had decided to settle "because it was felt that a major industry strike at this time could spark widespread violence."

The union said "major breakthroughs" in the agreement include the reduction of the working week from 45 hours to 44; the increase in the leave bonus; a drastic increase

FM 7/9/90 (189)

in living-out allowances for workers on site; June 16 to be regarded as a public holiday; and annual pap smear tests for women workers.

Other terms of settlement are:

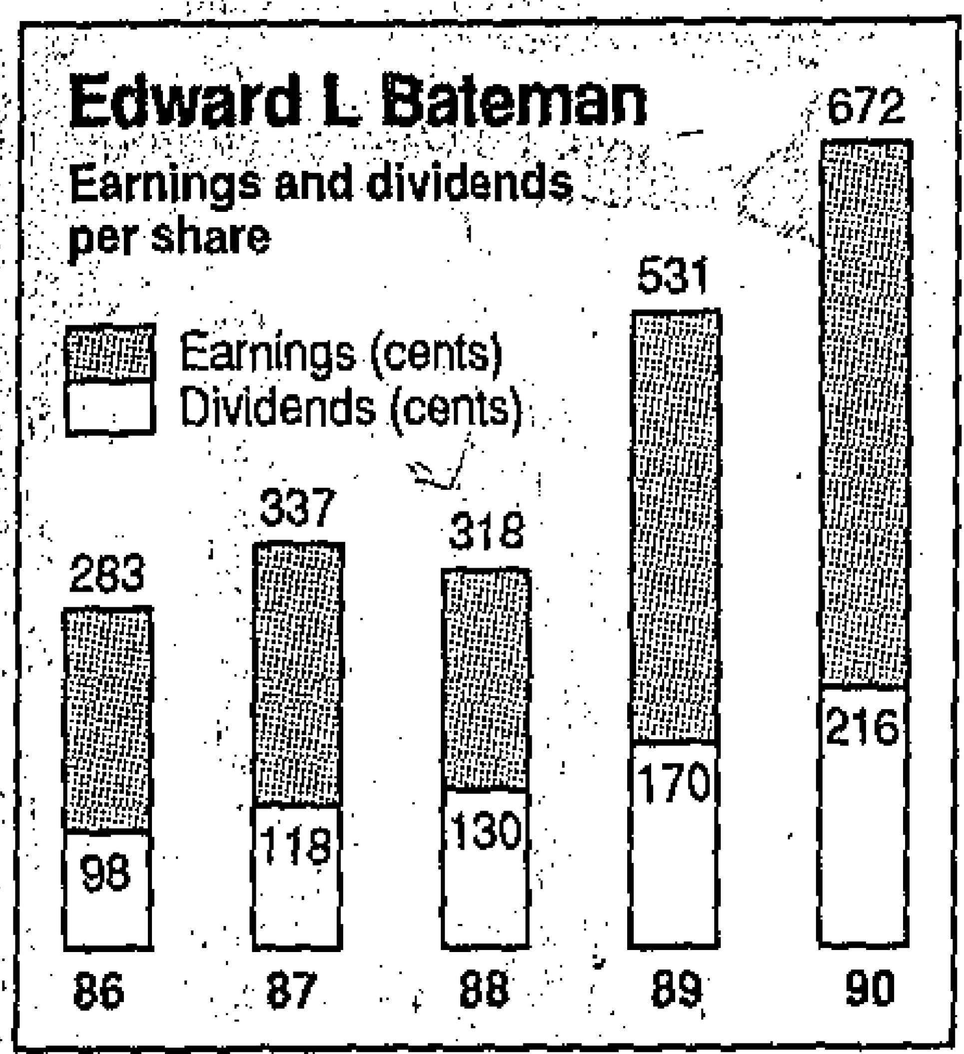
☐ The requirement that employers give notice of retrenchments, redundancies and plant closure or transfer, and "consult in good faith with a view to reaching agreement on reasons for retrenchment or redundancy;"

☐ A Seifsa undertaking to negotiate guidelines for non-discriminatory recruitment, selection and testing procedures for training. Seifsa will also ask members to withdraw support from training or education institutions that retain discriminatory practices;

☐ The formation of a committee to explore ways of increasing permanent employment opportunities in the industry; and

☐ The removal of the last obstacles to the formation of an industry provident fund.

Reviewing this year's negotiations, Seifsa said they had been "extremely difficult and protracted." In view of "a very generous employer offer," a strike would have lent weight to the arguments of employers opposed to the industrial council system. ■



Graphic: FIONA KRISCH Source: E L BATEMAN & JSE

E L Bateman lifts earnings a share

CHARLOTTE MATHEWS (189)

ENGINEERING group E L Bateman (ELB) has improved its earnings by 27% to 672c (531c) a share for the year to June after the introduction of a management incentive scheme in January 1989.

A total dividend of 216c (170c) a share has been declared.

ELB directors said the climb in operating income by nearly 60% to R29m (R18,3m) was attributable to good performances from Bateman Project Holdings (Batepro) and Bateman Industrial Holdings. BfDay 18/9/90

Attributable income rose by 30% to R18,3m (R14m) after a higher tax charge of 19% (5%), and a doubling of the payment on outside shareholders' interest and preference dividends to R3m (R1,4m).

☐ To Page 2

E L Bateman BDay 18/9/90

(189) ☐ From Page 1

Last year senior executives were offered 1,5-million convertible preference shares which only earn a dividend if there is a growth in the dividend payable to ordinary shareholders.

Chairman Bill Bateman said this incentive scheme was already generating added benefits for all shareholders.

The 30% drop in the turnover figure to R588,9m (R844m) did not correlate to operating profits because the phasing of invoicing and profits was different.

"The notional content of turnover as well as the turnover of some foreign operations reduced substantially, but the activity level of the major businesses was increased," the directors said.

"Order books are higher than a year ago in most areas. The outlook for 1991 is good and a real increase in earnings and dividends is again anticipated."

Executive chairman Peter Brereton said a reliable contribution towards profit growth could be expected from Bateman Industrial.

The Star Finance

(189) Star 18/9/90

Bateman's order books at higher level than a year ago

By Jabulani Sikhakhane

Engineering group, E L Bateman has shrugged off a sharp increase in the tax rate and interest charges to post a 27 percent increase in earnings per share for the year ending June.

The perfomance in the second six months of the financial year is in line with the 28 percent earnings growth achieved in the first half. Directors say the outlook for 1991 is good and real growth in earnings and dividends is anticipated for the year.

On earnings of 672c per share, the group has declared a final dividend of 159c to make a total of 216c. The dividend is covered 3,1 times.

During the review period turnover dropped 30,2 percent to R588 978 million (R844 143 million), but income before interest paid rose 58,9 percent to R29 122 million.

Directors say "the notional content of turnover as well as turnover of some foreign operations reduced substantially, but the activity level of major businesses was increased and order books are at higher level than a year ago."

Pre-tax profits rose 60,6 percent to R26 274 million (R16 363 million), shrugging off a 44,9 percent hike in interest paid to R2 848 million.

Tax was up from 5 percent in financial 1989 to 19 percent and as a resultafter tax income rose only 37,1 percent to R21 331 million.

Outside shareholders interest shot up 112,7 percent to R3 024 million as a result of a restructuring scheme which involved senior management investing more than R100 000 in convertible redeemable participating non-cumulative preference shares. As a result attributable earnings only rose 29,5 percent to R18 307 million (R14 132 million).

Chairman Bill Bateman.

Chairman Bill Bateman says: "The reduction in growth from 59 percent at operating level to 27 percent in earnings per share must be seen in relation to our innovative restructuring programme last year.

"We said that we believed that the added motivation given to senior management through their profit participation would generate added benefits to all shareholders and that is already becoming apparent."

The two major subsidiaries Bateman Industrial — a supplier of engineering products and services — and Batepro (engineering and project management division) were major contributors to the good perfomance.

Batepro executive chairman John Herselman says Batepro has an ongoing involvement in major contracts for the Mossel Bay project including the largest lump sum project in the in the group's history to supply and construction of reformers for the refinery.

Discussing Bateman's industrial outlook, executive chairman Peter Brereton says the group's product spread and balance between supplying new capital equipment and the replacement market should continue providing a reliable contribution to profit growth.

At the current share price of R36,75, Bateman yields 18,3 percent on the review earnings and 5,9 percent on the new dividend, compared with the averages of 13,7 percent and 5,1 percent for the engineering sector.

COPYRIGHT LAW (189)

PROTECTION RESTORED

FM 21/9/90

Government is preparing to tighten legislation to make it more difficult for companies to manufacture unauthorised copies of competitors' industrial machinery and spares.

A draft Bill published in the *Government Gazette* proposes that the Designs Act be revised to provide functional designs, such as those used in mechanical or industrial machinery, with legal protection similar to that now given to aesthetic designs which govern only the appearance of products.

This move by government comes only two years after controversial amendments to the Copyright Act removed much of the legal protection previously provided for the designs of industrial and mechanical equipment. The amendments, seen as a bid to counter sanctions, were strongly criticised by many sectors of industry.

The publication of the draft Bill has been welcomed by copyright and design attorney Owen Dean. "Government appears to be giving back, in a different and a milder form, some of the protection it had previously taken away."

According to Dean, the amendments to the Copyright Act opened the way for manufacturers to copy other companies' products without consent.

If the draft legislation is passed by parliament, companies in the motor and mining industries, especially, will once again be able to protect the functional designs of their products. These designs will, however, have to be registered.

Nico Vermeulen, director of the National Association of Automobile Manufacturers of SA, supports the proposed legislation. He says some manufacturers, particularly producers of automobile spares and body panels, have suffered as a result of the 1988 Copyright Act amendments.

Michael McDonald, chief economist for the Steel & Engineering Industries Federation of SA, says that if the proposed changes to the Designs Act plug the loopholes caused by the amendments to the Copyright Act, his organisation will support them.

The draft Bill, which was published for comment last month, proposes that function-

BUSINESS & TECHNOLOGY

FM 21/9/90 (189)

al designs can be registered at any time within 10 years after they are put in use.

However, companies using other organisations' designs before they have been registered will not be liable for compensation. It is proposed that the registration of functional designs can be renewed after 10 years. ■

Expansion costs weigh on Bearing Man

BD 24/9/90 (189)

PETER GALLI

EXPANSION costs weighed heavily on engineering group Bearing Man in the six months to end-August, causing a 3% drop in net income to R3,01m (R3,11m).

Although turnover increased 16% to R47,6m (R41,1m), operating profit rose 18% to R19,2m and turnover increased 16% to R47,6m (R41,1m), financing charges shot ahead to R3,3m, causing earnings to fall 3c a share to 62c (59c).

Despite this, an unchanged interim dividend of 15c was declared.

Chairman Reg Sherrell attributed the increase in finance costs to additional borrowings needed to finance the opening of two new branches, higher interst rates, the general increase in working capital requirements and the capital cost of implementing a new computer system.

The groups total debt to equity ratio had more than doubled to 18% (8%), with management committed to improving this through asset management and profit retentions, Sherrell said on Friday.

Sherrell said the group was pleased with the results as they had been achieved during a period of economic downturn and reflected management's success in increasing the group's distribution network and services offered. However, no further expansions were envisaged for the second half of the year.

"The economic climate and socio-politic uncertainties make forecasting difficult, but earnings for the full year are not expected to exceed those of last year," Sherrell said.

Berzack Brothers reports impressive year-end results

BDay 1/10/90

(189)

ACHMED KARIEM

LISTED engineering concern Berzack Brothers Holdings has reported an impressive 44,4% rise in earnings a share to 166,4c (115,2c) for the year to end-June.

Earnings have been adjusted for the increased number of shares in issue.

A dividend of 52c (31,5c) a share was declared, covered 3,2 times.

Attributable profits before extraordinary items went up to R44,2m (R30,6m), on a turnover figure which is not comparable because of the non-consolidation of the cable and plastic businesses.

Extraordinary items, comprising profit on the sale of fixed assets and trade marks, and less goodwill written off, added R186,4m to the profits below the line for Berzack and R93,6m for pyramid company Berzack-Illman Investment Corporation (Bivec).

Bivec, with a 50,3% controlling stake in Berzack, increased earnings by 44,9% to 117,1c (80,8c), similarly adjusted, to pay a 3,2 times covered distribution of 37c (22c).

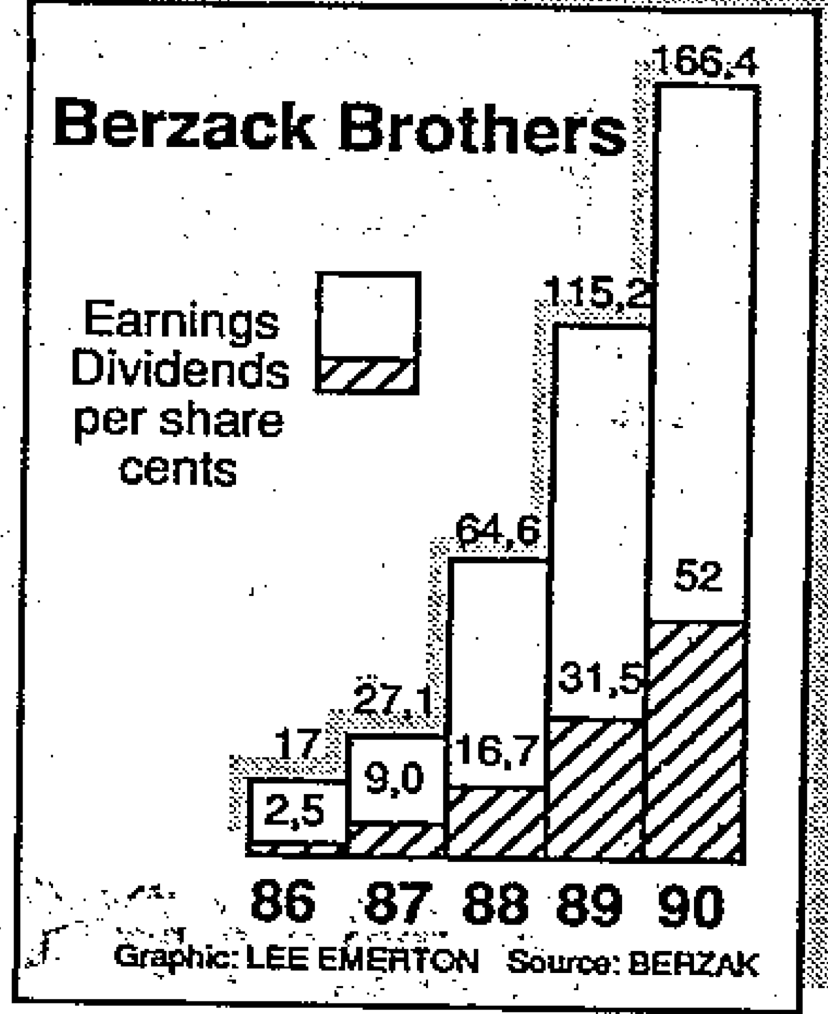
Joint MD Myron Berzack said the preliminary results were "most satisfying in the prevailing political and economic climate and the competitive market and trading conditions".

The Berzack group merged its cable and plastic manufacturing businesses with the electric and electronic supply operations of the Elcentre Group during the year, and reversed them into the renamed Voltex Group.

Berzack said the deal, which gave Berzack a 40% stake in Voltex, positioned the holding in Voltex as the primary contributor to the Berzack Group, which had retained its direct interests in sewing machine, labelling equipment and clothing accessory businesses.

"These changes have materially changed the accounts structure so that none of the trading figures, such as turnover or operating profit, are comparable with previous years," he said.

However, the contribution of Voltex results, which were reported last week and which exceeded forecasts, was equity-accounted by Berzack so that attributable earnings and distribution were comparable.



More retrenchments expected in civil engineering industry

By Frank Jeans

The civil engineering industry, which appeared to be moving into more stable market conditions, has suddenly been hit by a renewed decline in the volume of construction work.

In an overview of the industry, the South African Federation of Civil Engineering Contractors expects the tempo of civil work for the rest of this year and during 1991 to drop off at a gradual, moderate rate.

"Employment in the industry will also decrease and more retrenchments will occur," says Safcec's executive director, Mr Kees Lagaay.

"Tendering for the reduced amount of work will be highly competitive and contractors' profitability, which had shown an improvement over the past two years, will be down again

On the plus side, the imminent award of the Katse dam contract — conservatively estimated at about R1 billion — and the three tunnel contracts for the Lesotho Highlands Water Scheme which will involve South African contractors, will create a large amount of work over a number of years from 1991.

"According to a recent Treasury directive, capital expenditure by public authorities will be further curtailed in next year's Budget," says Mr Lagaay.

The Safcec director sees advantages for the industry in the Government's continued emphasis on better housing for the lower income groups and the concomitant improvement of township roads and services.

"The R2 billion Independent Trust Fund established by the Government and the forthcoming Joint Services Boards in Natal can only improve the prospects for this type of work, provided land allocation and red tape problems, as well as township unrest, can be resolved expeditiously," he says.

Valard buys local pump specialist

NEIL YORKE SMITH

VALARD — which specialises in the acquisition and turnaround of troubled engineering companies — yesterday announced the purchase of Johannesburg pump specialist Mather & Platt (SA) from Australian company Wormald for an undisclosed sum. BDay 3/10/90

"We approached Wormald after we heard it was selling certain interests around the world and they confirmed their intersts in selling Mather & Platt (SA)," Valard chairman David Makins said yesterday.

The company had an excellent reputation, good products and was well positioned to grow in the SA market, he said. It supplied pumps to private, public and parastatal organisations. (189)

Valard already has interests in the pump industry through its investments in Benmacor, Hypower Pumps, and pump repair specialists GP Services.

Mather & Platt, which will move its operations to Valard's Spartan site, will become the major vehicle in the group's pump division.

The move follows Valard's acquisition in June of loss-making engineering company Landlock.

For the year to end-March, Valard boosted attributable earnings by 46% to R7,5m (R5,2m) on turnover of R106,6m (R78,8m.)

Valard returns Landlock to profitability

NEIL YORKE SMITH

VALARD, specialists in buying and turning around troubled engineering companies, needed just three months to return recently acquired automotive component and industrial product manufacturer Landlock to profitability.

"We are delighted with the latest figures which show that Landlock — which was losing money three months ago — has returned to the black," Valard chairman David Makins said in an interview yesterday.

"This was achieved by improving management focus, cutting product lines, better pricing and rationalising where possible."

The turnaround was achieved under the old management, Makins said. "Management has done its job well and, having ironed out the problems, is aiming for solid growth."

Landlock, Valard's biggest acquisition to date, was acquired when it bought UK-based multinational BBA Holding's 58,4% stake in Landlock for R11,9m cash. A similar offer was extended to minorities.

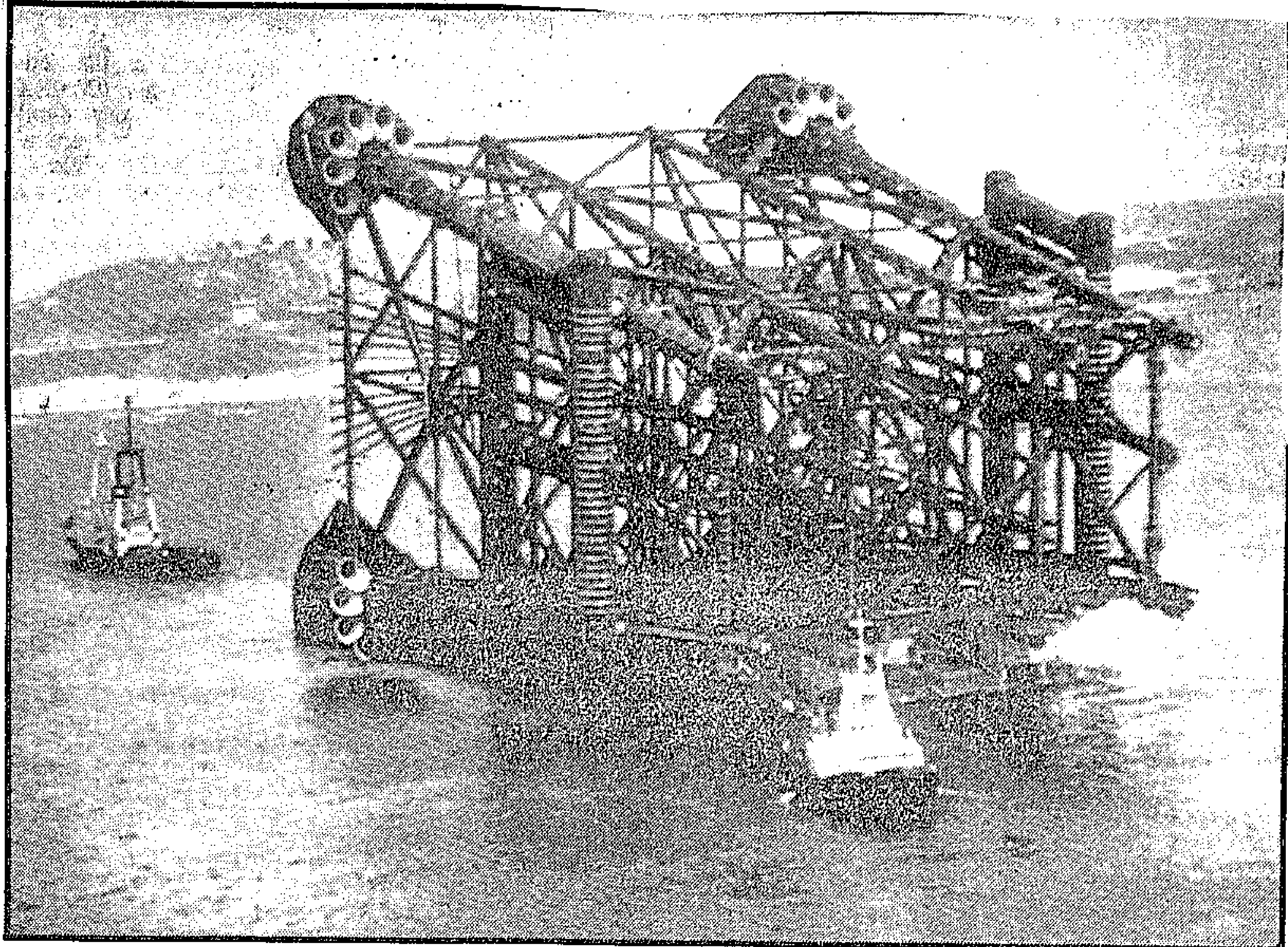
Valard yesterday announced the acquisition of pump specialist Mather & Platt for an undisclosed sum. Makins said Valard was not seeking further acquisitions in the short term.

Makins was optimistic about Valard's performance in the current financial year. He said he expected Valard to at least maintain last year's earnings.

Over the last eight years Valard has built a reputation for acquiring essentially good but poorly managed companies.

Valard shares traded at about 105c on the JSE yesterday.

EXECUTIVE SUIT



THAR SHE GOES . . . the R280-million Mossgas jacket is launched off the coast of Mossel Bay this week

Genrec hopeful of even more jackets

S Times 21/10/90 (189)

By IAN SMITH

THERE'S still a lot of life in Murray & Roberts' 65%-held engineering group Genrec after the completion of the R280-million jacket for the Mossgas oil-from-gas project.

The 14 600-ton jacket — one of the biggest engineering projects ever undertaken in SA — is being submerged into position on the seabed 85km south of Mossel Bay this weekend.

But the completion does not necessarily mean the end of the road for Genrec Offshore, the joint venture company set up specially to build the jacket.

Genrec chief executive Ian Colepeper says the group is already trying to pre-qualify for the construction of two more offshore jackets, one in the US and the other for Argentina.

Triumph

"Once we have passed the pre-qualifying hurdle we have to get onto the bid list. But if we can clinch another offshore project we are into big money and we can keep together one of the finest engineering teams I have ever worked with," he said.

First prize will be to keep Genrec Offshore, 80% held by Genrec and 20% owned by the UK's RL Stevenson, as a going concern.

The Mossgas jacket was a triumph for the company. Sceptics said SA did not have the capability to build the structure — but with the help of foreign technology from the UK partner, it was completed ahead of schedule and on budget.

"This was the job of the decade and it went off very well," says Mr Colepeper. "But it has had its downside. It overshadowed the other contracts we were working on and everyone believes we will now be short of work."

In fact, the jacket never represented more than 15% of the work the group had on its hands, says Mr Colepeper.

"Its contribution to the group has flowed in over three years, and with four of our companies working on different sections of the jacket it's practically impossible to separate the earnings on the project."

Genrec started the new financial year on July 1 with orders of R360-million in the bag. During the month, new contracts worth R85-million came in.

"Prospects for the current year are looking good, but we don't know what the following year holds."

Last year Genrec more than doubled attributable earnings to R21,5-million.

The R1,4-billion Columbus stainless steel plant, a joint venture between SA's Highveld Steel and Samancor and a Taiwanese group, had offered big engineering contracts.

If Genrec is successful in offshore bids, work could start in a year and would run for about four years. Mr Colepeper says the team which controlled the Saldanha Bay construction could be quickly pulled together.

Weather

The Mossgas jacket was launched from the super-barge which had carried it from Saldanha Bay to the gas field site without mishap. "The weather was not perfect — it was raining and there was a heavy swell — but there were no hitches," said a Mossgas spokesman.

Buoyancy tanks attached to the legs of the jacket will be cut away in the water and sections will be progressively flooded to allow the structure's legs to be accurately positioned 105m below the surface.

Twenty-four massive piles, 145m long and 2,2m in diameter, will anchor it.

Modules built in Cape Town, Port Elizabeth and Durban will be lifted into place on top of the 126m-high jacket by the biggest floating crane in the world.

EDWARD L BATEMAN

TAX EROSION

Activities: *Process and project engineer and supplier of capital plant and consumable items.*
Control: *Directors 48%.*
Chairman: *W G L Bateman; joint MDs: H P N Brereton and J Herselman.*
Capital structure: *2,7m ords. Market capitalisation: R109,3m.*
Share market: *Price: R40. Yields: 5,4% on dividend; 16,8% on earnings; p:e ratio, 6,0; cover, 3,1. 12-month high, R40; low, R24. Trading volume last quarter, 20 100 shares.*

Year to June 30	'87	'88	'89	'90
ST debt (Rm)	3,1	4,5	11,4	12,0
LT debt (Rm)	6,5	4,6	2,5	0,8
Debt:equity ratio	0,16	0,14	—	—
Shareholders' interest	0,28	0,24	0,27	0,28
Int & leasing cover	5,8	5,8	8,5	9,3
Return on cap (%)	5,5	4,9	6,3	8,5
Turnover (Rm)	375	736	844	589
Pre-int profit (Rm)	11,6	12,7	18,3	29,1
Earnings (c)	337	318	531	672
Dividends (c)	118	130	170	216
Net worth (c)	2 121	2 339	2 679	2 960

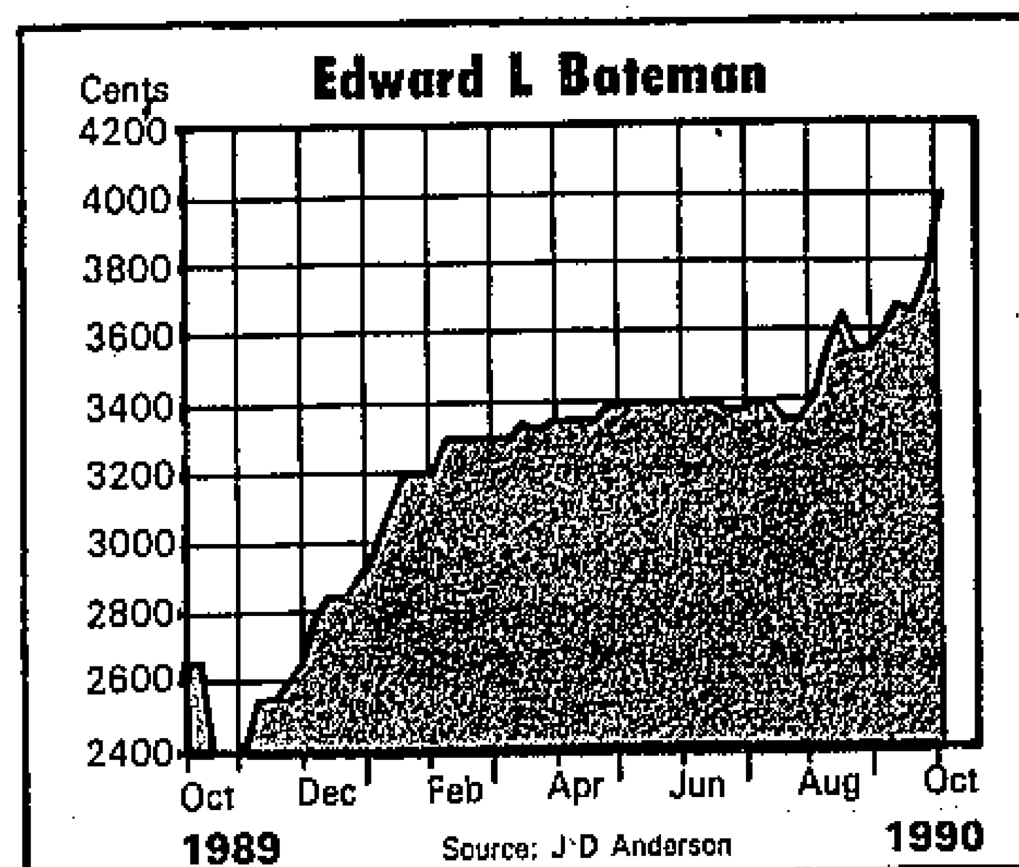
The two operating divisions, Bateman Industrial Holdings (BIH) and Bateman Project Holdings (BPH), both contributed to earnings as did interest on the substantial cash balances. But a higher tax rate prevented earnings growth from matching 1989's.

Pre-tax profit of R26,3m was up 61%. Operations spread across a wide range of industries, which seems to offer protection against economic cycles. BPH's engineering, contracting and project management operations hiked their profit 71%, to R9,2m. BIH, the equipment supply arm, was a little less impressive, but still raised its contribution 57% to R9,6m.

The remaining R7,5m pre-tax profit presumably relates to interest earned (not disclosed) on cash balances — which rose from R81,5m in fiscal 1989 to R108m — and profits from "other assets and interests."

Though these comprise almost a quarter of turnover and a third of taxed profits, no details are given. Chairman Bill Bateman says property holdings form the bulk. There are some small offshore operations — one of which returned a loss because of "reduced activity following a lower gold price." Bateman says this operation has since been reduced in size but limited contracting engineering activities to 38% of total profit compared to equipment supply's 62%.

The tax rate is helped by foreign income and export incentives, but increased to 18,8% (4,9%). The higher tax rate and doubling of



outside shareholders' interests trimmed the benefits of a strong operating performance. This year, the change in export incentives is expected to push the tax rate higher still.

BPH chairman John Herselman says his division has a healthy order book and expects "continued real growth in earnings." Two new operations have been set up to recycle industrial and municipal waste and increasing emphasis is being placed on expanding international business. Continued activity on the Mossgas project will also bring benefits.

Mining — BIH's traditional market — is depressed, but chairman Peter Brereton is also confident of real earnings growth. The combination of supplying capital equipment and providing the after-market with spares and service protects this division.

It's still intended to list the two divisions separately but Bateman says it's unlikely in financial 1991. He explains that the large cash pile mainly relates to timing differences of current projects and is thus not available for long-term investment. BPH is investigating a number of acquisitions but they are not likely to be significant in cash terms.

The share price has firmed against the market trend and is at a fairly demanding high of R40, with a six-times earnings multiple and 5,4% dividend yield. *Pam Baskind*

KNJ GROUP (189)

STILL FIGHTING FIRES

Activities: *Industrial holding company with main interests in engineering, civil engineering and related fields.*
Control: *Directors 71,5%.*
Chairman: *K N Jenkins.*
Capital structure: *71,3m ords. Market capitalisation: R35,6m.*
Share market: *Price: 50c. Yields: 12,0% on dividend; 41,6% on earnings; p:e ratio, 2,4; cover, 3,5. 12-month high, 125c; low, 46c. Trading volume last quarter, 648 000 shares.*

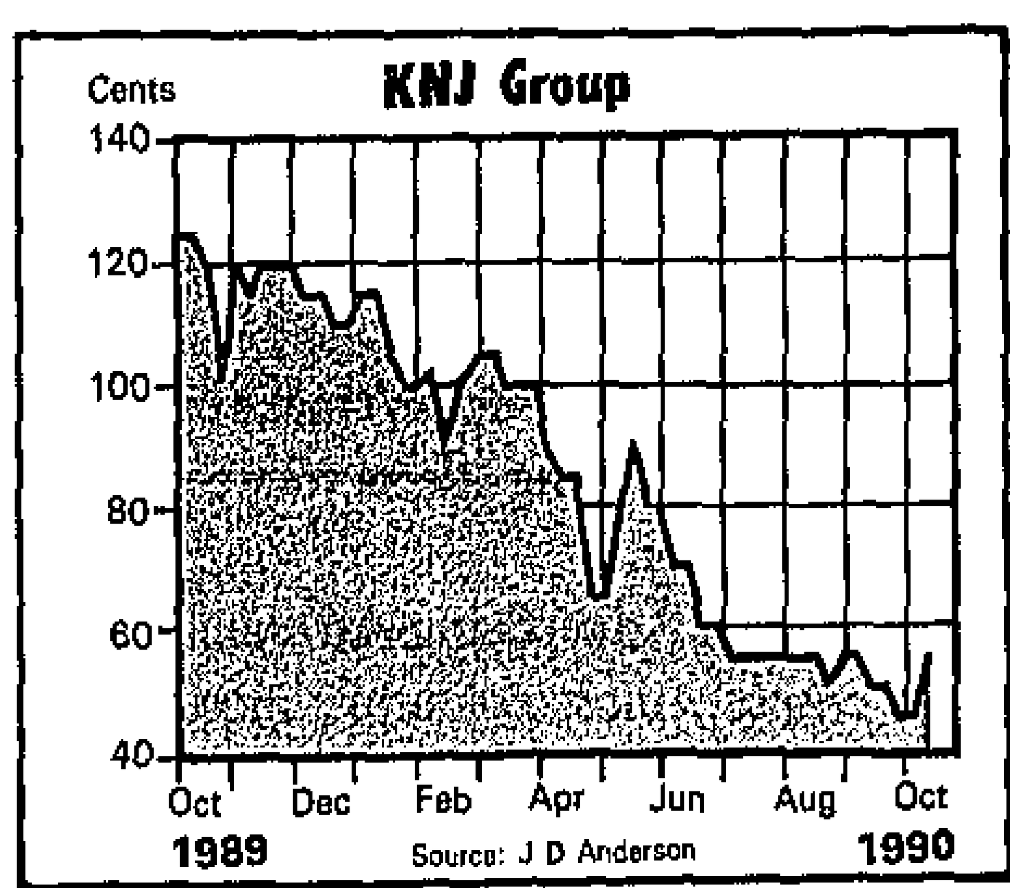
Year to June	'89	'90
ST debt (Rm)	33,1	31,1
LT debt (Rm)	10,3	3,2
Debt:equity ratio	0,57	0,37
Shareholders' interest	0,47	0,55
Int & leasing cover	6,0	3,7
Return on capital (%)	14,1	11,9
Turnover (Rm)	338,4	333,9
Pre-int profit (Rm)	33,7	29,5
Pre-int margin (%)	9,9	8,3
Earnings (c)	37,2	20,8
Dividends (c)	8	6
Net worth (c)	157	188

A 73% discount to net worth, 12% dividend yield and 2,4 times p:e ratio say all that needs to be said about the JSE's view of KNJ and its prospects. Whether this rating is altogether fair, however, is another matter.

The annual report presents a mixed picture. On the one hand, it is obvious that a lot of time and effort has been spent on rationalising and tidying up operations and the benefits are reflected in a significantly stronger balance sheet. But, on the other, only three of the eight main operating subsidiaries are said to have performed satisfactorily and, what is more to the point, the unsatisfactory results of the rest contributed to a marked deterioration in overall profitability.

A number of operations and investments considered not to fit in with the main fields of endeavour were sold. A resulting cash inflow enabled net borrowings to be cut materially from R63,4m at the end of financial 1989 to under R51m. The gearing ratio, consequently, dropped to a modest 0,37 from 0,57.

These sales were no doubt the main reason for the small drop in turnover (in rand terms). More serious, however, operating margins crumbled and this set the scene for an across-the-board decline in profit ratios. Measured on total assets, profitability declined from 14,1% to 11,9%.



Even excluding cost-free funds, the pre-interest return was still only 15% (1989: 18,5%). A pre-tax return on total shareholders' funds of 13,3% (20,4%) indicates a degree of negative profit gearing from loan capital — not a happy situation when interest rates look set to stay in high territory.

Further down, returns were hammered by the fact that some subsidiaries became liable for tax, having absorbed previous assessed losses. The overall tax rate of 23% (2,5%) will obviously continue to rise, but even at the present level depressed taxed return on shareholders' funds to 10,1% — little more than half the previous 19,9%.

The bottom line was cushioned by R25m cheap (5%) redeemable prefs. Even this is a mixed blessing, as the prefs are due to be redeemed in May — if they are replaced with debt at market-related rates, there will be a negative effect on profits beyond 1991.

Another area of concern is the working capital requirement. Calculated net (stock plus debtors, less creditors), this amounted to 43% of turnover, up from 38%. While this is probably consistent with the nature of business, having to provide 43c in working capital for every R1 in sales is an enormous strain on cash flow. This, in turn, will make it difficult to keep borrowings down, clearly desirable while profitability remains depressed and probably also means that dividend policy will have to stay restrictive. Last year's additional working capital requirement absorbed 75% of operational cash flow, despite the marginal fall in turnover.

To summarise — and to get back to the original question of the validity of the market rating — one gets the impression that management is still having to spend too much time fire-fighting, leaving too little time actually to run the business for optimal profits. Present returns indicate considerable scope for improved earnings, but this will be difficult in the present business climate. So investors are probably right in taking a gloomy view of short-term prospects, but those with slightly longer time horizons may find the wait worthwhile. *Brian Thompson*

KNJ's Jenkins ... *the need to restore operating margins*

GENREC FM 26/10/90 (189)

HEALTHY ORDER BOOK

After a comprehensive balance sheet restructuring some two years ago, this engineering group boosted surplus cash from R15m to

Activities: *Construction, manufacturing and engineering.*
Control: *Murray & Roberts 82,1%.*
Chairman: *D C Brink; CEO: I G Colepeper.*
Capital structure: *11,8m ords. Market capitalisation: R49,5m.*
Share market: *Price: 470c. Yields: 11,2% on dividend; 40,2% on earnings; p:e ratio, 2,5; cover, 3,6. 12-month high, 540c; low, 310c. Trading volume last quarter, 23 300 shares.*

Year to June 30	†'87	*'88	'89	'90
ST debt (Rm)	10,9	1,1	1,8	1,2
LT debt (Rm)	12,3	2,5	1,4	0,6
Debt:equity ratio	2,3	0,1	—	—
Shareholders' interest	0,15	0,40	0,37	0,43
Int & leasing cover	—	2,4	9,5	—
Return on cap (%)	—	5,6	8,3	14,3
Turnover (Rm)	182	357	326	519
Pre-int profit (Rm)	(7,3)	5,6	8,2	17,7
Pre-int margin (%)	—	1,6	2,5	3,4
Earnings (c)	(207)	49	95,1	188,5
Dividends (c)	—	9	25	52,5
Net worth (c)	203	286	335	453

† Year to February 28.
* Sixteen months to June 30.

R35m in the year to June. It will all be spent this year and the balance sheet geared up to finance the R43m aluminium cylinder head machining facility in Port Elizabeth.

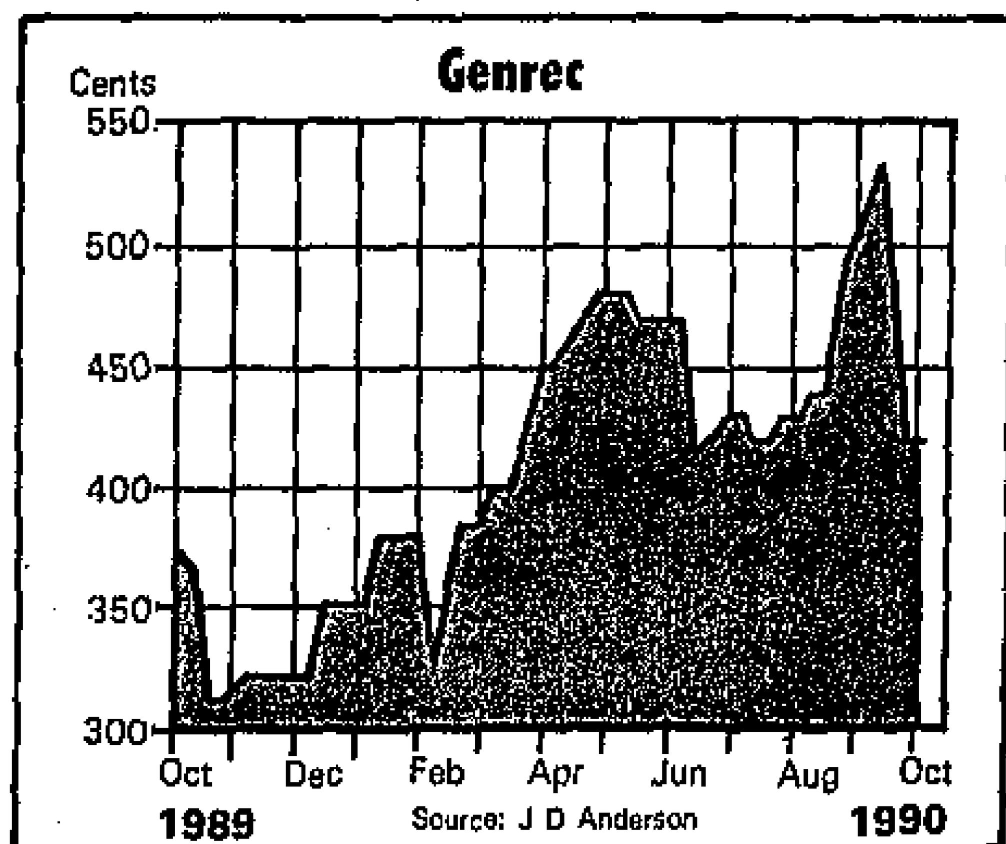
Since June 30 Genrec has used some cash to acquire the business of Falcon Engineering, a manufacturer of stainless steel vessels and tankage for the brewery, petrochemical, dairy and beverage industries.

Genrec CEO Ian Colepeper is not yet sure how much the balance sheet will be geared and whether the Port Elizabeth machining project will be financed by short- or long-term finance. The main reason is that capital equipment imported from Germany qualifies for export credits, whose extent is not yet known.

The project was initially aimed at import substitution, but medium term the focus will shift to exports, says Colepeper. Cylinder heads from holding company Murray & Roberts' aluminium casting facility in Port Elizabeth will be used. The project will contribute to profits from the 1993 year.

With the jacket for the Mosref project completed, the R15m hook-up phase is left for Genrec to complete, much of it this year, which started with R360m forward orders. In the first month orders for another R85m were secured. This brought the order book to 85% of last year's R519m turnover. Genrec should thus attain real growth this year.

Colepeper expects all companies in the



coastal division to maintain satisfactory earnings, but some of the inland division's companies may experience difficulties. Genrec Construction is expected to return to profitability, and work on De Beers' Venetia Diamond Mine project could boost earnings. Lebus Engineering's performance will depend on capital spending by mining houses.

Though the group has recovered strongly from the losses of the mid-Eighties and is forecasting real dividend growth, the market still takes a dim view, as indicated by the 2,2 earnings multiple, one of the ratings in the engineering sector. *Gerhard Slabber*

Fenner's net income up 26%

MANDY JEAN WOODS

ENGINEERING Group Fenner has increased its net attributable income by 26% to R9,1m (R7,2m) and raised its total dividend by 21% a share to 20c (16,5c), results for the year to end-August show.

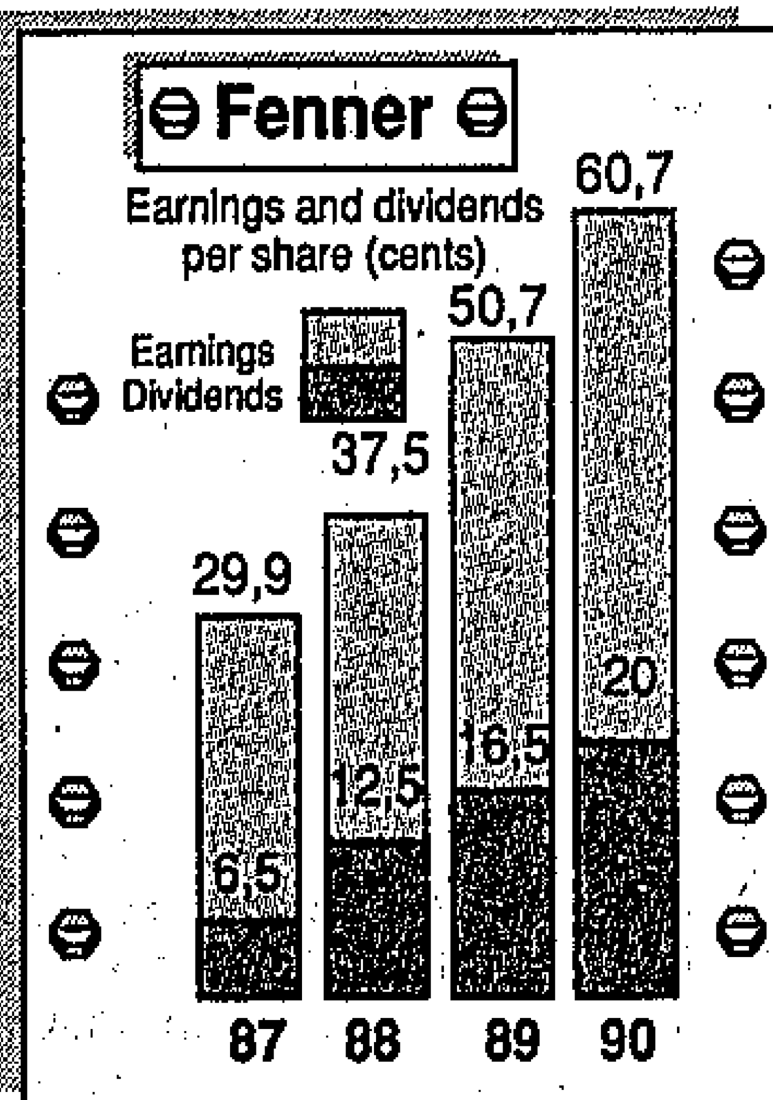
A final dividend of 13,5c was declared.

Fenner SA MD Tony Clegg said he felt the results were "very good", given the current economic conditions. Turnover growth was limited. It rose 19% to R209,28m (R175,9m), but gains were made at the operating and after-tax levels.

While some of Fenner's companies were experiencing a slowdown, others were doing well.

"One company in our group has a full order book for the next year," Clegg said.

In spite of deteriorating conditions, the directors again forecast an improvement in earnings for the next year.



Graphic: LEE EMERTON Source: FENNER

Earnings a share rose 20% to 60,7c (50,7c) while net operating profit grew 22% from R20,237m to R24,714m. At interim stage this growth was 13% and 18% respectively. After-tax income rose 22% to R10,95m (R8,9m).

A buildup in stocks ahead of an expected national engineering strike, which failed to materialise, saw borrowings rise and finance charges increase by 34%.

Chairman Rob Arthur said KSB Pumps, in which Fenner had a 50% interest, and Control Specialists, a wholly owned subsidiary, had started the new year with good order books. Provided business levels did not deteriorate further, the group expected to improve on this year's performance.

Other wholly owned subsidiaries in Fenner SA are site servicing company Furmanite, foundry company Trek, and Trellex, which produces rubber products.

B Day 26/10/90

COMPANIES

GIC's hopes for continued profit growth take a beating

LIZ ROUSE

THE hopes of engineering group Goldfields Industrial Corporation (GIC) for continued profit growth were dashed in the six months to end-September when earnings declined by 29%, but the interim dividend was maintained.

Interim earnings were down from 48c to 34c. The dividend stayed at 20c.

External turnover fell to R38,5m (R39,7m) on a downturn in demand for strip steel products, especially in the latter part of the six-month period, when many of the customers experienced industrial unrest.

Pretax profit was down 23%. Reduced capital expenditure led to a higher tax rate, resulting in a net profit of R1,4m (R1,9m).

GIC directors said the group remained in a strong position to take immmediate advantage of any increase in demand. The group tightened controls and improved efficiency in 1989 and the balance sheet was still healthy with R2,8m cash in hand.

GIC's net worth is 510c a share. The counter is trading at about 410c.

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Downturn slashes Masterbore profits

(189) b\04 30|10|90

CHARLOTTE MATHEWS

THE downturn in drilling and engineering company Masterbore's mining and agricultural markets and the effects of reorganisation contributed to a 43% drop in operating profits in the six months to August.

Turnover rose 13% to R18,9m, after taking the February sale of Masterbore Prinsloo into account, but operating margins dropped to 15% from 25% in the same period in 1989.

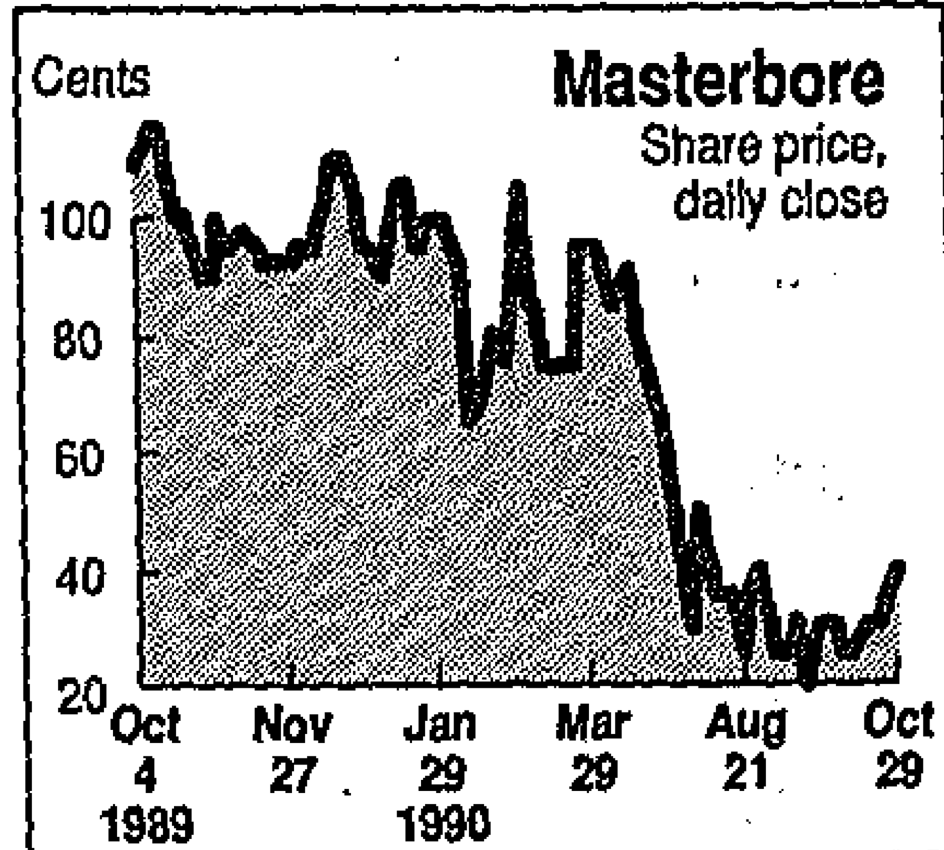
Interest charges of R1m were R315 000 higher than last year.

Shareholders profits fell 31% to R1,3m — redeemed partly by the R589 483 loss attributable to outside shareholders — which translated into earnings of 9,7c (14,1c) a share.

The directors said: "The past six months have provided a period of consolidation for your company.

"New management is to be complimented on improvements achieved in control of the business. Bank borrowings have been reduced by R1,5m, stocks are lower and margins are now showing a consistent improvement."

In the latest annual report chairman Peter Rawson said the directors had decided to sell Cliff's Engineering if a suitable purchaser could be found.



Graphic: LEE EMERTON Source: JSE

The management of Cliff's Engineering was restructured towards the end of the interim period and the emphasis was now on productivity and redirecting sales objectives. Directors anticipated the company would show a profit in 1991/92.

The shallow hole and reverse circulation drilling companies in the group had full order books.

At 40c, Masterbore shares' price to earnings ratio is 7,69 times, compared with 5,82 times for the engineering sector.

Yelland reverses its position by doubling profits

BDay 1/11/90

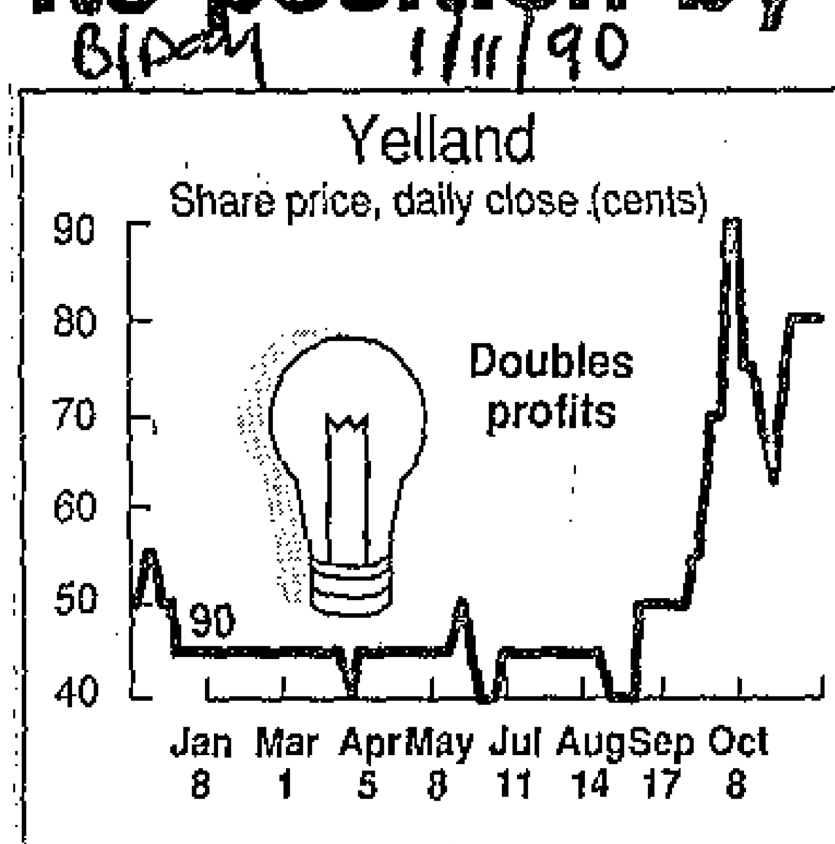
CHARLOTTE MATHEWS

ELECTRICAL engineering group Yelland Technologies has doubled its profits in the six months to August after recording a sharp drop in the year to February.

Earlier this week, Yelland announced it was engaged in negotiations with Power Technologies (Powertech) which would result in Yelland shareholders receiving cash of 80c a share and control of Yelland passing to Powertech.

Yelland MD Des Smith said yesterday the interim results showed the benefits of the rationalisation programme undertaken at the end of the last financial year.

"We ran our contracts harder and more profitably," he said. "There was also a general push by all directors and staff."



Graphic: LEE EVERTON Source: JSE

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Turnover rose 34% to R29,8m but operating profit escalated by 92% to R3,1m. This reflects an improvement in operating profit as a percentage of turnover to 11% from 7%.

Finance charges of R536 000 were R183 000 higher than in 1989 but Smith said borrowings had been reduced substantially over this period.

"The interest bill is budgeted at substantially below last year's figure of R1,1m," he said.

Attributable profits doubled to R1,3m (R643 000) and earnings of 9,4c (4,9c) a share were achieved.

An item on the balance sheet described as outstanding purchase consideration reflects the acquisition with effect from March 1988 of subsidiaries and rights to inventions for R3,1m. The outstanding balance will be settled by the issue of shares over the next two years.

Smith said he was cautious about the second half of the year. Profits were expected to be lower because of the expected decline in the economy.

Star 8/11/90 (189)

New-style Landlock in from cold

By Jabulani Sikhakhane

After making losses since 1984, Landlock, which was acquired by Valard in June, has achieved a major turnaround, reporting earnings per share of 7,8c (based on an enlarged share base) for the four months to September.

This compares with a loss of 10,6c per share for the first five months of Landlock's financial year.

A dividend of 3,1c has been declared — the first since 1984.

Landlock disposed of subsidiary Girlock and acquired all of the businesses of Valard in return for an issue of shares which changed control of the troubled group.

Valard paid R11,9 million cash for the UK-based BBA Holdings' 58,4 percent holding in Landlock and the same offer was extended to monorities.

Valard became a pyramid company of Landlock, changing its name to Valhold. Landlock, in turn, became Valard.

In the four-month period, Valard reported turnover of R66,778 million on which operating income of R7,620 million was achieved.

Interest-bearing debt as a percentage of total shareholders' funds was trimmed from 95 percent on June 1 to 83 percent at end-September.

Interest paid was R2,656 million, while interest cover remained at 2,9 times.

Directors are confident that despite tight conditions, the future profitability of Valard is soundly based.

The low tax charge, which is expected to remain for some years to come, should benefit cash flow.

Valhold, whose only asset is an 80 percent stake in Valard, reported earnings per share of 7,2c for the six months to September. A dividend of 2,9c has been declared.

OZZ FM 9/11/90 · (189)

GEARING UP

Activities: *Investment holding company, with subsidiaries in light engineering, metal casting, property development and construction.*
Control: *Directors 42,3%.*
Chairman: *G Zulberg.*
Capital structure: *9,2m ords. Market capitalisation: R12,8m.*
Share market: *Price: 140c. Yields: 9,7% on dividend; 27,1% on earnings; p:e ratio, 3,7; cover, 2,8. 12-month high, 144c; low, 35c. Trading volume last quarter, 352 000 shares.*

Year to March	'87	'88	'89	*'90
ST debt (Rm)	0,1	0,7	3,5	1,6
LT debt (Rm)	—	0,1	0,06	25,3
Debt:equity ratio	—	0,04	0,41	0,69
Shareholders' interest	0,93	0,87	0,60	0,41
Int & leasing cover	4,29	9,23	1,87	29,5
Return on cap (%)	3,4	3,4	3,7	10,2
Turnover (Rm)	5,8	9,0	8,6	85,9
Pre-int profit (Rm)	0,8	0,7	0,5	9,8
Pre-int margin (%)	1,3	0,8	6,1	11,4
Earnings (c)	6,7	9,4	8,2	38
Dividends (c)	1,5	2,0	2,5	13,6
Net worth (c)	60,6	51,6	23,3	288

* Consolidated on a four-for-one basis.

The company hoped that a one-for-four share consolidation would boost market perceptions and the share price but, so far, that does not seem to have happened. After the plan was announced in early September, the (pre-

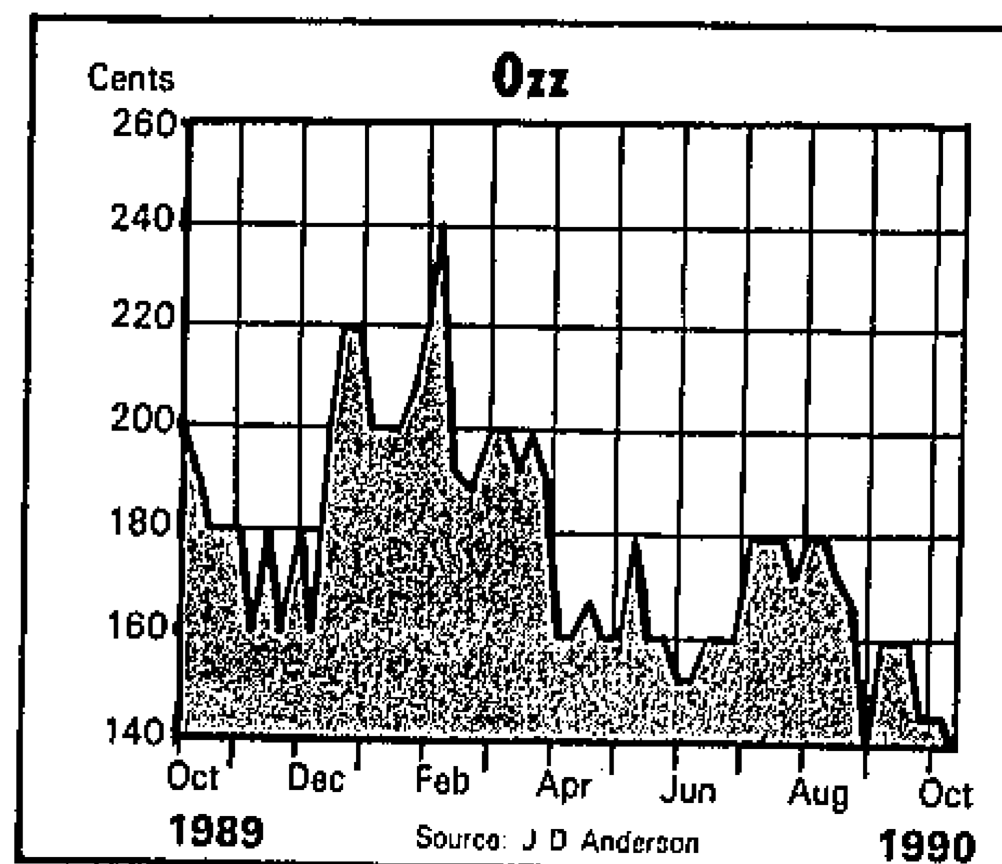
FM 9/11/90 (189)

consolidation) price fell from 42c to 36c. The consolidated shares opened at 144c on October 8 and have since shed another 4c to 140c, equivalent to 35c pre-consolidation.

The board also wants to send out a signal that Ozz is not a small operation any more. Certainly, it ballooned with last year's acquisition of Lucem Industrial's operations through a leveraged buyout. This expanded the asset base by R68m and pushed up turnover tenfold, while pre-interest profit climbed from R541 000 to R10,7m.

With funding from FirstCorp, Ozz raised its 23% Lucem stake to 57%, acquiring the Krok brothers' 23,5m shares for R21,5m. This, however, left the group awash with debt. Realisation of some non-core investments and good cash flow from trading brought down the debt:equity ratio from 139% at end-September 1989 to 69%.

Chairman Gary Zulberg wants growth to focus on the core businesses of engineering and property and be less dependent on other investments. It is worth noting, though, that



the operating margin of these other investments was 20,2% compared with the 10,9% in managed businesses.

Company secretary Ian Walker says the core operations did not come to full fruition last year, but should this year, which management sees as a period of consolidation, with attention devoted to reducing gearing.

Gerhard Slabber

Valard gets it right with Landlock

S Times 11/11/90

189

By JULIE WALKER

THE turnaround at Landlock is another feather in the cap for the Valard management team.

Landlock is now Valard and the former Valard is pyramid holding company Valhold. In the five months to May 1990 before the change of control, Landlock lost R3,3-million.

But since June 1 when Landlock sold Girlock for cash and bought the original businesses of Valard for 41,2-million shares, rationalisation has stopped the losses.

For the first time since 1984, the new Valard made a profit good enough to restore the dividend — 3,1c.

Holders of Valard prefs agreed to waive current and arrear dividends in favour of an issue of ordinary shares. Gearing is down from 95% to 83%, and is expected to fall further by March.

Valhold's only asset is 80% of Valard. Its earnings for the six months to September were up by 4% to 7,2c a share, and the dividend 2,9c compared with 2,75c.

Saflife shone with a 91% climb in the bottom line to 22,5c a share in the six months to September 1990. Directors comment that in spite of deteriorating conditions, Saflife's focus on business activities and curtailed costs have seen it right.

Presmed continued a good run. In the six months to August its turnover was 87% up at R24,8-million and earnings a share grew from 6,7c to 10c. Improved occupancy of hospitals, better collection of debts and cost control helped the results.

Two hospitals and a day clinic are under construction. Presmed aims to increase profitability at 25% a year.

Amaprop's turnover for the six months to September rose by 17% to R107-million, but profit before tax was almost unchanged at R22,2-million because of unlet space, especially in Cape Town's newly done-up Southern Life centre.

The Carlton Hotel also incurred a bigger loss than in the corresponding period last year. Outside shareholders called for less, so earnings a share were 8% up at 33,7c.

Amaprop took a net stake of 50% in Retprop from Propgroup, spent R5,3-million on land next to the Bruma Lake development, is building cinemas and shops at the Carlton Centre, is refurbishing a West Street office block and Werksmans Chambers.

It also sold its interest in two buildings to Main Street Property Fund for R18-million, making an extraordinary capital surplus of R6,3-million. Amaprop has 2,5-million Main Street units.

CNA Gallo rarely lets shareholders down, and turned in strong growth for the six months to September. Both turnover and earnings a share were 18% to the good at R337,6-million and 38,5c respectively.

An interest bill of R1,7-million, compared with a net inflow in the last period, kept pre-tax profit growth to R14,4-million at 11%. But the shares of retained earnings of associates grew by a third to almost R6-million.

Gallo has bought 50% of Nu-Metro. The directors expect real growth for the year provided sales continue as before.

Shutdowns

Sakers struggled. It warned shareholders that the erratic supply of vehicles would affect it, but never expected the supply from Mercedes-Benz and Honda to cease for the last six weeks of the first six months.

Used-car sales were below expectations, and turnover of R760-million was 16% lower than in the six months to September 1989. Gross margins were higher than forecast, interest a little lower, but earnings a share of 51c were down by two-thirds.

The directors expect only 70c a share for the whole year, and a total dividend of 20c — 11c was declared at the interim.

Boumat is feeling the pinch, there is no chance of rebuilding vehicle stocks to cover manufacturers' year-end closedown, used-car sales will continue sluggish and the economy is deteriorating at a faster rate than expected.

Of the 21 companies reporting interim results this week, 13 showed higher earnings than previously, seven at least matching inflation. Eight reported lower earnings, and none showed a loss.

STAR 15/11/90 189

Economic climate against Group Five

Diagonal Street

LYNNE PEACH

Group Five's performance in the current year is expected to be dampened by political and recession-related factors, including the Government's capital expenditure cuts, which will severely curtail civil engineering and construction work.

In the annual report, chairman PK Clogg says it is likely that group turnover will decline this year, but that it is possible earnings will be maintained or improved in real terms.

Group Five, controlled by senior management in a consortium with SM Goldstein, is engaged in construction-related activities, property development and project management.

Business is sought in Southern Africa and in the Indian ocean islands.

The building division, which trades under the names of Combrink, Goldstein, Group Five Building, RH Morris and Stevenson, and the civils division, trading as CMGM, High Structures, Glybeton and Goldstein, are the major contributors to turnover.

Mr Clogg earmarks the newly formed industrial division as a growth area.

He stresses that expansion will only take place in areas where management has expertise in the technologies, products or markets, and at a pace that is manageable.

In the year to June, group turnover climbed 22 percent from R1,1 billion to R1,3 billion, while operating profit decreased six percent from R21,4 million to R20,0 million.

After taking finance income and profit from joint ventures and associates into account, pre-tax profit shot up 40 percent from R26,0 million to R36,4 million.

A rise in the effective tax rate from 14,3 percent to 22,1 percent reduced growth in attributable profit to 28 percent from R22,3 million to R28,5 million.

Earnings per share increased from 133c to 170c.

The dividend for the year was 55c a share, compared with a payout of 47c in financial 1989.

The strength of the balance sheet improved, with borrowings down from R10,1 million to R3 million and neglibible gearing of less than five percent.

The cash balance increased from R55,7 million to R59,8 million.

Net asset value appreciated 30 percent over the year from 305c a share to 398c.

Mr Clogg says management intends keeping the group liquid in the year ahead with possible seasonal short-term borrowings.

Group Five, priced at 500c, is trading on a P/E ratio of 2,9 and provides a dividend yield of 11 percent.

In view of the group having reasonable prospects and a strong balance sheet, the share appears to offer fair to good value at its current price level.

COMMENT: Group Five's share price has performed well over the past twelve months. The price started out at 320c and peaked at 520c before undulating back to its current level of 500c.

The uptrend will stay intact as long as the share price remains above 450 to 460c.

Profit margins, strict deals see Cemenco undermined

(189) B |Day 16/11/90

CHARLOTTE MATHEWS

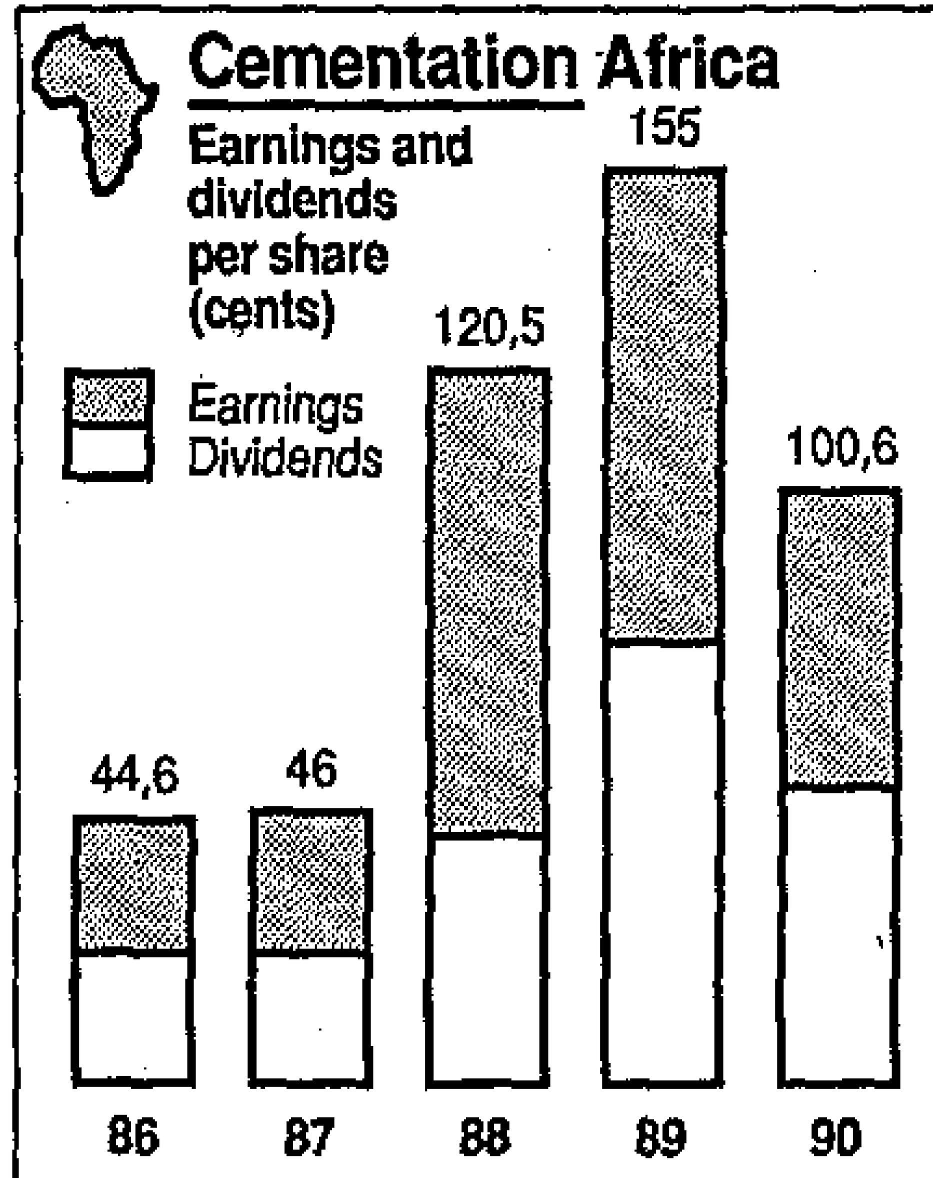
LOWER profit margins and stricter contract terms cut engineering group Cementation Company Africa's (Cemenco's) earnings and dividends in the year to end-September down to one third of their 1989 level.

After a satisfactory performance in the first six months, Cemenco directors said the economy had moved into recession faster than anticipated.

The group's subsidiaries are involved in a wide spectrum of general engineering and contracting, mainly for the infrastructure and mining industry. It is controlled by Trafalgar House while Gold Fields of SA (GFSA) also has a large stake.

Attributable income fell by 15,6% to R9m over 1989's R10,7m but earnings fell dramatically by 35% to 100,6c (155c) a share on an increased number of shares in issue.

The number of shares in issue increased by about 2-million as GFSA converted its preference shares into ordinary shares. As a result preference share capital on the balance sheet has fallen to R300 000 from R5,45m and ordinary capital has risen.



Graphic: FIONA KRISCH Source: CEMENTATION AFRICA

A final dividend of 15c a share has been declared, bringing the total dividend for the year to 50c (75c). The dividend is covered twice by earnings.

A R1,6m trading loss by the electronics division helped pull down the results. The directors have decided to close this division and the R2,2m extraordinary loss incurred will be reflected in the next years' figures.

On turnover 6,4% higher at R356m, an 8,1% improvement in operating income to R23,9m from R22,1m was achieved.

But interest charges rose nearly R3m to R8,2m — showing a fall in interest cover to three times from four times — and the tax bill rose to 43% from 27%.

MD Graham Lotter said the group had enjoyed a "tax holiday" as a result of purchasing some plant, and it also earned A and B incentives for exports.

Cemenco shares closed at 550c yesterday, well below their year's high of 800c achieved last December.

At this level they offer a current dividend yield of 9% and an earnings yield of 18,3% compared to 6,66% and 17,18% for the engineering sector.

Dorbyl fears tough year as shares dip

189

BDay 20/11/90

CHARLOTTE MATHEWS

DIFFICULT operating conditions have pulled engineering group Dorbyl's earnings in the year to end-September down to 345,2c a share from 351,4c.

CE Dawid Mostert expects markets will become even tougher in 1991, and says maintaining earnings will be a major challenge.

A final dividend of 75c has been declared to bring the total dividend for the year to 103c (100c) a share.

On turnover of R2,8bn (R2,5bn) operating income dropped 1,2% to R183,8m (R186m), reflecting margins down to 6,5% from 7,4% in 1989.

Borrowings climbed by about R40m and resulted in a R7m increase in the interest bill to R36,5m (R29,9m). Operating income covers interest five times against six times in the previous year.

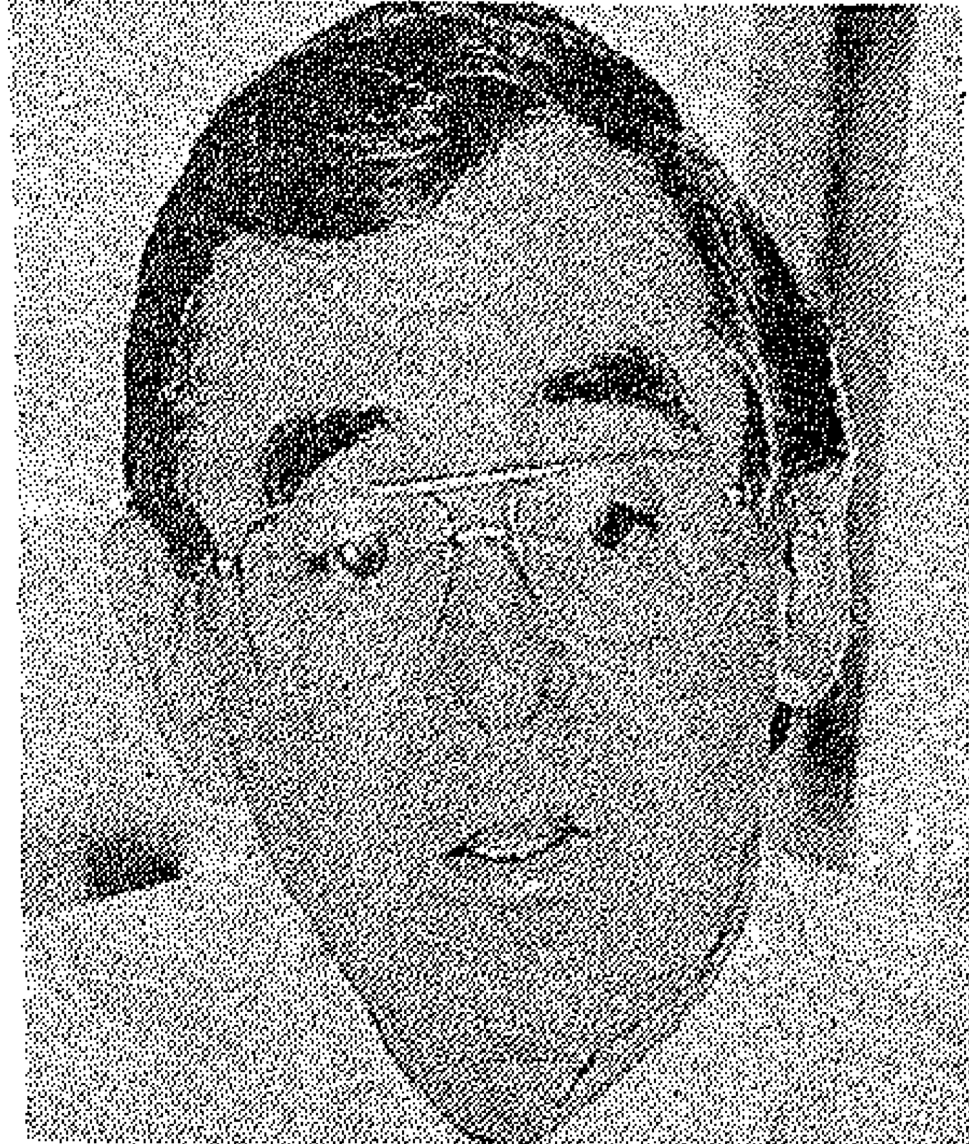
Mostert says gearing, now 26% (21%), is well within the maximum limit of 50% which Dorbyl has set itself.

A slightly lower tax bill as a result of assessed losses, export allowances and investment in plant helped sustain bottom-line profits at R110m (R112m).

Mostert explains an extraordinary item of R13,4m represents the costs of closing discontinued operations.

During the year Dorbyl has sub-contracted out services such as transport and cleaning, and its workforce has therefore fallen by 1 000 to 22 000. Some of those retrenched have been re-employed by the subcontractors, Mostert says.

In the past year Dorbyl spent R159m on capital projects. Of this, R57m was invested in the Tosa Seamless plant, a joint venture with Iscor to manufacture steel pipes, tubes, flanges and fittings.



● MOSTERT

Mostert says Tosa, commissioned in June, has not performed reliably and losses have been incurred.

"It is taking longer than anticipated, but we have no doubt we have a superb modern plant there."

Dorbyl has budgeted R160m capex in 1991 to modernise and extend its facilities to meet the requirements of Phase VI of the local content programme for the motor industry.

Mostert says this expenditure can be held over if economic conditions are unfavourable.

Dorbyl shares closed at 1 575c yesterday, slightly above the year's low of 1 550c recorded in October.

At this level they offer a current dividend yield of 6,5% and an earnings yield of 21,9%.

Star 20/11/90 (189)

Dorbyl prepares for even tougher times

By Derek Tommey

Business conditions in 1990 deteriorated much faster than expected, says Dorbyl, South Africa's major engineering company.

This led to operating income for the full financial year ended September falling by 1,2 percent to R183,8 million even though turnover rose 13,5 percent to R2,8 billion.

The drop in operating income would have been greater, says the company, had Dorbyl not benefited from a contribution "holiday" to group pension funds.

A 22 percent rise in net interest to R36,4 million further depressed income before tax and this dropped to R147,4 million — a decline of 5,6 percent from a year ago.

However, tax payments declined 15 percent to R33,7 million resulting in a taxed profit of R113,7 million, down 2,3 percent from last year'd R116,4 million.

Attributable profits were R110,1 million (R112,1 million) equal to 345,2c (351,4c) a share. An unchanged final dividend of 75c has been declared, making a total payment of 103c (100c) for the year.

David Mostert . . . Dorbyl still modernising.

David Mostert, group chief executive, says that business conditions are expected to become more difficult. But the group is prepared. He reports that during 1989-90 Dorbyl continued with its modernisation programme, spending R159 million of which R57 million was the group's participation in the Tosa Seamless Tubes project.

Mr Mostert says that commissioning of the seamless tube plant was delayed until June 30, and even so has not yet performed adequately over the entire product spectrum. This has disrupted the market and losses have been incurred.

Significant resources, both by the equipment supplier and Tosa personnel, are being devoted to rectifying the problems at the plant.

Better news is that the facilities for spin-casting of rolls were successfully commissioned. This should contribute materially to the company's growth in the coming years.

Mr Mostert says the expansion of the manufacturing facility for motor vehicle constant velocity joints is still in the construction stage.

For the past five years Dorbyl has had a net cash inflow, in spite of heavy capital expenditure and debt reductions.

But in the year just ended there was a net outflow of R46,9 million. This resulted in interest-bearing debt rising to R196,1 million with a corresponding increase in the gearing to 26,2 percent.

Mine group consolidates

PETER GALLI

MINING services and construction group Fraser Alexander experienced a year of consolidation in the 12 months ended June, chairman Peter Flack said in his latest annual report.

One minor acquisition was made. No business was begun as a grassroots operation.

"In view of this, the group was, for the first time in five years, able to concentrate on all of its businesses without such distractions," Flack said.

Several of the group's divisions had experienced a decline in activity during the past six months. That decline was expected to continue in line with the economic recession.

The effect of the downturn on industries and markets serviced by the group would also have a negative effect. However, the firm was soundly based in necessary, long-term industries to which it provided essential, cost-effective services and products, and would be able to withstand the recession without a material impact on its current level of earnings, Flack said.

The group posted earnings of 165,5c a share (133,8c previously) for the year ended June — a 24% increase. Total dividends were 21% higher at 46c (38c).

BIDay 22/4/90

Maxmech facilitates JSE listing

GILLIAN HAYNE

QUAD Industrial Resources is to be listed on the JSE through a reverse listing into the cash shell of DCM-listed Maxmech Mechanical Seals, the company announced today.

The move follows the disposal of the 56,72% controlling stake in Maxmech to Quad Industries for R283 960 (10c a share).

Quad will sell the business concern of Maxmech back to its former controlling shareholders, I J Dettman and D G Grobler, for R500 000. (189)

The Maxmech cash shell will acquire — for R3,96m — Inom Industries, a wholly owned subsidiary of Quad Industries which deals in powder coating garden furniture, motor accessories and electrical appliances. This will be paid for by the issue of 34,6-million shares at 10c each, and R500 000 cash.

Quad Industries is to be renamed Quad Industrial Resources.

Maxmech Mechanical Seals, supplier of sealing devices, posted a 78% drop in attributable earnings for the year to end February and showed a loss of R108 000 before tax.

DORBYL F|M 23|11|90 (189)

HARD KNOCKS AHEAD

Dorbyl has so far emerged better than most industrial groups that have reported results in recent months. Earnings for financial 1990 dipped by only 1,8% — but the engineering group has little hope of avoiding a considerably deeper decline in 1991.

Activity in the heavy engineering business has already slumped to 45% of capacity and the division is reporting heavy losses. CE Dawid Mostert says the trend is in line with the depressed level of fixed investment in the country, which affects many of Dorbyl's activities. In particular, the gold mining sector and Eskom have cancelled or deferred capital programmes where possible.

Township unrest is another problem. Mostert reckons this directly affects the group's productivity and is indirectly denting the performance because of the effect of industrial action on customers.

For the past few years the trading performance has benefited from certain long-term contracts, especially the offshore work for Mossgas. Those contracts have been largely completed. The group does not have a significant involvement in the Lesotho Highlands project and there is little else to replace the Mossgas contracts now.

Nor has Dorbyl yet felt the full impact of likely deterioration in a number of other market sectors. Among divisions likely to do worse is Baldwins, which contributes about 20% of turnover. Baldwins processes and distributes steel and related products. Its major customers include motor manufacturers — and sales of both new and used vehicles are forecast to drop next year.

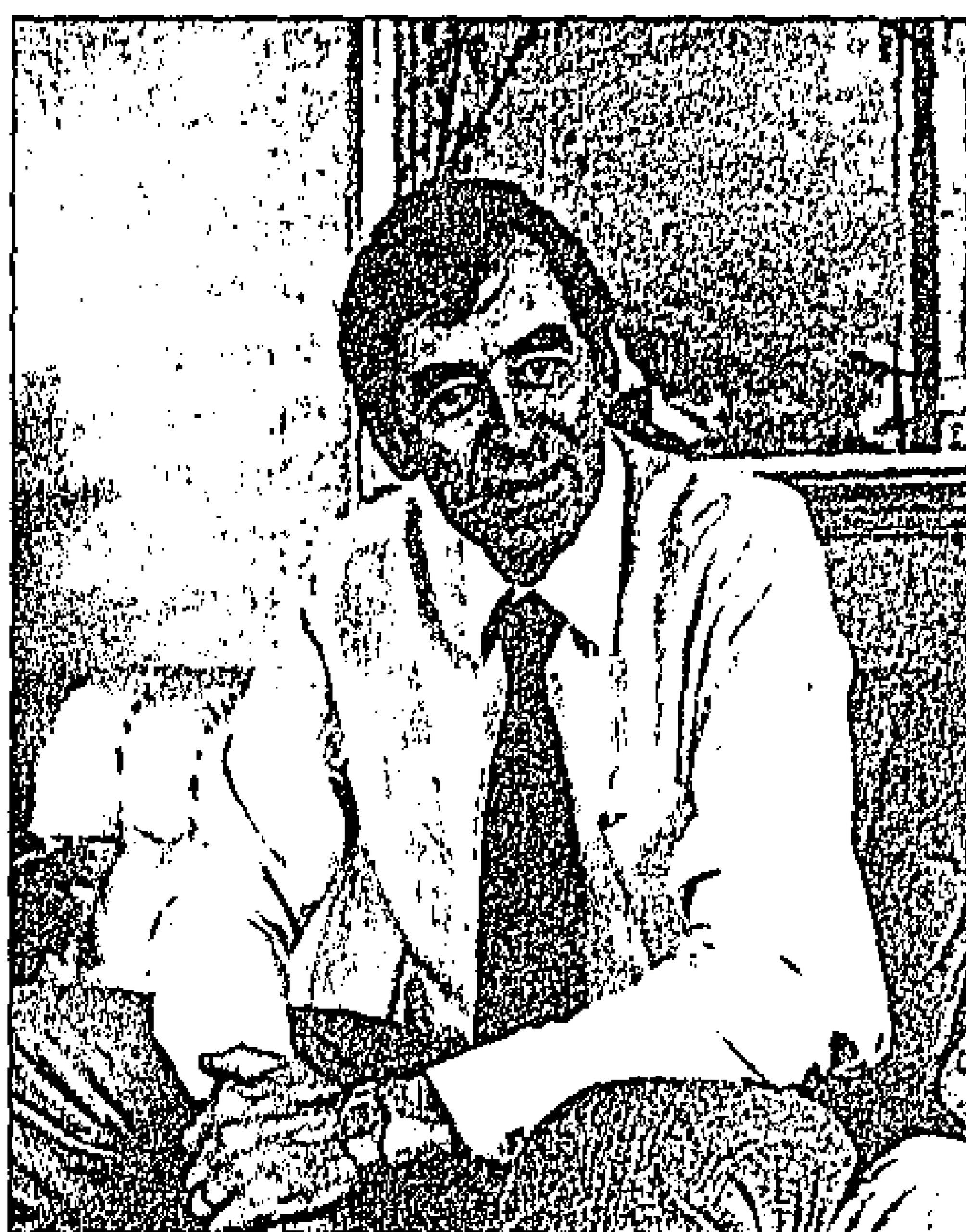
DENTS SHOWING

Year to September 30	1989	1990
Turnover (Rbn)	2,51	2,84
Operating income (Rm)	186	183
Attributable (Rm)	112	110
Earnings (c)	351	345
Dividend (c)	100	103

Worsening conditions are apparent from the 1990 year's figures. Turnover was higher by 13,5% but trading income fell. Pre-tax income was down by 5,6% and it was only thanks to a lower effective tax rate of 22,9%, compared with 25,4%, that the bottom line did not weaken further.

Again, the trend is shown in second-half figures. EPS in the six months were down 10% after rising 12% in the first half.

Mostert does see some room for optimism. "Strategic actions taken to broaden the group's base, and the investment in human resources and modernisation of plant, augur well," he says.



Dorbyl's Mostert ... *exporting motor components*

But the modernisation of plant has not gone smoothly. About R57m of the group's R159m capex programme relates to the Tosa Seamless Plant, a 60:40 venture with Iscor. Mostert says that the process and equipment are not performing to expectations. He maintains that the problems will be overcome in the next 12-18 months; meanwhile, the bottom line will be affected. Mostert is not overly concerned about this because he takes a 30-year view on the project. The previous installation lasted about 40 years.

He expects near-term growth will come from the petrochemical industry, coal mining, shipbuilding and exports of motor components.

The group should benefit from expansion and upgrading at Sasol's plants and at Engen's Durban refinery. Mostert is optimistic about the coal mining sector because Dorbyl is manufacturing draglines.

With the worldwide upturn in shipping, and overseas shipyards over-committed, the group expects to benefit. Dorbyl Shipping has contracts to build three vessels before end-1992. Mostert does not divulge details about the ships but Dorbyl's Durban shipyard has the capacity to build vessels to the value of R150m.

The automotive components business should benefit from the upgrading of the industry's local content programme. Dorbyl's plants for local production of steering wheels, jacks and tractor and earthmover wheels were commissioned early in the current year.

The factory which makes motor vehicle constant velocity joints is being expanded and should contribute to profit this year.

As the local automotive market's outlook is bleak, real growth in component sales will have to come from exports. Mostert reckons the export market is lucrative — the German car industry is working overtime to supply huge pent-up demand in the former East Germany. Dorbyl recently had its first breakthrough in this market.

Growth in component exports would certainly help, as would a pick-up in the marine division, but the group may not have many other bright spots for the next year or two. At 1 575c, the share price has fallen 33% below the 12-month high of 2 375c. *Gerhard Slabber*

ALLIED F|M 23|11|90

HEAVY COSTS BURDEN

For the Allied group, the six months to end-September represent something of a watershed: September 3 saw the introduction of a cheque account facility and with this the end of an extensive product development programme.

The significance is that, from the time of the listing, results have been depressed by heavy product development costs. With these out of the way, shareholders will be watching to see if expansion of the product base is finally going to generate a better match between profits and asset growth.

It is not hard to define the basic problem with Allied. Taking the last two complete financial years, the group has achieved a highly satisfactory 39% increase in advances. But while this was almost matched by a 33% increase in net interest earned over the two-year period, the growth in EPS was only 13% — despite a significant drop in the tax rate.

That the market has found this unacceptable is shown in the dividend yield which, at 6,7% (after taking into account the increase in the interim distribution), is the third-highest among the nine listed banking-building society majors. The two with higher yields are Bankorp (8,9%) and Saambou (8,8%), the sort of company which Allied would probably prefer not to keep.

The reason for the difference between growth in net interest earned and the in-

ALLIED'S HALVES

Six months to	Sep 30 '89	Mar 31 '90	Sep 30 '89
Net interest (Rm)	158,6	164,9	174,1
Non-interest inc (Rm)	46,3	48,3	70,4
Non-interest exp (Rm)	153,8	174,7	191,4
Net income (Rm)	31,7	37,0	42,5
Earnings (c)	10,7	12,6	12,3
Dividends (c)	5,5	6,0	6,0

Titaco continues to slip down

B Day 28/11/90 (189)

LIZ ROUSE

ENGINEERING group Titaco Consolidated Investments continued on a downtrend in the six months to end August, with earnings 22,5% lower.

Interim earnings amounted to 8,6c a share compared with the previous half-year's 11,1c a share. In the previous full year earnings fell 48% to 10,6c (20,4c) a share because of problems with an Eskom contract.

Titaco passed its dividend last year and is not considering payment of an interim now, but dividend policy will be reconsidered when the audited results of the year are available.

The group manages, designs, constructs and commissions engineering and construction projects.

MD Renier Meyjes and financial director Basil Smidt are pinning their hopes on the effects of rationalisation steps taken this year.

They say economic slowdown and high interest rates are adversely affecting the capital investment market in which the group operates.

Titaco has again reported a rise in turnover but a decline in operating profits. Turnover for the six months to August was up at R50,16m (R38,93m), but pre-tax and pre-interest income fell to R1,5m (R1,6m.)

Titaco shares have been moribund since the beginning of October when they traded at 70c. Yesterday sellers were quoting 60c.

EXECUTIVE SUITE By William Wells and Jack Lindstrom

Titaco passes interim

Star 28/11/90

By Derek Tommey

Engineering company Titaco Consolidated Investments has passed its interim dividend. However, it will reconsider its dividend policy when the full year's audited results are available, say the directors.

The company reports attributable earnings of R518 000 for the six months ended August — down R155 000 on the previous year's figure. Earnings a share dropped from 11,1c to 8,6c.

The directors say that the slowdown in economic activities and high interest rates are affecting the capital investment market in which the group operates.

The rationalisation steps announced in the last annual report are in place and the full benefits should e

QUAD/MAXMECH FM 30/11/90

NEW DIRECTION (189)

The reversal of Quad Industrial Resources into the MaxMech cash shell is the initial step in what is hoped will become an industrial holding company focused on the engineering sector.

The controlling shareholders of MaxMech, a supplier of sealing devices, sold their interest in the company to Quad Industries for R283 960, or 10c a share, and simultaneously bought the business as a going concern for R500 000.

FM 30/11/90 (189)

MaxMech's NAV at its February year-end was 28,6c but the performance had deteriorated. Quad Industries MD Craig Kinsman says there was little possibility of the gap between NAV and the shares' market price narrowing. The company was delisted at its market capitalisation. An offer will be made to minorities — who hold the remaining 43,2% of the shares — at 10c.

The MaxMech cash shell will be renamed Quad Industrial Resources. This company is a subsidiary of Quad Industries (controlled by Harold Kinsman, his son Craig, and the MDs of the operating companies) and consists of Inom Industries — operating in the powder coating field — and pipe processing, galvanising and wholesaling operations.

As an initial step Inom, with annual turnover of about R3,5m, will be acquired by the listed company via an issue of 34,6m shares and the R500 000 cash. Kinsman says other industrial interests in Quad Industries will be shifted into Quad Industrial Resources and further acquisitions in the engineering field — particularly the processing of raw materials into semi-finished and finished products — will be made later.

Kinsman hopes to develop the holding company, Quad Industries, in the financial services field. It may be listed in future.

While Kinsman senior — the future chairman — has had experience in technical design and industrial planning, and his son has been in project management, banking and management consulting, their ability to manage such a venture has still to be tested.

Pam Baskind

Ozz posts 27% advance in earnings

Star 6/12/90

189

Ozz has reported a 27 percent increase in earnings a share to 17,8c for the half-year to September, with gearing further reduced to 47,2 percent at November 30.

The company pays a single annual dividend at the end of the year, with results suggesting substantial growth in that direction too.

Turnover increased 147 percent and operating profit 163 percent, reflecting an improvement in margins to 13,5 percent and a 3,2 times interest cover by operating income.

The directors forecast an improvement in earnings for the current year.

If this is translated to the year as a whole it implies earnings in the 48-to-50c range, giving a P/E ratio of 2,6 to 2,5.

On that basis, and repeating the 2,8 dividend cover, a dividend of 18c a share for the year is probable, which would yield 14,5 percent on the current share price. — Sapa.

STANDARD ENGINEERING

BASE BUILDING

FM 7/12/90 (189)

Activities: *Engineering holding companies with interests in gearbox, spring, pump, steel pipe and locomotive manufacture.*
Control: *Malbak 92,1%.*
Executive chairman: *H Brown.*
Capital structure: *34,3m ords. Market capitalisation: R159m.*
Share market: *Price: 465c. Yields: 6,9% on dividend; 20,5% on earnings; p:e ratio, 4,9; cover, 3,0. 12-month high, 465c; low, 450c. Trading volume last quarter, 7 800 shares.*

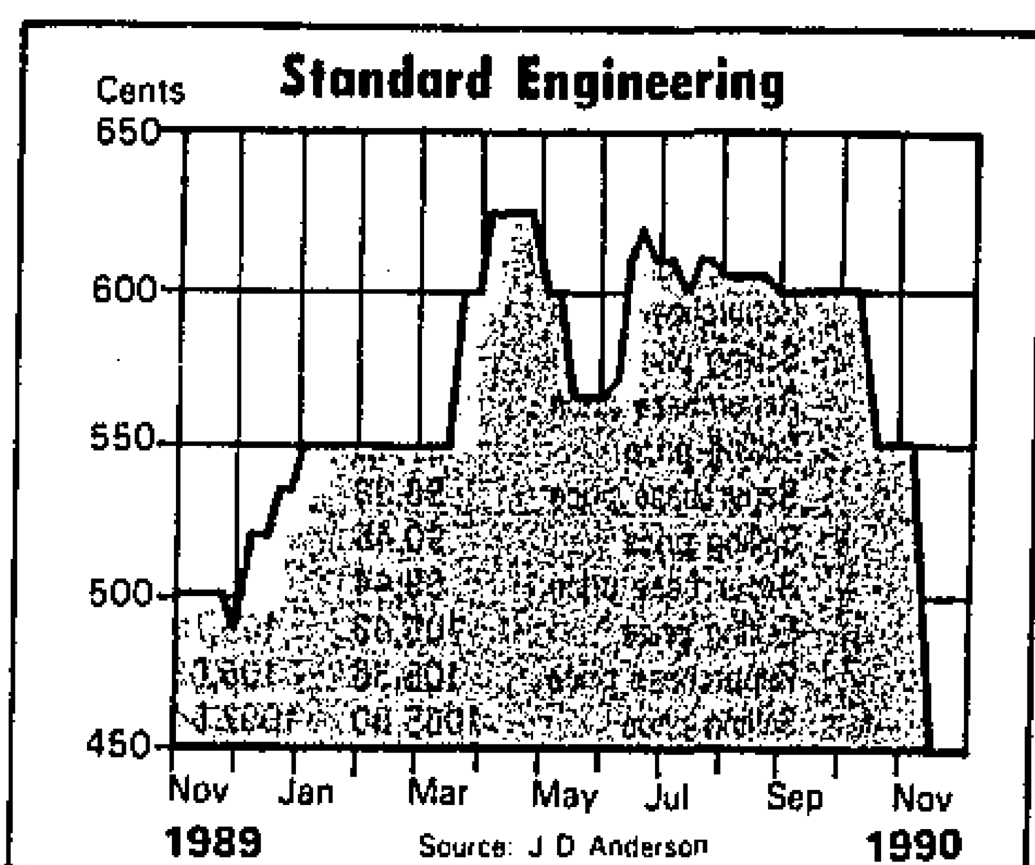
Year to August 31	'89	'90
ST debt (Rm)	35,0	57,1
LT debt (Rm)	4,7	9,1
Debt:equity ratio	0,26	0,30
Shareholders' interest	0,78	0,74
Int & leasing cover	8,56	5,61
Return on capital (%)	22,6	27,4
Turnover (Rm)	409	691
Pre-int profit (Rm)	40,6	74,8
Pre-int margin (%)	9,9	10,8
Earnings (c)	92,1	95,2
Dividends (c)	29	32
Net worth (c)	458	488

Little over a year ago the Malbak subsidiary Standard Engineering was reshaped and expanded. With turnover of nearly R700m, and total assets of R428m, the group now packs considerable clout within its sector.

It has a broad range of activities in the engineering field, though three quarters of financial 1990's operating income was derived from just two divisions — Astas and Hall Longmore (see table).

At trading level, last year's performance looked solid enough, but the 85% boost in operating income, from a 69% turnover surge, did not filter through to the bottom line. The taxman and minorities scooped the cream to leave a 25% rise in attributable earnings. The effective tax rate climbed to 34,7% from 26,9%.

In the year to end-August the restructuring process, started about two years ago, was completed with the sale of the poorly performing foundry division and the buy-out of minorities in Astas and Hall Longmore, together with an enlarged holding in Union Carriage with effect from March 31 1990, for R55m. Full control of these subsidiaries



Standard Engineering's Brown ...
strong balance sheet

should give earnings another boost this year.

The group now comprises five divisions — Astas Holdings, manufacturer of gearboxes for heavy vehicles; Abertech Industries, a spring and metal pressings manufacturer; Fluid Holdings, a pump manufacturer and distributor; Hall Longmore, a manufacturer

PROFIT SOURCES (Rm)

	1989		1990	
	Turnover	Operating income	Turnover	Operating income
Foundry	61	6,8		
Astas			258	34,9
Abertech	74	8,6	128	11,4
Fluid	109	9,8	115	3,9
Hall Longmore	158	17,6	149	25,3
Union Carriage	7	0,9	41	4,2
Total	408	43,9	691	79,7

of large-bore steel pipes; and Union Carriage and Wagon, a manufacturer of electric and diesel locomotives, trainsets, passenger coaches and wagons.

All divisions performed to management's expectations, except Fluid Holdings, which restrained the group's progress in the second half. Its poor results arose in one of the operating subsidiaries, where a major manufacturing facility was closed. Various operations were also rationalised. The R7m cost of this was written off against operating income.

Chairman Hugh Brown says the group is now well structured and profitable, with a sound balance sheet. The returns being achieved — 22,6% on total assets and 20,1% on equity — bear this out. Gearing of only 30% will allow the group to exploit opportunities as they arise. Though Brown is confident earnings should improve, he expects a tough year.

With the slump in the local heavy truck market deepening, Astas took "aggressive action" to increase export volumes at a greater pace. At Hall Longmore additional volumes from exports and local emergency water schemes boosted profits; but with current conditions preventing contractors from operating safely where services are needed, volumes are expected to be lower this year.

The shift towards exports could do much to shelter Standard from local conditions. Union Carriage has already demonstrated the value of exports. In August 1988 the train-maker was running at 15% capacity with turnover of only R15m. Orders for passenger trains from Taiwan changed its fortunes and turnover rose to R41m in the latest period. An order book of R200m extends to end-1992. It is to be hoped the export activity is sustainable.

Since the preliminary profit announcement several weeks ago, the share price softened to 465c from 582c. At the 4,9 earnings multiple, Standard does not look overpriced.

Gerhard Slabber

DARLING & HODGSON

FM 7/12/90

ORDERS AT LOW EBB

Activities: *Supplies products to the construction and building industries.*
Control: *Malbak 61,1%.*
Chairman: *H F Brown; MD: S R Bruyns.*
Capital structure: *62,87m ords. Market capitalisation: R271,5m.*
Share market: *Price: 400c. Yields: 8,00% on dividend; 24,14% on earnings; p:e ratio, 4,1; cover, 3,0. 12-month high, 450c; low, 330c. Trading volume last quarter, 910 000 shares.*

Year to Aug 31	'87	'88	'89	'90
ST debt (Rm)	5,3	0,01	—	—
LT debt (Rm)	—	0,06	37,0	10,0
Debt:equity ratio	—	—	—	—
Shareholders' interest	0,96	0,85	0,93	0,90
Int & leasing cover	2,2	6,4	15,6	21,8
Return on cap (%)	12,3	31,2	17,12	17,21
Turnover (Rm)	365	396,9	542,4	629,8
Pre-int profit (Rm)	28,8	73,6	101,7	113,9
Pre-int margin (%)	7,6	18,6	18,75	18,11
Earnings (c)	34,7	60,8	107,0	96,6
Dividends (c)	5	18	25	32
Net worth (c)	369	310	843	866,7

Economic, political and labour problems hampered Darling & Hodgson (D&H) in financial 1990. Demand for its products declined and margins were squeezed.

This year the building cycle is unlikely to turn but the group's cash holdings will offer some protection and should enable well-timed acquisitions.

COMP

Dicor reports a loss after restructuring

CHARLOTTE MATHEWS

ENGINEERING group Danech Industrial Corporation (Dicor) has reported losses for the year to end-September after another restructuring, but the directors are holding out the hope of future profitability.

The turnover of three companies in the group — Dicor, Danglo and Danech Mining Supplies (DMS) — was slightly down, with most of the losses arising at operating level and on extraordinary items on the sale or closure of subsidiaries. Each company also bears a heavy interest bill.

Dicor, which holds 61% of Danglo, posted a loss of 12,3c a share against a profit of 3,9c in 1989. Danglo, which holds 51% of Danech Mining Supplies (DMS) and 86% of Plastall, showed a loss of 16,1c a share against a positive 5,2c in 1989. DMS made a loss of 38,4c a share from a positive 12,6c in 1989.

Last month Dicor announced that MD Bob Wenteler and a consortium including stockbroker Jan Silvis had bought control of Dicor for R1,3m.

Dicor made a loss of R1,8m on turnover of R255m, which was 7% below the 1989 turnover figure.

During the year two operations in the group were sold, six closed and eight merged. This led to losses on write-offs of stock and debtors. Since the accounting policy has now changed, a R1,7m loss on writing off the premium on acquisitions was incurred as well.

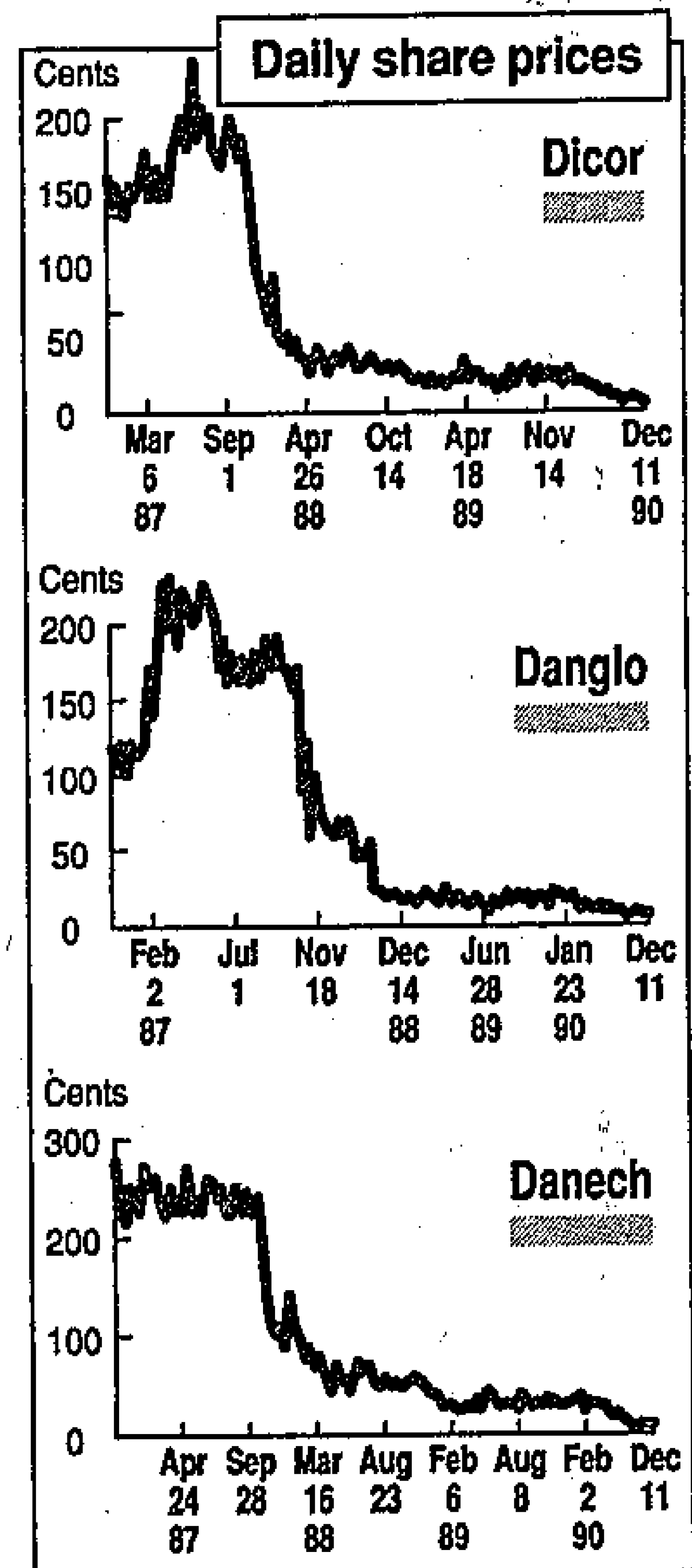
This change in policy resulted in extraordinary losses of R2,8m in Danglo and R4,3m in DMS.

DMS's head office property has been sold and head office staff reduced. Recent newspaper reports estimate DMS owes between R13m and R26m.

Dicor directors admit the group has experienced a number of difficult years as a result of making a number of acquisitions, some of which were unprofitable and ill-advised.

"The present indications are that the cost reductions which have been implemented are paying off, and even in the existing economic conditions, certain divisions have not only turned around dramatically, but have also produced good profits," they say.

As the graphs indicate, the group's shares have been declining in the last few years. Dicor closed at 5c yesterday, but recorded 22c in January. Danglo closed at 8c, down from 23c in December 1989, and DMS closed at 12c, down from 41c in January.



Graphic: FIONA KRISCH Source: JSE

Dorbyl 'is waiting to shake off restraints'

6004 19/12/90

PETER GALLI

ENGINEERING group Dorbyl remained well placed to resume its growth as soon as economic and political restraints eased, chairman Floors Kotzee said in the group's annual report.

Management actions to adjust to the lower levels of activity in those areas most affected by the prevailing economic conditions were in place, and the positive effects of strategies directed towards growth in other areas, including exports, were being realised, he said.

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Signs

However, it was unlikely that the performance achieved in 1990 would be repeated in 1991. Violence and labour instability affected production.

There were, however, signs that the political situation was stabilising and that a greater degree of realism could be expected from all concerned.

While internal negotiations would undoubtedly be difficult, it was hoped that all countries understood the problems and would implement policies to free trade with SA as quickly as possible, he said. The potential for the export of Dorbyl group products to Africa was considerable, he added.

Group CE Dawid Mostert said in his report that business conditions were expected to become more difficult. "As the constitutional reform process proceeds, it would be prudent to expect greater uncertainty which could very well neutralise productivity gains," he said.

The strategic actions of the past to broaden the group's base, the investment in human resources, and the modernisation of the plant boded well for the future, Mostert said.

A 13,5% increase in turnover to R2,8bn for the year to end-September was inadequate to sustain an improvement in group income. Operating income dropped 1,2% to R183,8m, with earnings a share dropping 1,8% to 345,2c from 351,4c. However, the total dividend for the year rose 3% to 103c.

Nova to buy Invicta bearings business

D Day 19/12/90 PETER GALLI (189)

DCM-listed Nova Constantia is to acquire the bearings business of Invicta Bearings via its wholly owned subsidiary Table Bay Holdings in a deal worth about R28m, it was announced today.

Nova Constantia is involved in the engineering, leisure and textile industries. In terms of the agreement, Invicta will be transferred to Table Bay Holdings.

As consideration, Invicta will receive 14-million 14% compulsory convertible preference shares in Nova having a par value of 1c each issued at a premium of 99c each. These will be convertible into ordinary shares in Nova on a five-for-one basis on or before January 1 1996.

In addition, Invicta will receive an amount of R10m in cash which will be utilised to redeem the 10-million 20% compulsory convertible subordinated redeemable debentures of 100c each issued by Invicta to Nova.

Invicta will also receive R4m on loan account which will bear interest at the prime bank overdraft rate with the capital sum being paid to Invicta on or before January 1 1993.

The announcement said that had the transaction been in effect for the year ended March 1990, the earnings of a Nova ordinary share would have increased by 1,2c to 4c, while net asset value would also have increased by 1c a Nova ordinary share to 39c a share.

The financial year end of Nova is to be changed to end-December with effect from December 1990 to coincide with that of Invicta.

The directors of Nova announced that they intended to proceed with a one for four consolidation of its issued ordinary share capital. The resolution to give effect to this would be submitted to shareholders for consideration at a general meeting, they said.

New venture could boost Fralex

B/Day 21/12/90

CHARLOTTE MATHEWS

THE venture by Fralex into underground mining will have a significant effect on the group's long-term profitability, although the group's short-term outlook is negative.

Fralex is the holding company for materials handling company Fraser Alexander.

Financial director Les Maxwell said yesterday the group's recent venture into underground mining on its own account had uncovered some deposits and feasibility studies were now being done.

Fraser Alexander had mined chrome deposits in the past and it was likely to look in that direction as well as mining gold, coal and other minerals if the opportunity arose.

In the group's annual report released in September Fraser Alexander chairman Peter Flack warned that a decline in activity had been experienced in several of the group's operating divisions in the preceding six months.

Maxwell said this still held true.

"I don't think our results will be as good as last year. Certain of our markets have been affected by factors which were not as clear in September as they are now -- for example, township violence has prevented getting any concrete products into the townships.

"Tenders and inquiries are now starting to come in but we are uncertain if we will be able to recapture the fall in volumes experienced in the last three months."

Doubled

The decline in the group's shares reflects this perception. Holding company Fralex's shares have slipped nearly 40% in the last six months from 925c in May to 560c yesterday. In the five months from December 1989 to May 1990 the shares doubled from 450c and trade was frequent. At their peak the volume of shares traded was nearly 80 000 in one day.

Operating company Fraser Alexander's shares closed at 950c after climbing to R13,50 in August from 760c in December.

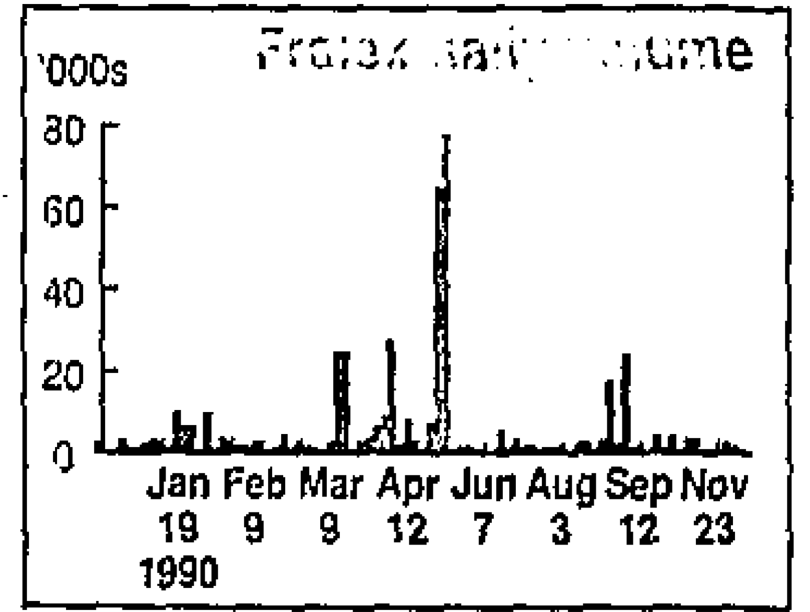
Analysts are unable to offer any conclusive explanation for the shares' movement.

Fralex holds 72,9% of Fraser Alexander, whose core business is handling mining and industrial tailings.

The group's five-year profit history reflects steady growth which has seen earnings climb from 37,6c a share in 1986 to 165,5c a share in the year to June 1990. In the same period total assets have risen from R46m to R142m.

Fralex shares are tightly held. According to the latest annual report, directors and employees hold 34,8% of the issued share capital, pension funds, insurance companies and other corporations hold 45,2% and another 44 individuals hold 16,6%.

Of the 27,1% of Fraser Alexander shares not held by Fralex, pension funds, insurance companies and other corporations hold 22,4%.



Graphic: FIONA KRISCH Source: JSE

Maxwell said the shares tended to trade thinly as a result of this structure and the price moved sharply on small trade volumes.

He believed the group's track record and expectations of continuing growth in earnings was the reason for the upward movement in the share price this year.

The large volume movement in May was believed to have been primarily the result of one major institution balancing its holding in the group between Fralex and Fraser Alexander.

ENGINEERING

EXPORTS

1990

Haggie to mark time in current situation

Diagonal Street
Star 29/3/90 (189)
LYNNE PEACH

Brokers have warned shareholders not to expect too much this year from engineering group Haggie.

They say profits might not do much more than drift sideways because of the possibility of further increases in interest payable, coupled with an expected cool-off in both local and export business.

In the annual report, chairman Grant Thomas says 1990 will primarily be a year of consolidation.

As far as exports, which have always accounted for a meaningful proportion of Haggie's sales, are concerned, he says commodity prices have declined and the competitiveness of the group's products on overseas markets is continually changing.

Despite the negative factors, including the expectation that local consumer and government spending will continue to decline in the medium term, Mr Thomas remains cautiously optimistic that earnings will reflect an improvement in 1990.

The Haggie group, in which listed Amic and Malbak each have a 36 percent stake, comprises a number of subsidiaries, operating primarily in steel-rod conversion, non-ferrous metals and light engineering.

In the year to December 1989, improved results from all three sectors pushed group turnover up 35 percent from R874,7 million to R1,2 billion.

Operating profit increased a lower 29 percent from R116 million to R150,2 million.

Mr Thomas says that the fall in the operating margin from 13,3 percent in 1988 to 12,7 percent was mainly the result of the higher copper price.

After a significant increase in the interest bill, pre-tax profit rose 22 percent from R114,1 million to R138,7 million.

The rise in net interest paid from R2 million to R11,5 million is attributable to increased working capital requirements, the ongoing capital investment programmes, acquisitions and the higher rates of interest prevailing during the year.

A decline in the effective tax rate from 35,4 percent to 34,5 percent, due to further recouping of assessed tax losses and the higher level of export activities, allowed taxed profit to climb 23 percent from R73,6 million to R90,8 million.

A reduction in preference dividends pushed attributable profit to R78,5 million — 28 percent higher than 1988's R61,5 million.

Based on a higher number of shares in issue, earnings per share rose 27 percent from 319,7c to 406,2c.

The dividend for the year was 1?c a share, compared with a payout of 128c the previous year.

The balance sheet showed a significant increase in borrowings from R59,3 million a year ago to R108 million.

As a result, gearing deteriorated from 19,4 percent to 25 percent. Net asset value appreciated 1? percent from R16,84 a share to R19,38.

Mr Thomas says that in the current year individual company managements will be giving considerable attention to working capital with a view to reducing the interest burden and improving balance-sheet ratios.

Haggie, priced at R29, is trading on a P/E ratio of 7,1 and provides a dividend yield of 5,4 percent.

In view of the unexciting outlook for the year, brokers are of the opinion that the share is full priced at current levels.

COMMENT: Haggie's share price has been in an uptrend since the first half of 1988.

It peaked at R31 a couple of weeks ago before falling back.

The short-term trend will turn unfavourable if the price drops below the current level of R29.

SA plant for Israel

DRYTECH, an engineering company, has received its first major export order for a cereal-processing plant.

The R1-million contract has been signed by Israeli Edible Foods Corporation.

The plant will be built in the desert town of Arad, overlooking the Dead Sea, 158km from Tel Aviv. The machinery will be subjected to severe climatic conditions, temperatures ranging from below zero to above 50 deg C.

The Jetzone equipment, made in SA under licence from Wolverine Corporation of Massachusetts, in SA, is used extensively in American, Japanese and European food industries.

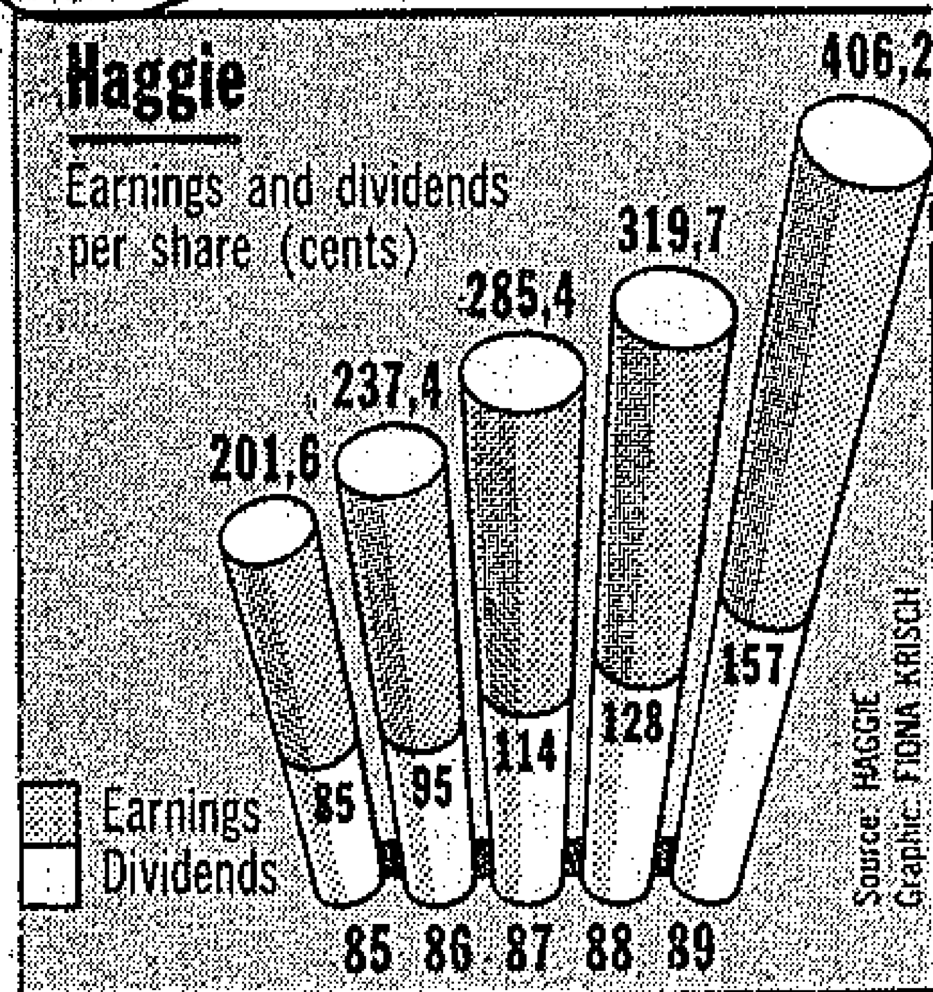
The system produces a fluid bed of hot air without the use of a perforated belt or plate and produces snack foods at low cost.

5/11/90

(189)

Engineering giant takes off

(189) BDay 9/2/90.



SYLVIA DU PLESSIS

ENGINEERING giant Haggie has boosted earnings by 27% to 406,2c (319,7c) a share in the year to December and lifted total dividends by 22% to 157c (128c) following an exceptional first half.

The group, whose activities include the manufacture of wire rope and non-ferrous metals, posted real growth across the board after turnover topped the R1bn mark for the first time, growing 35% to R1,2bn from R874,7m.

Attributable earnings were 28% up at R78,5m despite an interest burden of R11,5m (R2m) — reflecting short-term loans of R95,2m (R55,8m) — which pared pre-tax income to R139,6m (R114,8m).

☐ To Page 2

Engineering giant

BDay 9/2/90 (189) ☐ From Page 1

MD John Feek said in an interview yesterday the group's performance had been "creditable", with all divisions — steel rod conversion, non-ferrous metals and light engineering — reporting volume increases and contributing to the bottom line. Subsidiaries include Haggie Rand, Copalcor and Somta Tools.

In addition, the export market for the group's products rose by 60% in rand terms, compared with a 30% rise in 1988.

However, Cosatu's ban on overtime in protest against the Labour Relations Amendment Act had "its effect" in the second half.

On prospects, Feek said the current year would be one of consolidation, during which management would "get to grips" with recent acquisitions and improve its working capital structure.

"We're not happy with the 25% gearing — it should be much lower," he said.

The good results have been expected by the market, which pushed the shares up earlier this week to a new high of R30. They were well bid at that level yesterday.

SHIP REPAIRS FM 8/6/90

Local is cheaper (189)

In recent weeks, engineers who repaired vessels in SA shipyards have established that work can be done at least 30% cheaper than in most European yards.

Singapore provides the keenest competition, in price and turnaround, but has few customers from the Indian Ocean. Heavy congestion in its yards forces shipowners to give many months' notice before the arrival of their vessels.

Repair superintendents say Cape Town shipyards are cheaper than those at the

FM 8/6/90 (189)

Spanish port of Cadiz and the standard of work done is generally better. Lisbon could possibly equal SA ship repair prices but it remains advantageous for vessels trading in the south Atlantic to patronise the local yards.

Malta has developed a major shiprepair industry which is said to do work cheaper than SA but it is generally felt to be of a poor standard.

There is little doubt that ships operating in the western Indian Ocean or south Atlantic recognise Durban and Cape Town as the best ports for repairs. Even oilrig tenders operating off the West African coast use Cape Town for refits.

Two government-owned Romanian factory trawlers have gone to local repair wharves for extensive overhauls. An oilrig, towed round the Cape to a new drilling site, should also spend many thousands of rands in maintenance and repairs — all paid for in US dollars — after tugs deliver it to Cape Town.

Bateman firm begins major overseas thrust

BD 25/7/90 MARCIA KLEIN (189)

IN A major thrust overseas project management and engineering group Bateman Project Holdings (Batepro) — part of the Edward L Bateman group — has secured exclusive rights for the development of a number of gold and base metal mining projects in Argentina involving a capital commitment of about $500m (about R1,3bn), executive chairman John Herselman said yesterday.

Herselman said significant progress had been made in locating parties potentially interested in funding the projects. The major deposit to be developed was copper.

The Argentinian authorities would share in the profits of the development which was the product of 15 years involvement by Batepro in Argentina, Herselman said. Feasibility studies on the deposits were being made.

Herselman refused to comment on the financial impact of the developments on the company.

Batepro is set to increase the proportion of its overseas involvement as the Mossel Bay project nears completion. It has been involved in the construction of SA's first offshore gas platform at Mossel Bay.

Herselman said this was an "opportune time to embark on an international expansion programme", as changes in SA and elsewhere would open up markets previously denied SA-based companies.

"The underlying thrust of this expansion will be our considerable strengths in mineral and mining-related technologies and our specialist capabilities in the non-mining sector such as for the sugar industry," he said.

Operations already existed in the US, Europe, Israel and the Pacific Rim, with opportunities for expansion in Chile, Argentina, Hawaii, Malawi, and parts of Asia.

Batepro, which designs and constructs plants for industry, announced other expansions in its international operations yesterday.

☐ To Page 2

Bateman firm

BD 25/7/90 (189) ☐ From Page 1

Batepro's US operation has recently been awarded the largest contract in its 15-year history for services to a gold recovery plant in Idaho. The group has established a permanent branch in Santiago afterthe completion of two contracts in Chile.

Batepro subsidiary Sugar Consultants International has been active in Colombia for more than five years, and Herselman said it expected to set up a permanent base there in the near future.

The company has also completed a R1bn project at Argyle diamond mine in Australia. Expansion is expected at Batepro's six operations involving at least 45 projects in mineral and mining technologies worldwide as well as in the sugar industry.

The company expects to develop its capabilities organically as well as by means of acquisitions and strategic alliances.

NEI's approach pays off

Star 6/8/90 189

Bottom Line

MICHAEL MENOF

Northern Engineering Industries (NEI) is a group of engineering companies making, supplying and maintaining energy conversion and distribution equipment and specific engineering products and services. Its three divisions — mechanical, electrical and diesel/industrial — sell to a broad customer base.

In 1989 exports represented 7,5 percent of sales — up from 1988's 3,1 percent. The ultimate holding company is UK-listed NEI.

With the downturn in the economy, let's not expect earnings increases to be spectacular. Rather, we should look carefully at management and applaud it for steering the ship through troubled waters.

If a company is profitable and well-managed, with net worth increasing, forget about the JSE price. Be happy your investment is backed by solid assets.

NEI performed exceptionally well, despite the limited growth rate of two percent in 1989 caused by political upheaval curtailing the engineering sector's real growth without foreign capital to stimulate the recovery.

It had a record order intake for 1989, which exceeded budget and was more than 33 percent above 1988, says management. The forward order book exceeded R400 million at end-December 1989, giving 1990 a solid base to build on.

While 1989 sales jumped to 25 percent, the bottom line barely exceeded 1988, due to a higher tax rate of 46,1 percent (1988: 37,6 percent). Lower earnings per share were due to 227 800 additional shares issued to fund acquisitions.

Working capital utilisation improved and once again the group ended the year with substantial cash resources. Import substitution plans have been accelerated. The Mossgas project has helped all engineering companies. NEI is no exception, having work in progress from this source exceeding R115 million. Debt is predominantly Bills Payable, which is nothing more than trade creditors giving extended terms and well covered by group working capital.

Management conservation was well displayed in the financial statements where sales totalled R587 million (1988: R438,7 million), producing operating income of R69,1 million (1988: R57,3 million).

A R4,6 million abnormal item — revision of method of recognising core engine stock values — was expensed in 1989. Net financing costs jumped to R9,5 million (1988: R6,8 million). After tax of R27,5 million (1988: R19 million) and outside shareholders' profit of R207 000 (1988 nil), the bottom line was R31,96 million).

Earnings per share were 519,7c (1988: 527,6c) and the annual dividend unchanged at 211c. Below-the-line extraordinary write-offs net of tax of R2 million (1988: R5,1 million) could have included R3,7 million goodwill on purchase of subsidiaries, which was deducted from non-distributable reserves. Why was there no goodwill accounting policy, and shouldn't the write-off be made through the income statement?

Sales rose in all three divisions. The mechanical and diesel/industrial divisions increased percentage income contributions, while the electrical division fell back. Mechanical benefitted from the technology agreement with the UK company, which helped International Combustion Africa obtain orders for 43 heat exchanges for Mossgas. Demand for distribution switchgear improved at Reyrolle, but flameproof switchgear for collieries declined.

Acquisitions included an 85,5 percent interest in AG Walker for R5 million, financed largely by 131 800 NEI shares. An 80 percent stake in Kilber Automotive Products for R2,8 million was settled by 87 500 of NEI shares.

The balance sheet is strong, with shareholders' funds of R171,6 million (1988: R149,6 million). Working capital improved to R106,4 million (1988: R90,3 million), which included substantial cash resources of R47,7 million (1988: R44,3 million).

Debt is really only R5 million (1988: R5,9 million), but management has included Bills Payable (part of working capital) of R113,9 million (1988: R96,6 million) with its debt disclosure, presumably as it is writing off interest immediately rather than capitalising it to stock and later claiming the write-off in cost of sales when sold. At least it gets the tax write-off for interest sooner.

Net worth per share rose 10 percent to R27,23 (1988: R25,03), compared with the current JSE price of R29.

The group has a superb order book and NEI's management has shown that where there's a will there's a way and that the conservative approach pays dividends.

High interest rates help to cripple Haggie

B Day 10/8/90 (189)

CHARLOTTE MATHEWS

ENGINEERING group Haggie has maintained its dividend at 47c a share for the six months to June, with results being crippled by high interest rates, the general economic downturn and the cost reduction by the mining industry.

Earnings fell 11,3% to 184,1c (207,5c) a share on a slightly increased number of shares in issue.

The Haggie group's activities include steel-rod conversion, non-ferrous metals and light engineering. It is 36% held by Amic and 36% by Malbak.

MD John Feek was reluctant to take a view on what could happen in the second half of the year.

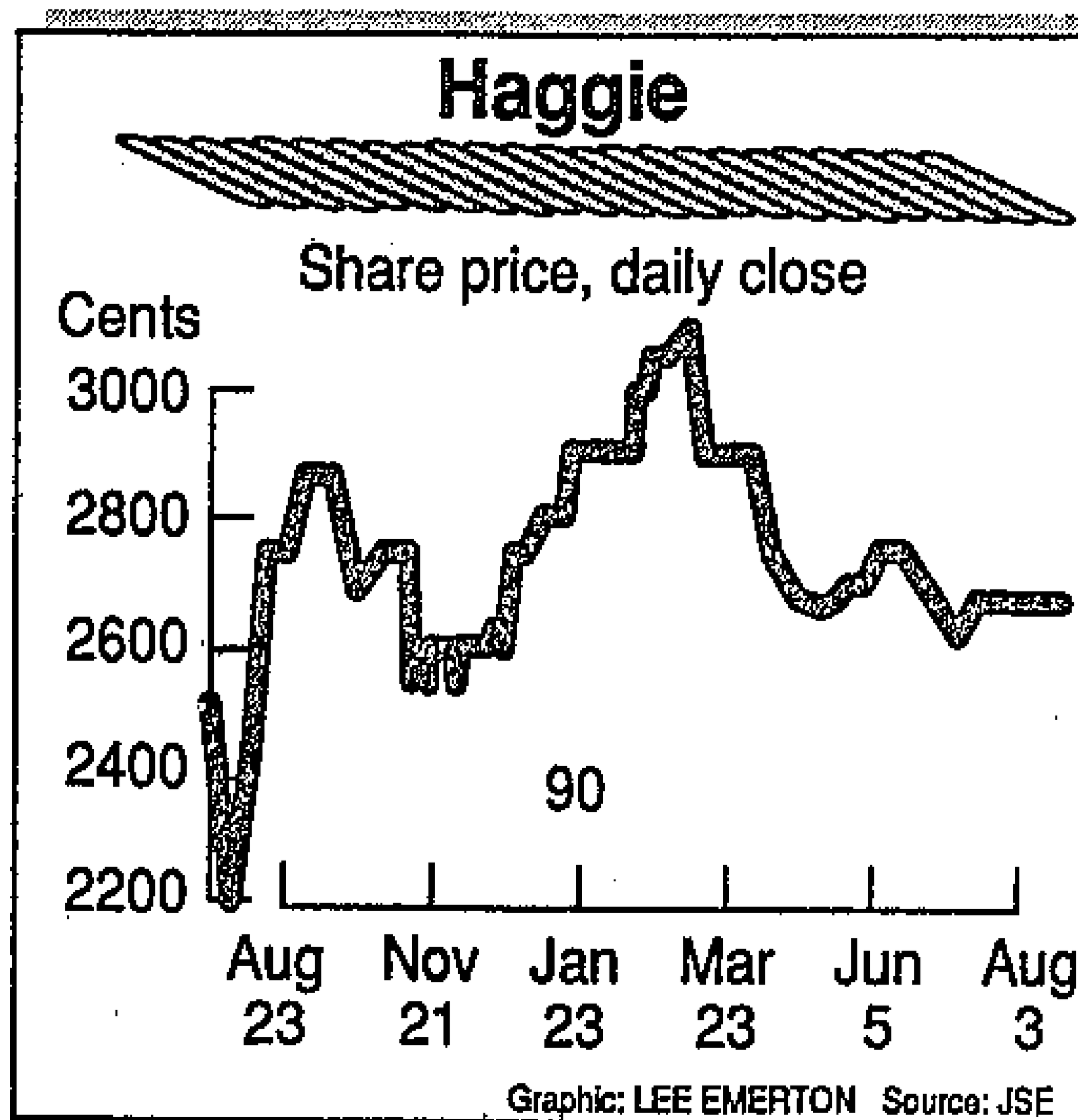
"On the basis of existing order levels and market indicators, and subject to there being no further industrial relations difficulties, we expect sales and earnings for the rest of the year to be similar to those of the first six months."

Feek said a lock-out in 1988 had boosted results for the first six months of 1989 as it had caused a backlog of orders.

This distorted comparisons between interim figures for 1989 and 1990.

Turnover rose 2,8% to R601m (R584,7m), but attributable profits declined by 10% to R35,8m from R39,95m.

The contribution of exports to sales volumes returned to its 1988 level of 12% from 14% for the 1989 year.



Feek said international trading conditions were difficult, although for an unknown reason the second half of the year generally seemed to be better than the first.

The company's exports are to some extent cushioned by having a wide range of trading partners.

Operating margins narrowed to 12,1% against 13,8% in the first half of 1989 and 12,7% for the 1989 year as a whole.

In this period Haggie experienced disruptive labour action and in some cases was forced to train new labour.

But Feek emphasised the group had "not been an exception to the general trend in industry".

The interest bill came close to doubling to R9,2m from R5m in 1989, reflecting the R25,7m climb in long- and short-term loans on the balance sheet.

The percentage of borrowings to shareholders funds rose to 28% from 26% in June 1989 and 25% in December. In 1989 Haggie bought Ropes and Twines for R16,5m, Titan Chain for R3m and the remaining 50% of Fascor.

With effect from July 1, it bought out the 26% minority in Somta Tools for R6,2m, making the company a wholly owned subsidiary.

Tighter margins put squeeze on Haggie

By Ann Crotty

A squeeze on operating margins and a hike in interest payments combined to knock Haggie's earnings 11,3 percent to 184,1c (207,5c) a share in the six months to June.

An unchanged interim dividend of 47c has been declared.

Turnover was up a nominal three percent to R601 million (R584,7 million).

But, reflecting the much tighter trading conditions, operating margins shrank from 13,8 percent to 12,1 percent.

Group MD John Feek says exports are continuing to make a valuable contribution, accounting for 10 to 15 percent of volumes.

Interest payments were up sharply from R5 million to R9,1 million because of the increased level of debt (both long- and short-term) and higher interest rates.

A lower tax rate — down from 38,4 percent to 33,5 percent — helped curtail the drop in taxed income to 8,4 percent to R42,2 million (R46,1 million).

Attributable income was down 10 percent to R35,8 million (R39,9 million).

For Haggie, the effects of the general downturn were aggravated by cost-reduction campaigns in the mining industry and disruptive labour action.

Looking to the second half, Mr Feek says: "On the basis of existing order levels and market indicators, and subject to there being no further industrial relations difficulties, we expect sales and earnings for the rest of the year to be similar to those for the first six months."

Asseng hurt by hard times

BDay 15/8/90 (189)

ZILLA EFRAT

ASSOCIATED Engineering (Asseng), part of the Turner & Newall group, is feeling the brunt of the economic slowdown and high interest rates, like other companies in the motor components industry.

In the six months to June, attributable earnings fell 54% to R2,9m or 7,2c a share. Its interim dividend was halved to 3c a share.

Directors say high interest rates caused Asseng's after-market customers to reduce their stock levels.

In addition, lower demand for heavy duty components resulted in operating losses at its Roodeport factory. The industrial sector of its business is also experiencing a slowdown.

Recessionary conditions will delay the benefits of the R25m capex programme and the late commissioning of expansion projects has affected Asseng's ability to service some export markets.

Turnover fell 5% to R60,8m (R64,1m) and a squeeze on margins saw operating profit fall 36% to R6,2m (R9,7m).

A jump in the interest bill to R2,6m (R1,1m) contributed to the 58% fall in pre-tax profits to R3,6m (R8,6m). But Asseng benefited from a lower tax rate at 19,4% (26,7%).

Directors have acted to reduce costs and lower production levels to meet reduced demand. They expect demand to stabilise once excess stocks in the marketplace have been eliminated.

HAGGIE FM 17/8/90

Looking to exports

Engineering group Haggie is not simply pinning its hopes on a recovery in local trading conditions to maintain long-term growth.

Group MD John Feek is assuming that SA's GDP growth rate will not exceed 1%-2% annually over the next few years. As a result, the group will look to exports to help maintain its own momentum. (189)

Exports contributed an average of 12% to group turnover the last couple of years. Unfortunately, the export side of the business is also going to become increasingly difficult. Margins will come under pressure from a more stable rand exchange rate and local inflation, so there may be no near-term panacea available from exporting.

After turnover fell by 3% to R601m in the six months to end-June, while operating income was 10% lower at R72,7m, Feek expects a marginally better second half. He is targeting a modest increase in sales and earnings, based on present order levels and market indicators and subject to no further industrial relations difficulties.

FM 17/8/90

As well as the hurdles facing most companies — high interest rates and the economic downturn — Haggie has had to deal with severe cost cutting programmes in the mining industry, which remains one of its largest customers. The second-half operating margin was nonetheless maintained.

Interest charges rose by 83% after borrowings had risen by R25m. Feek reckons that about R20m of this amount was used to fund the acquisition of Ropes & Twines and Titan Chain. (189)

He expects interest-bearing debt will shrink before year-end, though he declines to quantify the decline. One factor that can reduce borrowing requirements is the tax liability. First and third provisional tax payments in the first half of the year usually add to pressure on borrowings.

Even with the expansion in absolute borrowings, though, the debt:equity ratio has only increased to 0,28 from 0,26 at end-June 1989. Feek sees no cause for concern about this level of gearing. Management is also keeping a close watch on the interest and preference dividend cover. This has dropped sharply to 7,3 times from a 16,8 high in 1988 and now stands only slightly above the 1985 level of 7,1.

Haggie has continued to consolidate acquisitions made over the past 18 months, which are expected to help fuel growth later.

These and the export performance could significantly influence the second half result. The degree of stability on the industrial relations front is another major variable for the group, which employs more than 9 000.

The R27 share price has fallen from a 12-month high of R31 and offers a yield of 5,8%, roughly in line with the engineering sector average of 6%. *Gerhard Slabber*

Big three put Malbak back on track

S Times, 7/10/90 (189)

MALBAK, harshly judged for the mishaps at Quality Tyres and MY Holdings in London, can redeem itself in newly formed Standard Engineering.

Standard Engineering was formed only two years ago by putting a number of Gencor's engineering companies into Standard Brass.

Standard Brass Foundries was sold in 1989. Recently Standard Engineering took out minorities in Hall Longmore, Astas and Union Carriage to emerge an engineering major with a turnover of R700-million and total assets of R427-million.

All the constituent companies have been under Malbak's management for three years — and all are performing a lot better.

I visited three of the new mega-group's most important interests, **UNION CARRIAGE**, one of only two significant builders of locomotives and rolling stock in SA, **ASTAS**, the only gearbox and axle manufacturer in SA and **HALL LONGMORE**, maker of large-bore steel pipes.

Under Malbak's management, all three companies — dogs in the hands of Gencor — have turned around. Results due out on Tuesday are expected to buck the plunging trend in engineering.

Standard is looking at a reasonable immediate future in spite of the downturn. Each of the downline companies is recovering the hard way — through exports.

Gencor's 'dogs' on a tight leash

By DAVID CARTE

Against stiff international competition, Union Carriage has won contracts for the supply of passenger trainsets to Taiwan.

Delighted

After delivery of the first set, the Taiwanese are apparently delighted. They have placed another R120-million order and Union Carriage is busy tendering for a third contract worth more than R200-million.

Union Carriage trebled turnover to R41-million in the year to August 1990. Confirmed sales for the year to August 1991 are more than R110-million — a nine-fold increase in three years.

Says chief executive Bob Bingham: "We have a firm order book of R240-million, 70% of which is export."

Forecast bottom line earnings for the year to August 1990 were R4,5-million and Mr Bingham is shooting for R8-million in 1991.

Astas is adjusting to a depressed truck and bus market. A year ago the company could not meet demand working two shifts and weekends on the assembly line. Today there is only one shift. Astas makes gearboxes and axles at competitive, international prices but is restrained in export markets by agreements with its licensors, Mercedes-Benz AG, MAN AG and ZF AG.

It hopes to be able to sell products back to them.

Fixed assets are in the balance sheet at R65-million, but replacement value is more like R300-million, says financial director Jan Breed.

By the time managing director Leighton Lee came in from John Deere at Malbak's request two years ago, Astas had accumulated losses of R25-million.

Hall Longmore has two plants, one of 30 ha in Wadeville, near Germiston and another of similar size in Luipaardsvlei, Krugersdorp.

The company has the capacity to produce 200 000 tons of large diameter steel piping a year. There are two basic types of pipe — one made by welding together a steel plate bent into a semi-circle and another, which is made from bending and welding coiled steel into spiral pipes.

The total local market for electrical resistance welded pipe is 40 000 tons, of which Hall Longmore claims 50%. It expects to increase exports from 13 000 to 15 000 tons this year. Hall Longmore has plenty of excess capacity for export.

Priority

The company scored handsomely out of emergency water measures in the past. Continuing drought and urbanisation in southern Africa will ensure that water reticulation enjoys high priority in the new SA.

The big boost to Hall Longmore's bottom line will come when it qualifies for the standard mark of the American Petroleum Institute. Then it can charge $40 a ton more for its exported pipe.

Hall Longmore made R15-million at the bottom line last year and expects to level peg this year.

Standard Engineering's share price of 582c is 6,5 times earnings and a premium of 21% to net assets. This compares to Dorbyl's PE of 4,2 and Haggie's 6,8. All three seem very reasonable.

Standard engineers big gains in its profit figures

BRENT MELVILLE

AFTER reaping the rewards of a bumper 12 months to end-August, Standard Engineering is poised for further growth on the strength of export orders worth R300m for fast-tracked subsidiary Union Carriage.

Standard, the rejuvenated nucleus of Malbak's engineering interests, improved attributable profit 25,1% to R25,7m (R20,5m) after sharper operating margins enabled an 85,2% rise in operating profit to R80,1m (R43,2m).

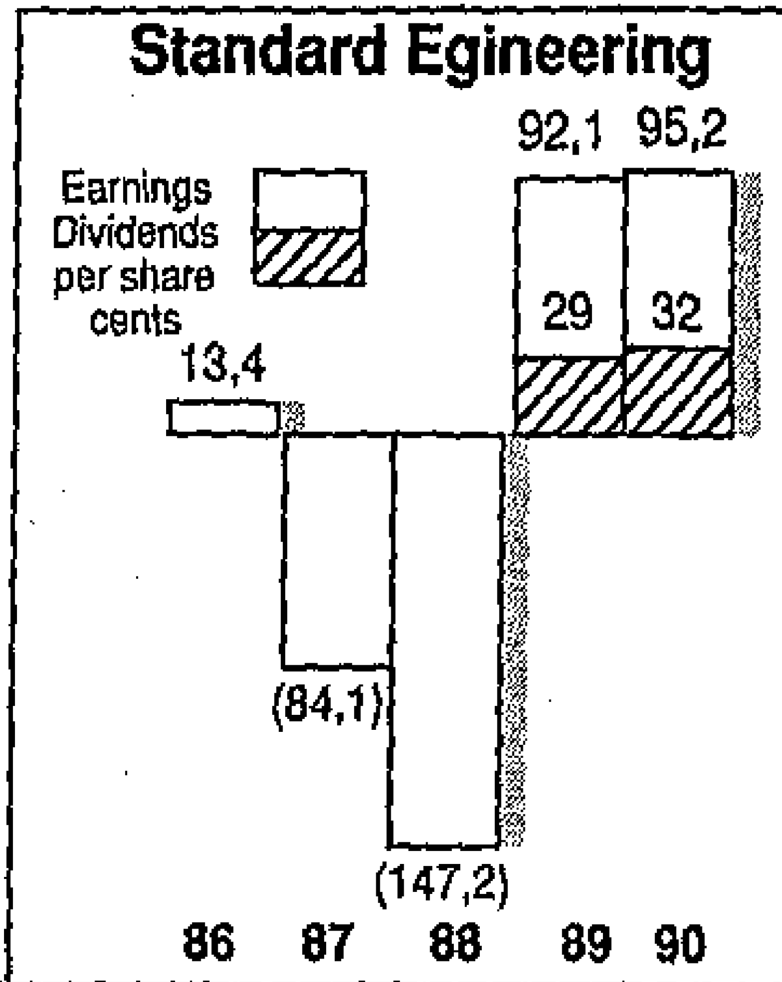
This came off a 69% improvement in turnover to R690,5m (R408,9m).

Effective from the beginning of the new financial year, Standard acquired 100% of Astas Holdings (previously 58%), and increased its interest in Union Carriage from 46,9% to 70,7%.

At a cost of R55m, settled by the issue of 7,3-million ordinary shares and R14,6m borrowings, the acquisitions diluted Malbak's interest in Standard from 92,5% to 72,8%.

Chairman Hugh Brown said in an interview yesterday: "In addition to improving the marketability of the Standard shares, this transaction will further increase earnings and cash flows, reduce gearing and improve the capital base of the group, and increase the rate of development of export markets, thereby enhancing long-term growth and profitability.

"It will have the effect of upping Union Carriage's contribution from 6% of group earnings to about 15% next year, based on the company's Taiwanese contracts worth about R100m a year over the next three years."



Borrowings for the year under review increased from R39,9m to R66,3m, increasing gearing slightly to 30,1% (28,3%), well inside the group's gearing constraints, he said.

Divisionally, the sole underachiever was pump manufacturer Fluid Holding which "had some problems in the last few months — now resolved", Brown said.

Hall Longmore, which manufactures large-bore steel pipes and special fittings, had been streamlined and restructured with emphasis placed on developing export markets. It contributed 38% to earnings.

Brown said Standard was spending R10m on revamping one of the division's pipe mills.

"We are very optimistic about our product, for which the export market is virtually unlimited."

The group's aggressive export drive was proving successful and he expected exports would account for about 20% of earnings next year from about 10%.

He said, however, that prospects for the local market did not look as encouraging.

Pedestrian growth at restructured Standard

Star 12/10/90 (189)

By Ann Crotty

Malbak's engineering subsidiary, Standard Engineering (previously Standard Brass) has reported a marginal three percent improvement in earnings to 95,2c (92,1c) a share for the 12 months to end-August.

A final dividend of 18c (19c) a share has been declared resulting in a total dividend for the year of 32c (29c) a share.

The pedestrian earnings growth does not seem to justify the sharp hike in the share price during the past 15 months — from a low of 320c to a current level of 580c. Analysts note that the sharp appreciation in the share price reflected the market's enthusiasm for the major restructuring that has taken place since the group's dismal earnings performance back in '87 and '88 — it believes this will heighten medium-to-longer term prospects.

The restructuring involved Standard acquiring from Malbak its interests in four engineering subsidiaries (Abertech Industries, Fluid Holdings, Hall Longmore and Union Carriage). It resulted in Standard becoming Malbak's engineering arm.

In the process Standard disposed of its low margin, poor performing foundry business.

These latest earnings figures put the share on a price/earnings rating of 5,47 times compared with the average for the sector of 5,5 times.

One bullish point for the Standard share is that, following the more recent acquisitions, Malbak's stake has declined from 92,5 percent to 72,8 percent. This should make it more attractive to institutional investors.

The financial '90 figures do not include any contribution from the recent transactions which saw Standard acquire the remaining 32,4 percent of Astas, the remaining 41,8 percent of Hall Longmore and a further 23,8 percent of Union Carriage and Wagon. The 7,3 million new Standard shares and the R14,6 million cash used to pay for the acquisitions are also not included in calculation of the financial '90 results.

Turnover in financial '90 was R690,5 million — up 68,9 percent on the previous year's R408,8 million. Chairman Hugh Brown notes that on a comparative basis the increase in turnover was around 25 percent.

Some R41 million of the turnover related to exports. Mr Brown expects the export turnover figure to be up to R100 million in financial '91.

Operating profit was up 85,2 percent to R80 million (R43 million). Finance charges were up sharply to R18,5 million (R7,2 million). According to Mr Brown most of this increase reflects the affect of Astas' debt being on the Standard balance sheet and also the interest payments on the R20 million borrowings used to fund the acquisition of the initial 67 percent stake in Astas. Despite the increase, gearing remained at a comfortable 30 (28) percent.

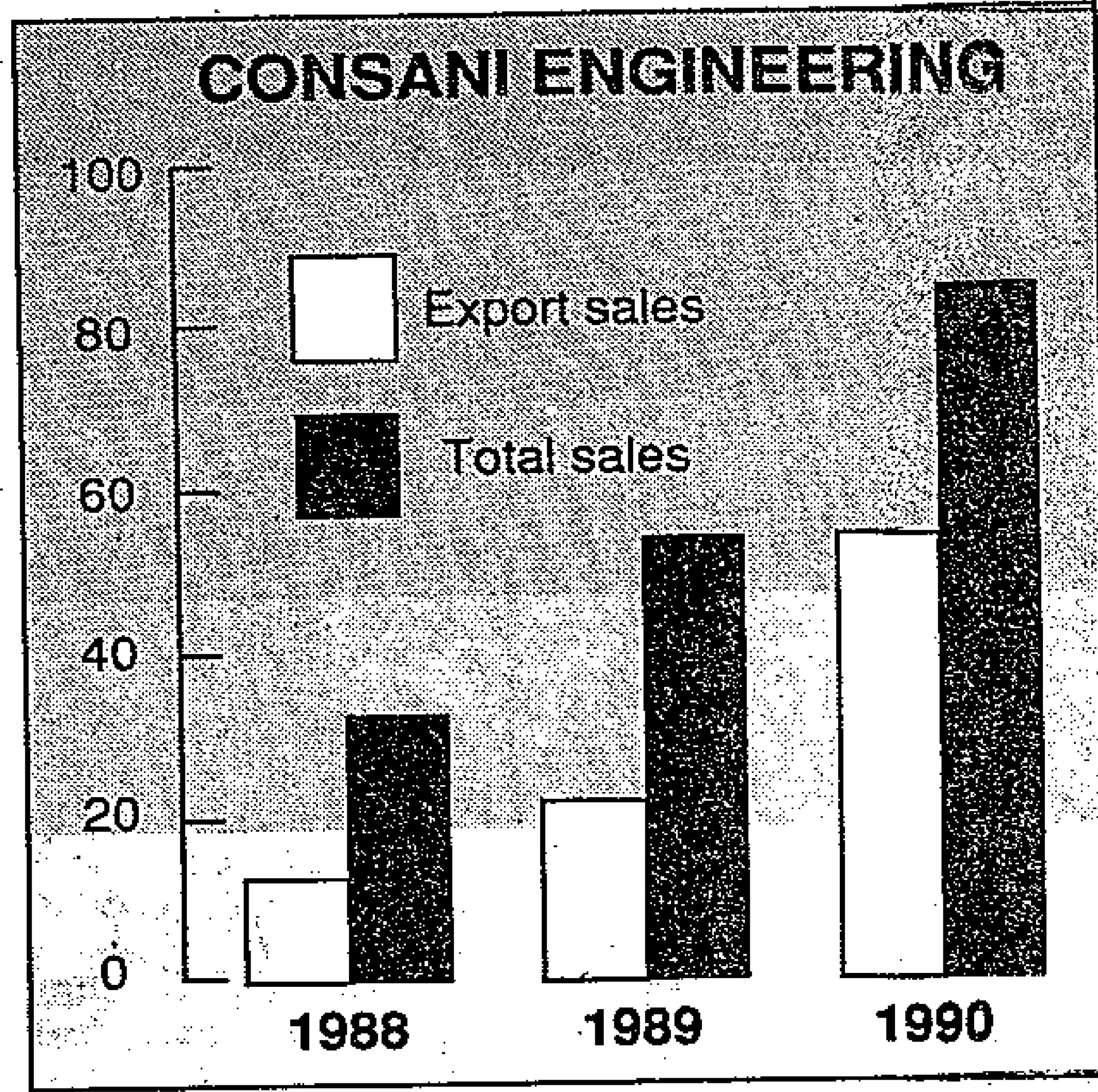
The tax bill was more than double at R21,3 million (R9,7 million) reflecting the increase in tax rate to 34,7 percent (from 26,9 percent) as the group's assessed losses were absorbed.

Mr Brown believes that the tax rate could be held at around 30 percent if the group achieves its target growth in export sales.

Taxed profit showed a 52 percent advance to R40,2 million and the existence of Astas' minority shareholders in financial '90 also meant a hefty increase in outside shareholders' interest to R14,5 million.

All of this meant that the increase at attributable profit level was just 26 percent — at R25,6 million (R22,3 million). The increase in weighted average shares in issue further diluted the increase to 3 percent.

Consani leads field in tank containers



Graphic: LEE EMERTON Source: CONSANI

CONSANI Engineering, a fully owned subsidiary of JSE-listed construction and engineering group Genrec, is one of the world's top two manufacturers of ISO tank containers used in transporting hazardous liquids, says MD Ian Bell.

Consani holds an estimated 17% share of the world market for this product, an effort achieved with a considerable amount of hard work at its home base in Elsies River.

In the year to June 1990, Consani pushed its exports up 151%, while in the year to June 1989, exports grew by 71%.

Specialised

An average of 80% of raw materials used to make the specialised tank containers are from SA.

"We have had massive growth in the past two years. We are producing four units a day," Bell says.

While the world market for these containers is "slightly depressed in the short-term", there is significant potential for expanding into new markets.

"New markets are opening up. In June this year, we made an exploratory visit to Eastern Europe and there is significant potential there.

"The forthcoming deregulation of the transport industry in the US opened a potentially vast market for ISO containers.

"We had to overcome several hurdles in entering the US market.

"Not least of which, geographical location was a major disadvantage. European and US producers can deliver their tanks into serive within a few days of ex works delivery.

"We, on the other hand, lose three weeks shipping time from Cape Town. It also costs the clients more as they pay for the shipping," Bell says.

This was overcome by sourcing products, such as wine and fruit juices, leaving SA which could be contained in the tanks.

"A substantial effort was made to promote Consani by exhibiting at transport exhibitions.

"References from existing clients, upfront assistance in design and selection of product and constant technical backup have enhanced Consani's image in the market place."

Expanding

If the US market develops, Consani will "definitely" consider expanding its operations.

"In 1988, we virtually doubled capacity and in 1989 about 80% of of our production went to the US," Bell says.

The development of two new types of containers launched this year contributed about R4m to new export sales.

Fraser Alexander.

Nº 6

1985
R10 000
1990
R91 799

Mountain-mover Fralex

SI Times 2/12/90 (189)

By JULIE WALKER

…XANDER chairman Peter Flack …ometimes feels more strange to be …-listed company than to be a partner …orneys.

…record suggests that Fraser Alexander … for his services than did the courts. He …torney until 1985 when he and his team …disastrous company almost five years …n which the Top Companies' perform…ed.

…nically insolvent, the only factor that …five years is borrowing. …sen from R4-million to R34-million. The … scratch to almost 40%, the dividend …otal assets from R42-million to R142-

…es back to the start of the century when …d Fred …entical …one on …one on

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The brothers formed Fraser F Alexander in 1906 by merging their operations. The first general manager was a man called Daly, who bought control when the Alexanders retired.

Mr Daly's three sons subsequently joined the board and managed the company for several years. The Daly family is still a large shareholder.

Since those days, waste treatment has been the thread of the business — where there's muck there's brass. Fraser Alexander scores because it has been able to do it better and cheaper than its customers can

The requirements are the ability to manage mobile plant and labour.

Mr Flack became linked to Fraser Alexander as far back as 1979 on his return from a spell in America. He became an executive director in June 1985.

Vague

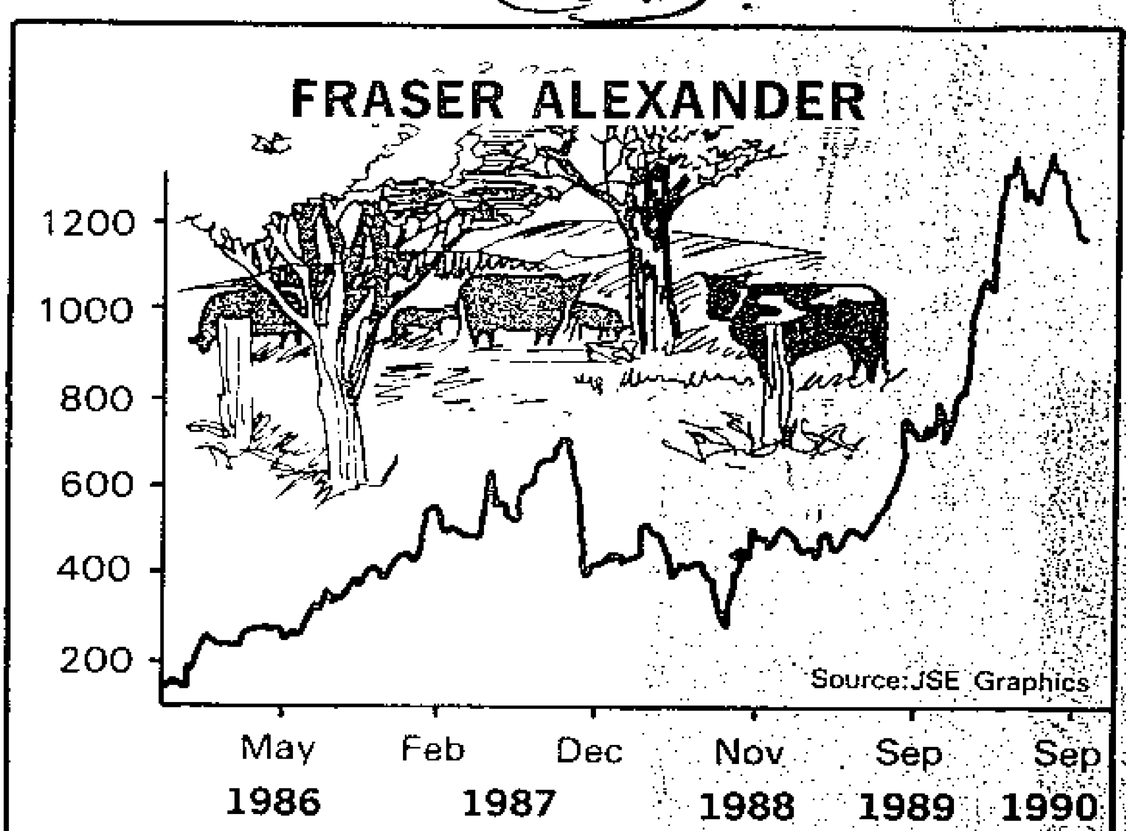
He says: "The gearing was 148%, and the books in disarray. We had to ask the banks how much money was owed because records were vague. Instead of borrowings shown as R14-million, the total came in at more than R29-million.

"There was no pension fund, no medical-aid scheme, no marketing, no industrial relations, the company was underinsured, the computer hardware was obsolete and there was no software.

"Management accounts were three months behind and there was no divisional breakdown."

It is all history now — return on shareholders' funds after tax reached 33% in the year to June 1990.

The listed structure involves pyramid Fralex, which holds 73%, with the public 4%, institutions 16% and directors and employees 7%. The biggest holding in Fralex is Rembrandt's 39%. The Daly family has 36% and directors and employees 18%, and the balance is in the hands of the public.



There are seven divisions in mining, mining services, construction, bulk materials handling, waste, concrete products and equipment trading, supported by group services.

The mining division produces 500 000 tons a year of mainly metallurgical quality coal, of which about 20% is exported. There is also an underground contracting company which handles backfill of tailings, laying of underground track, water and air systems and so on.

Its mining services division manages tailings, sewage and effluent.

The construction company operates mainly in mining infrastructure and supports the other divisions. It also competes against the majors for other work.

Landfill

Bulk Materials Handling handles fly-ash, coal between mine and power station, cleaning of power stations and industrial sites, including heavy-duty tasks undertaken by Muckbusters, and the highly visible revegetation of mining and other sites. The waste division handles landfill and site restoration on behalf of clients.

Concrete products include pipes, culverts and manholes, and concrete aggregate stone.

The seventh division, plant and equipment sales, deals in R14-million of equipment annually for both its own and clients' account.

Squeeze

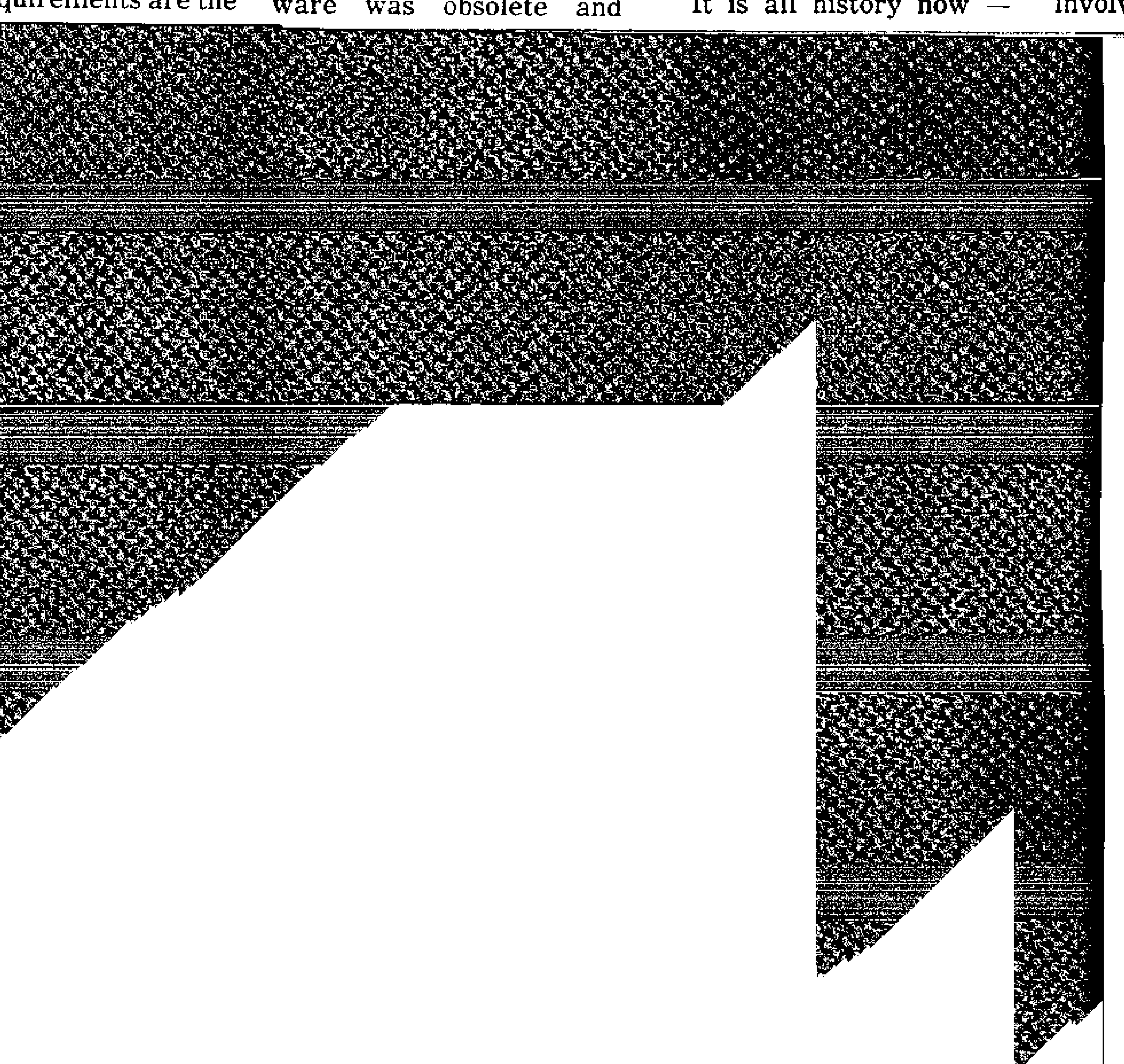
The group's eye-catching advertisements underline its ambition to be the biggest, best and most professional one-stop materials handling company in Southern Africa.

Mr Flack warns that times are tight, but he sees opportunity in adversity. He says tough times hurt small competitors far more than Fraser Alexander, that mining companies tend to look for the most cost-effective way of carrying out their activities by contracting out certain jobs, and finally, the squeeze gives Fraser Alexander an opportunity for self-scrutiny to cut out the fat.

PETER FLACK: Where there's muck, and lots of it, there's brass

Although the near term is difficult, the fields in which the group operates are essential, and projects cannot be deferred indefinitely. Mr Flack is confident about the future, and the spread of 160 sites means that the strong can offset the weak to some extent.

As the slogan says: Fraser Alexander can, and does, move mountains.



UK firm's move to Atlantis pays off

Star 18/12/90

By Blaise Hopkinson

CAPE TOWN — A British engineering company with a manufacturing base at Atlantis has just shipped its first export order to Britain, part of R10 million worth of overseas business.

Norwood Woodworking Machinery, is producing a full range of industrial and semi-industrial equipment.

The first consignment of 20 saws was shipped yesterday.

Norwood, which employs 150 people at Atlantis and at its Isando foundry, has begun a marketing drive aimed at increasing sales within South Africa.

Justified

The company moved to Atlantis to take advantage of the decentralisation benefits and high calibre of local labour.

Norwood chairman Peter Bullard said the expense of relocating to South Africa had been fully justified.

"We have combined the best of South African engineering expertise with the best of European woodworking machinery technology."

Norwood has engineering, casting and fabrication facilities and an international marketing and distribution agreement.

Dorbyl Marine lands German deal to build container ships

CAPE TIMES 27/12/90

Own Correspondent

DURBAN had the capacity, manpower and expertise to cope with the construction of three 133-metre container ships, following a multimillion rand contract landed by Dorbyl Marine.

Work on the contract, concluded with a German shipping magnate, is already well under way and is expected to be completed by 1992.

Commenting on one of the major coups in the shipping industry Mr K Zakrzewski, ship building manager for Dorbyl, said as far as he knew it was the "biggest single contract awarded to a South African shipbuilding firm".

The three ships have a gross tonnage of 9 300 tons and are the largest commercial vessels to be built in South Africa.

It has been said the contract will also provide a major financial injection for Durban's crippled economy.

Mr Zakrzewski said Dorbyl Marine had increased its workforce by 700 to handle the deal and he believed another 3 000 directly related jobs would be created.

He said one of the main factors in landing the contract had been South Africa's improved image abroad.

Approached for comment a spokesman for the African National Congress, Jill Marcus, said in principal the deal "sounded like a violation of sanctions".

However, she said she could not be "more specific" without having any knowledge of the details of the contract.

The ANC would not comment on whether it regarded such deals as a contravention of sanctions against South Africa. Mr Walter Sisulu, internal leader for the ANC, said he could not comment without becoming better acquainted with the facts.

MANUFACTURING — ELECTRICAL AND ELECTRONIC

1991

(189E)

have 20% of the...

Amic investing widely to diversify, strengthen

B/Day 20/12/91 (189E)

ROBERT WICKS

ANGLO American Industrial Corporation (Amic) has recently undertaken a series of investment moves aimed at strengthening the company in a number of different areas.

In a recent acquisition, Amic spent R46,5m for a further 2-million shares in the Ventron Group.

In doing so, Amic increased its holding from 22% to 29% in this leading high technology electronics and electrical group.

The consideration was satisfied by the issue of new Amic shares which were renounced in favour of the Anglo American Corporation and De Beers. The balance was settled with a cash payment of R2,5m.

Amic has also acquired, with effect from October 1 1991, a 51% interest in NF Die-Casting (Pty) Ltd, (NFD), involving a cash investment of R30m.

NFD is SA's leading manufacturer of Original Equipment aluminium wheels.

Following a recent R30m expansion project, the company is building up wheel production to 45 000 units a month.

Highveld Steel, a subsidiary of Amic, and Samancor have jointly acquired the stainless steel business of Middleburg Steel & Alloys in an acquisition valued at R500m.

Highveld's share of the cost of the acquisitions, amounting to R250m, has in effect been satisfied by the issue of an additional 16-million Highveld shares at R15,65 a share.

The stainless steel business will provide the nucleus around which the Columbus project will be developed.

Production

As previously announced, the Rheem division of Highveld has decided to proceed with a project for the manufacture of an all-aluminium beer and beverage two-piece can.

The can project, which will involve an investment of R150m, will eventually facilitate the production of 450-million cans a year.

Amic has acquired sufficient new Highveld shares in exchange for the issue of about 1,4-million new Amic shares at R88 each to maintain its stake in highveld at 52%.

It is understood that the above acquisitions will have no immediate material effect on Amic's earnings per share or net asset value per share.

FM 20/12/91 (189E) →

SANLIC FM 20/12/91

Race against time (189)

Confronted with recurrent speculation regarding his imminent demise, the late Aristotle Onassis reportedly responded that if such speculation continued for long enough, it would eventually be proved correct.

In similar vein, Sanlic has been forecasting a positive change in fortunes ever since earnings started to slide in 1989. So far, however, optimism has proved premature — 1991 saw further red ink splashed around and, to make matters worse, tangible net worth was reduced to R1,2m after extensive write-offs, giving a fully-diluted NAV of under 2c per share and convertible debenture, down from 20c in 1990.

Still, there are a couple of positive aspects. One is that this parlous state reflects, in part, the fact that management has at last taken the bull by the horns and closed the Greatrex division, a major source of problems ever since its acquisition from Elcentre in 1989. This decision, effective two weeks before the financial year-end, was the main reason for the decimation of NAV: extraordinary write-offs and provisions (excluding intangibles) account for R8,1m of a total net worth decline of R11,1m. The remaining R3m was attributable to trading activities, including the loss (R726 000 at the operating level) incurred by Greatrex for the 50 weeks before closure.

The second positive aspect is that if one excludes Greatrex losses for the past two years, the rest of the group achieved a satisfactory improvement in results, with a threefold increase in operating income from R528 000 to R1,7m in 1991.

But that, for the moment, is where the good news ends. The downside is that the abovementioned R1,7m operating profit attributable to continuing activities is still less than in 1989, before the massive expansion of the operating base. It's also a trading margin of only 3,2% on sales, that compares with 15,9% in 1988, when operationally the group was at the peak of its fortunes.

Another perspective of the problems that will be encountered in rebuilding Sanlic's fortunes is its debt burden, now over R29m. These loans (all short term) are said to bear interest at market-related rates, that implies an annual interest charge in the R5,5m-R6m range (compared with 1991's R4m). This, in turn, means that operating profit will have to increase three- or fourfold simply to reach break-even.

On paper this is possible, as the necessary operating profit would be generated from even a 10% margin on sales. But, as indicated above, last year's margin on continuing operations was only 3,2%. There is nothing in the annual report to suggest that an improvement of this magnitude can be reasonably expected in the near term.

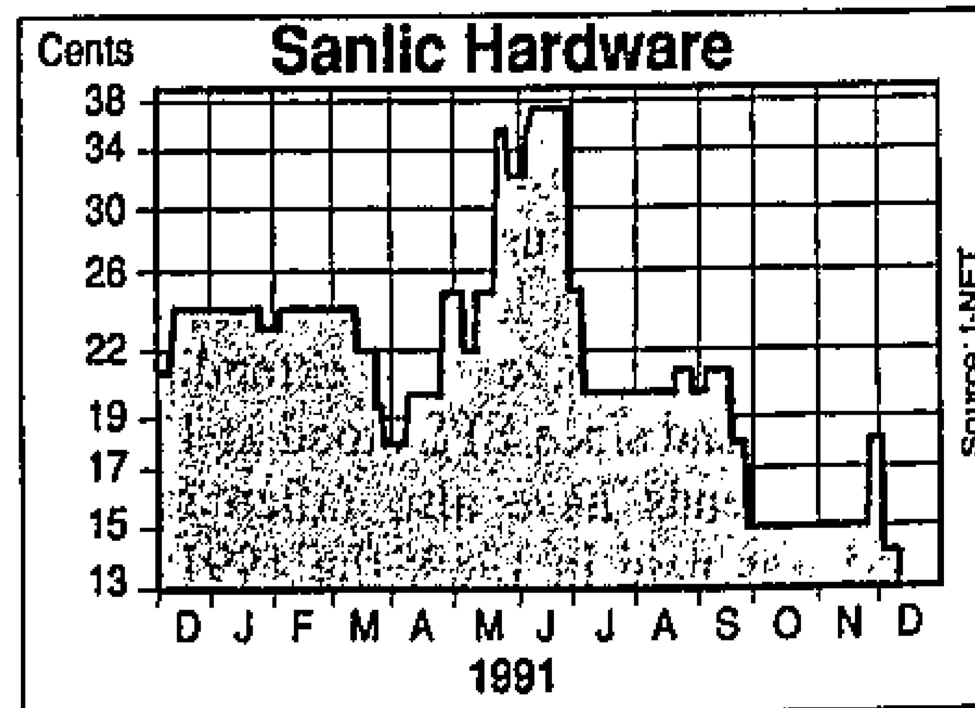
The crux of the matter is that Sanlic is in a race against time. While the group is coming to grips with its problems, unless this year's losses can be confined to R1,2m (the present tangible net worth) it will be technically insolvent, with a balance sheet hanging together on the threads of trademarks and goodwill (with a book value of R6,7m).

Whereas, a year ago, management was optimistic that it would be possible to resume dividend payments "in the short term," common sense dictates that the events of the past year have lengthened the odds considerably and that an overriding priority must be to rebuild the balance sheet. *Brian Thompson*

Activities: *Distributes locksmith supplies and electrical accessories.*
Control: *Elcentre (38,4% of the ords; 100% of the convertible debs).*
Executive chairman: *N P Mowszowski.*
Capital structure: *17,7m ords; 42,8m convertible ords (unlisted). Market capitalisation: R2,7m.*
Share market: *Price: 15c. 12-month high, 37c; low, 15c. Trading volume last quarter, 91 400 shares.*

Year to June	'88	'89	'90	'91
ST debt (Rm)	1,3	2,1	10,7	29,1
LT debt (Rm)	—	3,8	11,5	—
Debt:equity ratio	0,22	0,91	1,81	25,2
Shareholders' interest	0,47	0,39	0,28	0,03
Int & leasing cover	13,8	2,85	n/a	0,25
Return on cap (%)	21,0	12,6	(2,4)	2,7
Turnover (Rm)	16,3	21,5	87,1	82,4
Pre-int profit (Rm)	2,6	2,1	(1,1)	1,0
Pre-int margin (%)	15,9	9,7	(1,2)	1,2
Earnings (c)*	7,9	3,6	(5,8)	(5,0)
Dividends (c)	3,8	1	—	—
Net worth (c)*	38	40	20	2

* Fully diluted.



FM 20/12/91

CAFCA (189)

Sparks flying

Year-end results from Central African Cables (Cafca), the Harare-based copper electric cable producer listed on the JSE, are expected to show growth in line with last year's record performance. In the year to December 1990, after-tax profit jumped 73% to Z$13,3m, pushing dividends to 64c, nearly double the 1989 figure.

Even taking account of the company's strong results over the past four years, in which turnover more than trebled, it's hard to explain the 230% increase in the JSE share price since mid-year. However, the tightly held counter has long been neglected on the JSE. On what is known of the fundamentals, it may still be cheap. The historical earnings multiple is only 2,9.

After trading between about 20c-45c since the beginning of 1987, the market price began rising earlier this year. It climbed from 50c in early June to the current R1,65, making the share possibly of the best performer on the JSE this year, gaining about 230%.

The JSE price coincides with an increase of 48% in the price on the Zimbabwe Stock Exchange for the same period. The price there rose from Z$3,25 in June to about Z$4,80 now. What seems to have sparked the sudden increase is an effective five-for-one share split and bonus issue in early June. This increased the number of issued shares from 5,1m to 30,6m.

Historically, Cafca shares have always been very tightly held in SA, in Zimbabwe and on the International Stock Exchange in the UK, where BICC Plc is the 75% shareholder. Though the new issued shares have led to increased trading, volumes on the JSE remain relatively low, with only 7 570 Cafca shares traded over the past three months, compared to 3 570 for the same period last year.

SA shareholders only make up about 2,3% of the total. Dividends are payable to SA shareholders after the deduction of a 20% non-residents tax.

Cafca MD Rob Galbraith says there has been a lot of trading interest in Zimbabwe since the share split and bonus issue, with several institutions buying heavily.

Analysts in Harare say that while Cafca is regarded as a blue chip company, difficulties in getting shares before the split and bonus issue resulted in little interest. The sentiment seems to persist in Zimbabwe, where there has still been few buyers and sellers.

Besides good domestic sales in Zimbabwe, exports to Africa, including countries as far north as Uganda, Kenya and Zaire, accounted for 17% of Cafca's sales in the 1990 financial year, that saw exports increase 80% to Z$15,4m. Galbraith says that despite a slump in exports for the first six months of the year, new markets have been found in Africa and export levels for financial 1991 are expected to be on par with last year.

Shaun Harris

FM 20/12/91 (189)

ELCENTRE
FM 20/12/91

Improving the structure

(189E)

Activities: *Manufactures and distributes electrical goods and locksmith supplies through two associate companies — Voltex and Sanlic.*
Control: *Elgro (54%).*
Chairman/CE: *R L Mowszowski.*
Capital structure: *63,5m ords. Market capitalisation: R241m.*
Share market: *Price: 340c. Yields: 10,6% on dividend; 18,6% on earnings; p:e ratio, 5,4; cover, 1,7. 12-month high, 450c; low, 300c. Trading volume last quarter, 377 000 shares.*

Year to Jun 30	'88	'89	'90†	'91
ST debt (Rm)	2,4	60,7	4,1	2,6
LT debt (Rm)	18,7	97,0	182,5	18,2
Debt:equity ratio	0,39	2,19	0,36	0,13
Shareholders' interest	0,38	0,22	0,71	0,90
Return on equity (%) ..	66,5	69,3	11,2	10,1
Earnings (c)	58,6	82,5	90,2	60,3
Dividends (c)	23	33	36	36
Net worth (c)	88	119	807	601

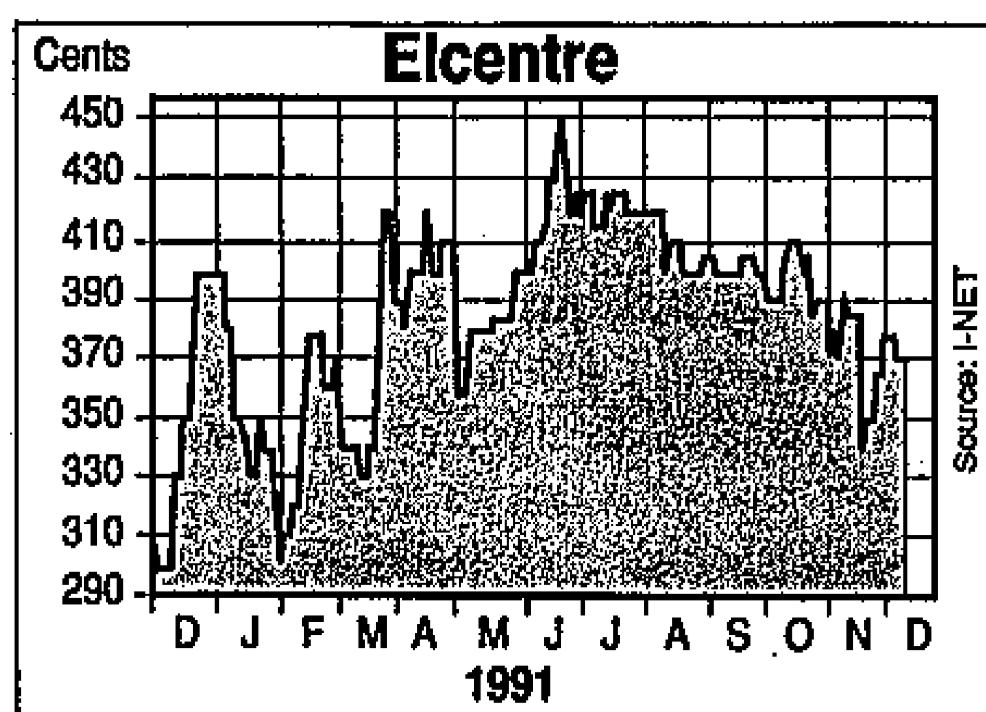
† 16 months annualised (previous year-end: February).

Profitwise, 1991 was not a particularly memorable year, but Elcentre has done a lot to tidy up its financial structure and this seems to have helped market perceptions of the share.

A year ago the *FM* identified the structure as a possible reason for the low investment rating. Debt:equity ratio was then 0,36 which, by conventional standards, seemed far too high given that, since the restructuring in 1990, activities are confined to investments in associates Voltex and Sanlic.

This problem has been resolved. The latest statements show net borrowings down 93% from R186,6m to R13,3m, with a corresponding decline in the debt:equity ratio to a nominal 0,03. This was achieved mainly through liquidating investments in redeemable prefs so that the balance sheet now consists of little more than holdings in the two associates.

Full benefits of the simplified structure are not yet reflected in the income statement — a point underscored by the fact that last year's interest charges, at R18m, were 1,4 times year-end net borrowings. Even so, however, a more positive view by investors is reflected in a 23% gain in the share price,



notwithstanding the severe declines in earnings and net worth.

The share price gain could have been even greater but for April's capital reduction, that involved distributing, free of consideration, 10% of the holding in Voltex to its own shareholders and those of pyramid Elgro, to increase the spread of Voltex shareholders to comply with JSE requirements.

The timing of this was a little unfortunate in that it coincided with a period in which group profits were under pressure. The effect was to exaggerate declines in earnings and NAV, and camouflage the fact that Elcentre/Elgro shareholders received increased dividends even though distributions of the companies themselves were unchanged.

Last year's EPS of 60,3c (taking into account a prior-year tax adjustment excluded by the company in its calculation) were, at face value, 33% down on 1990's annualised 90,2c. However, adjusting to include earnings attributable to the 0,4 of a Voltex now held in addition to every Elcentre share increases total attributable EPS by 7,6c and, correspondingly, reduces the deficit on 1990 to 25%.

Similarly, the latest (June 30) NAV of 602c does not take into account a further 32c attributable to the direct holding in Voltex, reducing an apparent 29% decline from 1990's 807c to 21%.

In the case of dividends, shareholders in fact received, in addition to an unchanged 36c from Elcentre, a further 3,3c per Elcentre share from Voltex. So in reality, last year's distribution in the hands of shareholders was up 9%, matching 1990's improvement over 1989.

To the extent that misinterpretation of 1991's results may have depressed the share price (that peaked at 450c), this year could see a further upward rating, thereby narrowing the large discount that still exists to the market value of Elcentre's underlying assets.

On current market prices (in aggregate down since end-June), Elcentre should trade around 550c instead of its present 380c. This 31% discount is clearly excessive, given that whatever uncertainties surround Voltex and Sanlic are already reflected in their share prices and cannot in any way be compounded merely by the fact that some of their shares are held by Elcentre.

This underscores the point made last year — when the discount was an even wider 55% — that Elcentre's low rating probably has more to do with the group's structure, or market perceptions thereof, than the quality of underlying assets. It remains to be seen whether the simpler structure will be sufficient to redress the share price imbalance between itself and, in particular, Voltex, which represents all but 0,5% of the total market value of investments.

The same comments apply to pyramid **Elgro** which, at 185c, is more or less correctly priced in relation to its investment in Elcentre but is also materially underpriced in relation to the underlying value of holdings at the operational level.

Brian Thompson

FM 20/12/91 (189E)

VOLTEX

Well out of Usko

Activities: *Manufactures and distributes electrical equipment.*
Control: *Jointly by Elcentre (51,6% fully diluted) and Berzack (39,8%).*
Joint Chairmen: *B Illman and R L Mowszowski.*
Capital structure: *300m ords; 120,2m convertible debs. Market capitalisation: R651m.*
Share market: *Price: (ords) 140c. Yields: 5,9% on dividend; 13,6% on earnings; p:e ratio, 7,4; cover, 2,3. 12-month high, 175c; low, 120c. Trading volume last quarter, 1,64m shares.*

Year to Jun 30	'90†	'91
ST debt (Rm)	nil	74,1
LT debt (Rm)	nil	131,5
Debt:equity ratio	(0,10)	0,52
Shareholders' interest	0,69	0,46
Int & leasing cover	10,0	2,9
Return on capital (%)	17,6	15,9
Turnover (Rm)	806	1 258
Pre-int profit (Rm)	104,8	127,7
Pre-int margin (%)	13,0	10,2
Earnings (c)*	25,3	19,0
Dividends (c)	8,25	8,25
Net worth (c)*	98	81

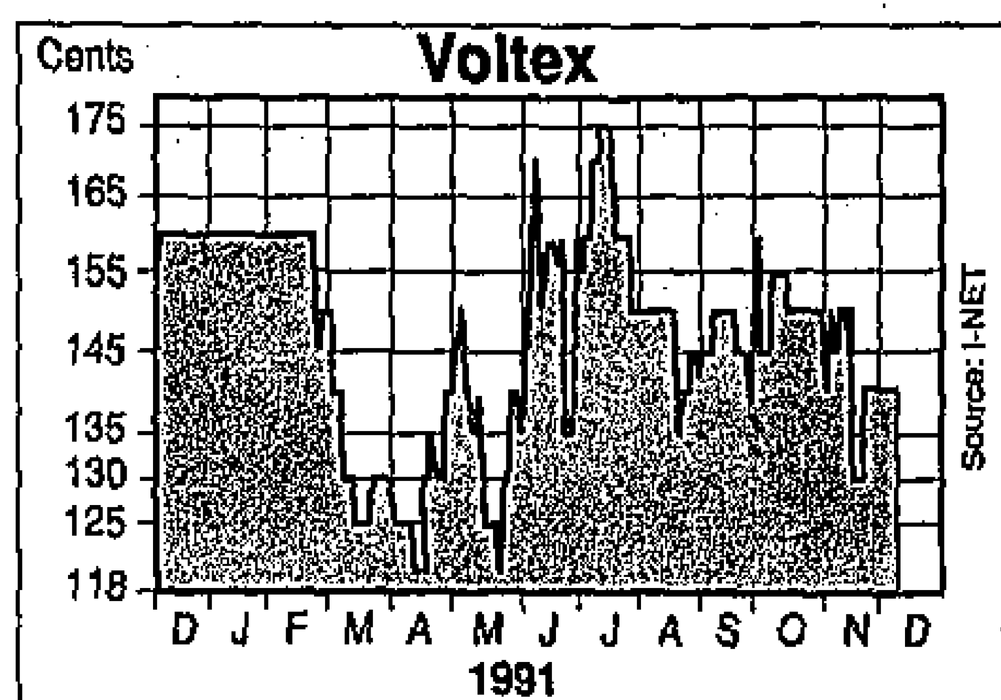
† 16 months annualised.
* Fully diluted.

At this stage of Voltex's existence, there is still strong emphasis on strategic, long-term planning to position the group for sustained growth rather than short-term profit gain. However, the performance of the shares — that have slid from 150c to 140c in the past year — suggests that investors might appreciate a little more up-front earnings action.

In this context, the decision to withdraw from the proposed acquisition of the remnants of Usko is probably a good thing. The group is still having difficulty digesting last year's R144m acquisition of 60% in UK electrical goods distributor Bennett & Fountain (B&F) and its general financial position suggests that taking on another major (and possibly troublesome) acquisition at this stage would have been premature.

B&F's impact on the financial statements is reflected in a 35% rise in total tangible asset base and a creditable 50% increase in turnover. But B&F was a mess when bought (a £10m loss was incurred in the year prior to acquisition) and, though it has been restored to profitability, joint chairmen Bennie Illman and Reuben Mowszowski nevertheless admit that this deal cost Voltex 4,7c in EPS last year, accounting for three-quarters of the overall decline from 25,3c to 19c.

This 4,7c deficit implies that net holding



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FM 20/12/91 (189)

costs of B&F (after taking into account Voltex's share of its £2,5m profit) were close to R20m — representing interest on borrowings raised to finance the purchase. That, in turn, underscores two points.

The first is that, unless holding costs can be cut, B&F will have to generate substantially higher profits to reach break-even.

Secondly — and of more general relevance in the development of Voltex — debt for a group with no tax base is extremely expensive finance as, without the tax relief normally applicable to interest charges, these flow straight through to the bottom line.

Another consequence of the acquisition and how it was financed is that though net borrowings have been cut from a disclosed peak of R248m to R194m at financial year-end, the group remains fully borrowed in terms of its self-imposed gearing limit of 0,5 in relation to permanent capital. This, coupled with a slender 2,9 times interest-leasing cover (that should start to ease as the benefits of the debt reduction programme flow through), confirms that a little more time is needed before embarking on another major expansion drive.

The group is non-committal regarding prospects, though it should be noted that when the report was issued, it was still assumed that the Usko transaction would go through. With this out of the way some uncertainties have been removed. It now seems likely that Voltex should at least maintain earnings at last year's lower level, bearing in mind that there won't be a repeat of the heavy B&F restructuring costs.

Against this, financing costs are expected to continue to preclude a positive contribution from B&F, so unless local business conditions turn out better than now seems likely, full recovery looks improbable in the short term.

But there is no reason to fear that this year's distribution will be any less than 1991's 8,25c, so the share, yielding 5,9%, could start to perk up. *Brian Thompson*

Usko shareholders must wait

MATTHEW CURTIN

ANXIOUS shareholders in the Usko group, reduced to a cable operation after being shorn of its steel and vanadium divisions this year, will have to wait until February next year at the earliest for news of the group's fate. Bday 19/12/91

A company spokesman said yesterday that "discussions with certain parties were taking place in respect of the reconstruction of Usko".

Shareholders were advised to exercise caution in their share dealings and were promised a further announcement would be made in February.

Usko shares dropped 25% or 10c on the JSE yesterday to a new low of 30c. The shares have fallen 50% in a month, and have tumbled 155c from their high for the year of 185c.

Investor confidence, already dented by the sale of the company's steel division to Iscor and vanadium interests to Rhombus Vanadium for a nominal R1, was knocked again two weeks ago when Voltex walked away from a possible R70m deal which would have seen them take over Usko.

Voltex, owned by Berzack Brothers and Elcentre, would have strengthened its hand in the SA cable industry had the deal gone ahead.

It is understood that under pressure from rival bidders, Voltex hastily signed an agreement in principle, but with important conditions precedent to be fulfilled.

After completing a diligence study after the deal was signed on October 3, and in the wake of Usko's year-end results which showed negative shareholders funds of R91m, the Voltex board decided not to go ahead with the takeover on December 6.

Usko's major shareholders are Iscor and Rembrandt's Metkor Group.

CONTROL INSTRUMENTS FM 13/12/91

Cutting costs

(189)

Activities: *Designs, manufactures, distributes and services electronic and electromechanical equipment.*

Control: *Friedman family 34%; AVI 26%.*

Chairman: *H V Hefer; MD: R Friedman.*

Capital structure: *67,7m ords. Market capitalisation: R14,9m.*

Share market: *Price: 22c. 12-month high, 30c; low, 20c. Trading volume last quarter, 116 000 shares.*

Year to June 30	'88	'89	'90	'91
ST debt (Rm)	5,8	14,1	16,8	14,5
LT debt (Rm)	9,7	1,4	1,6	3,0
Debt:equity ratio	n/a	0,19	0,52	0,47
Shareholders' interest	0,65	0,57	0,46	0,48
Int & leasing cover	32,9	4,3	n/a	0,64
Return on cap (%)	13,1	7,7	n/a	4,6
Turnover (Rm)	50,9	73,0	67,6	65,1
Pre-int profit (Rm)	6,8	5,1	(2,1)	2,3
Pre-int margin (%)	13,4	6,9	n/a	3,5
Earnings (c)	9,3	6,5	(6,7)	—
Dividends (c)	2,2	2,2	—	—
Net worth (c)	49,1	53,5	35,6	35,6

Stringent cost controls implemented to pull Control Instruments out of the red will remain in place and probably tighten during financial 1992.

Though operations returned to profitability last year — pre-interest income was R2,3m, compared with a R2,1m loss the year before — the profit was all but wiped out by finance charges. But EPS, though barely positive at 0,01c, were still an encouraging improvement on the previous loss of 6,7c a share.

At operating level, the work force again took the brunt of expense cuts, with staff reduced from 613 to 535 people and a further 80 jobs are expected to be lost this year. Just over two years ago, the group employed more than 800.

Most jobs were lost through the consolidation of Control Instruments' branch network into four distribution and two manufacturing centres. Expenses were further reduced by implementing more effective production and financial controls; R1,6m was spent on new computer systems. MD Richard Friedman says expenses were down R2,6m on the previous year and further reductions can be expected this year.

He believes the tight rein on costs will improve cash flow and help curb gearing. He is optimistic gearing will drop from 47% at June 30 1991, to around 35% at the 1992 year-end — which would lighten the heavy intest burden.

The main lines of business — automotive electronics and instrumentation, industrial instruments and access control systems — have all been hit hard by the recession. Some benefit has, however, been gained from growth in the automotive and access control markets. Since pulling out of the troublesome US and Australian markets in 1989, management has concentrated export efforts in Europe. Offshore sales, mainly of electronics equipment and industrial instruments, are expected to account for 20% of turnover this year.

Sales are traditionally higher in the second six months and Friedman says turnover for financial 1992 should match that of the previous year. Given expected improvements in operating margins, reduced finance costs and continued absence of tax charges (there is a tax loss of more than R30m) there should be some improvement at bottom line.

However, Friedman cautions that significant earnings growth and, presumably, a resumption of dividends, will only come with recovery in the economy. At 22c, the share is at a considerable discount to NAV. For the investor looking at the longer term, the counter has the makings of a recovery stock and could be worth considering. *Simon Cashmore*

FM 13/12/91 (189)

USKO FM 13/12/91 (189E)

Rescue plan needed

The drop in Usko's price to 50c — its lowest since 1985 — after Voltex's decision not to proceed with its rescue *(Fox* October 11) suggests that either minorities have started to lose heart or they are adopting a more realistic approach to the company's plight.

The picture might become clearer if the announcement promised later this week details mechanics of the capital reconstruction to restore Usko to solvency. The recent financial statements indicate it will not be easy to create a structure that justifies even the present price.

Key issue is the attitude of Usko's controlling shareholders, Iscor and Metkor. Two months ago, when the Voltex deal was announced, it was stated they were unwilling to recapitalise the group. Now they may have little choice if anything is to be salvaged.

Unless another Voltex-type deal can be produced, it must be assumed the process will be accomplished in two phases. The first, one hopes, would be the subject of this week's announcement and could involve injection of fresh capital to offset the R91m negative net worth. This could be followed later by the sale of the group, enabling Iscor/Metkor to recover all or part of their investment.

Using the Voltex deal as a benchmark, it was apparently decided that Usko needed up to R120m in fresh capital. This, after setting off the deficit, would have left a net permanent capital base of R29m, against which, according to the audited balance sheet, there would have been net borrowings of about R14,5m. A fairly typical financial structure could have been created, with capital employed comprising two-thirds equity and one-third debt.

The next question is whether it is worth anyone's while to pump R120m into Usko. For Iscor/Metkor, there is the corollary that if they did so, would they be able to get the money back? The answer to both is, maybe — though it should be noted that Voltex walked away from the proposition, possibly influenced by its due diligence audit.

On paper the numbers can be made to add up. After ditching its steel and vanadium interests, Usko could have trading profit potential of R25m-R30m, a not unreasonable figure as annual turnover of the nonferrous division (basically all that's left) is just short of R265m. A 10% margin would give trading profit of R26,5m, of which about R3m would be absorbed by interest on residual debt.

Attributable profit, fully taxed, would be just over R12m which, on a p:e of, say, five would suggest a price of around R60m for the equity. Then there is Usko's tax loss of around R125m. If this was recouped over five years, its present value would be about R55m, giving a total value to a potential purchaser of R115m, which is in the right ballpark.

If one accepts R115m-R120m as a "reasonable" value, can this be related to a 50c share price? The answer, again, is maybe, but only if capital is injected at a premium. If the reconstructed Usko could be sold for R120m, at 50c a share this would imply issued capital of 240m shares against the existing 51,2m (after conversion of prefs). It also implies the reconstruction would require issue of 188,8m shares at 63,5c, precluding a rights issue in which minorities, who have been kicked in the face once, would be inclined to take up their entitlement.

If this hurdle could be overcome, Usko with a net profit of R23,5m (no tax would be payable for a number of years) and 240m shares, would show EPS of just under 10c. That might justify the present price.

All this is hypothetical. But it provides a background against which terms of the reconstruction can be judged. It will also help to answer a final question: the extent to which Iscor and Metkor, if this is to be the source of fresh capital, will accept responsibility for the collapse of Usko while it was under their joint control. *Brian Thompson*

Evhold's Swiss control to end

WILLIAM GILFILLAN

IN THE second major disinvestment in two days, Swiss-based Nueva Holding AG has announced it is to sell its controlling interest in Everite Group holding company Everite Holdings (Evhold).

The disposal of the 51,6% interest, at Evhold's current market price of 570c a share, is worth about R52m and comes hard on the heels of the R525m sale by UK-based Pilkington plc of its 48,4% interest in Glass SA to Plate Glass & Shatterprufe Industries.

Nueva is also selling its 9,9% direct interest in Everite, which, at current prices of 250c a share, is worth about R20m.

Nueva is controlled by the Schmidheiny family, which founded the Everite Group.

Everite's major business is the manufacture of asbestos-based cement pipes and building products.

Pipe manufacturer Roclà, in the Darling & Hodgson stable, and Fraser Alexander were cited by analysts as likely candidates to take up Nueva's interests.

Everite MD George Thomas, who was not authorised to name "any buyer or buyers", said the sale of the 9,9% Everite interest need not form part of the Evhold disposal.

"A purchaser need only take out the 51,6% interest in Evhold to get control of Everite. Nueva could place the Everite shares separately."

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Evhold

B/Day 13/12/91. (189E)

☐ From Page 1

He added the ideal would be for Nueva to place the Everite shares with a number of parties, as shares in the company were tightly held. Evhold's share price is at a year's low of 570c a share. Its 1987 price was 1 500c.

Thomas said the disinvestment reflected the changing strategy of Nueva, which, in the past few years, had sold businesses similar to Everite in Germany and Switzerland. It did not necessarily reflect a change in geographical strategy.

"For some years now it has been moving away from commodity type products and into speciality businesses," he said.

Thomas denied the disinvestment was related to the recent poor performance of Everite. (Earnings were down 68% to R6m from R19m for the year to end-June.) Steps had been taken to restructure the group.

It was most likely the proceeds would leave the country under the financial rand mechanism.

● Comment: Page 6

AFRICAN CABLES FM 6/12/91

Still talking (189B)

Activities: *Manufactures and sells electric power cables and installs supertension cables.*
Control: *Afcab Holdings (jointly owned by Reunert and Siemens) 67%.*
Chairman: *A J Ellingford; MD: P J Muller.*
Capital structure: *23,8m ords. Market capitalisation: R136m.*
Share market: *Price: 570c. Yields: 3,9% on dividend; 8,3% on earnings; p:e ratio, 12,1; cover, 2,1. 12-month high, 650c; low, 350c. Trading volume last quarter, 108 000 shares.*

Year to June 30	'88	'89	'90	'91
ST debt (Rm)	—	—	2,9	16,6
LT debt (Rm)	0,1	0,1	—	—
Debt:equity ratio	—	—	—	0,18
Shareholders' interest	0,60	0,60	0,79	0,76
Int & leasing cover	—	—	86,0	15,1
Return on cap (%)	17,5	22,6	31,5	14,9
Turnover (Rm)	110	156	187	172
Pre-int profit (Rm)	17,6	20,2	37,0	10,2
Pre-int margin (%)	16,1	18,1	18,1	10,7
Earnings (c)	42,4	71,7	77,8	47,0
Dividends (c)	28	31	33	22
Net worth (c)	254	317	361	388

Minorities who did not take up the 625c a share offer after Reunert and Siemens bought control of African Cables must either be confident that the new shareholders will bolster performance in a big way, or are gambling that they will get a better price if the group is delisted.

The share stands at around 570c. Before speculation started in June that the group might be for sale, the counter had not breached 400c for more than six months. The price offered by Reunert and Siemens is 60% up on the June 30 NAV and offers an earnings multiple of 13,3.

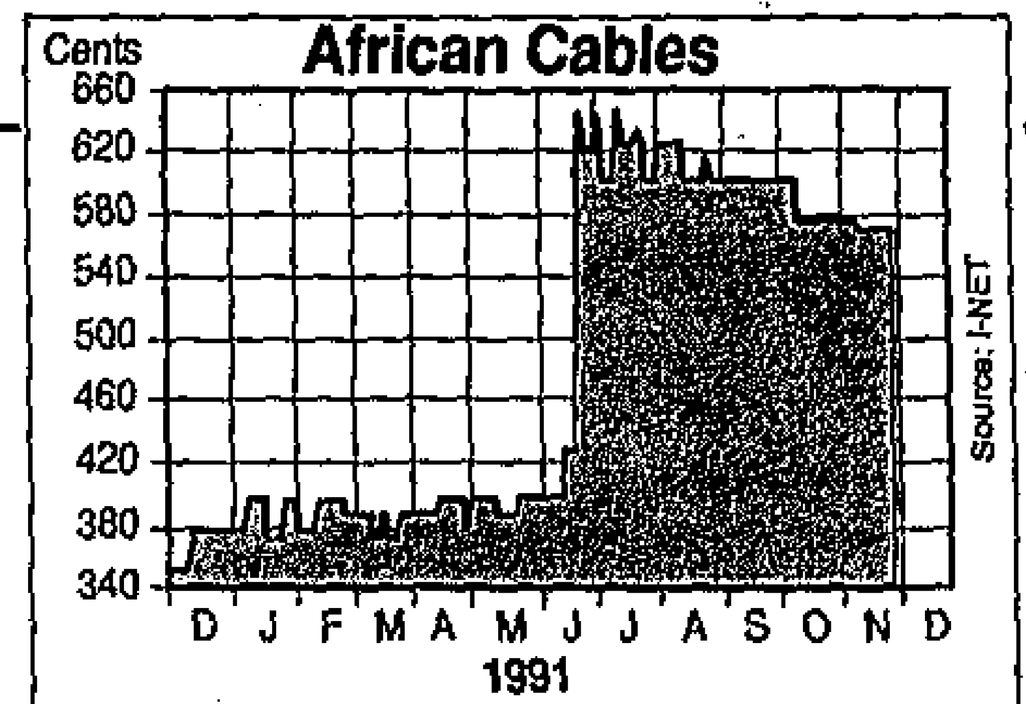
Though it was July when the two electronics groups bought Cullinan Holdings' 51% stake in African Cables for R75,8m, little has changed so far at the Vereeniging cable manufacturer. At operational level, it's business as usual.

As a result of the offer to minorities, newly formed Afcab Holdings — owned equally by Reunert and Siemens — has about 67% of African Cables, with GEC in the UK holding 16% and the remainder widely spread.

Reunert financial director Clive Vaux says the future of the group is still under discussion and a final decision could take another three to six months. There are no plans at this stage to delist but some analysts believe this may still be an option.

Reunert and Siemens have made no secret of their reasons for acquiring African Cables. The cable industry is heavily overtraded. Recession and capital expenditure cuts by the public sector and mining industry have hurt all major cable manufacturers. By rationalising their cable interests with those of African Cables, management at Reunert and Siemens hope to improve the profitability of these operations and rival the scale of the sector's largest supplier — Powertech-controlled Aberdare Cables.

In recent years African Cables has been a good cash generator for Cullinan but in the year to end-September EPS plunged 10% to 17c. Operating profit nearly halved to R10,2m on turnover that was down 8% with margins slashed. Returns on assets and shareholders' funds dropped alarmingly.



African Cables in Vereeniging operates two power cable factories, while ACT — controlled by Siemens and Reunert — manufactures power and telecommunications cables at plants near Pretoria. Rationalising these operations makes sense but until details about the consolidation are available it is difficult to reflect on the future of the African Cables shares.

Until further information is forthcoming from the controlling shareholders, minorities who have decided to stay on board will just have to wait and hope their decision is proved right.

Simon Cashmore

FM 6/12/91 (189)

Voltex abandons R70m Usko deal

MATTHEW CURTIN

CABLE group Voltex has walked away from a R70m deal which would have seen it take-over the remnants of the ailing Usko group.

The boards of Voltex, and its major shareholders, Elcentre and Berzack Brothers, decided yesterday not to ratify the deal signed on October 3.

Voltex has accordingly relinquished control of Usko, abandoning plans to buy 80% of Usko's enlarged share capital, after a planned rights issue, at 32c a share.

The Usko board said yesterday that it and its major shareholders, which include Iscor and Rembrandt's Metkor Group, were finalising proposals "to resolve the situation" — the failure of the deal and Usko's bankruptcy.

Usko disposed of its steel and vanadium interests earlier this year. But the demise of the vanadium operation — Usko sold it to Rhombus Vanadum for the nominal sum of R1 and paid R19m in contract penalties — and write-offs against the steel operations left the group technically bankrupt at its year-end on September 30. Usko had negative shareholders' funds of R91m.

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Voltex

☐ From Page 1

Voltex director Myron Berzack said yesterday it had not been easy to "walk away" from the deal. The group had put hours of work into compiling a diligent study of Usko's cable operations. He would not comment on the details of his group's decision to abandon the deal.

Market sources said Usko's insolvency and its R134m in interest bearing debt would more than offset the profits Voltex expected to earn from Usko's cable operations. They said with Usko's financial problems, both parties were under pressure to sign the deal. But certain precedents, if not met, existed which allowed them to walk away from the contract.

It was reported last month that there were other bidders for Usko's operations which helped explain the haste behind the deal.

Voltex said in a statement yesterday that the offer was subject to a number of conditions including the ratification of the transaction by the boards of Voltex and its major shareholders.

Columbia reports a big slump in earnings

BI Day 6/12/91 (1898)

MARCIA KLEIN

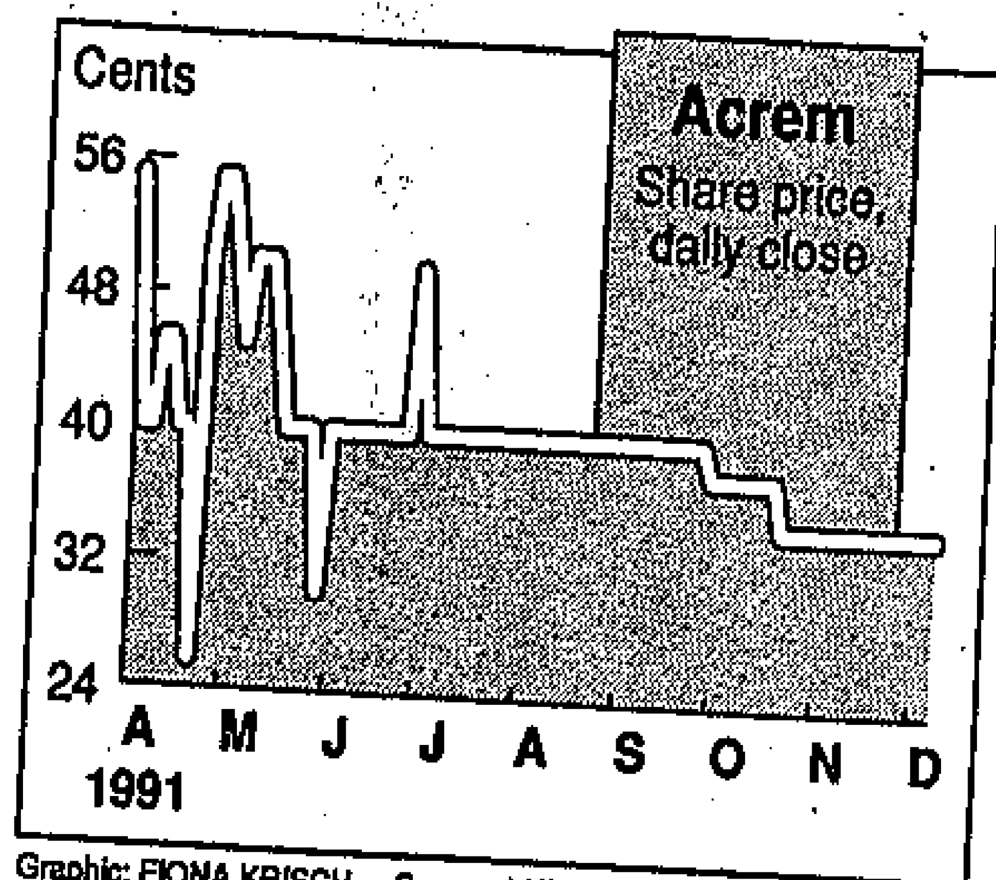
COLUMBIA Consultants and its main operating subsidiary Acrem have reported substantially reduced earnings for the six months to end-September.

Chairman Gordon Polovin said the recession, difficult trading conditions and "a general lack of consumer confidence" saw rural retailer Acrem report a decrease in earnings from 4,1c to 1,3c a share.

The listed retailer of consumer electronics, arms and ammunition, toys, sports equipment, jewellery and furniture had its turnover reduced by 7,2% to R22,4m (R24,2m).

Polovin said this was due to "the careful and selective granting of credit", adding that this prudence retained "the excellent quality of the debtors' book and strengthened the company's financial structure".

As part of the group's consolidation, which included the closure of some of its stores, Acrem sold I Lubner & Sons with effect from August 31. Polovin said the sale had no effect on the net asset value a share. Operating income declined from R4,6m to R2,6m, and after a 40% rise in its interest bill to R2,0m (R1,4m), and increased income from other investments, net income before tax was down from R3,4m to R1,0m. Retained income at end-September was R11,3m (R10,0m).



Graphic: FIONA KRISCH Source: I-NET

Columbia's attributable earnings plummetted from R3,5m to R985 000 and its earnings from 11,6c to 3,3c a share during the six months.

Turnover was reduced from R35,5m to R30,0m and net operating income from R5,6m to R3,3m. After a hike in its interest bill to R2,2m (R1,7m) and substantially reduced income from investments, pre-tax income was R1,3m (R5,1m).

Polovin said Columbia's results reflected mainly the results of Acrem, but also the earnings of Powernet Computers and building products manufacturer Constantia Echo.

An extraordinary item of R3,8m referred to losses on the final winding up of Blocktech, Powernet Holdings and Pride Consultants.

Polovin said the group's conservative strategies would remain, and the group was poised to take advantage of any upturn.

Columbia and Acrem passed on their interim dividends.

SPARKS RETURN TO ELECTRONICS

TOP 100 COMPANIES

S/Times (Buss) 1/12/91. (189E)

By JULIE WALKER

THE electronics, electrical and battery sector of the JSE has had one of its better years after several in which it made no headway.

In October 1990 the index suffered a 30-point fall in a few weeks to below 700 — the lowest since 1986. But by mid-November this year, the value was close to 1 000 points. The index peaked at 1 800 in 1987.

Behind the rally are the fruits of rationalisation in an overpopulated industry and the surfacing of the "cream" companies.

There were a few liquidations and changes to the requirements of the defence industries. There were forays — and false starts — with foreign companies. There were also significant changes in the cabling business.

Raised

Altron — holding company of Altech, Powertech and Fintech — has sold to members most of its holding in Telemetrix, the UK-based holding firm of non-South African investments.

Altron benefited from new developments and raised its earnings a share by 17% to 238c in spite of chairman Bill Venter's estimate of the loss of 70% of Altron's traditional markets through Post Office and defence cutbacks.

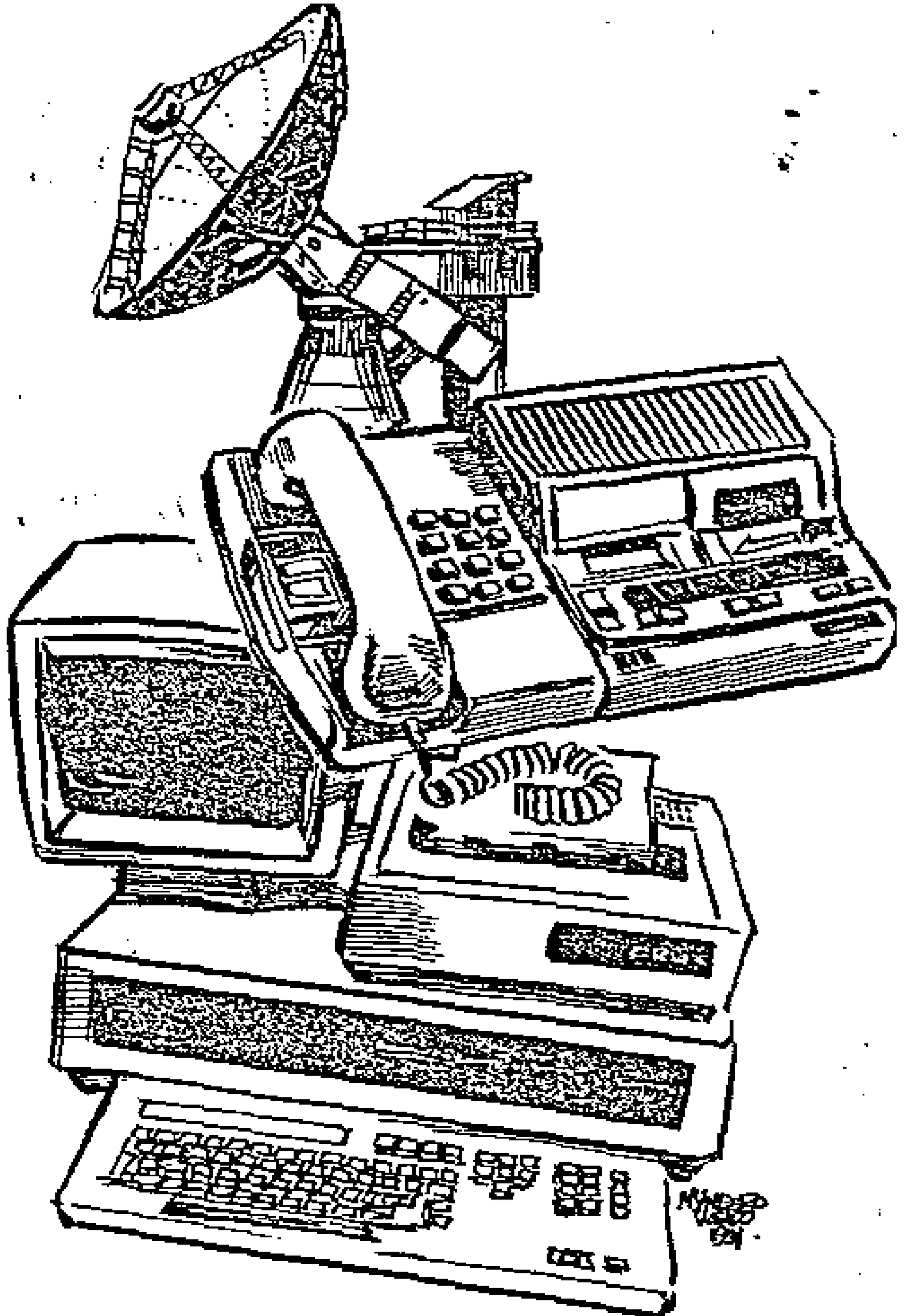
Altron has spent more on research and development involving solar power, cheaper electrical reticulation systems and electronic detonators among other fields.

Shifted

Defence cutbacks also hit Grintek, a leading supplier of radio equipment to Armscor. Grintek shifted its emphasis to non-military business, particularly through Transnet's Transtel communications division.

Siltek was obliged to close non-performers and incurred extraordinary losses.

Armscor also embarked on a strategy to deploy its skills in non-military applications.



Making the pace was computer leader TSI, which reported a rise in earnings of 21% to 44c a share off a 22% climb in business to R1,4-billion in the year to September 1991.

Its dominant subsidiaries, IBM distributor ISM and Hitachi distributor Persetel, both did well. Personal computer arm ..) starred in its market. ISM and Standard Bank joint venture Trafex became the first private company to lease information networks after the State monopoly was eased two months ago.

Powertech, the power engineering and electrical group, took control of electrical engineering concern Yelland during the year. Powertech's earnings for the six months to August this year were a fraction higher than before at R20,4-million. Part of the slowdown was attributable to customers' pre-Vat thrift, but good management brought the group round to a net R38-million cash position from having been borrowed R48-million.

The group, which holds Brown Boveri Technologies and Aberdare Cables, Lascon Lighting, Litemaster and Willards Batteries, is exporting and hopes to increase this business.

Enlarged

The cabling industry underwent two big changes. Voltex, formed from the merger of the cable-making interests of Berzack and the distribution businesses of Elcentre two years ago, bought control of ailing Usko for its cabling business. The takeover involved a R70-million subscription for new shares in Usko, which gave Voltex 80% of the enlarged company that has rid itself of all its iron, steel and vanadium interests.

The other big deal involved Reunert's R75-million takeover of Cullinan's stake in African Cables.

Dimension Data continued to shine. In the six months to June 1991, the solutions specialist raised turnover by 30% and earnings by 26% on the back of business garnered from its fine reputation.

It bought a cabling company and merged it with its existing one.

Hard-to-trade Cafca underwent a two-for-one share split in June.

Datakor announced a R720-million deal in June by which it would buy 49% of American group Timeplex. Equity was to settle R300-million of the deal. But the deal was called off in September.

Datakor — its mainstay is Unidata — had a good year otherwise. It sold its stake in TR Services for R11,2-million. TR Services is now delisted and speculation is that Datakor might get Plessey as a replacement telecommunications arm.

Troubled

Unhappily for Cortech shareholders, new management was unable to turn around the struggling group and it was liquidated early in the year.

Another troubled group is CRB. It issued a warning in November when the share price fell to 1c.

EARNINGS THAT CHEER

By DAVID CARTE

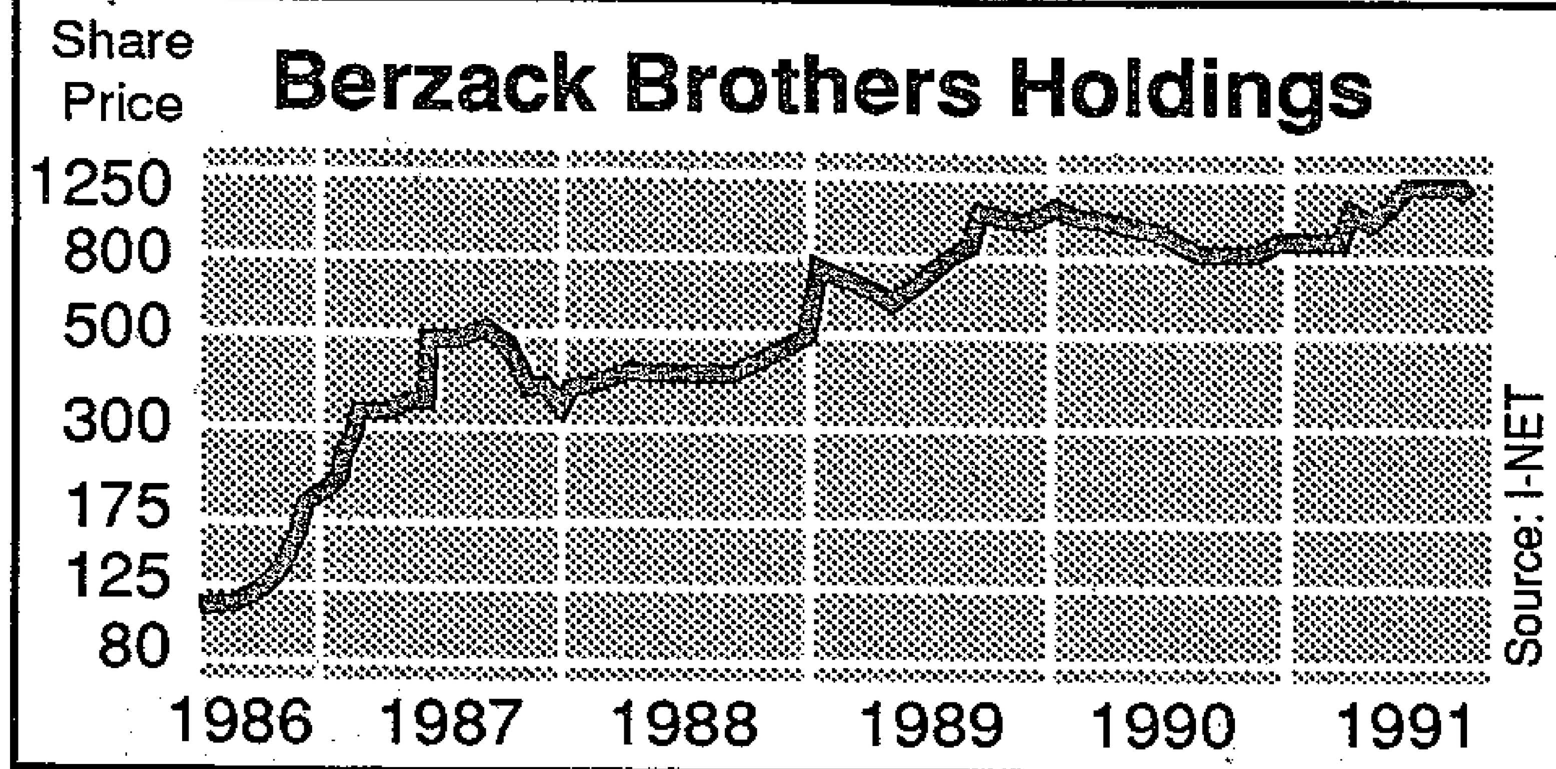
THESE are the companies that hoisted earnings a share most spectacularly last year.

Most, such as Reggies, Alex White and Claude Neon, are recovery situations. No fewer than 22 companies doubled earnings in spite of atrocious trading conditions.

Of the biggies, Witbank Colliery, received a boost from new acquisition Middelburg mine and Genbel gained from high interest rates and sitting on the money raised by Gencor in its R1-billion rights issue.

Fintech bounced back from the appalling losses in Punch Line and other subsidiaries.

Some huge earnings increases not related to setbacks in previous years came from Gentyre, Spur, PresMed, Genrec, Royal Food, Perskor, JD Group and Sasol.



BERZACK WANTS SOME MORE

MYRON BERZACK . . . astute moves take a family sewing-machine business to a kingpin in electric cable making and distribution

By CIARAN RYAN

BERZACK Brothers, placed 10th in last year's Top 100, edges up a few notches to No 5 this year with an annual average return to shareholders of 64,3% over five years in spite of a 17% drop in earnings for the year to June 1991.

Joint managing director (with Stanley Illman) Myron Berzack explains: "After so many years of high growth, Berzack Brothers, like most other companies on the JSE, experienced a decline as a result of the recession.

"In the previous year, when other companies were showing a decline in earnings, we reported growth of more than 60%."

Excluding the loss incurred by its 50%-owned Eastman Machine Company, based in the UK, and its 40% interest in Voltex, Berzack would have shown a slight improvement in earnings for the 1991 financial year.

A series of astute acquisitions, coupled with solid management performance, kept Berzack's in front in the race for sustained earnings growth.

"We have put a lot of effort into our computer systems, our marketing and our technological development.

"We have our own engineering department which makes us a high-tech player in a low-tech industry," says chairman Myron Berzack, 42, of the group's dazzling performance in five years.

Berzack was founded by Myron's father Morris as a family sewing machine business 54 years ago.

In the mid-1960s the cabling interests of the Illman Group were taken over and two years ago a deal was struck with electrical wholesaler Elcentre.

Berzack sold its cabling interests into the newly formed Voltex group which included the cabling interests of Ronnie Price's H&J Cables. Berzack has a 40% stake in Voltex and Elcentre acquired 53% of the new company. Management control is exercised equally by Elcentre and Berzack.

Risk

Voltex became one of the largest cabling manufacturing and distribution companies in South Africa with turnover of more than R1-billion.

"If we had not done a deal with Elcentre, there was the risk that a competitor would," says Mr Berzack.

Nearly 88% of Berzack's net income (R31,7-million out of a total of R36,8-million) is derived from its holding in Voltex and associate companies.

The balance is from the sewing-machine and related divisions. Eastman Machine Company is feeling the strain of the UK recession, but should return to profit next year.

In October 1990, Voltex took a 50% stake in British electrical wholesaler Bennet & Fountain for £20-million (R140-million in financial rands). After reporting a £10-million loss last year, it was turned around to show a £2,5-million profit in the year to June 1991.

The 50% holding in B&F has crept up to 60% because of various shortfalls in warranties signed at the time of purchase.

The revitalised B&F comprises more than 60 electrical stores.

Last month Voltex took control of Usko's cabling interests — its losing steel and vanadium interests have been sold separtately and do not form part of the deal with Voltex.

The takeover is contingent on due diligence inspections and certain other conditions being fulfilled.

The deal is unusual in that instead of buying out shareholders, Voltex will recapitalise the company to the tune of R70-million in exchange for 80% of the equity. Iscor and Metkor's stake will fall proportionately to about 10%. This will reduce Usko's debt from R150-million to R80-million.

Mr Berzack says Voltex is looking at various ways of eliminating the remaining debt, including a rights issue, implying that Usko's JSE listing will be retained.

None

Berzack itself was faced with gearing of 112% in 1985, but six years later there is virtually none.

Usko's cabling interests were acquired at a reasonable price — on a PE of about 3,5 — with potential for margin and sales improvements.

Voltex's main competitors in cabling are Barlow subsidiary Reunert, which recently bought Cullinan's share of African Cables for R76-million, and Altron's Aberdare.

Can Berzack continue its phenomenal growth?

"Negotiations between the Government and opposing parties will, we hope, cause a climate which will allow constructors to return to the townships.

"Eskom's electrification programme will, I hope, also provide a large slice of future business. It is expecting to electrify tens of thousands of homes each year. That should prove profitable for the cabling industry."

With most of its income derived from its subsidiaries and associates, Berzack looks increasingly like an investment company.

This will change, says Mr Berzack, because he is always on the lookout for a deal.

"An enormous amount of time spent on negotiating with prospective sellers is not always fruit[...] hope something [...] can be found so[...]

This time, he[...] acquisition for [...] self rather tha[...] There is cash i[...] for when the ri[...] tunity comes alo[...] is also prepared [...]

"Our success [...] team effort. Ben[...] ley Illman and th[...] family have m[...] contributions to[...] performance."

TOP 10[0] COMPANI[ES]

One buyin[g] spree unde[r] its belt se[ts] the stage [for] another bo[...]

CULLINAN

Little to reassure

Activities: *Technology-based group with interests in electrical power, industrial ceramics and property.*

Control: *SA Mutual 43,5%.*

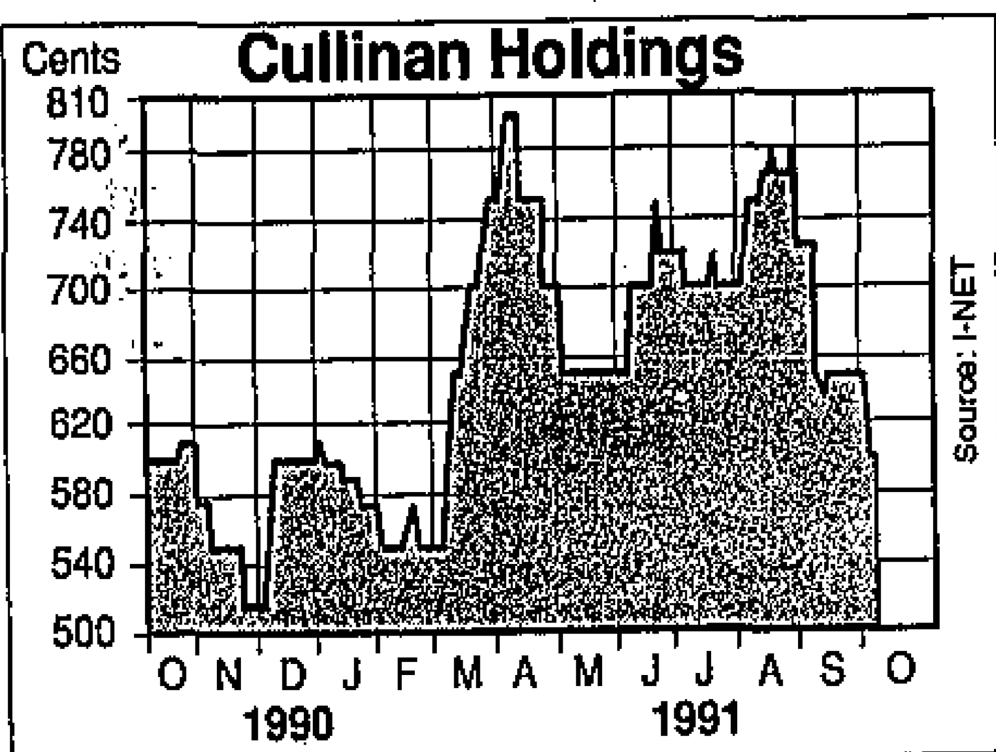
Chairman: *N M Cullinan; MD: R R Tyler.*

Capital structure: *14,5m ords. Market capitalisation: R95m.*

Share market: *Price: 650c. Yields: 5,2% on dividend; 10,9% on earnings; p:e ratio, 9,2; cover, 2,1. 12-month high, 800c; low, 515c. Trading volume last quarter, 116 000 shares.*

Year to June 30	'88	'89	'90	'91
ST debt (Rm)	11,8	40,1	53,1	71,7
LT debt (Rm)	18,9	35,2	64,0	106,3
Debt:equity ratio	0,20	0,39	0,55	0,80
Shareholders' interest	0,52	0,49	0,46	0,43
Int & leasing cover	9,2	5,8	2,9	1,7
Return on cap (%)	14,8	14,9	11,7	8,3
Turnover (Rm)	415	554	668	666
Pre-int profit (Rm)	43,2	58,8	54,4	42,5
Pre-int margin (%)	10,4	10,6	8,1	6,4
Earnings (c)	127,6	177,8	135	70,7
Dividends (c)	45	53	53	34
Net worth (c)	799	1 053	1 129	1 172

Shareholders are unlikely to find much in the latest Cullinan annual report to reassure them about the immediate future of this diversified industrial group. In one of the most difficult trading periods in its 90-year existence, earnings fell by 48% and dividends were cut from 53c to 34c, while almost all the performance ratios continued to move in the wrong direction.



Return on assets has declined steadily from 25,2% in 1989 to 11,6% in 1991. Over the same period return on shareholders' funds fell from 18% to the present 6,1%, and gearing rose from 0,39 to 0,80.

Extremely depressed economic conditions severely affected the main operating divisions, to frustrate management's efforts to establish strategic positions in its core businesses.

The electrical division was the main contributor to earnings (48%). Its operations were hampered by spending cutbacks by major customers — Eskom, the municipalities and homelands.

Even more significant, however, was the poor performance at African Cables, triggering the decision to sell the 51% holding to Reunert for R76m at the beginning of the new financial year. This comes after four years of unsuccessful attempts to rationalise the electrical cable industry. The sale has reduced gearing to 0,54 and added 111c to the year-end NAV of 1 172c.

The ceramics division's contribution (38%) was adversely affected by commissioning delays at the new Midrand brick plant, designed to improve efficiencies and give Cullinan a competitive edge in the market. Other plants have been operating at between 30% and 40% below optimum capacity, says MD Ray Tyler, reflecting the downturn in sales, particularly in the second half of the financial year. To overcome these low levels of utilisation, the group is looking for export opportunities. Exports now contribute 15% of turnover.

The substantial capital expenditure programme of the past four years is nearing completion. This has had a negative impact on recent results through rapidly rising interest bills — up from R4,7m in 1988 to the current R25,7m — though it could be argued that the group is now well positioned for a number of major projects with enormous potential. Eskom's expansion into Africa and the domestic housing market are two such possibilities.

Cullinan's fortunes may well change considerably in the event of these situations materialising. If not, it is faced with the same inflation-fuelled nightmare that has so effectively paralysed the country's manufacturing base over the past two decades — the problem of generating sufficient funds internally, in an environment of squeezed margins and static volumes, to cope with the rapidly increasing costs of asset replacement and working capital finance.

Lower interest rates and reduced gearing from the sale of African Cables will certainly help the bottom line in the short term but considerably more will be needed before shareholders can confidently look forward to real returns over a number of years from their investment in this share. *Peter van Ryneveld*

FM 11/10/91 (189)

USKO/VOLTEX

Hidden attractions

There could be a lot more to Voltex's acquisition of Usko than initially meets the eye. Voltex director Myron Berzak believes his group's maximum commitment of R110m for 80% of Usko will generate attractive returns based on earnings alone. But the returns could be a good deal more attractive if some of Usko's other assets are taken into account.

The fact of the matter is that the lady, embattled and battered as she may seem, has hidden attractions — in particular a possible tax loss that could exceed the effective purchase consideration.

The exact position will become known only once Usko has produced audited financial statements for the year to September 30 1991 — which, given all that has happened over the past year, should in itself be a fun exercise. Meanwhile, some clues are provided by the statement that Usko had an estimated negative net worth of R90m at the financial year-end, after taking into account the write-off of its vanadium division and related assets, and costs associated with the early termination of its contracts with RhoVan.

To have reached this position, Usko must have lost, one way or another, some R208m during the second half of the year just completed, as the interim balance sheet showed a positive net worth of R118m.

Capital losses that can readily be identified include R71m attributable to the sale of the steel and steel trading divisions to Iscor and Macsteel respectively, and R62m from the vanadium operation which has, in effect, been given to RhoVan as part of Usko's settlement with that company.

There may also be a further R21m relating to the capitalised cost of the reduction plant which was to have been used in the manufacture of vanadium pentoxide flakes and included in the assets transferred to RhoVan, bringing the total thus far to R154m.

This leaves R54m unaccounted for. Viewed as a trading loss, this is not a wildly improbable number, given that Usko's first-half trading loss was R31m. So, if this is in fact the case, one would have the R67m assessed loss carried forward from the 1990 financial year, plus a possible R85m attributable to 1991, giving a total assessed loss to be carried forward of over R150m. Even if a portion of this is disallowed, Voltex could come close to covering its initial investment.

It is of course true that for the tax loss to be of any benefit, profits need to be generated against which the loss can be offset. This, however, does not pose any real problems. For one thing, the assets being acquired are profitable; for another it would be theoretically possible to restructure the group (as enlarged by the Usko acquisition) by injecting assets backwards into Usko.

The nuts and bolts of the deal are fairly straight forward. Up front, Voltex is injecting R70m into Usko in exchange for about 204,7m new ordinary shares, giving it an 80% stake in Usko's enlarged issued capital which, after conversion of the prefs, will total some 254,8m. Following this, it is expected that Usko will undertake a rights issue to raise a maximum of R50m, thereby re-establishing a positive net worth. If this is done at the same price (34,2c a share), it could involve the issue of a further 146m shares, taking the total issued capital to just short of 401m shares.

At that stage the shares would have a nominal net worth of about 7,5c and this, coupled with the unwieldy capital structure, suggests that a share consolidation is also in the offing. A 10-into-one consolidation would reduce the actual number of shares outstanding to just over 40m, compared with the present 50m (including convertible prefs).

Voltex's Berzak ... *expects attractive returns*

In the process of all this, the interests of the two previous controlling shareholders, Iscor and Metkor, would be diluted to 5,8% and 5,5% respectively while minorities, who now hold 42% of the equity, would end up with just under 9%.

It needs to be emphasised that very little, at this stage, is finalised. In particular, there are a number of conditions precedent that could cause problems, including the conducting of a due diligence audit by Voltex and getting the approval of Usko shareholders for the various transactions that have been concluded. Minorities, in particular, may well want to know why their shares, which in 1988 hit a high of 650c, are now next to worthless.

Brian Thompson

Joint drive a boon to cable firms

ROBERT LAING

THE cable industry's willingness to co-operate in the export market has resulted in listed cable companies far outperforming the JSE's electrical sector.

While the electronics sector has shown a meagre 12% rise since December, cable producer Aberdare's share price has risen 71% to R30, Delta has risen 81% to 960c and African Cables 58% to 600c.

Zimbabwe-based Central African Cables' share price has rocketed 257% to 150c from 42c.

(1898)

Cable factories have been running at 40% over capacity, waiting for township infrastructural work to gain momentum and the mining industry to pick up again.

To take up the slack, five cable companies followed the Japanese Ministry of International Trade and Industry's example and formed a joint export house two years ago.

B/Day 11/10/91

Aberdare, Siemens, African Cables, Voltex and Usko each hold 20% of EPI.

Voltex, through its recent acquisition of Usko, now in effect owns 40% of EPI.

Siemens raised its shareholding to 30% by teaming up with Reunert to acquire African Cables.

Reunert in turn has gained a 10% stake of EPI through its half of African Cables.

EPI chairman Bill Greyling was not available to comment on how the recent mergers would affect the export group.

Greyling and most other senior representatives of SA's cable industry are in Hawaii attending the industry's annual world conference.

Reunert MD Tony Ellingford said last July's deal with Siemens had two objectives.

The first was to rationalise Reunert's and Siemens's cable interests.

The second was to merge African Cables with African Telephone Cables (ATC).

He said the merging of ATC was being negotiated with major shareholders, Reunert's subsidiary GEC SA and UK-based GEC PLC.

Voltex director Myron Berzack said EPI enabled SA cable producers to offer off-shore customers a full range of cable products.

"Being the major shareholder of EPI does not give us any advantage. We each offer our products to EPI, which then buys from the cheapest source."

COMPANIES

Altron's earnings increase 17%

ROBERT LAING

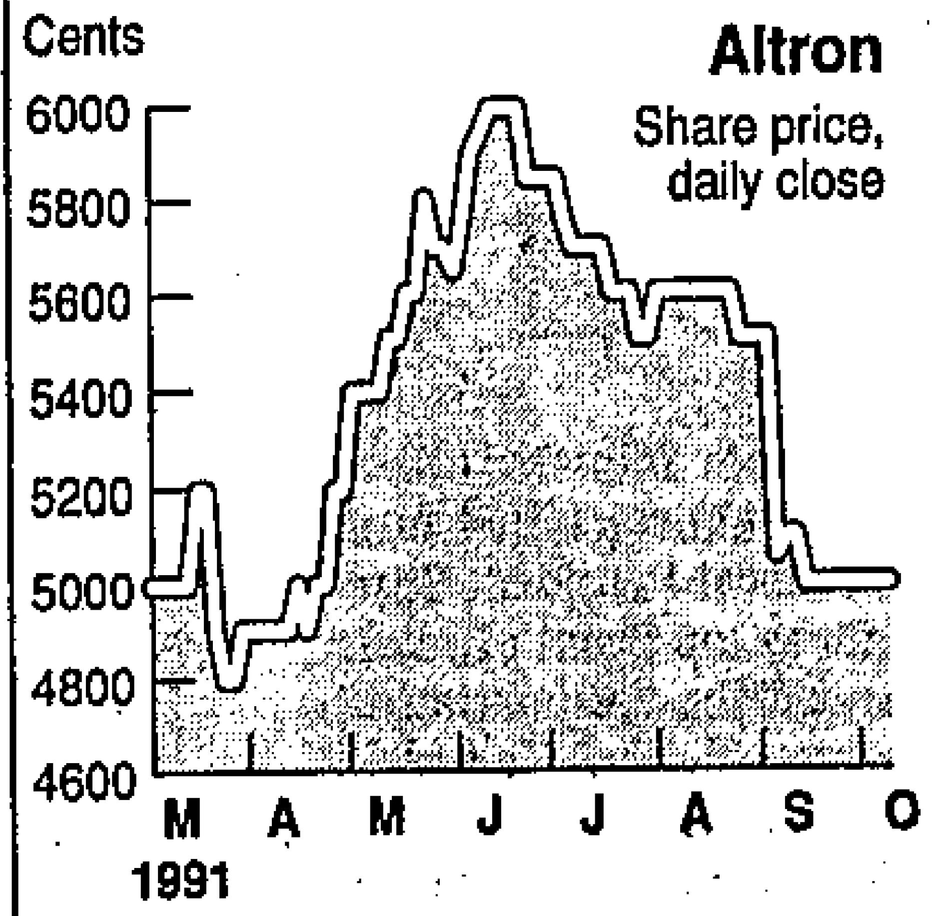
NEW customers, new markets and new products helped Altron report a 17% increase in interim earnings a share despite sharp spending cuts by the electronics industry's largest customers.

Altron executive chairman Bill Venter said in an interview yesterday: "Considering the electronics industry lost 70% of its traditional market because of massive Post Office and defence cutbacks, maintaining sales and increasing earnings was an incredible achievement."

The group is structured into three operating companies: Altech, Powertech and Fintech. Altron also controls about 67% of UK-based Telemetrix, whose results were not consolidated in the interim report.

Telemetrix contains all Altron's offshore interests, including two electronics factories near Hong Kong. Offshore interim income was about £80m and its contribution to the group's final turnover should be between 15% and 17%, Venter said.

Altron held its turnover at R1,3bn, with increases from Altech and Fintech offsetting a slight decrease in Powertech's turnover. Although operating margins slipped to 10,6% from 11,5%, tight asset management resulted in attributable earnings rising 17% to R45m (R38m). Earnings a share were 237,6c (203,3c).



Graphic: FIONA KRISCH Source: I-NET

Altech contributed 48% of Altron's R90,5m after-tax profit, Powertech 36% and Fintech 11%.

Exports, which still account for a small percentage of turnover, are targeted to reach 12%.

The group increased its research and development spending to design several new products. The areas of research included solar power, low-cost electrical reticulation systems, electronic mining detonators and other products needed by African countries.

18(9E) (a) B/Day 9/10/91

Voltex confident about Usko's cabling

189E

S|Times (Buss 6/10/91.

By JULIE WALKER

MYRON BERZACK of Voltex — the cabling company that took control of Usko this week — is confident that Usko's cabling will have a significant impact on the bottom line.

In a novel deal — the terms of which have not been made absolute — Voltex will inject R70-million into Usko in return for the issue of shares that will give Voltex 80% of the enlarged company.

Voltex is not throwing R70-million into a dead duck. The interest lies in Usko's non-ferrous division, which houses four cabling operations as well as a clutch of worthwhile investments.

Mr Berzack says there were other bidders for Usko, which partly explains the haste behind the deal and the fact that the details are not yet ironed out.

"Usko's cabling operations are complementary to our own divisions," says Mr Berzack.

He believes the subscription for shares is a novel move in SA. Because the deal is imperative to Usko's survival, and because the existing major shareholders would not inject capital, an offer to Usko's minority will not be required by the JSE in spite of an effective change of control.

Mr Berzack says one of the first steps will be to reduce Usko's debt burden, possibly through a rights issue.

Negated

Usko has already sold its steel interests for R55-million, and its vanadium operations to RhoVan. After these disposals, Usko has negative shareholders' funds, and debt believed to be R60-million to R80-million.

"Usko's non-ferrous division was making fair money, but it was negated by the lossmakers in the rest of the group," says Mr Berzack. He is cagey over just how much Usko's cabling does earn, but R20-million before interest and tax is probably conservative.

"Once we have brought down the interest bill, Usko should turn out to be a real bargain."

This year Barlows' Reunert bought Cullinan's shareholding in African Cables in a R76-million deal.

Another large cable company, Aberdare, issued a warning on July 4, but cancelled negotiations two weeks later. It is believed to have looked at Usko too.

The other part of Friday's announcements concerns the cancellation by Usko of 20-year agreements with RhoVan to produce vanadium pentoxide flake.

MYRON BERZACK

Usko's financial difficulties have necessitated the cancellation. It must pay RhoVan R19-million cash before March 1992. Usko will also sell to RhoVan the assets used in the vanadium operations, free of liabilities and contingencies, for R1.

Options

RhoEx will buy Usko's shares in Rhosco (the holding company of RhoVan) and the options Usko holds in RhoVan, for R2,1-million.

Vanadium has been an expensive exercise for both Usko and for Rand Mines, whose loss-making Vansa mine had to be closed last year.

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ALLAN SWART & ASSOCIATES #7489

Polymer merger

S|Times (Buss) 6/10/91.

HOECHST SA and Sentrachem, joint shareholders of Plastomark, are to merge their engineering polymer divisions.

The new company, Plastomark Engineering Polymers, will become a subsidiary of Plastomark, and will be the largest supplier of engineering thermoplastics and thermosets in Southern Africa.

The product range will include modified polypropylene, high-density polyethylene, engineering polymers and associated products such as nylon.

FM 4/10/91 (189)

POWERTECH FM 4/10/91

Expanding exports (189)

Management at Powertech has frequently informed shareholders that the power engineering and electrical group is well placed to benefit substantially from participation in mass housing and township electrification projects.

Unfortunately, lack of co-operation between government and various political groups, as well as continuous violence in the townships, continues to stall such projects and, many would argue, the economy.

Powertech's main revenue generators, subsidiaries Brown Boveri Technologies and separately listed Aberdare Cables, have both suffered from the dearth of major capital projects. Matters may have been made worse by a reluctance among potential customers to commit to capital expenditure until the implementation of VAT.

SALES FALTER

Six months to	Aug 31 '90	Feb 28 '91	Aug 31 '91
Turnover (Rm)	620	584	605
Operating income (Rm)	65,4	65,8	57,7
Earnings (Rm)	19,9	21,3	20,4
Earnings (c)	14,9	15,9	15,2
Dividends (c)	—	9,3	—

Despite better-than-expected performances by Powertech's Lascon Lighting, Litemaster and Willard Batteries — which together contributed about 30% of earnings — turnover in the six months to end-August contracted slightly compared with the same period last year. A narrowing of operating margins, from 10,6% to 9,5%, meant that operating income dropped by nearly 12%.

Fortunately for shareholders, management continues to exert tight control over assets and costs. Substantial cash inflows resulted in net cash of R38m at the interim, compared with borrowings of R48m at the same time last year. Interest income of R1,5m — against finance charges of R4,8m in the first half of financial 1991 — with a R2,2m drop in the outside shareholders' interest helped attributable earnings to climb by just less than 3%, to R20,4m. An increase in the issued shares meant that EPS grew from 14,9c to 15,2c.

Powertech executive chairman Peter Watt says some of the cash holdings could be used for acquisitions — several are under consideration.

Watt expects business in the remainder of financial 1992 to be fairly flat, though the advent of VAT could release some orders that were previously held back pending the arrival of the new tax.

Powertech's strong balance sheet and its presence in the strategic power generation and electrical industries ensure that it is well positioned to take advantage of an upswing in the economy. However, until that recovery, and more capital-intensive projects get off the ground, opportunities for growth in the domestic market are likely to be limited.

Management is looking to exports to fuel growth and better utilise manufacturing capacity. The group already exports a variety of products, predominantly cables, lighting equipment and batteries to Europe, South America, the Far East and Africa. These sales accounted for less than 5% of turnover last year and the figure should double within the next 12 to 18 months.

Powertech's performance in the next year or two, at least, will hinge partly on how well the group fares in its attempts to expand exports, particularly in Africa. At 370c, the share is rated well above the Electronics sector average, though behind rival African Cables, and could still prove attractive to investors confident in the group's ability to weather the weak activity in its markets and expand its earnings base abroad. *Simon Cashmore*

Voltex takes over Usko

Star 4/10/91

Voltex has gained control of the troubled Usko group in a R70 million deal.

Voltex said yesterday it had taken up 80 percent of the company, which had its listing suspended recently following poor results leaving it in need of recapitalisation.

In terms of the deal, Voltex will require Usko to hold a rights issue large enough to top up its capital resources and restore it to financial health.

Voltex, Iscor and Metkot have agreed to follow their rights in any such issue.

With effect from October 1 Voltex gets control of Usko, including the non-ferrous division and associated investments.

Usko's other two divisions are being disposed of in separate and unrelated deals, the steel division going to Iscor and the vanadium operation to Rhombus Vanadium.

The effects of the takeover on Voltex will not be known until restructuring is completed.

As a result Voltex — and its parent companies, Elcentre, Berzack Brothers, Bivec and Elgro — have advised shareholders to continue exercising caution in their dealings until full details have been announced.— Sapa.

Voltex buys control of ailing Usko group

BRENT VON MELVILLE

ELECTRICAL cables group Voltex announced yesterday it was to acquire control of the ailing Usko group for R70m.

The move came shortly after the news that Usko's vanadium interests had been sold to Rhoex. B/Day 4/10/91.

A Voltex spokesman said the acquisition had been made primarily to gain control of Usko's cable interests.

In terms of the deal, Voltex would acquire 80% of the new expanded share capital of Usko after a rights issue.

Voltex's shareholding will equate to about 208-million shares. There are currently 70-million shares in issue.

The shares, which were suspended last week, were quoted at 70c at the time.

The deal also gives Voltex, controlled by Elcentre and Berzack Bros, control of Usko's non-ferrous division and associated investments. Usko sold its interests to cope with a debt load said to be about R180m.

Berzack joint chairman Myron Berzack said the Usko interests would provide an extension of Voltex's existing businesses, and further enhance the group's position as one of SA's leaders in the cable industry. Duplication of interests would be minimal.

Berzack said there would be no immediate change to the existing management structure, although changes would come about "in due course".

● See Page 3

Sankorp buys up Plessey SA

Star 3/10/91. (189E)

By Sven Lünsche

Sankorp has acquired 74 percent of telecommunciations group Plessey SA for an undisclosed amount from Germany's Siemens AG and the General Electric Company (GEC) of the UK.

Sankorp previously held 26 percent of Plessey, but has been involved in discussions with the two groups ever since Siemens and GEC took over Plessey PLC in October 1989.

In terms of the agreement Plessey SA is simultaneously selling its 50 percent shareholding in Telephone Manufacturers of SA to GEC SA and Siemens of South Africa, which will strengthen their respective local operations.

Derek Hunt-Davis, Sankorp's general manager, investments, said that Sankorp is paying cash for Plessey SA, which has annual turnover in the region of R250 million.

"An important feature of the agreement is that Plessey will retain access to Siemens' and GEC's technology," he said.

He added that the group would continue to represent certain specialised products from leading overseas manufacturers in SA, including radars, traffic controllers, semi-conductors and PABX's.

Independent

Mr Hunt-Davies says that Plessey would be maintained as an independent operation and not linked to Sankorp's other electronic and telecommunications interests.

Dr John Temple, MD of Plessey SA said that management fully supported the change of control.

"For several years we have believed that South African control would be in the best interests of Plessey SA."

The statement says the agreement is subject to certain formalities being completed.

Usko cabling division may be Voltex target

Star 1/10/91

189E

By Jabulani Sikhakhane

Cautionary notices by Voltex, Elcentre, Elgro, Berzack and the Bivec group of companies yesterday sparked rumours that Voltex was buying Usko's cabling divisions.

Usko shares were suspended last week and the directors said the company was engaged in negotiations to finalise its recapitalisation.

Voltex is jointly controlled by Berzack, which, in turn, is controlled by Bivec and Elcentre whose pyramid is Elgro.

Berzack joint managing director and a director of Voltex, Myron Berzack, would neither deny nor confirm that the cautionary notice related to Usko.

But analysts speculated yesterday that Voltex was buying Usko's copper and aluminium rod operations. The Transvaal Copper Rod Company, which converts molten copper into rod, is a joint venture with Palabora Mining.

The other possible sale is Thames Wire & Cable, which coats copper wire and strip with paper and enamel for sale to manufacturers of electrical equipment.

Analysts said these businesses will fit in well with Voltex's existing business portfolio. Voltex is a distributor of electric cable and wire, lighting, industrial and electronic products.

It also manufactures electric cable and wire, electric cable accessories, moulded plastic containers and extruded tubing.

Usko, which is jointly controlled by Iscor and Metkor, reported a loss of R11,4 million for the six months to March. Net interest-bearing debt (after being reduced by funds on deposit) stood at R183 million.

Voltex Holdings turns UK acquisition around

B Day 1/10/91 (189B)

ROBERT LAING

VOLTEX Holdings turned the UK-based company it purchased last year to profit in the year to end-June. However, the acquisition's funding costs offset its profit and Voltex's earnings dropped 25% to 19c (25,3c) a share.

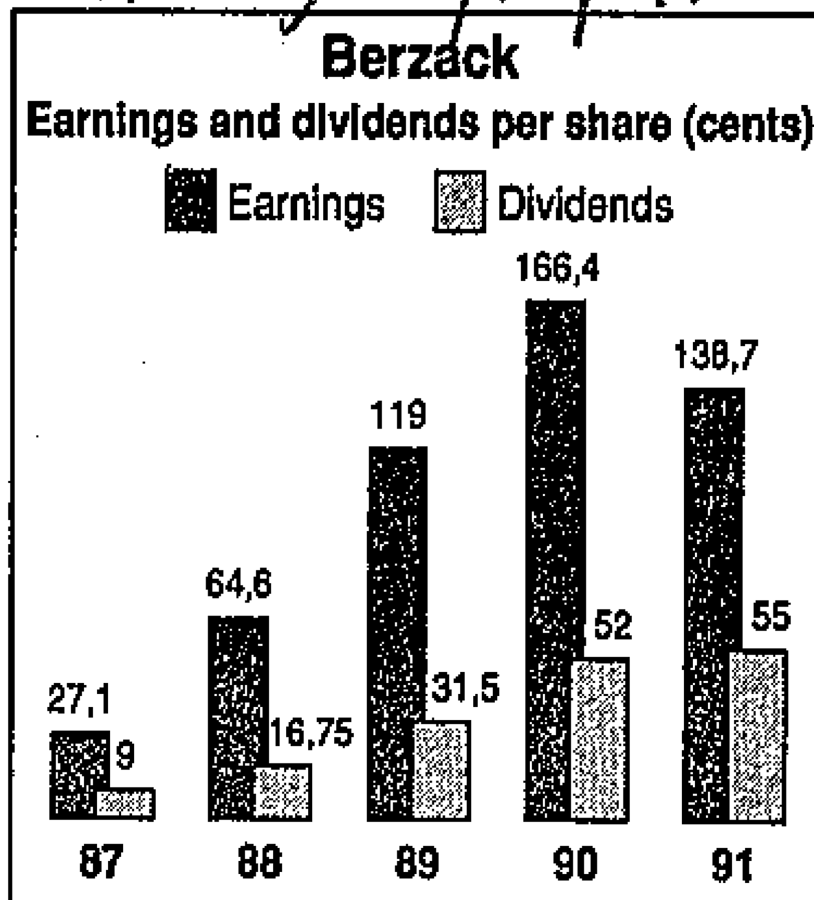
Voltex, one of SA's major cable manufacturers, maintained its local sales despite a slump in mining and housing business, director Myron Berzack said yesterday.

The firm's UK subsidiary Bennett & Fountain reported a profit of £2,5m compared with the £10m loss it reported before Voltex bought it. Voltex maintained its final dividend at 8,25c a share.

Berzack said the group had managed to reduce borrowings to R193m from December's R248m.

Voltex paid about £20m for its share of B & F (about R140m in financial rands).

"B & F is a similar operation to Elcentre. We built Elcentre into SA's major electrical wholesale operation — we should be able to do the same with B & F in the UK," Berzack said.



Graphic: FIONA KRISCH Source: BERZACK

Voltex and its major shareholders, the Berzack and Elcentre groups, announced yesterday that negotiations were in progress which could affect their share prices.

Berzack refused to expand on the cautionary announcement, but said speculation that Elcentre was selling its 50% stake in Voltex to the Berzack group was way off the mark.

The Berzack group, which holds 40% of Voltex, had its earnings knocked 17% by the recession in the UK.

Berzack Brothers' earnings fell to 138,7c (166,4c) and earnings at its holding company Berzack-Illman Investments (Bivec) fell to 97,9c (117,1c) a share.

Directors raised Berzack's dividend to 55c (52c) a share and Bivec's to 39c (37c) a share.

Directors said Berzack's earnings would have shown a modest growth if the loss from its 50%-held UK subsidiary Eastman had been excluded.

Elcentre Corporation and holding company Elcentre Group (Elgro) were hit by Voltex's lower earnings and their hardware retail subsidiary Sanlic's loss of 5c a share.

Elcentre maintained its dividend at 36c despite earnings falling 30% to 63,4c (90,2c) a share and Elgro maintained its dividend at 18c a share on earnings of 31,7c (45,1c).

Sanlic posted a net loss of R3m, mainly because of poor performance from Greatrex, which was closed during the year.

DELTA ELECTRICAL (18 [illegible])

Still sparking

FM 30/8/91

On the back of the 17% profit hike in the latest interims, Delta Electrical Industries has reached new highs, against the general trend of the electronic sector. At 950c, Delta stands at about six times NAV of 162c.

MD Evan van Zyl says all group companies performed well in the circumstances, though the lower level of business with the gold mining industry resulted in an increase of just 9% in operating profit.

But there was a doubling of income from the two 20%-held associates. Electronics company Jasco was included for the full period, compared with just one month in 1990. Valhold successfully turned around the Landlock operations, which supply power tools and brake linings mainly to the replacement market. Delta lifted its interim dividend by 19%, on a cover reduced fractionally to 2,7.

Van Zyl says the group is keeping a keen eye on acquisition prospects. This will be necessary if the group is to continue to grow. It currently has R300 000 more cash than borrowings. He says it would feel comfortable with gearing of 30%, which would imply borrowings of about R24m.

Van Zyl says the group would only acquire companies in businesses in its existing spheres of operation, electrical services and industrial consumables. But there are numerous poorly rated electrical companies on the JSE that would benefit from an infusion of Delta's management expertise. Delta offers an earnings yield of 6,1% and a dividend yield of 2,7%. The dividend yield is the same as the average on the Industrial index, but is well below the electronics sector's 4,2%.

Delta's earnings have not grown quite as fast as in previous years — EPS grew by a compound 31% over six years — but the share should continue to enjoy a premium rating.

Stephen Cranston

Cullinan pins hopes on increasing exports

S-tar 29/8/91. (189E)

Cullinan Holdings has reported a sharp decline of 46,6 percent in earnings for the year to June, but the group expects to improve performance in 1992 through increased exports.

Turnover was marginally reduced to R666,4 million (R667,7 million), but operating profit declined 22 percent to R42,4 million.

Earnings attributable to shareholders were R10,2 million (R19,1 million), which translates into earnings a share of 70,7c.

A dividend of 34c has been declared.

Although strict cost controls and management of working capital allowed the group's ceramic and property interests to resist recessionary conditions, the electrical division was hard hit by the reduction in infrastructural, public sector and capital-project spending over the year.

Managing director Ray Tyler says the disposal of Cullinan's 51 percent share in African Cables for R75,8 million in cash, announced in July, can be expected to reduce finance costs, which reached R25,6 millionand to improve group earnings.

Net asset value a share has improved from R11,29 to R12,83. Cullinan has already received full payment for African Cables.

"We are in the process of changing Cullinan's profile from being purely an industrial holding company to becoming a major player in our specialist areas," says Mr Tyler. — Sapa.

Everite profits dip

Star 28/8/91 (1898)

Drastic action taken by Everite to reduce fixed costs and overheads did not compensate for the impact the sharp drop in sales had on net profits, which dropped 68 percent for the year ended June.

According to financial results released yesterday, the 18 percent drop in sales reduced net profits to R5,2 million from R18,5 million last year. This was achieved on a lower turnover of R334,2 million (R351,9 million). There was a corresponding drop in earnings a share to 6,9c (21,6c).

A final dividend of 2,5c was declared making a total distribution of 6,5c (13c) for the year.— Sapa.

Delta Electrical turns up current

189

By Sven Lünsche Star 22/8/91

Delta Electrical achieved earnings growth of 17 percent in the first half of this year, despite what it termed "weaker economic condition".

Delta's interim results, released today, show earnings per share rose from 22,3c last year to 26c. The interim dividend has been lifted from 8c to 9,5c.

Operating income was up by nine percent to R21,7 million (R19,9 million).

Income from associated companies surged from R570 000 to R1,03 million as a result of acquisitions totalling R10 million last year.

Delta acquired a 20,7 percent holding in Jasco, a 92 percent holding in Wire Electrical (Transvaal) and a 21 percent interest in Valhold.

Commenting on the results, the directors say Delta maintained its operating efficiency in the uncertain economic environment, with the result that most of its operating companies managed to turn in acceptable performances.

The group maintained its strong cash-flow position, leading to a significant decline in interest-bearing borrowings from R3,84 million to R2,63 million, while cash on call fell to R2,91 million.

Delta has shown good compound growth of 31 percent over the past few years, with both earnings and dividend in the 1990 financial year rising by 29 percent.

It is unlikely, however, that such a growth rate will be repeated this year, although the group should maintain real earnings growth.

Powertech's broad base protects shareholders

Star 12/8/91 (189)

Diagonal Street

LYNNE PEACH

Investors in high-flying Powertech have been well-rewarded, particularly so in light of the group having to face harsh external conditions.

In the latest annual report, executive chairman Peter Watt explains that Powertech's broad spectrum of business activities, its range of products and "blue chip" customer base provide a measure of protection against the economic downturn.

As far as the current year is concerned, he says orders are satisfactory and the group will continue to enhance growth prospects by placing emphasis on controlling overheads and improving operating efficiencies.

Powertech is an investment holding company whose subsidiaries are primarily engaged in power generation, transmission and distribution, energy management and control, power and communication cables, and lighting and electrical accessories.

In the year to February, group turnover increased a modest four percent from R1157,1 million to R1204,2 million. After net interest expense dropped sharply from R15,4 million to R4,4 million, pretax profit advanced 25 percent from R101,3 million to R126,8 million.

However, a rise in the effective tax rate from 38,3 percent to 45,0 percent reduced the increase in after-tax profit to 11 percent from R62,6 million to R69,7 million.

After including income from associate companies and deducting outside shareholders' interest, attributable profit grew 11 percent from R37,1 million to R41,2 million.

An extraordinary item of R1,1 million relates to the closure costs of certain unprofitable operations.

Earnings per share increased from 27,8c to 30,8c and the dividend for the year amounted to 9,3c a share, compared with a payout of 8,4c in financial 1990.

The strength of the balance sheet has improved with borrowings shrinking from R47,4 million to R12,6 million.

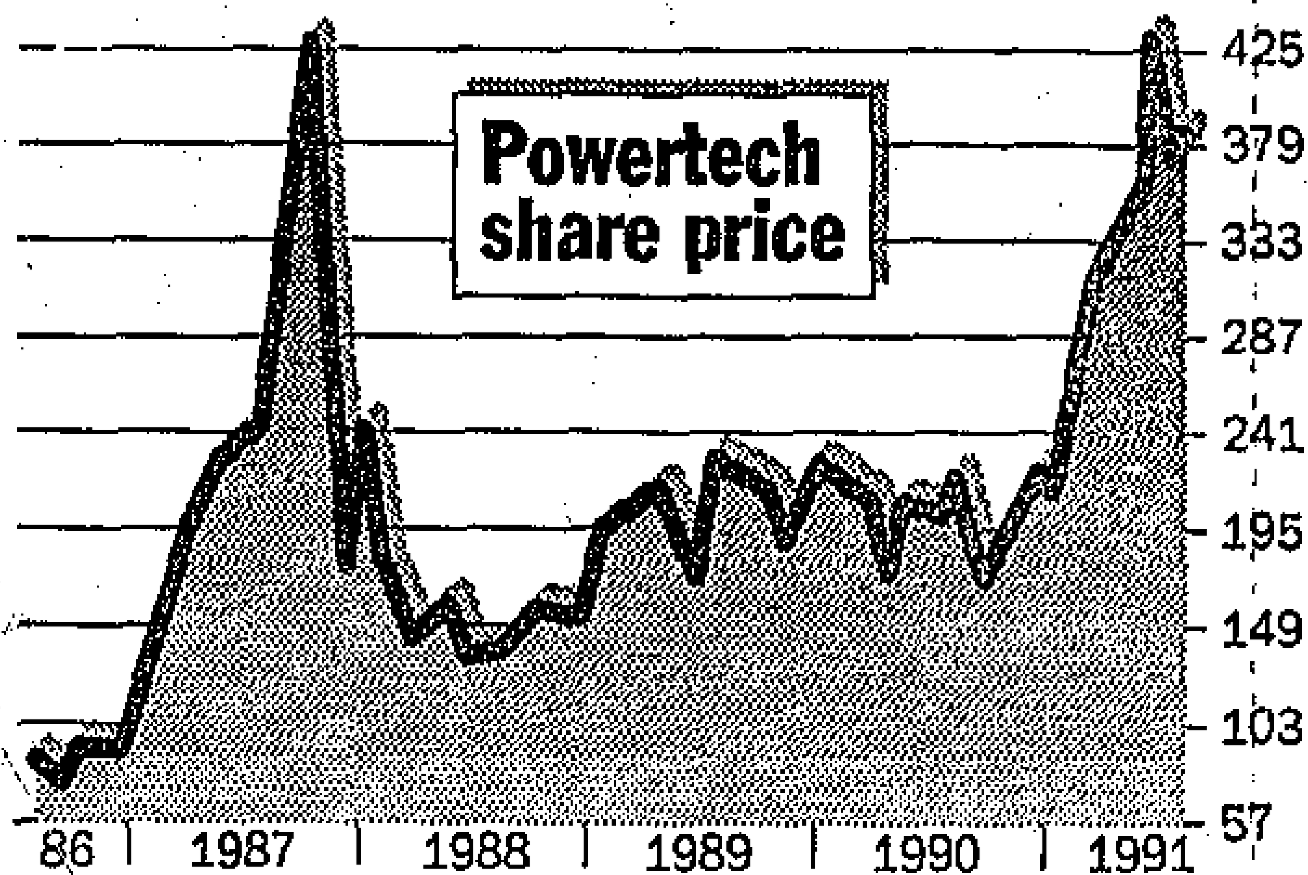
Gearing came down from 16,8 percent to 3,8 percent while the cash balance swelled from R28,1 million to R58,1 million.

Net asset value appreciated 15 percent over the year from 140c a share to 161c.

Powertech, priced at 385c, is trading on a price:earnings ratio of 12,3 and provides a dividend yield of 2,4 percent.

The share is looking a bit expensive at the current price level but the inherent strengths of the group and attractive long term potential make accumulation worth considering, particularly if the price weakens.

COMMENT: Powertech's share price rocketed from less than 200c a year ago to peak at 425c before easing back to its current level of around 385c. The share price remains in an upward trend and the short/medium term outlook will only turn unfavourable if the price starts falling below 365c.



AFRICAN CABLES (1898) (KBP)

Tying new knots FM 9/8/91.

Reunert and Siemens believe they can do more with African Cables than former controlling shareholder Cullinan Holdings could do. Cullinan had two other companies in the electrical field, Cullinan Power Projects and Cullinan Electrical, but these were service and trading operations rather than manufacturers.

Reunert and Siemens, on the other hand, will be able to form a major cables group. Reunert's interests include an effective controlling stake in optical fibre manufacturer ATC, a 50% holding in electrical contractor GEC Alsthom and 100% of Circuit Breaker Industries. Siemens Electrical Contracting is also a major force; it was recently awarded the electrical work at Jan Smuts airport.

Reunert financial director Clive Vaux says such a group would be about the same size as Aberdare, which is a joint venture between Philips and Powertech. Aberdare is producing better results than African Cables because of its wider range of services. It increased earnings in the year to December by 15%, though turnover fell marginally. Most of the growth was provided by telecommunication cables, with earnings from power cables maintained. African Cables, however, saw earnings fall by 20%, on a 16% decline in turnover at the December interims.

Vaux says the creation of a new cabling group is by no means a foregone conclusion, but Reunert and Siemens have at least agreed to set up a joint holding company to maintain its interest in African Cables. He says this will be purely a vehicle for holding the investment and he expects that any merger of operations will rather take place at the African Cables level.

African Cables MD Peter Muller says he is not yet sure what shape the new group will take. Cullinan is reserving comment until it has circulated its views to shareholders next Tuesday, a full two weeks after the sale of its 51% interest in African Cables was announced.

Historically, Cullinan's core business is in ceramics and it also has a large industrial property division. It has invested considerable capital into modernising its brickworks. Consequently, interest-bearing debt increased by two-fifths to R165m at the December interims and gearing increased from 55% to 75%. Certainly, the African Cables sale should make a major dent into borrowings. The deal is for R76m cash upfront.

Stephen Cranston

African Cables' earnings down

ANDREW GILL

RECENTLY bought-out African Cables has announced depressed earnings for the year ended June.

It reported a 40% decline in attributable profit to R11,2m from the previous year's relatively high base of R18,5m.

Margins took a beating as an 8% decrease in earnings translated into a 47% decline in operating profit to R18,2m and a 49% decline in pre-tax profits to R17,3m.

Earnings a share fell to 47c from 77,8c and a final dividend of 11c, half of last year's level, was declared.

It brought the total dividend for the year to 22c, a 33% fall.

However, Afcable's balance sheet remains healthy with no long-term liabilities and minimal gearing.

MD Peter Muller said yesterday the company's two major markets, the gold mining industry and municipalities, were suffering as was their demand for cables.

He said the company was well situated for an economic upturn.

The company was bought out by Reunert from Cullinan Holdings for R75,8m at the end of July and Cullinan-associated directors have resigned as of today.

In all six directors have resigned and two more were appointed.

Muller stays on as MD.

AFRICAN CABLES 189 FM 2/8/91

On-off-on again bid

There was confusion on Tuesday night over the future of African Cables. A news-wire report said Reunert had acquired control of the power cable manufacturer from Cullinan, for 625c a share, in association with Siemens. Then, just 15 minutes later, subscribers were asked to ignore the report.

Reunert chairman Clive Parker says it is now fact that Reunert has bought 51% of African Cables from Cullinan for R76m, at 625c a share, a small premium of 4,2% on the current price. An offer will be made to minorities at that price. The controlling stake will be put into a new holding company.

What has not been agreed, says Parker, is the composition of shareholding with Siemens. He says the two have agreed to take joint control of African Cables; Reunert will sell some of its equity on to Siemens but how much has not been decided. Parker says the acquisition has obvious benefits for Reunert: "We are active in the whole power chain, except the manufacture of cables. That missing link is now filled."

Stephen Cranston

COMPANIES

Big new cable group on the horizon

ROBERT LAING

A NEW cable group may be formed by merging African Cables, Siemens's cable factory and African Telephone Cables (ATC). B|Day 1|8|91

Siemens CE Reinhard Sanne said yesterday his group and Reunert had agreed in principle to combine their cable activities into an equal joint venture following the pair's acquisition of African Cables on Tuesday.

"The three cable manufacturers complement each other very well. African Cables specialises in high-voltage cable, our factory in Rosslyn near Pretoria specialises in medium-voltage cable and Reunert's ATC specialises in telecommunications cable," Sanne said.

He said Siemens's cable division was the smallest local manufacturer and needed to form part of a larger, more efficient group to remain a player.

Reunert financial director Clive Vaux said the "big picture" was to form one large cable company with Siemens, but the pair were still far from signing an agreement.

"There are many other shareholders involved and up to now only an agreement in principle has been reached with Siemens," Vaux said.

Reunert effectively owns 27,5% of ATC through its joint holding of GEC-Alsthom SA with its European parent company.

Altron's Aberdare at present towers above rival cable companies with its turnover of R432m. Both Sanne and Vaux said the new group would be a major player, on a par with Aberdare.

African Cables stake sold for R76m

ROBERT LAING

REUNERT and Siemens have jointly bought Cullinan Holdings' 51% share of African Cables for R75,8m cash — equivalent to 625c a share. B/Day 31/7/91

An offer will be made to African Cable minority shareholders at the same price, Standard Merchant Bank said in a statement today. (189 E

Reunert, the Barlow Rand group's electronics and electrical arm, is listed on the JSE, while Siemens is the wholly owned South African subsidiary of German electronics company Siemens Beteiligungen.

The controlling interest in African Cables will be held by an equal joint venture to be formed by Reunert and Siemens.

In a statement yesterday, Reunert and Siemens said the acquisition gave them an opportunity to extend and consolidate their interests in the local cable industry.

Reunert owns 50% of cable supplier GEC SA and an effective controlling shareholding in African Telephone Cables. Siemens is one of SA's biggest cable suppliers.

"The aim is to merge African Cables' operations with the existing cable operations with the existing cable activities of both Reunert and Siemens — thus creating a major cable group with the diversity of products."

The sale ends a five-week tussle between nearly all major local cable companies for control of African Cables which saw the share's price shoot up from 400c to 650c. The share's net asset value is 374c.

Reunert buys 51% of Afcable

(189E) Star 31/7/91

By Sven Lünsche

Barlow Rand subsidiary Reunert has taken a 51 percent stake in African Cables in a R78 million deal.

It will see Reunert join forces with electronics giant Siemens and is a first move to expand and consolidate Reunert's extensive telecommunications business.

Reunert managing director Tony Ellingford says the transaction should eventually see the merger of African Cables' operations with the existing cable activities of both Reunert and Siemens.

Preliminary discussions have already begun with Siemens and African Telephone Cables, in which Reunert has a controlling interest, and whose major business is the manufacture of optical fibre and telecommunications cables.

Mr Ellingford says the expanded African Cables will be well geared for the massive electrification programme in SA's townships "which must get under way soon".

In terms of the deal, the 51 percent stake in African Cables, as well as any minority interests that accept the 625c a share offer, will be held in a new holding company, jointly controlled by Reunert and Siemens.

Had the deal been effective in the year to end-March 1991, Reunerts earnings would have risen from 238,4c to 240,3c while net asset value would have fallen from 715,6c to 655,4c.

Cable firms seen as merger prospects

Bus. Day 5/7/91

SEAN VAN ZYL

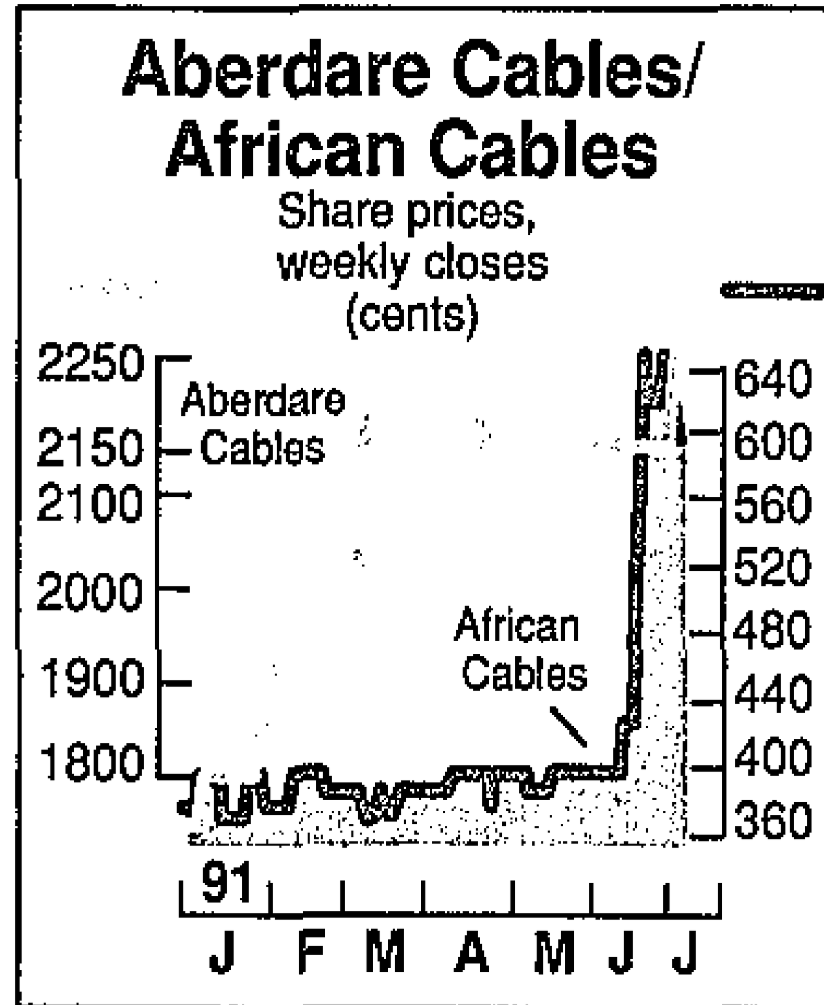
THE POWER cable industry may be facing major changes should market speculation prove accurate that two of the main players, Aberdare Cables Africa and African Cables, are negotiating to merge their interests.

Market rumours, spurred by cautionary announcements published by both companies recently, have boosted Aberdare's share price by 7% to R23 over the past week.

Afcable's share picked up marginally by the close of yesterday's trade to 610c from 600c. However, brokers said "you can't pick up Aberdare shares for love or money". Availability of Afcable stock had also tightened sharply.

An Afcable source said the company's parent, Cullinan Holdings, is involved in negotiations to sell off the operation. Analysts says Aberdare, with about R70m in cash holdings, is the probable buyer.

Siemens SA, Reunert and Voltex Holdings are also said to be in the running.



Graphic: LEE EMERTON Source: INET

Cullinan MD Ray Tyler said he could not comment as to whether Afcable had been placed on the bidding block. However, an announcement would be made shortly.

Aberdare's chairman Peter Watt was not available for comment — nor any of the other senior directors.

Based on the current share price, Afcable's market capitilisation stands at about R145m. Cullinan holds about 51% of the company's issued share capital, which equates to a purchase price of about R74m.

However, analysts said Afcable was overpriced, and suggested a deal would probably be struck at about 500c a share — valued at about R60m.

The deal would probably involve both a cash and "share swap" consideration down the middle. As a result, Cullinan would receive a large chunk of Aberdare stock.

Delta Electrical plugged in

Diagonal Street
Star 13/5/91 189E
LYNNE PEACH

Delta Electrical, whose earnings over the past six years have grown by an annnual compound rate of 31 percent, is facing the immediate future with more optimism than most companies.

In the annual report, chairman NA Bury is confident that profit in the current year will increase ahead of the inflation rate, despite the ailing economy.

He says the group should benefit from the strength of its services and products, from its clean balance sheet and from the ongoing commitment of management and staff.

Last year, 36 percent of Delta's attributable profit came from the repair of electric motors and transformers.

The manufacture of insulating materials, conductors, cables and accessories contributed 29 percent to group profit.

The supply of electrolytic manganese dioxide to battery manufacturers contributed 24 percent, while industrial products accounted for 15 percent.

Some R10 million was invested over the year in strategic acquisitions and expansion designed to support core activities.

In the year to December, group turnover rose 16 percent, compared with 35 percent in financial 1989.

Performance at the operating level was more spectacular. After interest expense rose 28 percent from R1,8 million to R2,3 million, pre-tax profit grew 29 percent from R36 million to R46,6 million.

Mr Bury says that most divisions performed according to plan, while volumes and operating results of the electrical repair business and of the electrolytic manganese dioxide company were well above expectations.

A decline in the effective tax rate from 47 percent to 45,2 percent resulted in taxed profit growing 34 percent from R19,1 million to R25,5 million.

After taking into account the net income of associated companies and outside shareholders' interest, attributable income rose 29 percent from R17,6 million to R22,7 million.

Earnings per share rose from 42,9c to 55,2c. The dividend for the year was 24,5c a share (19c).

In 1989, shareholders were given a special dividend of 25c a share.

The balance sheet shows improved strength, with short-term borrowings down from R6,8 million to R3,8 million. Gearing is one percent.

Net asset value appreciated 17 percent from 129c a share to 151c.

Delta, priced at 710c, is trading on a P/E ratio of 12,9 and provides a dividend yield of 3,5 percent.

Although the share is highly rated, it is still an attractive proposition in view of its above-average medium-term prospects and sound long-term potential.

COMMENT: Delta's share price has steadily moved up over the past five years from less than 200c to 710c.

In the last three months alone the price has gained 34 percent from 530c.

The uptrend remains intact and will only be threatened if the price starts falling below 660c.

Delta Electrical on track for growth

B Day 22/4/91 LIZ ROUSE (189E)

DELTA Electrical Industries should achieve a profit growth exceeding the inflation rate, although it faces adverse factors in the domestic and export trading areas.

Chairman Alex Bury says in his annual review that with the market strength of the company's services and products, the clean balance sheet and continued commitment of management and staff, Delta should show continued growth.

Delta has a good track record. Its earnings increased by 29% to 55,2c a share in the year to December 1990 and the dividend was raised by 29% to 24,5c. The return on capital employed improved from 54% to 60%. Earnings have grown by an annual compound rate of 31% over the past few years.

Most divisions performed according to plan, while the volumes and operating results of the electrical repair business and of the electrolytic manganese dioxide company were well above expectations.

Delta invested R10m last year in strategic acquisitions and expansions to support core activities. It acquired a 20,7% holding in Jasco Electronics Holdings, a 92% holding in Wire Electrical (Transvaal) and a 21% stake in Valhold.

A breakdown of attributable income shows that electrical repair contributed 36%, insulations, conductors, cables and accessories 29%, industrial products 15% and electrolytic manganese dioxide 24%. Finance showed a 4% loss.

DELTA ELECTRICAL

MORE GOOD RETURNS

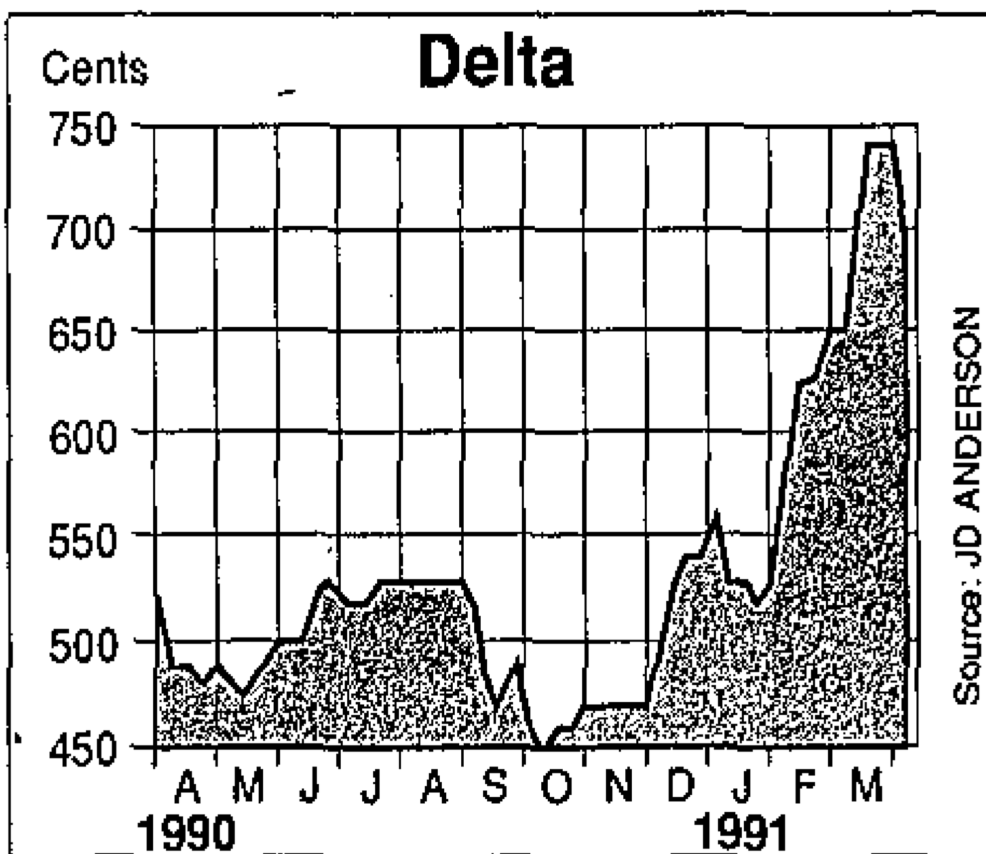
This company has always maintained a very low profile — possibly because it is too busy making money to do anything else. Since 1986 it has grown earnings at an annual compound rate of 31%, while the current return on equity of almost 38% is quite remarkable for an ungeared, fully taxed company.

Growth over the years has been both organic and as a result of acquisitions. But the fact that earnings growth has outpaced that of turnover (30% compound since 1986) shows that the group has not fallen into the trap of growth for the sake of size, where costs tend to take up the major portion of any additional profits.

Part of Delta's success has been its ability to improve operating margins. Turnover is not disclosed, so margins cannot be calculated. But the fact that there has been a fourfold increase in trading profit over the past four years on a threefold increase in sales indicates that 1990 margins were some 45% higher than in 1986.

The increase in margins has had two major effects of interest to investors. Firstly, profitability ratios have risen steeply, with both the gross return on total assets and the return on equity up at least 50% during the past three years. This, in turn, has enabled the group to increase attributable profit at a rate which has offset effects of additional shares issued in part-payment for acquisitions, allowing EPS, as already mentioned, to keep pace with sales growth.

As an historical phenomenon this has obviously been extremely beneficial. What remains to be seen is how much longer the pattern can be made to continue.



Activities: *Makes and services electrical and mechanical goods.*

Control: *Delta Plc 49,9%.*

Chairman: *N A Bury; MD: E W van Zyl.*

Capital structure: *41,1m ords. Market capitalisation: R288m.*

Share market: *Price: 700c. Yields: 3,5% on dividend; 7,9% on earnings; p:e ratio, 12,7; cover, 2,3. 12-month high, 740c; low, 450c. Trading volume last quarter, 434 000 shares.*

Year to Dec	'87	'88	'89	'90
ST debt (Rm)	0,1	0,2	6,8	3,8
LT debt (Rm)	—	—	—	—
Debt:equity ratio	—	—	0,11	0,05
Shareholders' interest	0,55	0,53	0,48	0,50
Int & leasing cover	—	—	23,5	33,5
Return on cap (%)	24,6	25,1	28,9	33,4
Turnover (index*)	144	182	212	286
Pre-int profit (Rm)	17,8	22,5	27,2	48,0
Pre-int margin (Index*)	107,2	107,3	111,3	145,4
Earnings (c)	25,0	32,3	42,9	55,2
Dividends (c)	10	12,5	19	24,5
Net worth (c)	105	125	129	146

* Turnover and pre-interest margin indices: 1986=100.

Commonsense dictates that margins and profitability cannot continue increasing indefinitely from what is already a high base, though financial director David Davie points out that past increases have been partly the result of a changing product mix. However, if they do start levelling off, this must inevitably impact on earnings growth unless the group is successful in finding, on an ongoing basis, opportunities for acquisitions that will add not just additional sales, but also the kind of rationalisation/synergistic benefits necessary to create real benefits to shareholders.

In this context, Delta has two things going for it: a management with a proven track record; and an almost ungeared balance sheet. That means growth, either by acquisition or expansion of existing operations, need not be constrained in the foreseeable future by financial considerations. This was illustrated last year when the group reduced borrowings by R3m despite having invested R10m in various acquisitions and expansions and while maintaining a policy of distributing a fairly generous 44% of earnings by way of dividends.

The group's strong performance in recent years has not escaped investors. Over the past year alone, the share price has risen by one-third from 525c to 700c. This was in line with the increased payout, with the result that the 3,5% dividend yield has shown little change.

Having outperformed the market so decisively, the rating of the share at a discount to the Industrial index looks anomalous, but can be attributed to the listing in the electronics/electrical sector which is still suffering from the hammering taken by some electronics and computer companies a while back. But perceptions about the sector are improving. As this process continues, Delta could be one of the main beneficiaries.

Brian Thompson

Voltex hard at it to turn UK investment around

(189E)

(Bus/T) ST Times 14/4/91

By DIRK TIEMANN

VOLTEX, the group held jointly by Elcentre Corporation and Berzack Brothers, is working hard to turn around its British investment, Bennet & Fountain.

If it succeeds, Voltex will be one of the few South African companies to make it abroad. SA firms have a poor record when it comes to establishing themselves in other countries.

Executive director Phillip Aginsky, who is based in London, says Voltex is doing everything it can to put Bennet & Fountain (B&F) back on track.

Voltex subscribed for between 52,3% and 60% of the ordinary share capital in July 1990. B&F is an electrical wholesale distributor listed on the London Stock Exchange.

Mr Aginsky says staff numbers have been more than halved, the debtors' book has been shortened and the number of vehicles has been halved to 250, inventories are 50% down to R12-million and buildings have been sold.

Equity and profit participation, a new concept to British management, has been introduced.

Mr Aginsky says the European market is difficult to penetrate and B&F will be the ideal vehicle to increase its exports to the European Community.

Executive director Myron Berzack says B&F has been cautious with its operations in the UK because "if you are aggressive in someone else's market, he will get aggressive in yours".

He says the European markets have been carefully demarcated.

Elcentre holds 52% of Voltex which contributes 94% of Elcentre's earnings. Sanlic provides the rest.

Both Elcentre and Voltex have been treated cautiously by the market. The current Elcentre share price of 400c is well below its peak, but has recovered from a low of 300c on January 31, 1991.

Shareholders may have been put off by a contingent tax liability on the balance sheet, which if realised would reduce net asset value by 21c a share.

Capitalist

Voltex shares at 120c are at a low. They were at a high of 210c on June 13 1990. Analysts predict lower earnings for the year, mainly because of the B&F acquisition, but expect a turnaround in 1992.

Elcentre chairman Reuben Mowszowski says shareholders' investments in Elcentre grew at a compounded rate of 34% from 1981 to 1991.

He is confident about growth, provided the transition to the new SA is rapid and ensures stability. Mr Mowszowski is also counting on the economy having capitalist and not socialist leanings.

SA expertise switches UK company into profit

B Day 4/4/91. (189F)

MERVYN HARRIS

NEW Bennett & Fountain (B & F) chairman Phillip Aginsky wasted little time in putting the UK electrical wholesaler back on the profit track after JSE-listed Voltex acquired control of the company in June last year.

Adopting a strategy of radical surgery to address the problems of the ailing UK company, he turned a loss of £24m in the year to June 1990 into a profit of £1,48m for the six months to December 1990.

And the group is looking to resume dividend payments in the 1992 financial year when the funds will flow through to Voltex and considerably enhance its earnings.

When Aginsky, a major player in the surge of Elcentre as the top electrical wholesale group in SA, arrived in London in September last year, he found B & F to be floundering in the midst of a recession in the UK which was far worse than most expectations.

"People had expected a short, relatively mild recession, but it has turned out to be deeper and more protracted than anticipated", said Aginsky, who is in SA for a few days to report back to the board of directors here.

AGINSKY . . . orchestrated turnaround

The state in which he found B & F was reflected in the fact that the group's audited consolidated net asset value at 30 June 1990 was substantially less than the agreed £12,6m. Voltex is considering further claims in relation to the subscription agreement dated 6 June 1990.

The turnaround in the fortunes of B & F were achieved by Aginsky taking sweeping measures which included a vigorous programme of rationalisation of branches, staff and inventory.

The group's control costs were significantly reduced through a devolution of responsibilities to operating branches. Enhanced administration controls and improved management information systems were introduced.

Net tangible assets of the group at 31 December 1990 amounted to £16,4m compared with a deficit of £5,5m at 30 June 1990. Group borrowings were reduced from £42,2m at 1 July 1990 to £16,6m at 31 December 1990, and further meaningful improvements are expected.

Aginsky said the impact of the introduction of tighter working capital and improved asset management controls would mainly have an effect in the second half of the year.

"Current trading conditions remain difficult but the reorganisation of the group has been substantially completed and we are beginning to see the benefits of increased efficiencies in a number of areas.

"I am therefore confident that our results for the full year will demonstrate further progress", he said.

Voltex suffers a knock from costs and offshore interests

ROBERT LAING

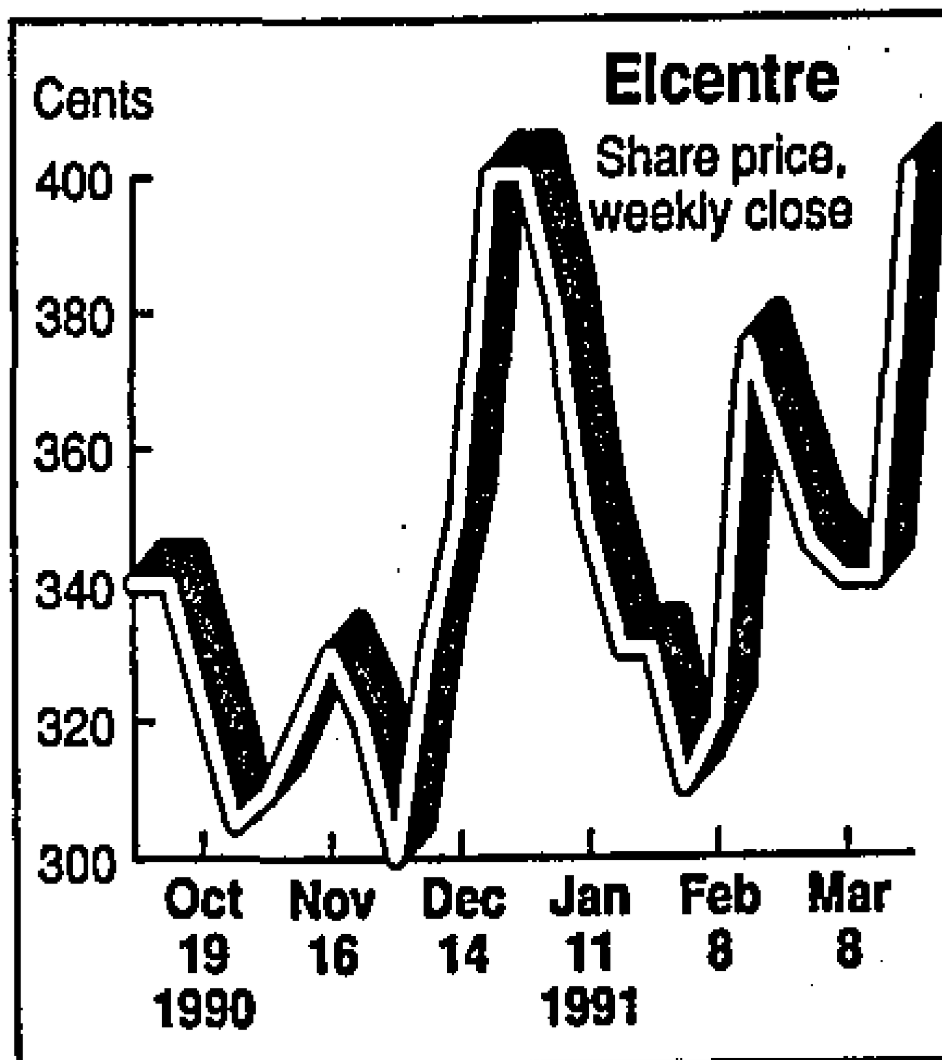
REDUCED income from Elcentre's subsidiary Voltex, slightly offset by its other subsidiary Sanlic returning to profit, resulted in earnings a share dropping 20% to 35,7c (44,6c) for the six months to end-December.

Shareholders have been given the choice of accepting a dividend of 15c a share in cash or, through a capital reduction of Elcentre, shares in Voltex at a ratio of 12 Voltex shares for every 100 Elcentre shares.

The group said in a statement yesterday: "This means a shareholder who owns 100 Elcentre shares will, after the capital reduction and dividend distribution, hold the same 100 Elcentre shares as well as 40 Voltex shares or R15 in cash."

Directors said the latest results were not directly comparable because the company's financial year end had changed and it had equity accounted its earnings since the 1989 sale of its operating interests to Voltex and Sanlic in exchange for a stake in each of these companies.

Cable and lighting supplier Voltex increased its turnover and maintained its operating margins despite the slump in the housing and mining markets. However, a sharp increase in finance costs and the inclusion of offshore investment Bennet & Fountain (B & F) reduced earnings a share to 9,9c (12,1c).



Graphic: FIONA KRISCH Source: JSE

The inclusion of B & F caused Voltex's turnover to rise 56% to R677,5m (R434,0m). Local turnover rose 10% in spite of tough economic conditions but operating margins fell to 10,2% (13,5%) of sales. Finance costs increased to R25,7m (R5,6m), leading to attributable income dropping 18% to R41,5m (R50,8m).

Directors said the increased borrowings could be handled by operating cash flows and there would be no need to raise long term funds. Again, the results are not directly comparable with the previous interim report because B&F has been included for the first time, diluting Voltex's earnings a share by 2,4c.

B & F made a promising turnaround, generating an income of £1m in the second half of last year compared with a loss of £10m in the first half. An interim 3,5c a share dividend was declared.

Hardware distribution group Sanlic is back in the black, reporting net income of R367 000 compared with 1989's loss of R2,4m. This translates into an earning a share of 0,6c (loss: 3,9c).

Chairman Nathan Mowszowski said these results bore out his statement in the 1990 annual report that major problem areas had been addressed to return the company to profitability.

Elgro, the group's pyramid holding company with a 54% stake in Elcentre, announced earnings of 17,8c a share and a dividend of 7,5c a share. Elgro is also offering its shareholders Voltex shares at a ratio of six Voltex shares for every 100 Elgro shares. Similarly, Elgro shareholders will receive 20 Voltex shares for every 100 Elgro shares held in terms of a capital reduction.

Berzack boosts dividend, despite fall in earnings

MARC HASENFUSS

LISTED engineering group Berzack Brothers Holdings reported a 15% drop in interim earnings after a lower contribution from associated company Voltex.

Earnings fell to R19,5m (R23,4m) or 73,5c (87c) a share for the six months to end-December 1990.

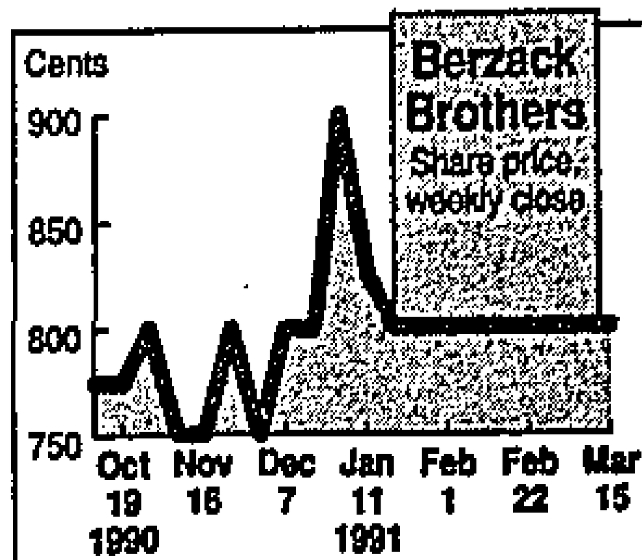
Despite the reduction in earnings, the group increased the interim dividend 20% to 18c (15c) a share, covered 4,1 (5,8) times. The interim turnover figure was not disclosed.

Joint MD Myron Berzack said the reduction in Voltex's earnings was considered to be of a short-term nature, the confidence in a recovery being expressed by raising the interim distribution.

Voltex, in which Berzack has a 39,8% stake, recorded a drop in earnings due to its acquisition of the British-based Bennet & Fountain (B & F) in July 1990.

Berzack emphasised that B & F was a strategic acquisition which would have a favourable effect in the long term.

Berzack-Illman Investment Corp (Bivec), which holds a 50,3% stake in Berzack, reported similar results to Berzack, with earnings dropping 17,3% to R10m (R12,2m) or 52,5c (63,5c) a share for the period under review.



Graphic: FIONA KRISCH Source: JSE

The interim dividend was raised 18% to 13c (11c) a share.

Berzack shares are priced at 800c and Bivec's at 605c.

Buffcor's strong results are marred

MARC HASENFUSS

DIVERSIFIED engineering group Buffalo Corporation (Buffcor) had its strong interim performance marred by a R1,2m extraordinary item.

Buffcor boosted its interim earnings 170% to R1,5m (R558 000) for the six months to end-December 1990. Earnings a share were lifted to 22,7c (R8,7c) on the back of a 40% rise in turnover to R13,7m (R9,8m). However, the R1,2m extraordinary item reduced attributable earnings to R245 000 or 3,8c a share for the period under review.

Directors said the extraordinary item included R931 000 which represented taxation arising from the disallowance of expenses previously claimed by the firm.

The objection by Buffcor against the Receiver of Revenue's decision was the subject of an appeal to the Income Tax Special Court. The group's tax bill soared to R1m from R126 000 for the period under review. No interim dividend was declared.

UK deal holds back Voltex

(1898)

Star 22/3/91.

Diagonal Street

ANN CROTTY

Voltex, which houses the electrical interests of the Berzack and Elcentre groups, has reported earnings of 9,9c (12,1c) a share for the six months to end-December. An interim dividend of 3,5c has been declared.

The interim figures were adversely affected by last October's acquisition of UK-based Bennett and Fountain group. The B&F figures are consolidated in Voltex' results.

Although B&F turned in a £1 million trading profit, after allowing for the finance costs attached to the R130 million acquisition, it diluted earnings by 2,4c a share.

If the B&F acquisition (including finance costs) is stripped out of the interim results, earnings would have been virtually unchanged (on the previous year's pro forma interim figures) at 12,3c a share.

Group turnover was up 56 percent to R677,5 million (R434 million) and operating profit was up 23 percent to R69,4 million (R56,4 million). Most of the increase reflected the inclusion of B&F but the directors point out that Voltex's southern African interests managed to lift turnover by 10 percent and to maintain their operating margins.

At B&F a trading loss of £10 million for the year to June '90 was turned into an interim profit of £1 million — even after allowing for the major rationalisation costs incurred in the reorganisation of the UK operation.

The finance costs which shot up from R5,5 million to R25,7 million showed the adverse impact of the UK acquisition. Around R13 million of the interest bill can be attributed to the cost of B&F.

After allowing for the massive finance charge, pre-tax income was down 14 percent to R43,6 million (R50,9 million). Tax payments were minimal.

Outside shareholders — the minorities in B&F — took R2 million leaving attributable profit down 18 percent to R41,5 million (R50,8 million).

The directors note that the earnings dilution caused by B&F is expected to continue in the second half but finance costs should drop in line with borrowings as cash flow brings gearing within target ratios.

Elcentre, which holds just under 60 percent of Voltex and has 82 percent of Sanlic, reported a 20 percent drop in earnings to 35,7c (44,6c) a share. Again stripping out the impact of B&F, earnings were little changed at 45,4c. An interim dividend of 15c a share has been declared.

Elcentre shareholders are to receive 40 Voltex shares for every 100 Elcentre shares held. The move will cost shareholders nothing as it is a capital reduction of Elcentre which is aimed at increasing the minority shareholding in Voltex to around 3 percent from the current 0,7 percent. It is apparently being done under encouragement from the JSE.

Berzack, which holds just under 40 percent of Voltex, has reported a 17 percent drop in earnings to 52,5c (63,5c) a share and has declared an interim dividend of 13c (11c) a share. The drop in earnings reflects the impact of B&F.

Turnover down, but Aberdare lifts earnings

(1895)

B/Day 14/3/91

MARC HASENFUSS

DESPITE turnover dropping marginally to R432m (R435m), a reduction in material costs, and rigid adherence to cash and asset management, enabled the Aberdare Group to lift earnings 15% last year.

Earnings for the 55% Powertech-held cable manufacturer and supplier increased to R43,7m (R38,1m) or 300c (262c) for the year to end-December 1990.

A final dividend of 92c was declared, bringing the total payout to 150c covered twice.

The balance sheet showed the group was still extremely liquid with an improved R70,4m (R64m) cash holding.

Directors said the group's excess manufacturing capacity was being utilised effectively in export initiatives.

To improve efficiency and production technology, Aberdare had earmarked major investment for the expansion of its communication cable interests.

Infrastructural development and the provision of electricity to countries throughout southern Africa represented significant opportunities for the power electrical industry, directors said.

"Strategic investment in technology development and innovative skills leaves Aberdare well placed to satisfy market demand by developing appropriate technologies to suit southern African conditions."

Looking to the future, directors expected depressed market conditions to continue in the current year.

The share was unchanged yesterday at its year high of R22,50. The share bottomed at R17 at the end of October 1990.

BDay 22/2/91. (189E)

GEC plant attracts R6m in contracts

ROBERT LAING

GEC Alsthom has won electrical switchgear contracts worth R6m during the past four weeks thanks to its local vacuum interrupter plant, which helped it gain protective import duties.

Last week the Board of Trade and Industry approved GEC's and Reyrolle's applications for extra protective duties on imported switchgear; on medium voltage switchgear it rose 10% to 15%.

GEC divisional MD Geoff Mangan said the application was made in 1989 to protect the investment while it got off the ground. The company did not think it would need the extra protection in four or five years.

The company said the two-year-old plant saved SA more than R5m in foreign exchange annually.

Delta Electrical's year outstrips expectations

BDay 22/2/91. (189E)

LIZ ROUSE

DELTA Electrical Industries has achieved a better than forecast earnings rise of 29% in the year to end-December, and distribution to shareholders has been raised accordingly.

Delta's net income, after outside shareholders' interest, amounted to nearly R48m in the year to December, up 29% from 1989's R37,2m and equal to earnings of 55,2c a share (42,9c).

The final dividend has been lifted to 16,5c (12,5c), making a total of 24,5c compared with a total dividend payment of 19c in 1989.

However, the shareholders received a special dividend of 25c last year.

Income

The electrical repair, services and supply group continued to perform strongly during the second half of the year after posting a 24% earnings rise at the interim stage. Directors expected a similar increase at the year-end.

Delta's operating income increased by 29% to nearly R48m in the year to December from 1989's R37,2m.

Net interest paid was up at R1,4m (R1,1m) but by the year-end short-term borrowings had halved to R3,8m because of the strong cash flow.

The result is that current gearing is a healthy 5%.

Gearing was 14% at the interim stage.

Delta directors say in today's preliminary report that the group is well positioned to take advantage of acquisition opportunities which may arise this year.

Delta took a small but significant step into mechanical repairs with the acquistion of Metal Plus.

MD Ewan van Zyl says that, although this acquisition will have no immediate effect on earnings, it heralds a diversification into the mechanical field.

Delta attributes the 29% rise in earnings to management's commitment to continued improvement in operating efficiencies, product quality and customer service.

These cushioned the full effect of a deteriorating economy.

All divisions performed well and Delta EMD improved its contribution to Delta's earnings by delivering a strong export performance.

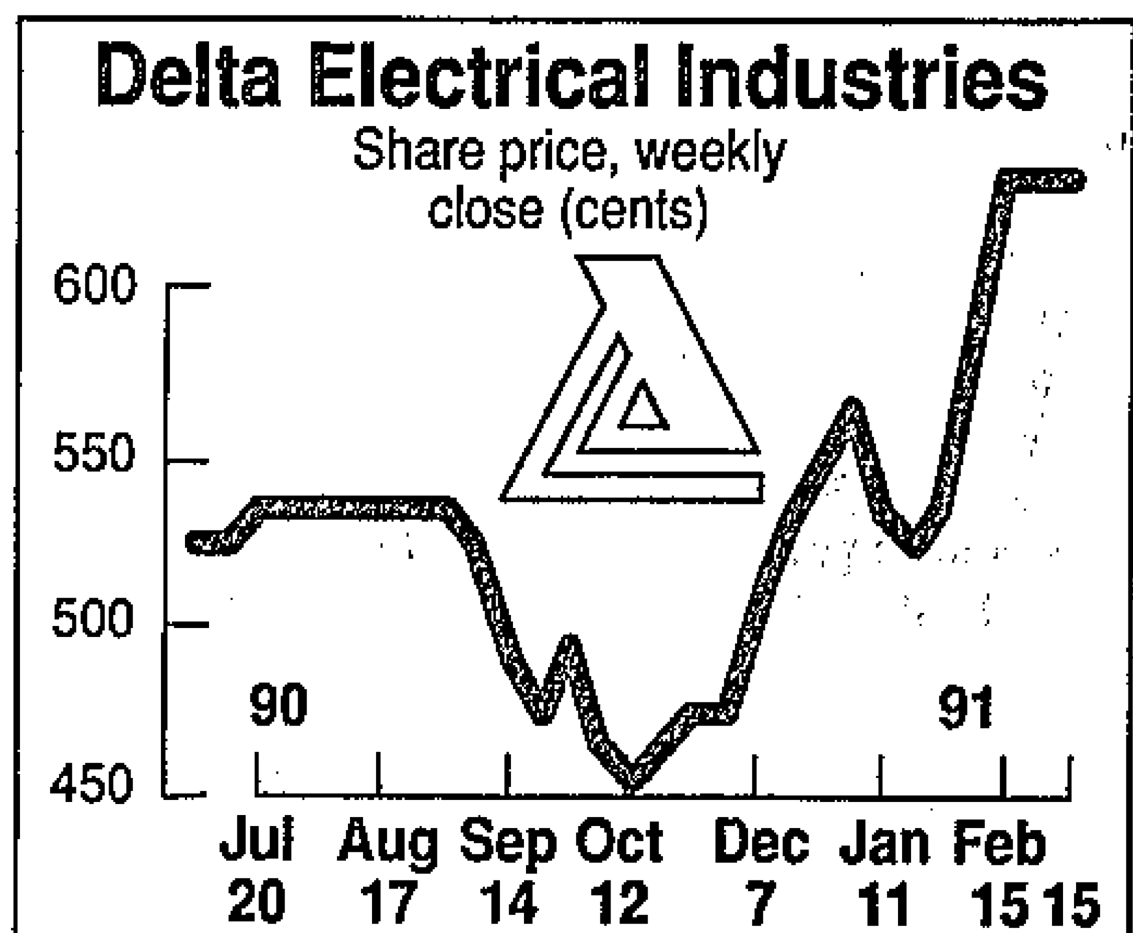
Val Zyl says the repair operation at the coast benefited from a ship repair contract, providing growth in that area.

Delta has a high market rating, thanks partly to its excellent growth record.

Its rating is also attributable to its rand hedge element in EMD, which exports 70% of its production.

The group's policy of steering away from supplying capital and consumer goods and concentrating on services and repairs as well as supplying parts to mining and industrial companies paid off well during the past year.

Delta Electrical's shares are trading at a peak of 625c, which makes historic earnings yield 8,8% and dividend yield 3,9%.



Graphic: LEE EMERTON Source: JSE

supported by institutions, which may restrict trade in the new shares. *Simon Cashmore*

POWERTECH/YELLAND

FIRST STEP

FM 18/1/91

Powertech's proposed acquisition of Yelland Technology, through its 50%-owned Brown Boveri Technologies subsidiary, is not expected to have much effect on the group's earnings — at least in the short term.

However, the Yelland takeover will certainly expand Powertech's share of the electrical equipment market and improve its research and development capabilities in the sector. Further acquisitions in some of Powertech's traditional markets, such as electrical cabling, batteries, lighting and power equipment, are expected this year.

Powertech chairman Peter Watt says the company is looking at several other takeover candidates. With the slump in the economy, high interest rates and cutbacks in capital spending there should be some candidates around.

Certainly, the Yelland deal appears favourable to Powertech. The group, Altron's star performer, is offering Yelland shareholders 81,5c a share, valuing Yelland at R11,5m, which is just above net asset value. As part of the terms, the Yelland directors undertook to enter into three-year restraint-of-trade agreements.

Watt says that if the deal is successful most of Yelland's 200 staff, as well as most of its directors, will be retained in Brown Boveri Technologies, a joint venture between Powertech and Brown Boveri in Switzerland. He says opportunities for Powertech to rationalise involve reductions in R&D spending rather than cutting jobs and other overheads.

Listing to terminate

With Yelland's directors, who hold 69,4% of its shareholding, recommending that shareholders accept the offer, it is reasonable to assume that Powertech will secure the support needed to complete the acquisition. Powertech intends terminating Yelland's listing.

Yelland's share price languished at around 45c for most of last year — a far cry from the 140c when the company was listed in 1987 — and only started rising to the current 76c after the company announced in October that it was involved in discussions with Powertech.

Yelland announced disappointing results for the February 1990 year — with attributable income down nearly 30% — though EPS rose from 4,9c to 9,4c in the next six months owing to internal rationalisation. Chairman Jack Yelland warned at the midpoint that earnings would be lower in the second half.

The decision by the directors and majority shareholders to sell at this price suggests that Yelland's future is unlikely to be easy. Most shareholders will probably follow the line taken by Yelland's directors and accept the offer. *Simon Cashmore*

FOX FM 18/1/91. (189)

Yelland buyer is still hungry

S/Times 13/1/91

By IAN SMITH

POWERTECH, which clinched a R11,5-million deal this week to put listed electrical group Yelland Engineering into Brown Boveri Technologies, is still on the acquisition trail.

"We have a couple of irons in the fire," says executive chairman Peter Watt. "But we approach these deals carefully and will go ahead only when there are positive benefits and a merger or acquisition is good for both parties.

"Our money is not burning a hole in our pockets."

Powertech's turnover topped R1-billion last year and the balance sheet is strong. Debt is negligible, and the group can finance other acquisitions without resort to parent Altron, says Mr Watt.

Excess

BBT is 50% held by Powertech with the Swiss parent as a partner. Yelland will increase BBT's production facilities and advance rationalisation in the power electrical industry.

"The acquisition is small in relation to Powertech's total assets. But it is an important step in group policy to increase top-quality businesses and focus on SA manufacture," says Mr Watt.

"We could have added to our facilities, but that would have increased excess capacity in the industry. BBT will gain most from Yelland's distribution and service networks, which will be rationalised for best performance."

Yelland, listed in November 1987, markets a wide range of standard and high-technology electrical products, both SA-made and imported.

Similar

It has expanded into complementary areas since the listing and an association with a big group in the power electrical field will make expansion easier.

Yelland directors, who control 69,4% of the equity, have accepted BBT's cash offer of 81,5c a share. A similar offer has been made to minorities. Yelland will be delisted when BBT acquires the entire shareholding.

MANUFACTURING — IRON, STEEL etc.

1991

JANUARY — NOV,

Metal industry pay deal

CAPE TOWN — The revised main agreement for the metal industry, covering 380 000 workers and guaranteeing wage increases between 15,5% and 19%, had taken effect, Seifsa executive director Brian Angus said last week. B/Day 14/1/91

Amendments to the main agreement were gazetted on Friday January 4, and are legally binding on all employers and employees in the industry from that date.

The September wage settlement, which followed protracted negotiations between Seifsa and representative unions, was made effective from July 1 1990. (189)

Employers who had not awarded the agreed increases, or only a portion thereof, were required to implement the full increase or balance thereof with effect from July 1 1990 in a lump sum payment.

The lump sum payment had to be made by May 6 1991 — a 16-week period after January 14, Angus said in a statement. This applied to all employers in the industry, irrespective of whether they were members of Seifsa associations or not.

The reduced working week to 44 hours, and the payment of additional overtime, had been made legally binding on employers.

June 16, "Soweto Day", was gazetted as a paid holiday for party employers. — Sapa.

No high hopes, says Metkor chairman

LIZ ROUSE

METKOR Group, the holding company with diversified interests in steel, engineering and allied industries, is unlikely to achieve earnings growth this year, says chairman Flores Kotzee in his annual review. BDay 14/1/91

He says the economic situation will remain difficult in 1991 and the political and labour relations field will be characterised by continuing volatility.

Group companies mostly affected by the economic downturn have and are taking steps to adjust to lower activity levels, Kotzee says.

Metkor Industries suffered a significant loss in the past year and was a major contributor to the holding company's attributable profit declining by 42% to R32,2m (1989: R55,7) in the year to September 1990. (187)

The income of wholly-owned subsidiary, Dorbyl declined by 1,7% as a result of a loss incurred by Dorbyl subsidiary, Dorbyl Heavy Engineering, where remedial action has been taken. Usko's difficulties added to Metkor's woes.

Only Apsap Gas achieved an acceptable improvement in income, Kotzee said.

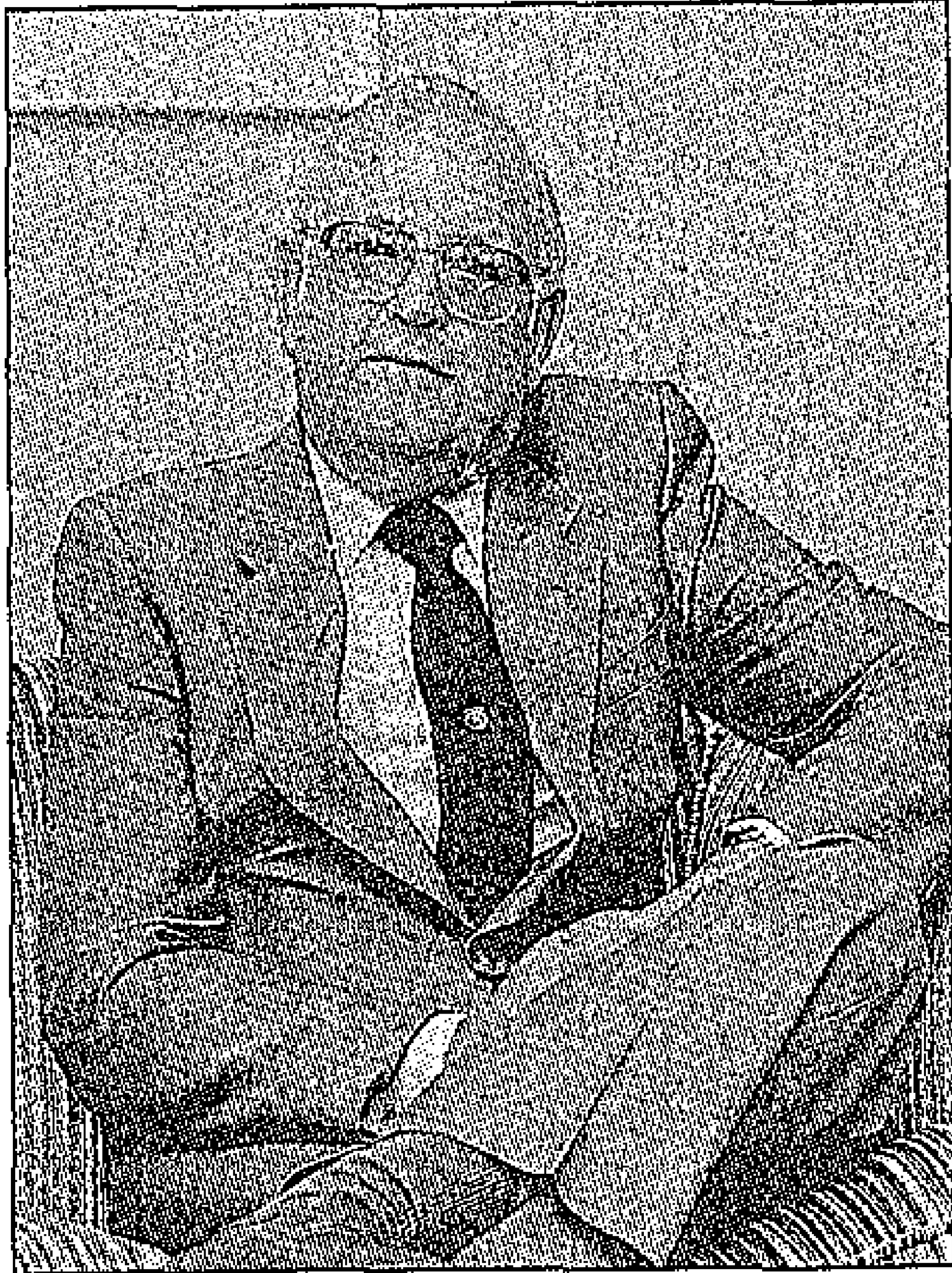
METKOR FM 18/1/91 (189)

DISAPPOINTING YEAR

Metkor chairman Floris Kotzee must be a disappointed man, though he does not say so in his annual report. Last year, he expressed optimism for the group, based on the vibrancy of Dorbyl and the previous year's turnaround from loss to profit in wholly owned subsidiary Metkor Industries. Both Dorbyl and Metkor Industries let him down in the 1990 year.

Despite a 9% increase in group turnover, pretax income fell by 16% and attributable earnings were down by a disheartening 42%. Kotzee says the significant loss sustained by Metkor Industries was one of the main causes of the decline in group income.

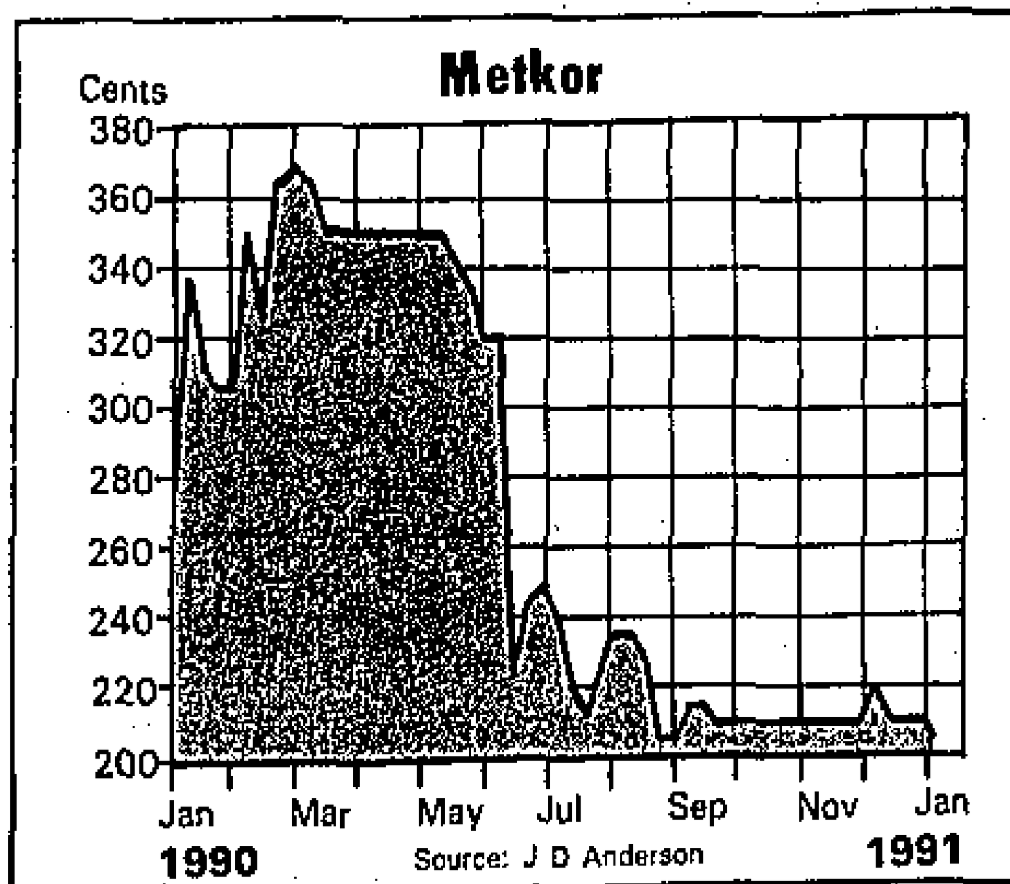
Metkor Industries must have deteriorated severely to have affected the group in such a big way, as it is a relatively small contributor to group income. Listed companies Dorbyl and Usko contributed more than three quarters of the total.



Metkor's Kotzee ... *adjusting to reduced activity*

Activities: *Has interests in the steel, engineering and allied industries.*
Control: *Rembrandt's Industrial & Mining Inv has 49,9%.*
Chairman: *F P Kotzee.*
Capital structure: *108,4m ords. Market capitalisation: R222m.*
Share market: *Price: 205c. Yields: 7,2% on dividend; 14,4% on earnings; p:e ratio, 6,9; cover, 2,0. 12-month high, 370c; low, 200c. Trading volume last quarter, 158 000 shares.*

Year to Sep 30	'87	'88	'89	'90
ST debt (Rm)	181,5	150,4	173,9	210,1
LT debt (Rm)	87,9	78,4	75,4	84,7
Debt:equity ratio	0,31	0,30	0,27	0,31
Shareholders' interest	0,57	0,55	0,53	0,51
Int & leasing cover	2,6	3,8	4,3	3,4
Return on cap (%)	7,1	7,7	12,5	10,7
Turnover (Rm)	1 737	1 973	2 895	3 164
Pre-int profit (Rm)	88	107	215	194
Pre-int margin (%)	5,1	5,3	7,3	6,0
Earnings (c)	14,1	26,5	51,4	29,6
Dividends (c)	6,5	10,0	15,8	14,8
Net worth (c)	274	304	394	382



Dorbyl's attributable earnings slipped by 1,7% to R110,3m, mainly owing to a loss incurred by subsidiary Dorbyl Heavy Engineering. The decline was cushioned by an R18m pension fund holiday benefit being included in pre-tax income, as well as a drop in Dorbyl's effective tax rate from 25,4% to 22,9%.

Metkor consolidates Dorbyl's results because 60%-held International Pipe & Steel Investments SA (IPSA) has 52,56% of Dorbyl. Metkor directly holds another 3% of Dorbyl, making its total effective stake 34,6%. Results of 27,09%-held Usko are equity accounted.

Usko had a difficult year with income declining by R23m to R4m owing to a large increase in finance charges, a slide in steel demand in the latter half of the year and the delayed commissioning of the mine supplying the concentrate for its new vanadium plant.

Associate company Apsap Gas, which trades as Air Products, provided the only bright spots in the Metkor group. Kotzee says the company achieved an acceptable improvement in income.

Kotzee now says it is unlikely that any earnings growth will be recorded this year. He is confident that the group's companies affected by the downturn are taking steps to adjust to reduced activity. He hopes this will counter the negative impact of a possible further decline in demand for the group's products.

The share has dropped by 45% from last year's 370c high and trades at a 45% discount to net worth, compared with Dorbyl's 37%. Metkor depends on Dorbyl for most of its income, so its earnings could benefit from growth in Dorbyl's exports — though the group's income remains broadly linked to the local economy. Significant recovery in the price this year is unlikely. *Gerhard Slabber*

Employees lose R7m

CAPE TIMES 5/2/91 Own Correspondent 189

JOHANNESBURG. — Employees in the steel and engineering sector lost about R7m in wages as a result of Friday's work stayaway, according to Seifsa spokesman Hendrik van den Heever.

He said there was a average 41% absenteeism rate in the industry.

Spain to fund training for metal workers, supervisors

By SHARON SOROUR
Labour Reporter

THE Spanish government is to fund a nonracial training programme for metal industry supervisors and other workers.

Endorsed by the Steel and Engineering Industries' Federation of SA (Seifsa), the programme is based on extensive research and provides for the growth and development of foremen, chargehands and supervisors, a Seifsa statement said.

Major trade unions have also endorsed the programme, including the Metal and Electrical Workers' Union of SA, the SA Electrical Workers' Union and the Amalgamated Engineering Workers' Union of SA.

"Funding for the programme has been obtained from the Spanish Embassy in South Africa. It will be known as the Supervisory Development Programme and is an innovative venture based on co-operation between employees and employers," Seifsa said.

LACK OF TRAINING

Concern regarding the level of supervisory training in the metal industry led to a survey, commissioned by Seifsa, to determine the quantity and quality of training provided by employers.

"Major findings of the survey showed that artisan supervisors received about one day's training a year of their career. Half the companies which responded to the survey had provided training to less than half of their supervisors," Seifsa said.

"The role of the supervisor is crucially important if the metal industry and the country as a whole are to improve productivity and meaningful economic progress."

The programme will be managed by management training consultants Clive Acton Associates and a steering committee of employers and trade union members.

The first course begins in April in Johannesburg.

● For more information contact Miss Anthea Burns, ☎ (011) 483 1214.

Argus 6/2/91

189

Midmacor experiences drop

BDay 19/1/91 MARC HASENFUSS (189)

INTERIM earnings of Midmacor Industries, reverse-listed into DCM-listed PDS Holdings, plunged on the back of a weak performance by PDS's diesel operations.

Midmacor, 88% held by KNJ, reported a 32% fall in earnings to R863 000 (R1,27m) or 11c (16,2c) in the six months to end-December after the interest bill soared 56% to R1,3m (R848 000). No interim dividend was declared. Turnover fell 9% to R40m (R44m) as PDS Diesel Service's repair business was hit by less demand.

Holding company KNJ Group posted a 39% drop in interim earnings to R4,1m (R6,7m) or a 38% earnings decline of 5,8c (9,5c) as the economic downswing reduced turnover 11% to R152m (R172m).

B/Day 13/2/91

Klipton does it again with good figures

MARIETTE DU PLESSIS

AFTER a significant improvement in performance for the year to end June, industrial holding group Klipton again posted sound results for the six months to end December 1990.

Attributable profit increased by 39% to R2,76m (R1,98m) on a 24% rise in turnover to R49,5m (R39,8m).

In addition, a 6,8% increase in earnings a share of 28,3c (26,5c) was posted despite the higher tax rate and the 2-million increase in the weighted average of shares in issue.

Consolidation

Joint chairman Nigel Matthews said results, achieved in increasingly difficult trading conditions, were satisfactory and demand for the group's security products remained strong.

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"The results reflect, in particular, the successful consolidation of Klipton's recent acquisitions into the group structure, and the fact that the group now has a larger and more diverse base of operations," he said.

Acquisitions in the last 12 months included Austen Safe, Castor & Ladder and Forlezer.

Matthews said Klipton was adopting a cautious attitude towards the next six months, but expected gearing to decline from 48,3%.

KLIPTON FM 15/2/91 (189)

LOCKING IN PROFIT

The full effect of Klipton's R17,2m acquisition spree in financial 1990 — the Access & Mobility Group (AMG), comprising the Castor & Ladder and Forlezer operating companies and Austen Safe — appears in the accounts for the six months to December 31. Turnover was up by 24,5%, but attributable profit was 39% higher, largely because the effective tax rate fell and the minorities' share of profit was 38% lower at R19 000.

Joint chairman Robin Matthews says Austen Safe was the best performer. As one of the two major players in the local physical safe market, it benefited from the ongoing institutional and commercial upgrading of safes. Matthews contends that safes made before 1964 are now obsolete, so there is a

continue → D.

FOX FM 15/2/91 (189)

BROADER BASE

Six months to	Dec 31 '89	Jun 30 '90	Dec 31 '90
Turnover (Rm)	39,7	49,2	49,5
Operating profit (Rm)	39,7	49,2	49,5
Attrib profit (Rm)	1,98	3,05	2,76
Earnings (c)	26,5	32,1	28,3
Dividend (c)	—	19	—

lively replacement market. Austen is also doing well out of exporting to the UK.

The group's other companies performed satisfactorily. Sapco was the laggard, because the ultimate consumers of its products are in gold mining, motor assembly and projects like Mossgas.

Divisional profit performances are not disclosed, but the power tool and materials handling division generated about 52% of turnover, while the rest was from the safety and security division, consisting of Austen and Gardwell.

Interest-bearing debt has increased as a result of seasonal factors such as Christmas bonuses, dividend and tax payments, as well as the cash outlay for the acquisition of Austen and that company's working capital requirements. Debt:equity, at 48%, is just below the group's self-imposed 50% limit, but Matthews expects it to return to about 34% at year-end.

Management remains interested in acquisitions. Any such deal would, however, be funded by a combination of equity and debt.

The share price has been in a rising trend over the past year, climbing from 205c to 320c. It still does not look overpriced on an historical 5,5 earnings multiple, which compares with the average of 8,8 for the industrial holding sector (though the average is influenced by such heavyweights as Barlow Rand, Amic and Safren). But, with the second half likely to be much the same as the first, no fireworks can be expected for the full year's figures. *Gerhard Slabber*

Pressure on gold mines hits Unihold

8104. 25/2/91

MARIETTE DU PLESSIS

SQUEEZED operating margins saw industrial group Unihold posting an earnings loss of 22% to 23,6c (30,2c) a share for the year to end-December 1990.

Chairman James Haslam said in a statement today that Unihold, which is involved in the engineering, foundry and electrical industries, was hit by pressure on the operating margins of gold mines.

Other contributing factors were a substantially higher interest charge of 40,4% (29,9%) and the impact of full taxation.

He said the 5,7% rise in issued ordinary share capital to R29,8m from last year's R28m added to the drop in earnings a share.

Turnover increased by 13,9% to R196,9m (R159m), but a decline in the domestic economy and industrial unrest resulted in pressure on operating margins.

Eroded

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But, despite operating margins contracting to 11,7% from 13,9%, a marginal 4,1% rise in operating income to R23m (R22m) was achieved.

In addition, the 27% jump in taxation eroded bottom-line profits and income after tax declined by 20% to R9,2m (R11,5m).

Although attributable income fell by 21% to R8,4m (R10,6m), the final dividend increased by 12,5% to 9c (8c) a share.

"The foundry division benefited from increased production capacity following capital expenditure in the past two years, while the engineering division Unique made a significant contribution to profits."

U-Control, the pyramid holding company of Unihold, reported a final dividend of 4,5c a share for the same period.

Depressed markets hit Cullinan (189)

Star 28/2/91

The depressed conditions in the mining and property industries hit earnings at Cullinan in the six months to end-December. Earnings per share fell by nine percent to 53,9c (9c), but an interim dividend of 17c was maintained.

Subsidiary African Cables' contribution to earnings per share fell from 51,3c to 48c, while a temporary peak in capital expenditures led to higher borrowings and higher interest payments of 36,1c (30,3c) a share.

The ceramics division, however, boosted its contribution from 31,6c to 38,5c. — Finance Staff

FNB, UBS request extra time

By Sven Lünsche

The Securities Regulations Panel (SRP) further delayed publicising its key ruling in the takeover battle for Allied between the UBS and First National Bank.

The panel said in a press release this morning that the two parties had requested until Monday morning to work out a deal with a view to resolving their differences.

Both UBS and the FNB had requested that details of the decision by the panel be kept confidential until the outcome of a meeting between the SRP and the parties to be held on Monday.

The panel has been meeting over the last four days to hear an appeal by FNB against an earlier finding which apparently favoured UBS.

Analysts say that the earlier ruling allowed the UBS in conjunction with a "concert" party to buy more than 30 percent of Allied shares without making a mandatory offer to minority shareholder.

In the meantime Allied employees have not yet been informed whether they can excercise their options over 13,3 million shares. A decision is expected today, it was reported.

Allied shares closed slightly lower yesterday, shedding 5c to 260c, as over 500 000 shares changed hands.

Healthy rise in earnings at M&R

By Ann Crotty

Construction, engineering and industrial group Murray & Roberts has reported a six percent increase in earnings to 208c (197c) a share for the six months to December.

A dividend of 46c (40c) a share has been declared.

The interim performance was helped by a number of acquisitions effected in the review period.

In financial '90 the group spent R86 million on acquisitions. Despite the steady rate at which assets are being purchased, the end-December balance sheet shows gearing of only 22 percent.

The group has cash resources of R130 million.

Turnover rose 14 percent to R2,2 billion (R1,9 billion) and operating profit nine percent to R143,4 million (R131,4 million).

Interest payments were little changed at R10,9 million (R11,2 million).

The tax rate was marginally down at 40 percent (41,7 percent).

Attributable earnings were 10 percent ahead at R74,7 million (R67,6 million).

A divisional breakdown shows significant changes in the contribution to group operating profit.

Industrial interests still made the largest contribution.

In the review period they provided R39,2 million, or 26,5 percent (28 percent), of the R147,5 million group profit.

Construction was next largest, with R35,9 million, or 24,3 percent (25,3 percent).

Suppliers & Services which, at the last interim accounted for 25,6 percent of group operating profit, this time provided only 17,5 percent, or R25,9 million.

By contrast, engineering, which accounted for only 13,7 percent at the '90 interim, chipped in with 23,5 percent, or R34,7 million.

The directors say management responsibility and accounting for M&R Foundries was transferred from the industrial division to engineering with effect from October '90. But they say the comparative figures were restated to reflect this change.

Properties provided the remainder of operating profit.

The directors expect the deterioration in economic conditions to continue, which will make it difficult to achieve an increase in attributable earnings for the full year.

But because of the strength of the balance sheet, a real increase in dividends for the year will be paid, they say.

Mixed performances at AVI

By Ann Crotty

Mixed performances from Anglovaal Industries' various divisions combined to produce a 5 percent increase in earnings to 363c (346c) a share in the six months to end-December.

A strong performance from Consol (which had been held back by strike activity in the comparative interim period) accounted for much of the 19 percent increase in turnover to R3,655 billion (R3 billion). Operating profit was up 7 percent to R331 million R308 million so overall margins were squeezed from 10 percent to 9 percent.

This change may also reflect the change in relative contribution from the various divisions to group operating profit.

Again indicating the impact of the Consol developments, the packaging and rubber division accounted for a massive 40 percent of group pre-tax profit — up from 26 percent in the financial '90 interim.

Income from investments shot up 26 percent to R27,3 million (R21,7 million). Interest payments were down 10 percent to R43 million (R47,6 million).

After providing for tax and associates, profit was up 11 percent to R172,2 million (R154,7 million). There was a 22 percent increase in outside shareholders' interests to R69,1 million (R56,6 million) which left attributable earnings showing a 5 percent advance to R103,1 million (R98 million).

Management notes that most of its served markets were subject to reduced margins and that group returns on both total assets and ordinary shareholders' funds were lower. Profit gains in Consol's rubber division and in National Brands were offset by substantially reduced contributions from Grinaker and the Altex textile businesses. Irvin & Johnson performed soundly and maintained its contribution to group earnings.

Although the current recessionary trading conditions are expected to continue, the directors are expecting full year earnings to at least match those of financial '90.

Poor results, but Longmile is optimistic

ZILLA EFRAT

THE poor economic climate, market competition and a higher tax rate contributed to Longmile's 26% fall in attributable earnings for the six months to December.

The Cape-based group, which has posted attributable earnings of R7,9m or 15,7c a share, has not declared an interim dividend, in order to fund capital expenditure aimed at strengthening its operating base.

Deputy chairman Nicholas van den Berg says Longmile has been going through a period of consolidation, refocusing its business and stringent cost controls. This "springclean" is expected to place it on a sound footing for the future.

While turnover dropped 21% to R172,6m, an improvement in operating margins to 12,9% (10,7%) limited the fall in operating profit to 5% at R22,3m.

With the interest bill 9% lower at R6m, pre-taxed profits were 4% down at R16,3m. However, a leap in the tax rate to 51,2% (34,6%), because of reduced export and decentralisation tax allowances, resulted in a 24% fall in taxed profits to R7,9m.

Numsa wants 25% pay hike

Own Correspondent

JOHANNESBURG. — The National Union of Metalworkers of SA (Numsa) this week announced its 1991 national wage demands, which include a R2-an-hour or 25% across-the-board increase and job-security demands.

The union will also seek joint control over job-creation schemes, and paid training for retrenched workers in the engineering, motor and tyre industries.

Other demands include 20 days' annual paid child-care leave for parents in all sectors and March 21 as a paid holiday for workers in the engineering sector.

Numsa said it would demand an increase of R2 an hour or 25% — whichever was greater.

Bargaining starts in the engineering and auto industries on March 15 and in the tyre industry on March 14.

COMP

Pichold back to profitability

B/Day 7/3/91

MARCIA KLEIN

JAN Pickard's streamlined Picardi Holdings (Pichold) has weathered the storm of financial 1990, reporting earnings of 80c a share (a loss of 44c) and declaring a dividend of 100c (no dividend) for the six months to end-December 1990.

In the year to June 1990, the group posted an attributable loss of R13,4m, with its subsidiaries reporting various degrees of decline.

Chairman Jan Pickard said the interim results reflected "a welcome return to profitability for the group if viewed against the continuous high cost of capital and prevailing economic conditions".

He said the balance sheet composition had been materially improved, with group interest bearing debt declining from R215m to R89m.

Fixed assets showed a considerable decrease from R82,3m to R25,4m, largely due to the sale of Union Wine in September 1990 to Graham Beck's Kangra Holdings.

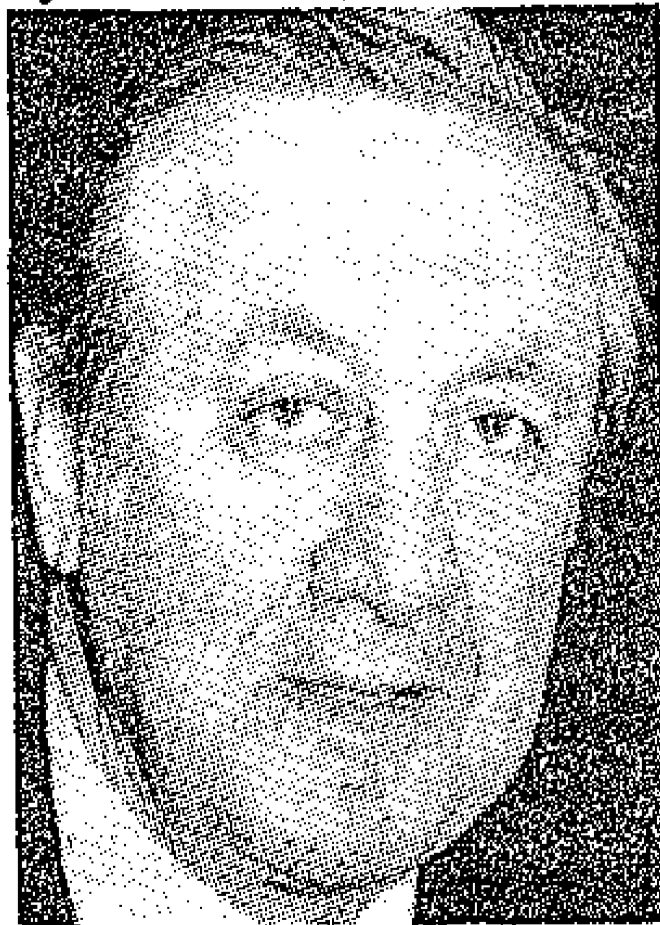
Stock was slashed from R130m to R50,1m, and current liabilities decreased from R173,6m to R93,3m.

Turnover figures for the six months were not given, but the 56% increase in turnover compares to a 96% increase in the six months to December 1989. Operating income was down by 14,4% to R16,0m (R18,7m).

The interest bill was more than halved to R10,2m (R21,5m), bringing pre-tax income to R5,8m (a loss of R2,8m).

A lower tax rate saw income after tax at R5,3m (a loss of R3,6m), and earnings for ordinary shareholders at R4,8m (a loss of R2,7m).

An extraordinary item of R6,8m reflects a reduction in the group's investment to R10m "in view of the potential erosion of the share capital of Cape Investment Bank Group (CIBG) through bad debt provisions".



PICKARD

Pichold and other major shareholders sold CIBG to Prima Bank in December 1990 for an undisclosed sum.

The item brought unappropriated losses for the period to R2,0m (losses of R2,6m).

Financial director Johann Vermooten said yesterday the group was "extremely happy with the turnaround, and things were looking promising at this stage".

If results were good in the year to June 1991 — which the group expected — "we could go to the market some time in the future for a rights offer, as Picapli still needed some money".

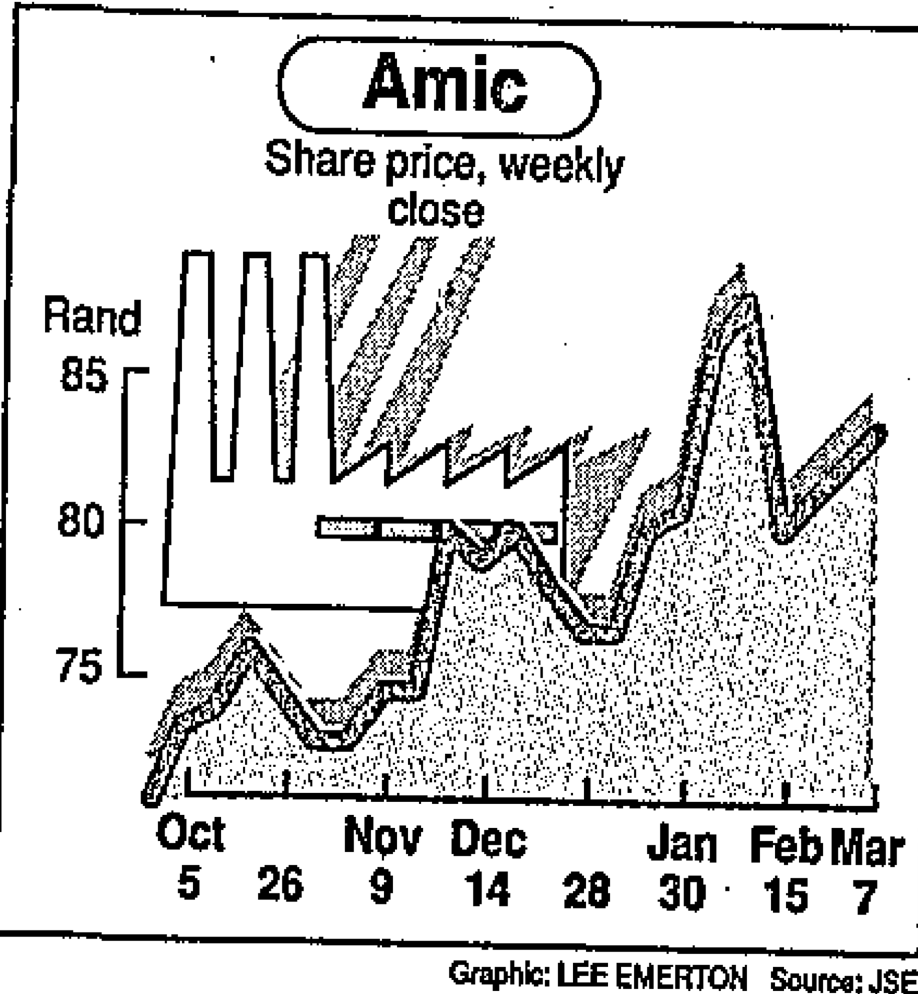
In January, white goods manufacturer Picapli, Pichold's only remaining operating company, reported earnings of over R7m for the six months to December after losing R3,8m for the same period in the previous year.

Vermooten said Picapli had moved out of a non-profit situation and was concentrating on its areas of strength, which will have a positive effect on the balance sheet ratios at year-end.

Picardi Investments (Picbel), whose major asset other than R7,5m cash resources is its 69% shareholding in Pichold, reported earnings for ordinary shareholders of R3,8m (a loss of R1,5m). An unappropriated loss of R911 000 compares to a R1,5m loss in the six months to December 1989.

Picbel's earnings were 85c a share (from a loss of 34c), and a dividend of 100c a share was declared.

Amic earnings plunge 29%



Graphic: LEE EMERTON Source: JSE

MATTHEW CURTIN

EARNINGS at Anglo American Industrial Corporation (Amic) plunged 29% to R451m (R636m) in the year to end-December.

Amic is an Anglo and De Beers associate company. Its interests range from mining equipment and chemicals to textiles and car manufacture.

Earnings fell to 836c a share (1 180c). Turnover improved 6% to R6 123m (R5 777m), but after-tax earnings fell 32%, as the group felt the effect of poorer year-end results from its major profit contributors.

An analyst said the main culprit was

□ To Page 2

Amic results

□ From Page 1

Highveld Steel and Vanadium (Hiveld), whose earnings fell 54% last year as world steel and ferro-alloy prices slumped in the face of oversupply.

The year before, Hiveld's earnings climbed 165%, underpinning a 26% hike in Amic's earnings overall. That meant it overtook AECI as the main contributor to the group's equity earnings.

Analysts said AECI, despite a 24% drop in its earnings last year, was likely to be back as Amic's main earnings contributor, ahead of Hiveld and unlisted paper giant Mondi and mining supplier Boart International.

The results have brought to an end four years of impressive growth in which Amic's earnings a share rose 250% and dividends 94%. Amic's dividend was maintained at 350c a share in 1990.

Amic chairman Graham Boustred said in a statement yesterday the performance of the group's main subsidiaries reflected the depressed market conditions in SA and abroad. The deterioration in trading conditions "depressed the prices of most commodities produced by the group, but in certain cases reduced volume offtake, resulting in lower capacity working and plant shutdowns".

He said the weak gold price was cause for concern. Amic's subisidiaries and associates, many of them important suppliers to the mines, would be affected by the reduction in tonnage mined and milled.

Boart's performance in particular was dented by the weak gold price, as its earnings fell from R87m to R66m last year.

Boustred said the substantial reduction of export incentives for primary and semi-fabricated products in March 1990 preceded a period of economic stringency when the incentives were most needed to maintain SA's price competitiveness.

Amic's capital expenditure during 1990 totalled R713m, of which R586m related to expansion projects and R127m to replacements, he said.

Boustred said in the light of the uncertainties of the past year, Amic would "do well to maintain earnings at the 1990 level" in the current financial year.

Supreme Manufacturing in profit

MARC HASENFUSS

SUPREME Manufacturing Holdings (SMH), the manufacturing arm of Supreme Industrial Holdings, met its interim forecast and returned to profitability in its first full year of trading since undergoing restructuring in September 1989.

Attributable profit almost doubled to R1,96m for the year to end December 1990, compared with R994 000 recorded for the nine-month period to December 1989.

Earnings a share were lifted 5% to 2c (1,9c) after the number of shares in issue increased to 98 700 from 53 589. No dividend was declared.

At the interim stage SMH, comprising of furniture manufacturer Victoria Lewis, cold room and refrigeration unit manufacturer Insulated Structures and stainless steel fabricator Mewa Manufacturing, were firmly in the red, posting a net loss of R1,07m in the six months to June 1990.

Turnover for the period under review, a year of consolidation for the group, was boosted 65% to R63,8m (R38,5m), while management styles of various operations were co-ordinated into one group, said SMH chairman Edward Ronbeck.

"In addition, the Mewa results were adversely affected by the economic downturn, high interest rates, labour unrest and a lacklustre performance of the building and construction industry throughout 1990."

He said problems in administrative and financial controls at Victoria Lewis, Insulated Structures and Mewa Manufacturing were identified and necessary corrective action taken.

Local manufacture of quality products was playing an increasingly important role in the SA economy, and it was precisely in this niche that Supreme expected to play a significant role, said Ronbeck.

"Accordingly, increased emphasis is being placed on upgrading the quality of all products manufactured by the group, and to this end substantial investments have been made for the acquisition of new plant and refurbishment."

Benefits from these efforts would be felt in the longer term, although the prevailing economic conditions meant it would be difficult to exceed earnings of 2,2c a share for 1991, Ronbeck said.

Strong demand boosts Ellerines by 27%

BDay 14/3/91

MARCIA KLEIN

STRONG demand for household durables was reflected in furniture giant Ellerine Holdings's (Ellerine's) 27% increase in earnings to 375c (296c) a share in the six months to end-February.

Ellerine's ongoing expansion programme, which saw it open 17 new stores during the six-month period, helped it "increase its penetration of the middle and upper-middle markets", and helped boost turnover by 30% to R311,3m (R239,4m), chairman Eric Ellerine said yesterday.

Operating profit rose by 35% to R51,6m (R38,1m), "reflecting continuing tight asset management and control of expenditure".

Net interest received almost halved to R1,3m (R2,4m), reflecting a reduction in liquidity attributable to the cost of the expansion programme and the increase in turnover, Ellerine said.

This brought pre-tax profit up by 30% to R52,8m (R40,5m).

Current and deferred tax increased by 35% to R25,9m (R19,2m) — Ellerine provides fully for deferred tax.

This resulted in earnings after tax being 27% up at R26,9m (R21,3m).

Results came off a high base, Ellerine said, and earnings had grown by an average 26,5% a year over the last five years, and by 55% a year over the last two years.

Comparable results for the interim period to February 1989 have been restated "to take account of additional tax on deemed SA income which only came about after the release of the prior year's interim results", he said.

As the interim dividend could not be adjusted, Ellerine said the 15% increase to 125c (109c) a share should be seen in this light. A cover of three times was maintained.

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Ellerine said the group was confident of its ability to maintain its performance over the next six months.

The group had planned a further 10 to 12 new stores for the remainder of the current financial year, and Ellerine would also continue with the programme of upgrading existing stores and merchandise, he said.

Seifsa calls for wage restraints

Own Correspondent CAPE TIMES 18/3/91 (189)

JOHANNESBURG. — Employers in the metal and engineering industries have called for union restraint in view of poor economic conditions prevailing in the industry.

The Steel and Engineering Industries' Federation of SA (Seifsa) said in a statement at the weekend that negotiating parties had made good progress in motivating their various demands at the opening round of annual wage negotiations in the industry held in Germiston on Friday.

Seifsa said representatives of the industry's 12 trade unions presented more than 30 demands for changes to the main agreement.

These included wage increases ranging from 16% to 167%, demands to reduce the working week from 44 to 40 hours without loss of pay, and a number of demands related to training and security of employment.

Employers presented six proposals for changes to the agreement and called for union restraint.

The parties agreed to continue talks on March 26.

Amic starts to feel the strain

MATTHEW CURTIN

HIGHVELD Steel and Vanadium fell from being the main contributor to Anglo American Industrial Corporation's (Amic's) earnings in 1989 to the third biggest last year, figures in the Anglo and De Beers associate company's 1990 annual report show. B Day 22/3/91

Amic, whose interests range from explosives and mining equipment to textiles and car manufacture, derived 38% of its earnings from AECI, the leading contributor, and Scaw Metals. Highveld's and Mondi Paper's contributions fell 9,1% and 4,6% respectively last year. (189)

In his annual review, chairman Graham Boustred said Highveld had been Amic's main contributor in 1989 because of exceptionally high vanadium prices, but in 1990 prices fell to earlier levels as Western world consumption dropped by about 10%.

Highveld's Vantra vanadium plant, commissioned in late 1989, came on stream only in January. Boustred said the company's total vanadium pentoxide capacity stood idle in the December quarter and the company's earnings were knocked further by poor steel and ferro-alloy prices.

After satisfactory growth in the previous five years, Amic had an overall slowdown in economic activity in the second half of 1989, and trading conditions had continued to deteriorate during 1990.

He said had it not been for the significant improvement in net foreign capital flows associated with better perceptions of SA abroad, the local economic environment would have been more severe in 1990.

The outlook for 1991 was difficult, and SA had not made adequate progress in the fight against inflation.

Boustred said a further "important factor" was the effect of the gold price.

"At R30 400/kg a number of SA mines are incurring losses and facing shaft closures. Many of Amic's subsidiaries and associates are important suppliers to the gold mining industry and any significant closures and reduction in tonnages mined and milled would have an immediate impact on these operations."

The company's earnings tumbled 29,1% to R451m (R636m) in 1990.

35 000 steel workers will be retrenched

JOHANNESBURG. — More than 35 000 hourly-paid employees will be retrenched this year in steel-related industries as the most severe conditions since 1986 take their toll, says Mr Mike McDonald, chief economist at the Steel and Engineering Industries Federation (Seifsa).

A report in the latest Engineering Week says this represents a 30% increase on last year's figure of 27 000 and a 220% increase on the 16 000 retrenched in 1989.

Between 7 000 and 8 000 are expected to be dropped from the Mossgas payroll alone.

Many companies had put their workforces on short time and others were liquidating.

12 metal unions reject wage offer

By SHARON SOROUR, Labour Reporter

METAL industry trade unions have unanimously rejected a wage offer tabled by employers at the second round of annual wage negotiations.

All 12 unions, including the 113 000-strong National Union of Metalworkers of SA (Numsa), rejected the offer this week, said Mr Brian Angus, executive director of the Steel and Engineering Industries' Federation of SA (Seifsa).

He said the seven to 10,5 percent offer amounted to increases in the wage categories ranging from 39 cents an hour for labourers to 67 percent for artisans.

"This will raise wage rates in the industry to R4,57 an hour for labourers and R10,17 an hour for artisans," he said.

Mr Angus informed the unions that an attempt had to be made to conclude the negotiations before June when the industry's main agreement expired.

"In the past employers tended to make wage offers during the course of the negotiations but the approach will be different this year," he said.

He urged unions to accept the "serious offer".

Employers had responded to various trade union demands for improvements to conditions of employment.

"They agreed that attention must be given to training and development and job creation in the industry," he said. He proposed discussing these issues at another forum because of their complexity.

He also said employers and unions should embark on a joint Aids education campaign.

Discussions focused on the "very poor" business conditions in the industry and employers appealed for restraint from the unions.

Bday 4/4/91

Toco acquires 100% of Alzac

MARC HASENFUSS

INDUSTRIAL products manufacturer and supplier Toco Holdings has acquired a 100% holding in Alzac Holdings for R3,9m, the companies said in a statement yesterday.

The settlement will be made half in cash and half in shares, through the issue of 1,7-million new shares in Toco at 115c each.

Toco shares, at 115c, were offered at their last trading price of 120c yesterday, with no buyers in sight. The share bottomed at 85c in July last year.

Toco initially had a 24% holding in Alzac in April 1989, which was increased to 40% in September that year. The acquisition of the remaining 60% values Alzac at R6,5m.

Toco MD Adrian Goodman said Alzac sourced from Toco, which was the sole manufacturer of vitreous enameled steel composite panels in the southern hemisphere.

It also undertook further processing and distributed the value-added products.

Waste handler dumps R18m deal

Bday 4/4/91

MARC HASENFUSS

MINING and industrial waste handler Fraser Alexander has called off its proposed R18,4m acquisition of the PWV-based Wade Refuse group of companies, according to a statement published today.

The statement said differences of opinion had arisen between the two parties concerning certain aspects of the transaction following a "due diligence" investigation of Wade Refuse by Fraser Alexander.

This led to the termination of the agreement by mutual consent.

The deal, to be made either by the issue of new shares, or R10m in cash and the remainder in shares, was expected to boost Fraser Alexander's earnings by 23c a share.

Wade Refuse chairman Heinz Heuser said yesterday that joint discussions showed the activities of the groups were not compatible.

Wade Refuse collects, treats and stores toxic and non-toxic household and other waste materials, and holds a number of long-term contracts with various municipal and civic bodies on the Witwatersrand.

(189)

Despite reporting a 27% fall in earnings to R5,6m (R7,7m) in the six months to end-December, chairman Peter Flack said Fraser Alexander was on the verge of launching a major acquisition programme which would lift the turnover of its waste division to more than R100m a year.

Fraser Alexander shares traded at R11,50 this week, midway between their R13,50 high in August and a 925c February low last year.

FM 5/4/91 (189)

ABERCOM FM 5/4/91

CONVALESCING (189)

Abercom's interim results are a bit like a half-glass of water: perceptions are likely to differ as to whether the glass is half full or half empty. This is not to underrate the achievements of the group so far. Operationally, UK subsidiary MY Holdings is convalescing nicely and, according to Malbak financial director Dave Kennealy, it performed in line with budget in the six months to end-February.

Even better, it seems likely the remaining problems at MY — centred on the Crescens Bushill plant — will be resolved by year-end following a decision to scale down operations to a level commensurate with market conditions. This is expected not only to eliminate operating losses, but will substantially reduce MY group borrowings and will, therefore, reduce another major drain on its bottom line. If all this goes according to plan, MY should be producing satisfactory results as from 1992 and, more important, will be in a position to fulfil the original purpose of its acquisition by Malbak: namely, to spearhead Malbak's expansion into Europe.

At the same time, sight should not be lost of the fact that, in the interim period, losses attributable to MY accounted for less than half of Abercom's total attributable loss of R3,8m. According to chairman Ian Willis, MY's share was R1,7m, while the rest — R2,1m — represented the interest charges incurred by intermediate holding company, Tawneydown (also UK-registered).

These interest charges relate to the balance of debt taken on to finance the acquisition of MY in 1988 and, regardless of what happens at MY, will remain a thorn in Abercom's side until Tawneydown is recapitalised, hopefully towards the end of this year.

The problem is that while this debt remains in place, upward cash-flow (mainly dividends) from a normally operating MY would be largely absorbed within Tawneydown, which has no other source of income with which to service these borrowings. So, even when profitability is restored at MY, Abercom would remain in a position where, despite showing reasonable earnings, it would have little or no cash income with which to pay dividends itself.

The obvious answer is to get rid of the Tawneydown debt. But to do this it will be necessary to recapitalise the group from the top down. And as this will, as Malbak has already indicated, include capitalisation of the R51m interest-free loan granted to Abercom last year, it can be anticipated that this process is going to involve the issue of a very large number of new Abercom shares.

Until plans in this regard are made known, there can be no meaningful way of putting a value on Abercom shares. All that can be said with reasonable certainty is that recapitalisation of the group is likely to result in a massive dilution of future earnings and dividends.

Meanwhile, the market recognised the progress made in sorting out MY, by running Abercom shares up from a low of 35c to the present 75c. Using the Industrial index yield of 3,3% as a yardstick, it could be said that the present price discounts a dividend of at least 2,5c. With reconstruction of the group yet to be completed, this is not a short-term prospect — and it remains to be seen whether the market's guess is right or not.

Brian Thompson

SMALLER LOSS

Six months to	Feb 28 '90	Aug 31 '90	Feb 28 '91
Sales (Rm)	114,0	119,1	96,8
Op profit (Rm)	(0,9)	1,6	2,7
Attrib loss (Rm)	10,6	5,0	3,8
EPS (c)	(36,8)	(17,2)	(13,3)

AMIC

FM 5/4/91 (189)

SPENDING BUILDS UP

Activities: *Diversified industrial group with investments primarily in iron, steel and engineering; industrial explosives and chemicals; mining and construction equipment; pulp, paper, forestry and timber products; sugar and food; electronics and electrical engineering; freight and travel; motor vehicle assembly and distribution; and building and construction.*

Control: *Anglo American holds 45% and De Beers holds 27,3%.*

Chairman: *W G Boustred; Deputy chairman: L Boyd.*

Capital structure: *54m ords, 1m 5,625% cum 1st prefs and 1,5m 12,375% red 2nd prefs. Market capitalisation: R4,7bn.*

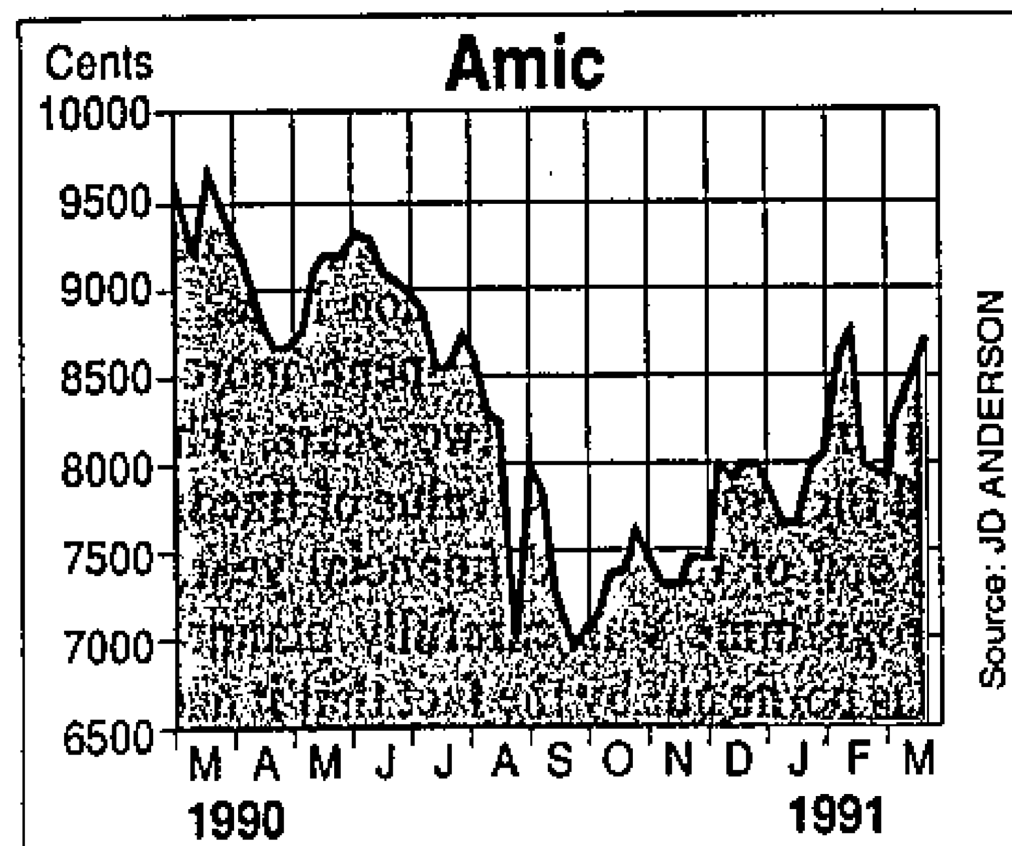
Share market: *Price: 8 750c. Yields: 4% on dividend; 9,6% on earnings; p:e ratio, 10,5; cover, 2,4. 12-month high, 9 600c; low, 6 900c. Trading volume last quarter, 420 000 shares.*

Year to Dec 31	'87	'88	'89	'90
ST debt (Rm)	191	433	365	398
LT debt (Rm)	344	110	450	271
Debt:equity ratio	0,30	0,24	0,15	0,11
Shareholders' interest	0,58	0,61	0,59	0,65
Int & leasing cover	8,6	24,9	32,9	19,5
Return on equity (%)	14,5	16,4	16,8	11,3
Turnover (Rm)	3,55	4,73	5,78	6,12
Pre-int profit (Rm)	595	994	1 310	799
Pre-int margin (%)	11,3	16,3	18,3	9,3
Earnings (c)	673	963	1 180	836
Dividends (c)	225	290	350	350
Net worth (c)	4 657	5 874	7 034	7 372

Developments at forestry products suppliers Mondi Paper and NTE last year did much to strengthen Amic's balance sheet at a time when group earnings were being heavily buffeted by recession at home and abroad.

Rights issues in July raised R454m to help fund Mondi's R1,3bn capital expansion programme — which started in 1987 — and provided NTE with R60m to buy more plantations. Both companies are thought to have been heavily borrowed and had to contend with hefty interest bills.

The group's net borrowings of R231m at year-end were down by a third on the previous year. This excludes redeemable prefs, which rose from R333m to R399m. Total finance charges fell from R127m in 1989 to R122m in 1990.



Amic's Boustred ... *will do well to hold earnings*

As Amic chose not to participate in the rights issues and ceded its rights to De Beers, the group's shareholding in both Mondi and NTE decreased from 63,7% to 53%. Amic's balance sheet was further strengthened by a revaluation of land and forests owned by Mondi and NTE that added R325m to its non-distributable reserves. This, with the cut in borrowings, helped pare the debt:equity ratio from last year's 15% to 11% — without the revaluation it would have been slightly higher.

Despite under-utilised capacity at some of its operations, Amic maintained high levels of capital expenditure at the core businesses. Spending on replacing fixed assets was slightly down at R127m, against R169m, while investment in expanding fixed assets reduced from R667m to R586m. Much of this was related to Mondi's expansion.

While Amic's NAV rose by nearly 5% to 7 372c, the earnings decline meant that most of the financial ratios weakened. Profit margins at many of the earnings contributors were hard hit. Earnings generated from operations — which now comprise wholly owned Scaw Metals, Boart International and Kolbenco (formerly Karl Schmidt SA) as well as Conlog (99%), Highveld Steel (51,8%), and Mondi and NTE (53%) — was nearly halved, falling to R570m. Contributions from associate companies such as AECI (39,5%), Tongaat-Hulett (22,9%), McCarthy (24,4%) and Samcor (19%) fared better on average but were still down by a tenth, at R222m.

Chairman Graham Boustred attributes the group's weak performance to international and domestic recession, cuts in mining expenditure, high interest rates, depressed commodity prices and decreasing returns on exports. Hardest hit were Highveld Steel, whose earnings fell 53% after a bumper 1989, Mondi (down 45%), AECI (24,5%) and Boart (24%); all these are exporters. Of the group's previous top six earnings contributors, only Tongaat and Scaw improved profit though both lagged inflation.

Export incentives

In the last annual report management stated that its objective for 1990 was to maintain the previous year's level of earnings. In fact, attributable earnings fell — for the first time in five years — by 29%.

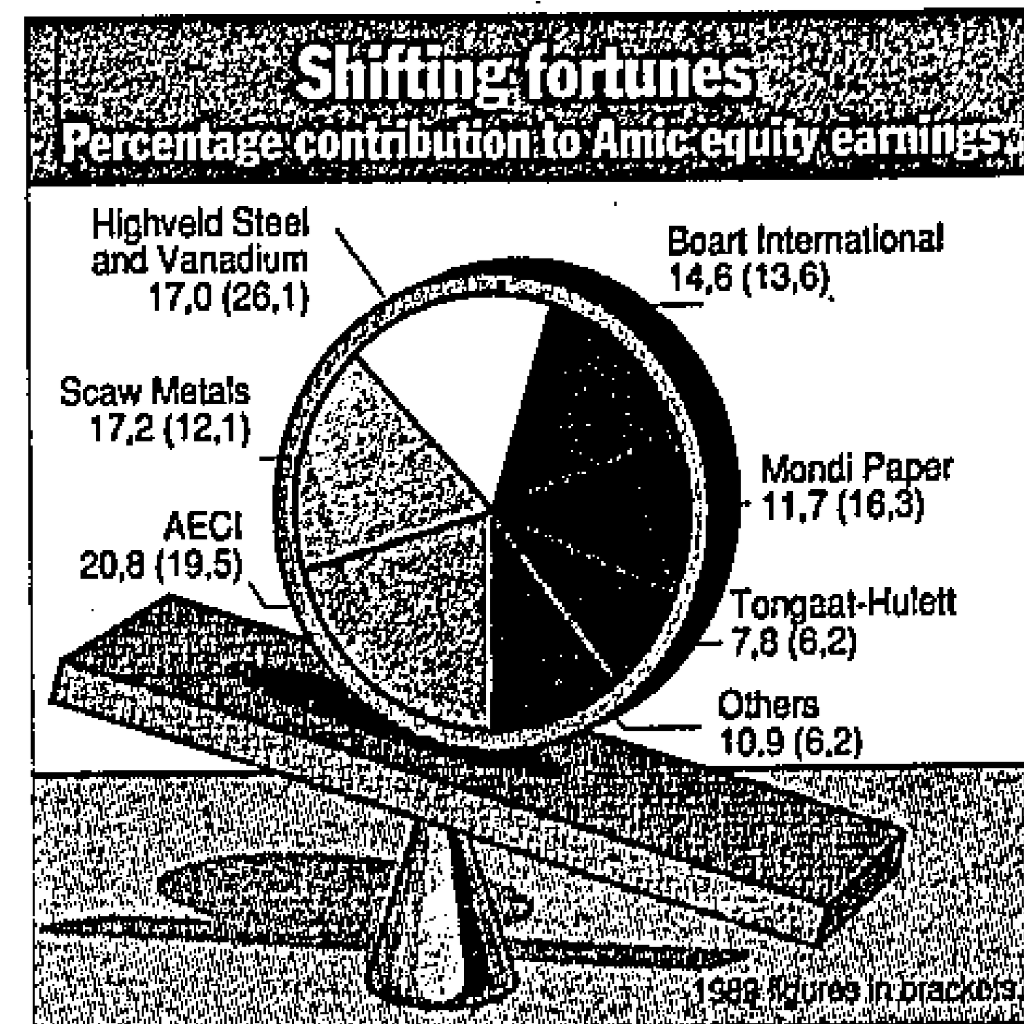
The fall could have been greater — pre-interest profit dropped 39% — had the group not benefited from export incentives and assessed losses that cut its effective tax rate from 33% to 20%. This added nearly R100m to attributable earnings.

The outlook for the current year offers little encouragement. Few of the group's subsidiaries and associates expect to do more than maintain earnings. Some, such as Highveld and Tongaat, expect further declines. Not surprisingly, Boustred says the group will do well to maintain earnings at the 1990 level.

Amic's broad spread of investments means that it is closely tied to the fortunes of the domestic and international economies. With the rand stabilising against most of the major currencies, its potential as a rand hedge investment may have also receded for the present.

The share is currently trading at R87,50, up from R82 when its results were announced two weeks ago, and stands on a p:e of 10,5 and dividend yield of 4%. While the immediate prospects appear unexciting, and the share is hardly cheap, the counter still holds potential for investors prepared to look at the longer term.

Simon Cashmore



W&A hit by a huge interest bill

189

BDay 8/4/91

BRENT VON MELVILLE

LAST July's restructuring of the FSI group, under the corporate banner of W & A Investment Corporation (W & A), provided little help in cutting the effect of the conglomerate's interest bill in the year to end-December.

The year's interest of R117,9m swallowed 37% of the operating profit, up on the R113,9m which absorbed 33% of FSI's operating profit in 1989 before the restructuring.

The restructuring, which transferred all of the operating divisions to W & A, was intended to present a clearer corporate structure and to minimise inefficient debt.

Chairman Jeff Liebesman said the higher level of long-term borrowings, at R942m against FSI's end-1989 R510m total, reflected the effects of the restructuring.

Gearing of the much-expanded W & A has now been pushed to 47,9% compared with 33,5% prior to the restructure, a level Liebesman said compared with other industrial groups of a similar size. Total W & A assets now amount to R3,6bn (R2bn).

While W & A managed to boost turnover by 30% to R3bn (R2,3bn), the strong performances of the formwork and scaffolding companies J D Group, Gentyre and MacPhail failed to offset the cut in margins caused by unfavourable domestic and international trading conditions in other sectors.

The 7,8% rise in operating profit to R316,7m (R293,9m) was slashed by a 77% jump in interest charges to R117,9m (R66,3m). The effective tax rate fell to

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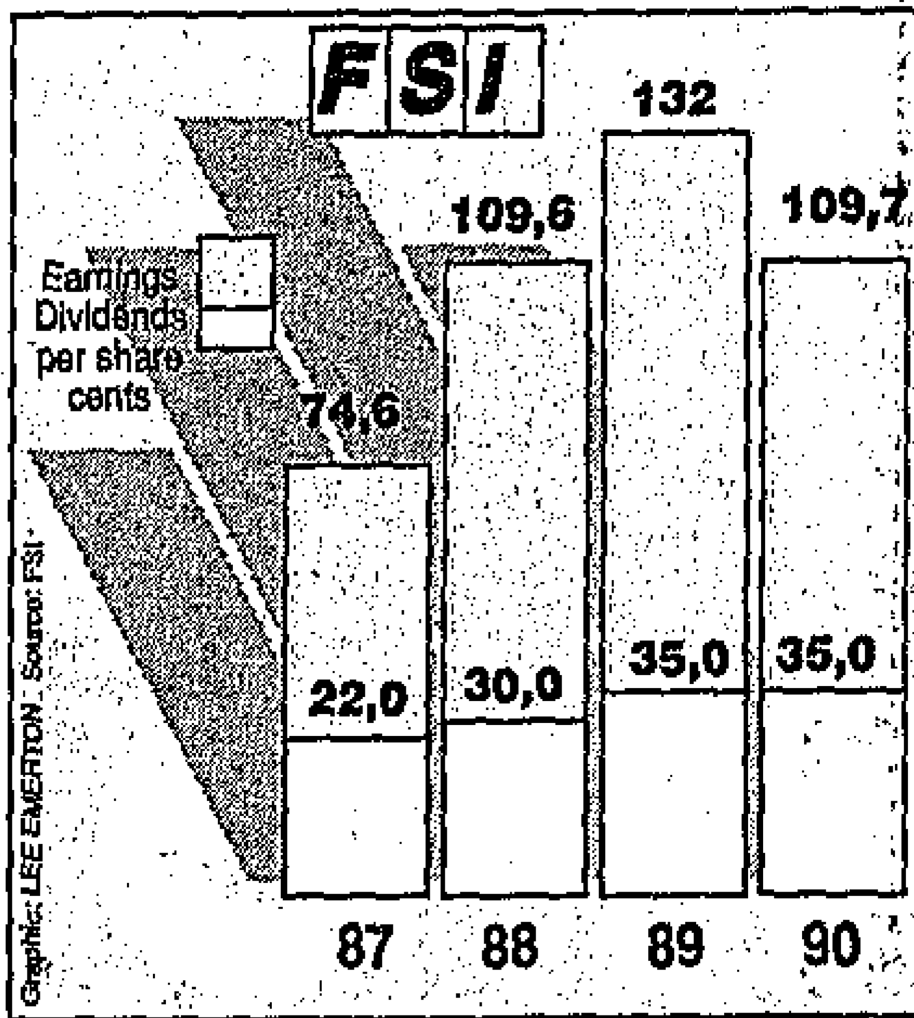


Restructuring fails to bring improvements at W & A

By Sven Lünsche

The restructuring of FSI's wide range of operations last year into one operating company, W & A Investment Corporation, failed to improve results in financial 1990.

W & A reported yesterday that earnings per share had declined 13,6 percent to 95c (110c), despite a 30 percent rise in turnover to R3 billion (R2,33 billion).

The rise was also evident in the 13,1 percent improvement in operating profit to R316,7 million (R293,9 million), but the bottom line was then hit by higher interest payments, which soared by 78 percent to R117,9 million (R66,3 million).

This was largely due to an increase in long-term liabilities from R420,6 million at the end of 1989 to R942,4 million at the end of last year, which the directors say reflects the debt of businesses bought during the restructuring.

Investments and capital expenditures totalled R300 million during restructuring. Since then, however, no substantial new borrowings have occurred.

The directors say that some of the subsidiaries, such as furniture group Joshua Doore, Gentyre Industries and the formwork and scaffolding interests, performed well.

On balance, however, the recession impacted adversely on results, particularly of those companies operating in the mining, motor and industrial sectors.

A lower contribution from principal associate Elcentre, which makes cables and distributes electrical goods and components, reflected this trend.

Remedial steps at under-performing subsidiaries are already showing operational benefits, says chairman Jeff Liebesman. He adds that core businesses are being developed to further their international expansion.

Despite lower earnings, W & A has maintained a full dividend for the year of 42c a share.

Moving up the pyramid in the new corporate structure, Waicor's earnings fell from 45,9c to 39,2c, while the dividend has dropped to 16,5c (16,8c).

FSI earnings's per share dropped to 110,4c (132c), but the total dividend has been maintained at 35c for the ordinary shares and at 72c for preferred ordinaries.

Merchant bank Reichman's contributed R300 000 last year (1989: R4,8 million) before being sold to Investec Bank.

At the top of the pyramid, FS Group, whose results are wholly dependent on FSI, reported a 10,8c decline in earnings to 55,2c (66c).

The total dividend for the ordinary shares has been maintained at 17,5c, while shareholders of the preferred ordinaries receive an unchanged 36c.

W&A results arouse little interest

BRENT VON MELVILLE

THE long-awaited results for what is now the operating heart of Jeff Liebesman's FSI empire, W & A Investment Corporation, have not gone very far at all towards stimulating market interest.

Last year chairman Liebesman restructured the group, transferring all of FSI's operating divisions into W & A, to present a cleaner corporate structure while eliminating inefficient debt.

The market gave the new and greatly expanded W & A a slightly better reception than that which greeted the restructuring announcement. On July 10, nine days after the restructure took effect, W & A peaked at a high of 830c. It has since moved steadily down, culminating in a 25c (4,7%) dip to 500c (nearly 40% off its high) yesterday.

The results show that the diversified industrial group is still hampered with what most analysts agree is a very high debt burden. Liebesman says only that the level of gearing, at 47,9%, compares with other industrial groups.

W & A does compare with other groups which have also based their growth almost exclusively on debt. Malbak, for instance, boasts a gearing of 49%, down from 1989's 60% level. In 1989 W & A's gearing was at 33,5%.

One slightly confused shareholder phoned Business Day querying why interest on convertible debentures, after tax, of R16,1m was not included in net interest paid of R117,9m.

And he wondered why interest received in respect of hire purchase and instalment sales debtors was reflected in operating income.

On the first point, W & A financial director Neville Cohen says that on a diluted income statement, one takes the interest out of the interest line and takes the tax out of the tax line. "There was also a small minority in the first six months as subsidiary Hunts was not wholly owned until the year end."

Cohen says the second disclosure applies mainly to the business dealings of W & A subsidiary J D Group, which receives a lot more in finance charges than it pays off. Hence it is construed as an "operating" profit.

Union attitude on wages upsets bosses

ARGUS 15/4/91

By SHARON SOROUR
Labour Reporter

METAL industry employers — involved in annual wage negotiations with 12 unions — are disappointed over poor trade union response in modifying demands.

This follows the third round of negotiations which affect nearly 300 000 workers throughout the country, said executive director of the Steel and Engineering Industries Federation of S A (Seifsa), Mr Brian Angus.

Employers improved their previous wage offer by tabling increases ranging from eight to 11,6 percent.

"This amounts to increases in the various wage categories ranging from 44 cents an hour for labourers to 76 cents an hour for artisans.

"This would raise wage rates in the industry to R4,62 and R10,26 an hour for labourers and artisans respectively," Mr Angus said.

Employers also responded in detail to the various trade union demands for changes to the industry's main agreement.

Mr Angus said employers were disappointed over the "poor" trade union response.

He said: "Apart from a significant reduction in the wage demand of the Steel Engineering and Allied Workers' Union (Seawusa), from R7 an hour (167 percent) to R2 an hour (47 percent), none of the trade unions moderated their demands.

"The unions failed to respond to the employer proposals for changes to the industry's main agreement."

The parties agreed to meet on Friday to consider detailed motivation of proposals by the National Union of Metalworkers of S A (Numsa) on vocational training and job creation.

The next formal negotiation meeting will be on April 23.

Cape Times 20/4/91

Union slams sponsorship

CAPE TOWN. — A trade union has slammed the National Olympic and Sports Congress (NOSC) for "rank opportunism" in accepting a R250 000 sponsorship deal from National Panasonic, a Barlow Rand subsidiary.

The NOSC, according to a statement issued by the Metal and Electrical Workers Union of South Africa (Mewusa), had failed to "democratically consult" National Panasonic workers before accepting the sponsorship.

NOSC general secretary Mr Mthobi Tyamzashe said yesterday: "As far as we are concerned, there is nothing like a boycott of National Panasonic. We will accept (the money) like all other sponsorships." — Sapa

Barlows under fire for dithering

B/Day 14/5/91 (189)

BRENT VON MELVILLE

THERE is widespread feeling on the market that the steps being taken by Barlow Rand to shore up its ailing interests are too little, too late.

Investment analysts have criticised Barlows management for reacting to events rather than anticipating problems which have since become glaringly apparent in the interim results of many of its listed subsidiaries.

Drastic remedial action should have been taken long ago at Rand Mines, say analysts. Sagging prices on world markets and continuing pressure on production costs have taken the sheen off gold and platinum markets.

"Barlows should never have allowed the situation to deteriorate so badly at Rand Mines," one analyst said.

Speculation is now rife that Rand Mines may move out of gold and platinum and concentrate solely on its coal interests, where profits have been propped by higher export volumes and improved sales to Eskom.

Despite the buffer of the coal interests, analysts predict a 31% drop in earnings for Rand Mines, which is expected to bring out its interim results early next week.

Barlows has also been widely criticised for not reducing its exposure to commodity fluctuations. Case in point is 100% owned Middelburg Steel & Alloys (MS & A).

The outlook for the volatile ferroalloys and stainless steel market has remained bleak over the past six months and is not expected to pick up in the near to medium term. Last year attributable profits of MS & A dropped a massive 76% from R216m to R52m.

Flotation

While Barlows chairman Warren Clewlow will not comment so soon before interim results are released, he said in his latest annual review that the group was examining ways of reducing the effect of cyclicality on MS & A's performance.

"Clewlow's policy will now likely be to try and move away from its exposure to commodity-based earnings," said an analyst. This could mean flotation for MS & A.

Analysts also suggest that it's high time Barlows cleaned up its structure, particularly in its food and pharmaceutical holdings, listed through CG Smith.

The division chipped in 14% to bottom-line profits last year, a donation which is not likely to change materially. Star performer is likely to remain Adcock Ingram, which increased attributable profits 32% for the half year. Tiger Oats also put in a solid showing, kicking up bottom-line profits 21%.

Industry contributions don't look that cheery, with earthmoving equipment, motor and appliances expected to be adversely affected by the lethargy in the engineering sector.

Building materials and paint, represented by unlisted Federated-Blaikie, Theson and Plascon, have been adversely affected by the poor residential building market.

Barlows is in the process of delisting steel interest Robor Industrial Holdings, which is not expecting spectacular results in view of sharply reduced domestic demand for steel.

Bad apple taints Barlows' results

B/Day 21/5/91.

(189)

BRENT VON MELVILLE

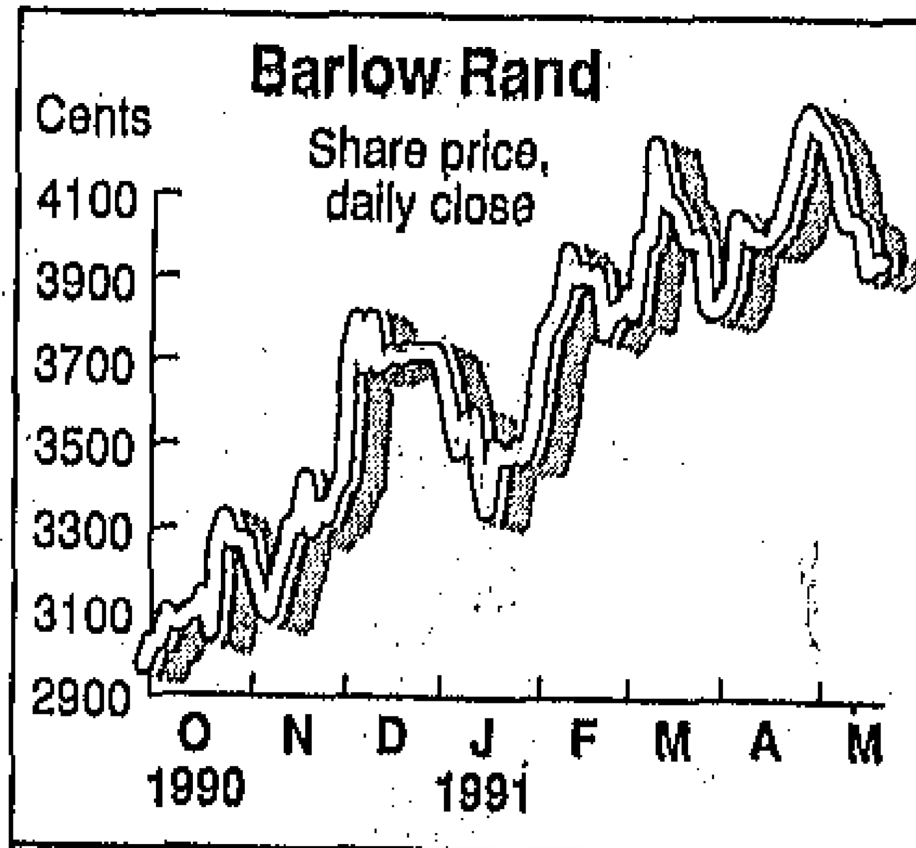
SA's premier industrial group Barlow Rand has been hit by a R17m loss from Middelburg Steel & Alloys (MS & A) to post a 14% drop in earnings to 187c (217,7c) a share for the half-year to March.

The fall comes off a 12% increase in turnover to R15,5bn (R13,8bn) and a slight decline in operating profit to R1,2bn. Attributable earnings fell to R348m (R403m).

The dividend outlay was left unchanged at 51c — reflecting the group's confidence in the steps taken so far to strengthen the mining and mineral beneficiation division, vice-chairman Derek Cooper said.

Those steps include a pending deal to sell the troubled platinum division of subsidiary Rand Mines and reducing Barlows's direct holding in MS & A.

The disastrous results of MS & A's ferrochrome interests saw the mining and mineral beneficiation division — including cement producer PPC — reduce its contribution to after-tax profits by 27% to R159m (R219m), representing 22% (30%) of profits of R713m (R734m).



Graphic: FIONA KRISCH Source: I-NET

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Barlows

B/Day 21/5/91

(189)

□ From Page 1

In terms of the anticipated agreement between Rand Mines, its platinum subsidiaries and Impala Platinum Holdings, Rand Mines would assume about R200m of Barplats' debt and write down the value of platinum assets by about R430m. Because Barlows holds 74% of Rand Mines, about R320m would be attributable to Barlows shareholders.

The group is also considering the sale of Rand Mines' assets to reduce debt incurred as a result of the transaction.

Cooper said there would "definitely be no rights issue". He did not disclose which assets might be sold but said Rand Mines had a large investment portfolio to consider. It was an open secret the sale of the forestry and timber division was being discussed. Significantly, he did not exclude the disposal of some of Rand Mines' coal interests.

Referring to overall performance, Cooper said: "If you remove the impact from MS & A on results, the result is a growth in earnings which we feel is laudable in the prevailing climate."

However, the group did not expect any improvement for the rest of the year.

In terms of divisional performance, Food and Pharmaceuticals, represented by Tiger Foods, ICS, C G Smith Sugar, Oceana, and Adcock Ingram) upped its contribution to 34% (29%) of after-tax profit to R244m (R211m), while Barlow Rand Industries' R151m contribution to profits remained at 21%.

The international division through J Bibby added R64m (R57m). Bibby has announced a 1-for-10 rights issue which Barlows will not follow so as to make the share more tradeable in the UK.

Packaging and Textiles (Nampak and Romatex) also left its contribution the same at 16% or R117m (R116m). A new can manufacturing plant at Springs for Nampak attracted a large portion of group capex of R822m, which lifted borrowings and pushed gearing up to 57% (51%).

Cooper said the level was higher than normal and the group would like to get it down to about 50%. Barlows' listed investments dropped from a market value of R495m at end-September 1990 to R299m at end-March.

Protesters disrupt vital metal industry wage talks

By SHARON SOROUR
Labour Reporter

METAL industry wage negotiations, which affect about 300 000 employees nationwide, ended in chaos when about 150 chanting union members disrupted the talks in Germiston.

According to Steel and Engineering Industries Federation of SA (Seifsa) executive director Mr Brian Angus, metal industry employers were branded "liars and thieves" by the demonstrators from the National Union of Metalworkers (Numsa) who entered the venue.

The demonstration started shortly after the talks began and continued "for some time", leaving employers to abandon the fifth and final scheduled meeting.

"It became clear that meaningful negotiations would not be possible under these circumstances," Mr Angus said.

Tukkies

Toco hits high spots

St Times 16/6/91 (Bus Times)

INDUSTRIAL product maker, distributor and exporter Toco lifted earnings 24% to almost 20c a share in the year to March 1991.

The dividend was raised a quarter to 7,5c. The group's sales jumped almost 30% to R131-million. Interest paid rose 82% to R3-million because Toco holds stocks its customer would not otherwise carry so that it can take advantage of opportunities. Pre-tax income was R14-million.

Net cash flow rose R2-million to R15-million. (189)

Toco's share price has risen to 140c and market capitalisation tops R100-million.

In the year Toco bought Spectrum Industrial, and the rest of Alzac and Premier Chemicals.

Probe into industry control

Political Staff

THE ANC has investigated the nationalisation of the pharmaceuticals industry and is considering the iron and steel and building materials industries for possible state control.

ANC economics spokesman Mr Khetso Gordon brought the controversial issue back into debate at an ANC media briefing for parliamentary journalists at the weekend when he announced that the organisation had identified the pharmaceutical and iron and steel industries for possible state control.

The ANC, he said, had already conducted a feasibility study into creating a state-controlled pharmaceutical utility.

It is believed that the ANC is also considering nationalising other industries which provide, or are involved in the provision of, basic services such as health, housing and electricity.

The route the ANC is most likely to favour for the pharmaceutical industry is the formation of a new body within the state Health Department to sell basic generic drugs required for primary health care — 160 of which have been identified by the World Health Organisation

Toco's acquisition strategy pays dividends

MARC HASENFUSS

TOCO Holdings' strategy of increasing market share through aggressive marketing and acquisition of smaller competitors enabled the industrial supplies group to boost earnings a share by 24% for the second successive year. Bday 17/6/91

Attributable earnings surged by 29% to R13m (R10m) on the back of a 29% rise in turnover to R131m (R102m) for the year to end-March 1991. An increase in shares in issue saw a 24% earnings a share rise to 19,6c (15,8c).

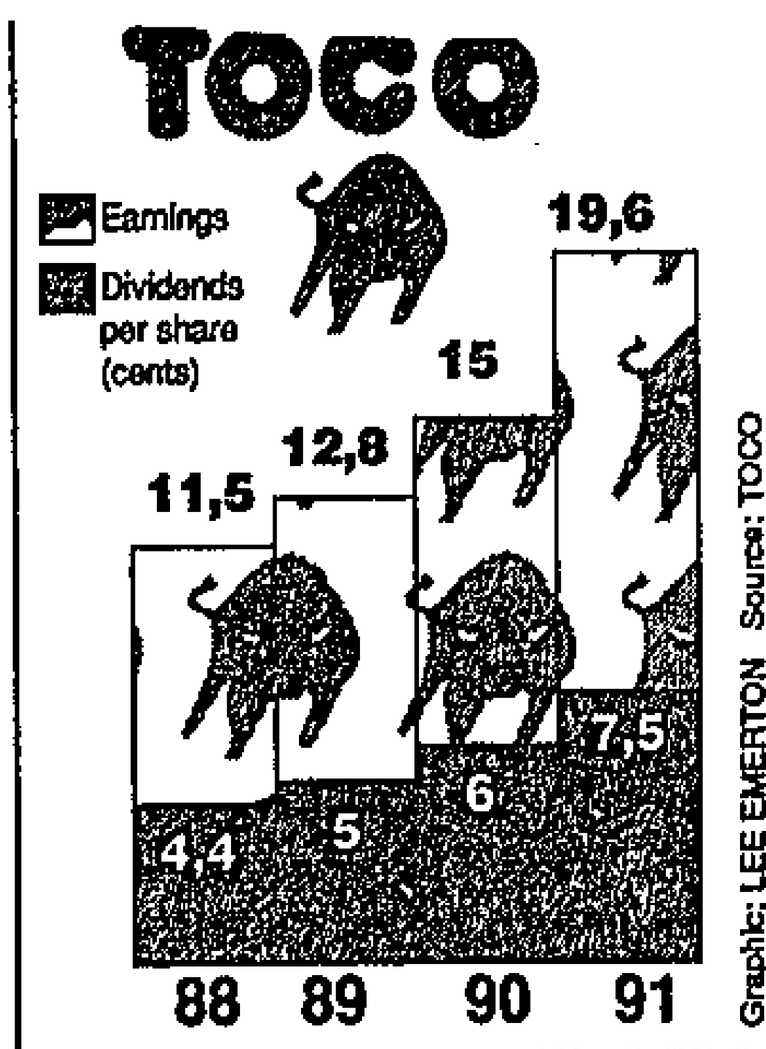
A final dividend of 5c was declared, increasing the total payout 25% to 7,5c (6c) a share. Dividend cover was maintained at 2,6 times. Operating profit lifted 31% to R17m (R13m) as tight internal controls resulted in better margins at 13,1% (12,8%).

Net cash flow for the year under review rose to R15m (R13m), while the ratio of current assets to liabilities was a solid 1,7:1 (1,6:1).

Although Toco increased its shareholding in Alzac from 40% to 100% before year-end, the acquisition was still treated as a 40% held associate and its income was not taken into Toco's operating profit.

MD Adrian Goodman said Alzac was consolidated in the Toco balance sheet at end-March 1991.

"Through the consistent application of the policy of seeking organic growth with strategic acquisitions, Toco is now well established as an independent group invested in the manufacture and international marketing of industrial products," he said.



ABERCOM FM 5/7/91

DELISTING PLAN (189)

It has been plain for some time that a recovery plan for Abercom would be an expensive and lengthy process (*FM* June 7). Now the controlling shareholder, Malbak, has decided to delist the company, bringing to a close the history of one of the more colourful groups on the JSE for over two decades.

The delisting follows Abercom's restructuring in 1988 — heady days for currency hedges — when Malbak decided to use the company as its vehicle for expansion into the UK. Abercom bought a packaging group, MY Holdings Plc, through wholly owned subsidiary Tawneydown. During that year the shares were traded as high as 505c but for some months now they have been languishing around 65c.

Last week's announcement of the offer to buy out minorities at 125c a share — 79% ahead of the pre-offer price of 70c — has lifted the price back to 115c. That is still a far cry from the levels seen before things went badly wrong in the UK.

Malbak chairman Grant Thomas says MY is in "far better shape" than it was a couple of years ago but has not paid any dividends to Tawneydown and is unlikely to do so for some years. Lack of income from MY has worsened the financial position of the heavily geared Tawneydown and, ultimately, Abercom.

Malbak considered various options to a capital restructuring, including a rights issue, but Abercom would have had to raise about R120m on the basis of seven new shares for every one, at a price of 60c a share. Given the unexciting prospects, there was little chance of the offer being successful. In any event, it would have resulted in Malbak increasing its stake in Abercom to more than 90%.

For the 1 900 minor shareholders the offer provides an exit route which, in the circumstances, must be considered attractive. Abercom was a high-flying conglomerate in the stock market boom of the late Sixties, when Murray McLean and David Lurie were running it, and its price continued to gyrate during the Seventies.

Sanlam acquired control during its takeover spree of 1984 when Peter Herbert was MD and Abercom was later moved into Malbak. Investors' enthusiasm for its prospects following the UK foray in 1988 saw the price rise from 240c to more than 500c in that year.

From the standpoint of Malbak — one of whose strengths appears to have been a tendency to deal fairly swiftly with problem businesses — the buy-out removes from the public view a listed subsidiary whose failure was dampening Malbak's own image. But after the delisting, Malbak will still have to resolve Abercom's financial position. Last year Malbak made an interest-free loan of R50m to Abercom, which the latter on-lent to Tawneydown.

The amounts involved obviously are not large enough to affect Malbak's accounts significantly, but a full solution will have to be found. That should be easier when the company is wholly owned. *Andrew McNulty*

Steel industry settlement 'breakthrough' for union

ARG 2/8/91 (189)

SHARON SOROUR
Labour Reporter

ABOUT 350 000 workers in the metal industry will get wage increases of between 12 and 15 *percent in terms of an agree*ment reached between the Steel and Engineering Industries' Federation (Seifsa) and four trade unions.

The agreement in annual wage negotiations, described as a breakthrough, came after four months of talks which culminated in nine days of mediation spread over two months.

Workers would get an average increase of 13 percent on scheduled wages, federation executive director Mr Brian Angus said in a statement.

The wage increases would be implemented from July 1 1991.

The *National Union of Metal*workers (Numsa) — the largest trade union in the talks — said the settlement had set a precedent for continuing negotiations in other sectors, including the strife-torn motor assembly and tyre sectors.

Before mediation began two months ago, Seifsa offered increases ranging between 9 and 12,6 percent.

Mr Angus said employers considered the settlement package to be fair and reasonable, given the "very poor" business conditions prevailing in the industry.

He said negotiations were "again extremely difficult, protracted and costly" and covered a wide range of issues apart from work conditions.

Strike and lock-out ballots were conducted in anticipation of industrial action "which was fortunately averted".

The agreement was signed on Wednesday by Seifsa, the National Union of Metalworkers (Numsa), the Metal and Electrical Workers' Union, the Confederation of Metal and *Building Unions and the Steel,* Engineering and Allied Workers' *Union.*

The settlement included:

- Increased wages of 15 percent for labourers which guaranteed a personal increase of 63c an hour. Artisans' wages increased by R1,14 an hour or a 12 percent increase.
- A minimum severance payment on retrenchment of one weeks' pay for each year of service up to a maximum of four weeks after four years.
- Subsistence allowance increases ranging from 12,8 to 14,5 percent.
- A leave bonus — 8,33 percent of an employee's annual wage — was payable in the first and subsequent leave cycles.
- The normal working week would be 44 hours at most.

Claude Neon provides a surprise

(189) Star 7/8/91

By Sven Lünsche

Anglovaal Industries' (AVI) subsidiary Claude Neon surprised analysts yesterday announcing a 425 percent increase in attributable income to R2,4 million (R451 000) for the year to end-June.

Claude Neon issued a cautionary statement only two weeks ago saying negotiations were in progress which would affect its share price, prompting some analysts to speculate that AVI was keen to sell the group.

Claude Neon has shown little growth over the past five years but the company says the major restructuring undertaken during the 1990/1 financial year had greatly improved the group's performance.

The directors state that sales grew strongly throughout the year as the company recovered lost market share.

This left profit before interest and tax 69 percent up at R7,3 million (R4,3 million), while interest paid was 14 percent lower at R2,9 million (R3,4 million).

Claude Neon, however, continued to pass its total dividend on ordinary shares but paid shareholders of its preference shares.

The directors expect a further improvement in earnings in the current financial year and anticipate that dividend payouts will resume by the end of the year.

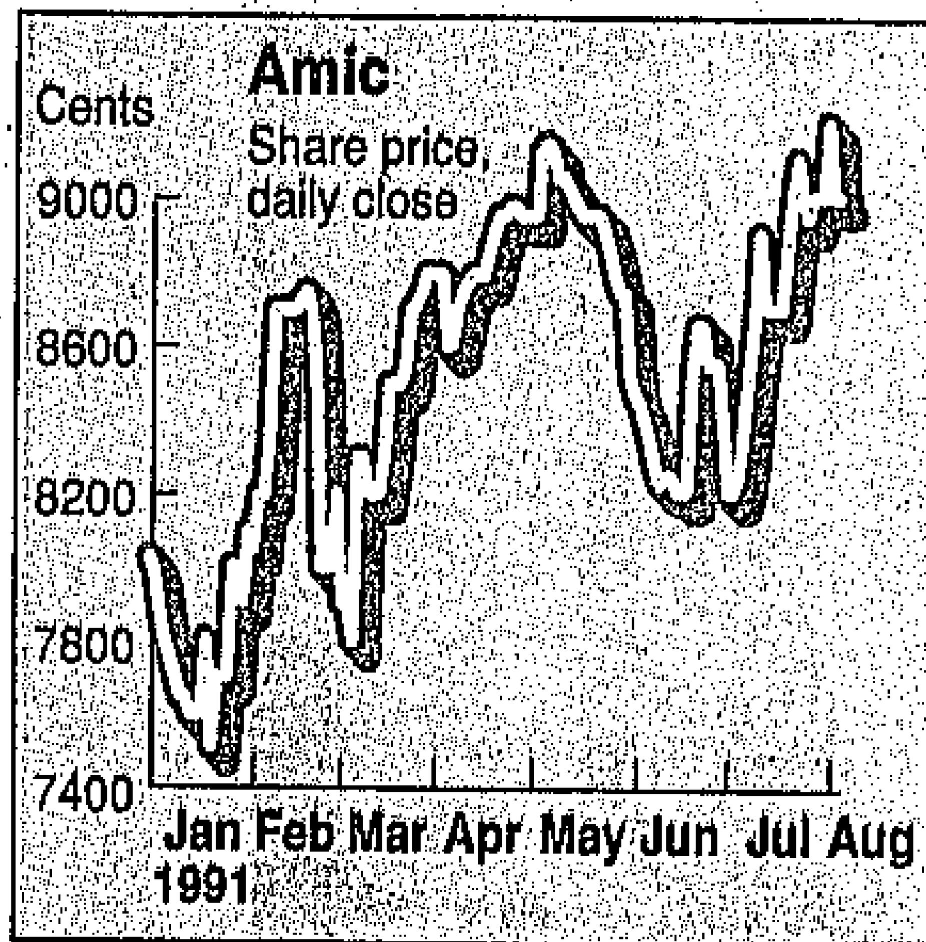
Amic earnings slashed 26%

BiDay 9/8/91

BRENT VON MELVILLE

(189)

AFTER absorbing dramatic declines in half-stage earnings by the majority of its subsidiaries and associates, Anglo American Industrial Corporation (Amic) has seen its earnings slashed by 26% for the half-year to June.



Graphic: FIONA KRISCH Source: I-NET

Earnings were down at 333c from 451c a share for the comparable period last year, while the dividend remained at 110c, pulling cover down to 3 times from 4,1 times.

Amic chairman Graham Boustred said yesterday the performance reflected the severe decline in first-half earnings already reported by subsidiary Highveld Steel & Vanadium (Hiveld) and major associate AECI, and the continued difficult trading conditions being experienced by the other group companies.

The results, in line with market expectations, disclosed earnings from operations down 38% to R211m (R344m) while share of earnings from associates dipped 18% to R89m (R109m). The declines came off a 5% rise in turnover to R3,1bn (R2,9bn).

Investment and interest earnings

☐ To Page 2

Amic

BiDay 9/8/91

(189)

☐ From Page 1

dropped 24% to R35m (R46m). After interest charges of R53m (down from R70m last June), pre-tax earnings were left at R282m, 34% down from last year's R429m.

Group net borrowings were up at R903m from R615m at the 1990 year-end stage, but slightly down from R996m last June. Capital expenditure for the period was R213m (R279m) and commitments were at R256m from R546m at the same time last year.

During the period an additional 720 823 ordinary shares were issued, of which 94% were issued following the agreement entered into for the acquisition of businesses in the Lennings Group. The remaining 6% (or 43 273 shares worth R3,9m at the current price) were issued in terms of the Anglo American group employee shareholder scheme and the share incentive scheme for senior executives.

Directors said they expected that in the second half there would be some improvement in certain local and export markets, and as a result earnings for the year as a whole were not expected to show as sharp a decline as in the first half.

Amic yesterday came in as one of the most active shares by value, trading 36 000 shares in 17 deals worth R3,3m. The prevailing price of R90 remained unchanged.

Klipton's turnover tops R100-m

(189) Star 14/8/91.

Finance Staff

Industrial holding company Klipton has boosted its attributable earnings by 26 percent to R6,4 million (R5 million) as turnover topped the R100 million level for the first time.

Operating profits rose by 21 percent to R11,7 million (R9,6 million), on the back of a 20 percent rise in turnover to R106,7 million (R88,9 million).

Earnings per share increased only marginally to 59c (58,6c), due to a significant rise in the number of shares in issue. The dividend was maintained at 19c per share.

Joint chairman Robin Mathews says the group ended the financial year with a strong balance sheet.

"A debt equity ratio of 31 percent (34 percent) and an unchanged current ratio of 1,6 reflect the effect of the acquisition of Sandton Sentry and JA Campbell.

Targets exceeded

"The debt equity was considerably lower than the self-imposed limit of 50 percent and other financial ratios reflected at year-end were in line or exceeded management targets."

The group's broad operating base should insulate the company to a certain degree from the recessionary conditions and the group is well poised for future growth.

Klipton is on the look out for appropriate acquisitions which would be financed with a combination of cash and shares.

Klipton maintains its momentum

BIDay 14/8/91. (189)

BRENT VON MELVILLE

INDUSTRIAL holding group Klipton has maintained its momentum to record its sixth successive year of real growth for the year to June.

The group, which is involved mainly in the security industry, upped operating profit by 21% to R11,7m (R9,6m) on a 19% rise in turnover to R106,8m (R88,9m).

The improved margins and a reasonable tax man enabled a 26% rise in attributable profit to R6,4m (R5m).

Earnings showed only a marginal increase to 59c because 26% more shares in issue at 10,7-million were used to fund acqusitions.

The dividend was maintained at 19c a share.

On the balance sheet, debt:equity fell slightly to 31% (34%) and the current ratio remained at 1,6:1, largely unaffected by the acquisition of Sandton Sentry and J A Campbell during the course of the year.

Joint chairman Robin Matthews said the levels were considerably lower than the self-imposed limit of 50%, and other financial ratios reflected at year-end were in line or exceeded management targets.

Matthews said the group was happy with the results in view of current economic and political conditions.

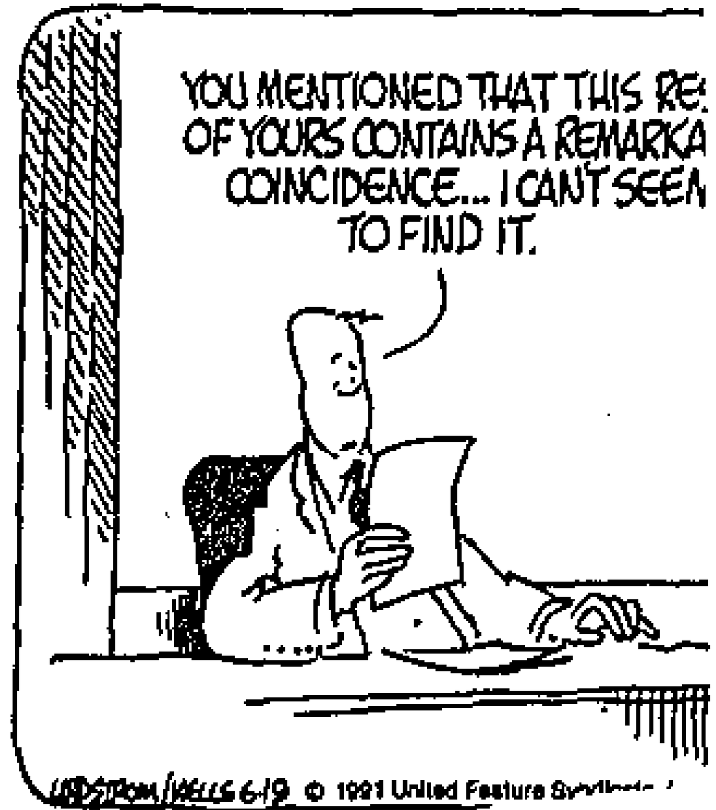
These suggested that the year ahead would be difficult.

"However, the group's strong financial position and broad operating base should continue to insulate it to a certain degree from recessionary influences."

He did not discount further acquisitions, however, and said the group would continue to look for appropriate acquisition opportunities.

These would be financed in a similar manner to those in the past — through a cash/share combination.

EXECUTIVE SUITE



AMIC (189) ([illegible])

Battling FM 16/8/91.

Amic chairman Graham Boustred predicted the group would do well to maintain earnings at 1990 levels this year. That view now looks too optimistic — there would need to be a significant upturn in world steel, chemical and paper prices in the next few weeks for the group to make up for the 26% profit slide in the first half. Amic is more exposed to commodities than most industrial conglomerates and prices are weak almost across the spectrum.

The poor showing was expected once two major contributors, subsidiary Highveld Steel and associate AECI, reported earnings declines of 43% and 56% respectively. Boustred says there was "continued difficult trading conditions" for other group companies. In particular, unlisted Mondi is not thought to be performing any better than Sappi, which saw profits tumble by 38% in the year to February and is not forecasting much improvement.

Amic has particularly high fixed investments, valued at R5,7bn. It will turn over these assets scarcely more than once this year. Moreover, it is unusually exposed to the mining industry, particularly with wholly owned Boart International and 40%-held AECI.

Lower tax rate

Nevertheless, income from associates was down 19%, which was relatively good. Associates are drawn from a wider portfolio and include interests in the Altron group and LTA, both of which improved earnings.

Income before interest and tax fell by a third, but Amic enjoyed a sharp decline in its tax rate, from 24% to less than 10%. Interest fell by a quarter and net borrowings by a tenth. The interim dividend was maintained at 110c, which reduced cover from 4,1 to 3. Demand for funding in the group has diminished; capital expenditure commitments, at R256m, are less than half those in June 1990.

The poor results have done little to deter investors. Since early July, the share price

Continue →

FOX FM 16/8/91

(183) ([illegible])

AMIC SLIDES

Six months to	Jun 30 '90	Dec 31 '90	Jun 30 '91
Turnover (Rbn)	2,96	3,16	3,12
Trading inc (Rm) ...	344	227	211
Ass companies (Rm)	109	113	89
Invest income (Rm) .	46	42	35
Attributable (Rm) ..	243	208	182
Earnings (c)	451	385	333
Dividends (c)	110	240	110

has increased from R82, briefly touching R92 earlier this month, and is now trading at R90, giving a dividend yield of 3,9% and an earnings yield of 8%. These are similar yields to those for Barlow and Malbak, both of whose profits may prove to be more resilient. Amic is worth looking at on a longer-term view and it remains a good rand hedge, but immediate prospects are not encouraging.

Stephen Cranston

Klipton tops R100m and looks for more

(189)

S Times (Bus/T) 18/8/91

By DAVID CARTE

KLIPTON, the industrial holding company run by Nigel and Rob Matthews, has been one of the better performers among more than 200 companies listed before the great crash of October 1987.

After announcing two acquisitions in recent months, the materials handling, power tool, safety and security group this week reported sales of more than R100-million for the first time.

It achieved R107-million and a 28% rise in taxed profit to R6,3-million. In 1985, turnover was R21,4-million and the taxed loss R877 000.

Earnings a share rose only 1% last year to 59c because of the issue of 3-million new shares in the acquisition of Sandton Sentry and JA Campbell.

Nigel Matthews says: "We could have borrowed in the acquisitions, issued fewer shares and reported an earnings rise. But we want to fund the company conservatively."

Institutions

At the yearend, debt:equity was 31% after the write-off of goodwill on the acquisitions.

Institutions are acknowledging the brothers' accomplishments. Six of them have 57% of the company's stock, more than the 32% held by the brothers and their staff members. The brothers have happily diluted themselves from 58%.

Nigel Matthews says: "We are not worried about control. We believe if we do well, we have nothing to worry about from other shareholders."

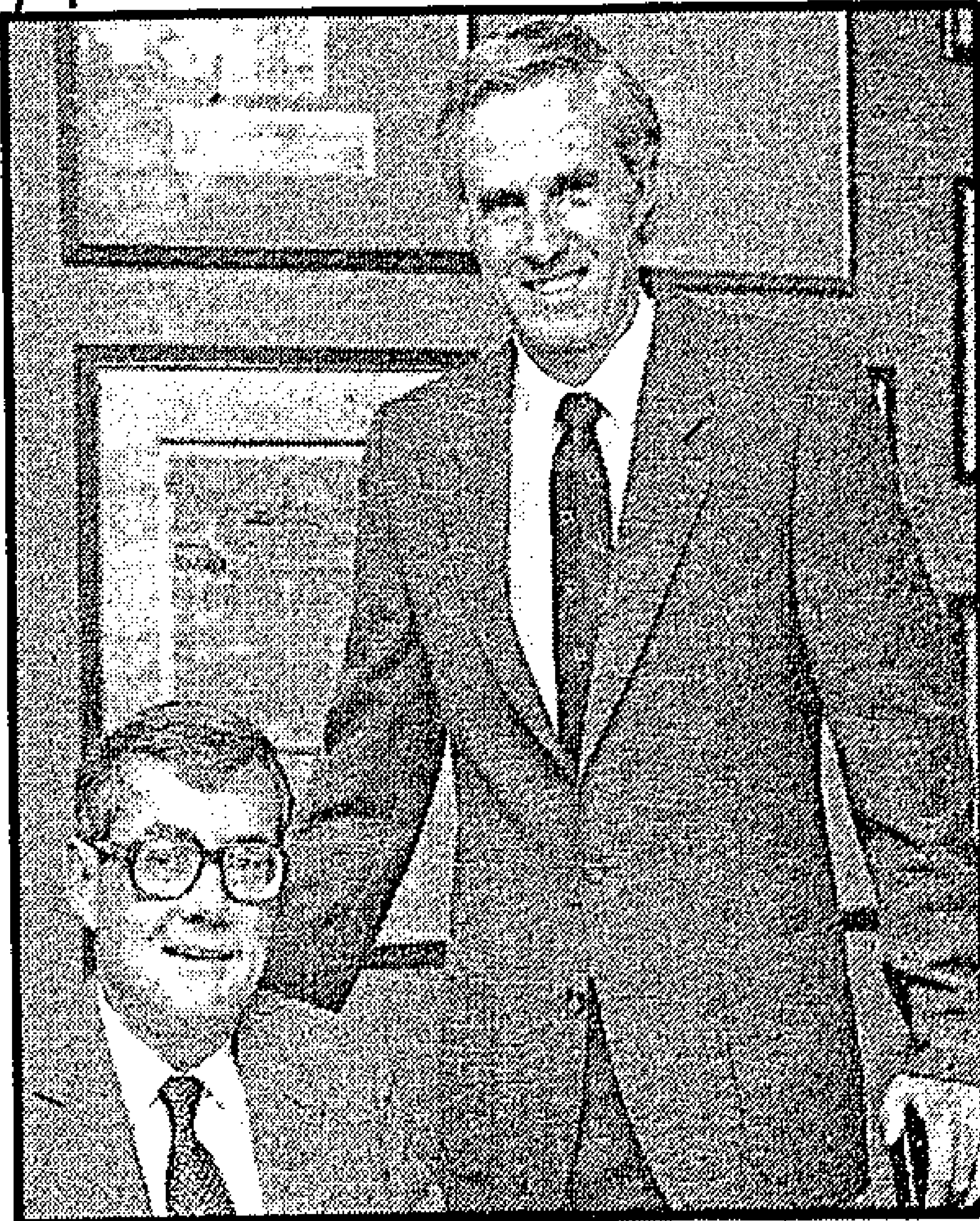
Fedlife is the biggest holder with 16%. The mines pension funds have 13%, Old Mutual 10%, Momentum 7% and Liberty Life 6%. Customers of Standard Merchant Bank have 5%.

Policy is to place shares issued in acquisitions in strong institutional hands, rather than those of vendors, who might dump them on the market.

The company, which started listed life on the development capital market, is capitalised at R50-million.

Nigel Matthews says Klipton is looking for another major acquisition to give it a third leg.

Rob Mathews describes what they are looking for: "An industrial products company with export potential and a price tag of at most R30-million."



ROB and NIGEL MATTHEWS: Nothing to worry about if we do well

They believe now is a good time to make acquisitions. Policy in the past was to buy companies in trouble and to repair them. Now the brothers believe they can afford to be more selective and to look at better-quality prospects.

They are not generous payers. Some of their acquisitions have been at PEs of less than two and the most they will generally consider is 4,5 times earnings.

Largest

Their own PE of 7 will ensure that acquisitions will not dilute earnings even if shares are issued. Sellers are generally paid in cash, but remain to run the businesses. The brothers say management can easily move in if sellers quit.

The materials handling and power tools division, run by Rob Matthews, comprises:

- Castor Ladder, the largest distributor of castors, wheels, trolleys, pallet trucks, lift tables and powered roller conveyor systems in SA.
- Forlezer, No 1 in aluminium ladders, scaffolding and towers.
- Sapco, maker of pneumatic tools, lifting equipment, welding equipment and welding consumables.

The safety and security division run by Nigel Matthews comprises:

- Austen Safe, which claims No 1 in the market for safes and physical security products. Austen exports to the US, the UK, Latin America and Africa and expects to score as banks tighten up security.
- Sandton Sentry, an established domestic, industrial and commercial security operation with electronic systems — a "nice cash cow where clients pay in advance by debit order".
- Gardwell supplies safety equipment and clothing and expects to do well as unions push for improved safety in mines and industry.
- New acquisition Campbells turns over R8-million and makes R2-million pretax a year.

All interests have done well recently and consequently Klipton has bucked the trend in trying industrial conditions. It is cautious on the immediate outlook but confident about long-term prospects.

COMPA

PRELIMS	Turnover (Rm)
Prima Bank	N/A
Sun Bop	772,5
Seardel Group	992,4
Interleisure	383,1
Afcom	107,1
Klipton	106,7
Genrec Holdings	592,8
Messina	—
Crown Food	121,4
INTERIMS	
Fedsure Holdings	N/A
NTC Ltd	262,2
Ninian & Lester	7,401
Metair	—
Coates Brothers	78,1
De Beers A	—
SA Bias Hld	—

SMH swings back to profit

Star 21/8/91

Supreme Manufacturing (SMH), which controls stainless steel and furniture subsidiaries, reported a profit of R314 000 in the six months to June, compared with a loss of R885 000 in the previous financial year.

Earnings per share showed a profit of 0,3c (loss of 0,9c).

No interim dividend has been declared.

Operating profits firmed 47 percent to R1,54 million (R1,04 million) on a rise in turnover to R33,1 million from R27,2 million.

The directors forecast that earnings for the full financial year should show an improvement on 1990 results.

Picardi comes in from the cold

By Sven Lünsche

After a year of drastic rationalisation Picardi Holdings (Pichold) has reported a remarkable turnaround in earnings for the year to June.

Attributable income surged to R10,9 million (loss of R13,4 million in the previous year) — a turnaround of 181 percent.

Earnings per share subsequently jumped from a loss of 180,2c to 221,6c.

The turnaround was achieved on a 57 percent rise in turnover, while operating profit was up 19 percent from R25,2 million to R29,9 million.

The directors attribute the major recovery to the success of the strategies introduced in 1990 to improve working capital management and profitability.

Continued capital management resulted in a further decrease in interest-bearing debt of R71 million to the present level of R49 million.

Extraordinary items reflect a write-off of R22 million, after investments were valued at their present net realisable value.

The extraordinary items include an investment in Cape Investment Bank and the offer to buy out Picardi Properties minorities.

No further dividend has been declared because of the special dividend of 100c paid in February.

The directors say the current strict monetary policy continued to affect consumer demand.

Accordingly they expect only moderate growth until the economy receives the needed stimulation.

Picardi Investments, whose only assets are cash of R8 million and a 69 percent stake in Pichold, mirrored the turnaround with earnings per share improving from a loss of 185,8c in financial 1990 to a profit of 187,4c.

● In a report on Pichold subsidiary Picapli this week the Star reported that turnover rose by 95 percent in the year to June.

This is incorrect. Picapli's turnover was 95 percent of that of the previous year.

Work shortage and high interest hurt Cullinan

ROBERT LAING (189)

A HEFTY interest bill and scarce work for its electrical division nearly halved Cullinan Holdings' earnings to 70,7c a share for the year to end-June, compared with 1990's 135c a share.

Operating profit dropped 22% to R42m (R54m) on the back of a fractionally lower turnover of R666m (R668m). BDay 29/8/91

The group's interest bill of R26m (R19m) knocked pre-tax profit down 52% to R17m (R35m). The final dividend was reduced 36% to 34c (53c) a share.

Cullinan MD Ray Tyler said the group's recent sale of African Cables to Reunert for R75,8m would reduce finance costs and improve next year's earnings.

The results include an unaudited balance sheet showing the effect of the African Cables sale.

"The net asset value of each share has improved from R11,29 to R12,83. Cullinan has already received full payment for African Cables," Tyler said.

The revised balance sheet showed the group had R5m in cash compared with 1990's short-term debt of R53m.

Long-term liabilities increased 66% to R106m (R63m). The group recently brought SA's leading high-tech brick factory into production.

The electrical division's contribution to earnings fell to 77,8c (116,5c) a share, ceramics held steady at 60,1c (63,3c) a share while property increased marginally to 23,1c (22,1c) a share. However, interest payments reduced earnings by 90,3c (66,9c) a share.

Tyler said: "We are in the process of changing Cullinan's profile from being purely an industrial holding company to becoming a major player in our specialist areas. Our export drive is increasing, especially in our heavy electrical contracting division."

Iscor's div cutback disappoints

189

Business Staff ARG 30/8/91

ISCOR'S 220 000 shareholders are likely to be disappointed that the company has almost halved its final dividend to 6,5c a share from 12,2c a year ago.

This brings the total dividend for the year to June to 11c — 37,5 percent less than a year ago.

This is a result of a decline of 33,6 percent in attributable income from R929 million to R617 million, equal to 33c a share.

The hundreds of thousands who subscribed for Iscor shares when the company went public almost two years ago have not yet seen much profit from their investment.

But as MD Willem van Wyk says in the preliminary profit statement, Iscor is not shielded from the general economic climate.

Iscor, in fact, appears to have fared rather well in tough times. Although sales volumes in the South African market declined 13,6 percent, the loss in revenue was more than made good by a major export drive which saw foreign sales tonnages rise 47 percent.

The overall result was a 6,5 percent rise in turnover to R7,26 billion, despite a 10 percent drop in dollar export prices.

An increase in unit costs and a jump in the cost of borrowings reduced pre-tax income by 47 percent to R633 million from R1 194 million last year.

A sharp drop in tax paid from R259 million to R32 million helped narrow the difference.

The steep rise in the cost of borrowing reflects the high level of new investment.

Reviewing the company's prospects, Mr Van Wyk says no improvement in demand for steel has been seen in either the local or international market.

"In fact, there has been no indication of the end to the donward tendency of the past two years."

Manufacturing

Iron, Steel + Engineering General

EXPORTS

1991

Steel industry welcomes EC move on trade

By SHARON SOROUR
Labour Reporter

THE European Community's announcement that trade sanctions against South Africa may soon be lifted has been welcomed by the Steel and Engineering Industries' Federation of SA (Seifsa).

Of all the country's exporters, the iron and steel industry has been hardest hit by the EC ban on importing certain commodities from South Africa, Seifsa executive director Mr Brian Angus said.

"The United Kingdom and the rest of the EC represent South Africa's largest single export market and the loss of sales of iron and steel there and in the United States seriously affected the profitability of South African steel producers," Mr Angus said.

As a result, South African producers were forced to find alternative, less lucrative export markets in South America and the Far East.

Mr Angus said the reopening of the EC markets was good news for exporters, but would not necessarily have an immediate impact on export trade.

CHALLENGE

Regaining lost export markets would be a formidable challenge for South African exporters but steel producers who were faced with a domestic recession and lower local sales volumes, were well geared to supply markets in Europe.

"In this way new jobs may be created to replace the estimated thousands lost in the industry due to sanctions by many countries in the world," Mr Angus said.

South African steel producers also would like to have normal trade relations with the US, he said.

ABERCOM

RISKIER BUSINESS

FM 7/6/91 (189)

THE DANGERS OF SEEKING A RAND-HEDGE IN A DECLINING ECONOMY

When Malbak announced in 1988 that Abercom was to become its vehicle for offshore expansion — starting with the takeover of UK-based MY Holdings — JSE enthusiasm for rand-hedge shares caused the price to soar to over R5. Since then, however, it has been down as low as 35c, and even the current 65c represents a loss in terms of market capitalisation of nearly R128m compared with the peak.

However, reasons why this takeover turned sour make an interesting case history, and certainly provide a lesson for all those who venture to invest abroad.

The recent interim report from Abercom provided welcome confirmation that the recovery at MY is still on track. Operating income over the past 18 months has turned from a loss of R925 000 in the six months to February 1990 to a profit of R1,6m for the following six months (the second half of the 1990 financial year), while the latest results, to February this year, reflected a further improvement to R2,7m.

Viewed against the second half of 1990, the additional R1,1m profit earned in the latest period is considered significant because the UK winter months are MY's low season — summer sees sales of packaging products to the fruit and vegetable sector and profits during the second half of the financial year are consequently better.

The remaining problems at MY centre mainly on a single plant, MY Cresens Bushill. By year-end, however, these are expected to have been resolved through the scaling down of this operation to a level commensurate with current demand. This is expected not only to staunch remaining operating losses but, with a substantial reduction in debt as surplus plant is sold, interest charges are also expected to be reduced to a more manageable level.

If all this goes according to plan, the scene will have been set for the next major step: the financial reconstruction of Abercom and the holding company, Tawneydown.

During the financial reconstruction, a point likely to become increasingly clear is that the profit collapse at MY was not primarily responsible for Abercom's problems. It simply worsened a bad situation.

The root cause was that in the acquisition of MY a cardinal investment rule was breached; namely, that you don't finance long-term equity purchases with debt if you want to stay out of trouble. Unless you are very lucky, cash flow from your investment is unlikely to cover the cost of the debt supporting its purchase — which in essence is the problem confronting Abercom. In fact, Malbak did not intend that Abercom should hold as much as it does (86%) of MY. There was a deal to sell down this stake to around 70%, which would have reduced borrowings significantly; but the party concerned reneged at the critical moment.

Also, the acquisition involved an enormous amount of goodwill, not uncommon in the UK in 1988. This was by far the most significant factor in the reduction of Abercom's financial base. Some idea of the impact can be gained from a comparison of Abercom's 1990 balance sheet with the position in 1988, before sale of its remaining SA interests and

BEST SCENARIO

Table 1

	£/R000
Earnings Attributable to Abercom	
(35,4m shares x 6,31p)	£2 234
Tawneydown — Net interest charges	£1 287
Gross interest charge on £18m ...	£1 980
Deduct: Tax relief (35%)	£693
Net earnings attributable to Abercom	£947
Rand equivalent (at £1 = R4,29) ..	R4 062
Per Abercom share (28,8m ords) ..	14,1c

CASH EFFECTS

Table 2

	£/R000
Dividends attributable to Abercom	
(35,4m shares x 2,05p)	£726
Tawneydown — Net interest charges	£1 287
Gross interest charge on £18m ...	£1 980
Deduct: Tax relief (35%)	£693
Cash flow attributable to Abercom .	(£561)
Rand equivalent (at £1 = R4,29) ..	(R2 407)
"Loss"/share (28,8m ords)	(8,3c)

FM 7/6/91 (189)

acquisition of MY.

Tangible net worth was then R57,5m, to which can be added a R9,5m surplus realised on the disposal of Abertech; R11,7m in respect of shares issued to Malbak in exchange for Malbak's minority holding in Tawneydown; and R51,2m which Malbak put into Abercom in 1990 as an interest-free loan to prop up what was then an insolvent balance sheet.

This gives a hypothetical capital base of R130m, against which Abercom had a tangible net worth (including the Malbak loan) of R28,6m in August 1990 — representing a loss of capital of over R100m. Of this amount, and based on exchange rates at the time of the acquisition, some R91m is accounted for by goodwill and other intangibles such as cost of control, though part was later recouped by revaluation of MY assets.

The group might have been able to withstand this had it not been for the mountain of debt taken on to finance the MY acquisition.

Still working on exchange rates ruling at the time of the deal, Tawneydown took on more than R77m in borrowings to complete the transaction. The problem here was that even if MY had continued to prosper, cash flow (not to be confused with attributable earnings) upwards from MY would not have been sufficient to service this debt. Despite showing positive earnings, Abercom would still have had no cash income from which to pay dividends.

The point is illustrated in the accompanying two tables, which are based on MY's audited results for the year ended December 31 1988 — the peak of its fortunes and the last year before being acquired by Abercom.

Table 1 (showing attributable earnings) conforms to the pro forma picture set out by Abercom in its circular to shareholders at the time of the takeover. This was the most favourable outcome possible, having been based on an effective interest rate in respect of the Tawneydown debt of only 11%. When the deal was concluded (and as noted in the circular), effective interest rates were up to 14,5% and, though management could not have foreseen this, would eventually reach 16,5%.

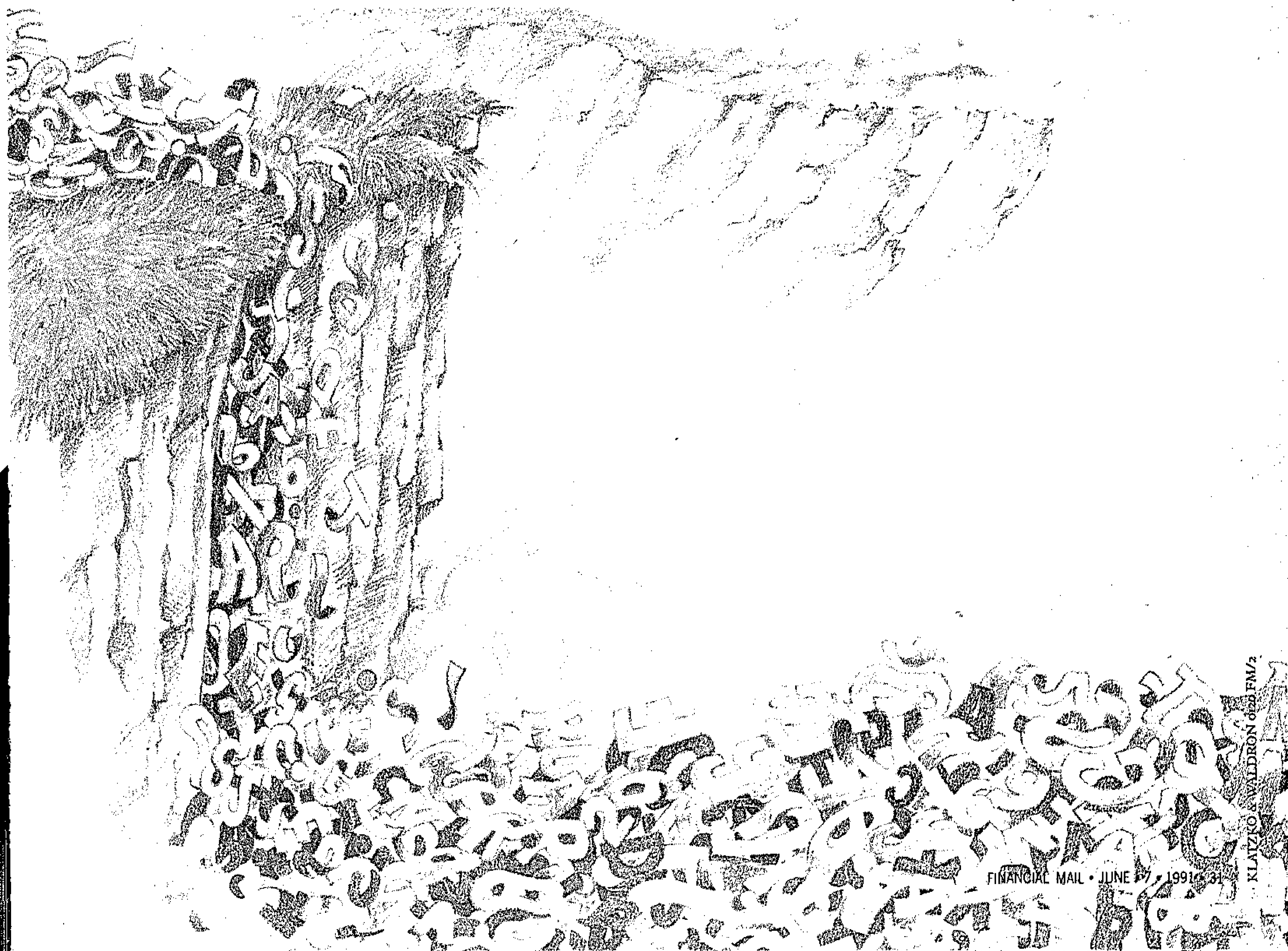
However, it is appropriate to concentrate on this "most favourable" scenario.

Once cash flow is substituted for attributable earnings, as in Table 2, an amount equivalent to 8c an Abercom share would have had to come from somewhere to cover the cost of servicing debt in Tawneydown. It bears repeating that this is based on MY operating at its best, and on an unrealistically low interest rate.

Even if MY dividends had continued to grow at 15% a year, it would have taken five years for the cash shortfall in Tawneydown to be covered — in other words, before Tawneydown itself would have shown a cash surplus which could then have been passed on to Abercom.

If an interest rate of even 14,5% is substituted for the 11% used in these examples, and still assuming a 15% compound growth rate in MY dividends, the time-frame needed to eliminate the cash shortfall in Tawneydown stretches to seven years. This still takes no account of any provision for redemption of the Tawneydown debt. Malbak recognised this basic problem when, in 1990, it put

PTO →



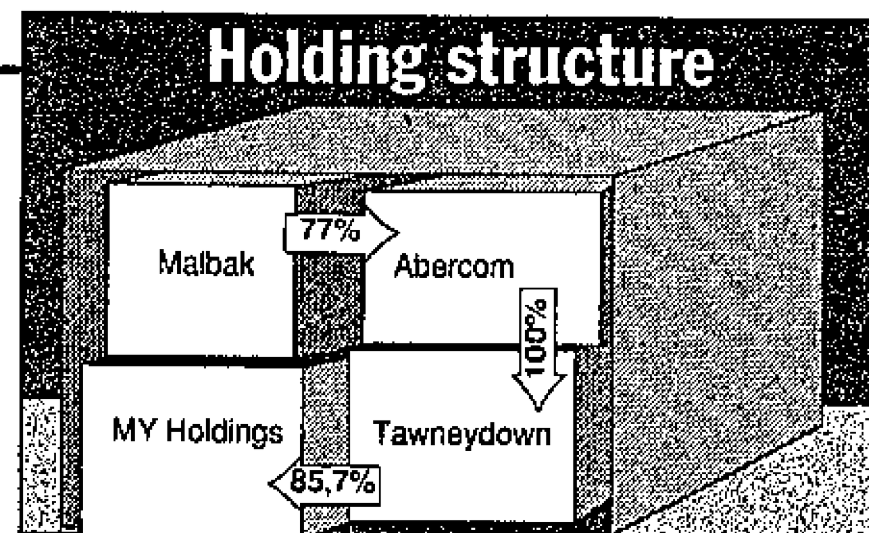
R51,2m into Tawneydown (via Abercom) as an interest-free loan.

This enabled Tawneydown to reduce its borrowings by about £8m (at the then-ruling finrand rate), and would have been enough to balance its cash flow problem if, firstly, interest rates had remained at 11% and, secondly, MY had maintained its 1988 profit/dividend levels. But MY was struggling in a depressed UK market, while interest rates had risen to 16,5%. Even with Tawneydown's borrowings down to £10m, with no upward cash flow from MY it was faced with an uncovered funding requirement of over £1m a year simply to stand still.

It is clear what needs to be accomplished when the financial reconstruction of the group is undertaken — Tawneydown's debt must go, thereby creating, in typical pyramid fashion, a direct link between Abercom and its operating subsidiary. That is easier said than done.

The only way to erase the Tawneydown debt is to inject additional cash to enable the company to liquidate its borrowings. Options here are limited. It seems there must be a recapitalisation of Abercom, which would then be able to refinance Tawneydown. As a partial alternative, and to limit the funding requirement, Tawneydown could sell part of its 85,7% holding in MY — assuming buyers could be found.

Whatever is decided, the implications of



the financial reconstruction look daunting. Based on the 1990 financial statements of Abercom and MY, there appears still to be the sterling equivalent of R31,5m of debt in Tawneydown to be redeemed. But the actual financing requirement could be as much as R38,5m if, like the R51,2m loan, the group has to use the finrand market to move the funds offshore.

Added to this is the capitalisation of the Malbak loan, giving a total of close to R90m either to be raised or capitalised. This could, taking the current 60c share price as a benchmark, involve issuing an additional 150m Abercom shares, compared with its existing issued capital of 28,8m.

Trying to assess the future capital structure of the group now is a matter of conjecture. But it is necessary speculation if one is to try to place a value on the existing shares — a process which is made difficult while the balance sheet is supported by the Malbak loan which is part of shareholders' funds but is also an amount to which no value can be attached in terms of the number of shares it will ultimately represent.

Another severe limitation is that the full earnings potential of the restructured MY Holdings cannot be assessed. The only benchmark, realistic or not, is the company's existing profit peak in 1988, when EPS were 6,31p and the dividend 2,05p a share.

Based on these results, and assuming complete elimination of Tawneydown's borrowings, profit attributable to Abercom would be £2,2m, while dividend receipts would be £726 000. At the current exchange rate, this would give rand equivalents of R10,7m for earnings and R3,5m for dividends. If these are related to an assumed issued capital of 178,8m shares (28,8m existing plus 150m to be issued), Abercom would show EPS of 6c and could pay 2c — enough to support the current share price, but not much more.

These numbers will not please those who bought Abercom in 1988 in the belief that, restructured into a rand-hedge, the company would prove to be the pot of gold at the end of the rainbow. But perhaps management could not have foreseen the collapse of the UK economy and the effect on MY's profits.

What may be more relevant now is to recognise that the value that has been lost since the acquisition of MY can never be recovered. The best that can now be done — and which Malbak is apparently doing — is to create a new base from which the company can grow. *Brian Thompson*

Toco's steady growth attracts investor interest

B/Day 5/8/91 (189)

MARC HASENFUSS

TOCO Holdings, manufacturer and international distributor of industrial products, is steadily developing a reputation as a lucrative second line share.

The group's consistent earnings growth since listing in October 1987 has demanded investor attention, and a number of large deals have been recorded since June this year.

The share has climbed from below 90c a year ago to its current 135c, which is well above Toco's net asset value of 81c a share. The share peaked at 148c in June after strong year-end results were reported.

Aggressive

The shares, 50% held by Toco directors, are now reportedly included in certain unit trust portfolios.

The group's strategy of "seeking growth with strategic acquisitions" combined with aggressive marketing helped Toco lift earnings for the year to March by 29% to about R13m (R10m).

Analysts believe Toco, with an undergeared balance sheet, will continue to acquire smaller competitors. The group's gearing is at a healthy 27% (well below Toco's self-imposed ceiling of 60%) and net cash flow stands at R15m.

Chairman Paul Todd said at the weekend that exports into Africa were increasing steadily, and depending on political developments would continue to increase in years to come.

He said exports were currently running at 20% of turnover.

Todd said Toco was not ignoring export markets in Eastern Europe. "We are selling there already, but our main thrust will be into Africa."

Commenting on the year-end results recently, MD Adrian Goodman said Toco's integrated computer system and innovative marketing techniques would enable the group to take advantage of opportunities to negotiate bulk purchases and increase market share.

Toco's marketing system follows that of consumer product companies using direct mail and telemarketing techniques.

Last year's R6,6m acquisition of Premier Chemicals and R3,9m buyout of Alzac Holdings are expected to contribute to growth in the current financial year.

Toco's biggest income generator is the assembly, distribution and servicing of lifting equipment, goods hoists and domestic lifts to the mining, engineering and construction industry.

The group also markets special steels, specialised gaskets and washers, industrial components, vitreous enamel steel and automotive refinishing products.

Iscor and motor industry in major steel price talks

DAVID CUMMING

(189) ARGUS 3/9/91

JOHANNESBURG. — Iscor and the motor industry, represented by Naamsa, are to hold talks on the steel price next month.

This follows reports that some manufacturers are considering importing steel, which they believe they can obtain at a lower price than Iscor's.

Nols Olivier, Iscor's deputy managing director, said that sheet steel made up very little of the overall cost of a car. A study had revealed that it accounted for between 0,78 and 2,5 percent of the price.

"Since 1981, the Producer Price Index has risen by 13,7 percent and the steel price by 13,1 percent. In that time the price of a range of popular cars has risen by between 13,7 and 21,9 percent.

"We believe the problems of the manufacturers lie elsewhere and we will discuss this with them," he said.

A Naamsa spokesman confirmed the talks would take place and that some manufacturers had suggested they might import steel.

"However, there is a long-standing relationship between the manufacturers and Iscor and such ties would not be severed lightly."

He said that in terms of Phase Six of the local-content programme, manufacturers were entitled to import raw materials if they wished to do so and they could offset imports against export earnings.

Iscor chairman Dr Marius de Waal said Iscor would take steps to prevent foreign dumping of steel products during a period in which world demand was slack.

The duty on steel was last revised in 1983 and Iscor would seek a revision to bring the duty into line with that of other steel-producing countries.

"We will certainly not ask for protection from normal trade but we will most certainly ask for protection from dumping.

"No steel-producing country will allow dumping. If we allowed it in South Africa we would kill the economy and the current unemployment situation would look like a Sunday school picnic."

Mr Olivier cited a recent example in which a specific grade of galvanised steel — thinner and with a thinner coating than that usually produced by Iscor — was dumped on the local market by a South American producer.

Since the product had valid uses in housing, Iscor had responded by producing a similar product at a competitive price.

Iscor last week announced a drop of 33,6 percent in attributable income, in line with that of most producers on the international steel market.

Tax incentives for major steel project to be announced 'in weeks'

MATTHEW CURTIN

GOVERNMENT would announce in a matter of weeks long-awaited tax incentives which would clear the way for the multi-billion-rand Columbus stainless steel joint venture between Samancor and Highveld Steel & Vanadium, a Trade and Industry Department official said yesterday.

Cabinet has been debating possible tax breaks since enabling legislation involving amendments to the Income Tax Act was passed in mid-June. The official said the departments of Trade and Industry, Finance and Economic Policy and Co-ordination would finalise their proposals by mid-September when the new tax concessions would be gazetted.

It is understood that discussions between the three departments and government's preoccupation with VAT in recent weeks have delayed the decision on tax breaks for export-orientated capital projects.

Tax incentives are needed to get the R3,2bn plant, to be built near Witbank, off the ground. It is understood R2,7bn of the costs will be spent in SA, with R500m worth of services and plant imported.

Sources close to Samancor and Highveld said Columbus would not be floated on the JSE. It would be financed by Samancor and Highveld's parent companies Gencor and Anglo American, with the IDC possibly providing capital on concessionary terms.

They said the determining factor on whether the project went ahead was the proposed export incentive package for beneficiation which would allow the capital expenditure to be written off when spent, rather than waiting for the project to generate its own taxable profits.

Columbus would share Highveld's existing infrastructure near Witbank and be close to Samancor's Ferrometals plant. Production, planned for three years after the go-ahead, would be at a rate of about 275 000 tons of stainless steel a year.

The plant would reach full production of 400 000 tons of white hot band steel (WHB) 10 years after start-up. About 220 000 tons would be cold rolled to produce about 200 000 tons cold rolled stainless steel (CR) for export. The remaining 180 000 tons of WHB would be exported as well.

CR exports would increase only gradually so that Columbus would continue to supply overseas cold rolling plants while also penetrating the cold rolled market. The plant would include a 60 000 tons a year ferrochrome plant to supply hot alloy.

Current annual stainless steel production is approaching 11-million tons, and Columbus believed demand would grow by between 3% and 5% a year.

In theory, Columbus would benefit from the availability in SA of all the necessary components for making stainless steel — iron, chrome and nickel.

However, SA had supplies only of high grade cathode nickel as opposed to the ferro-nickel needed for stainless steel manufacture. Imports would thus make up 50% of the production costs.

Ferrochrome would contribute only 11% of costs, against energy costs of 7% and labour costs of 6%. About 30% of Columbus's production would be of ferritic stainless steel which does not contain nickel.

EL Bateman proposing a 10-for-one share split

By Jabulani Sikhakhane

Star 5/9/91

Engineering group E L Bateman is proposing a 10-for-one share-split and an increase in its share capital to improve the marketability of its shares. Yesterday the share price rose 100c to R56.

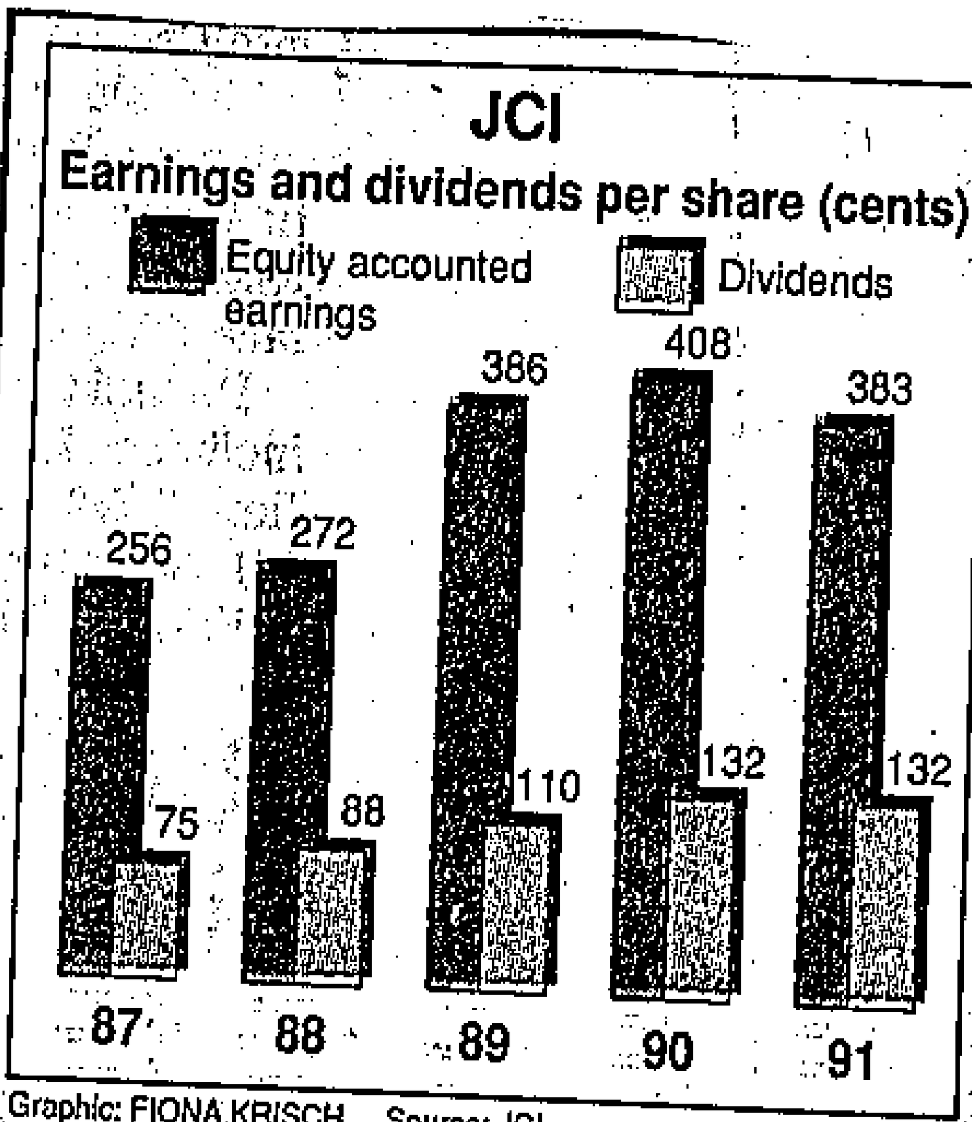
In a notice to shareholders the group says the current market value of the company shares places a limit on their trading.

The number of unissued shares restricts the flexibility of the company in using share capital for any future acquisition.

The 3 million authorised ordinary shares with a nominal value of 40c each will be subdivided into 30 million shares of 4c each. Then the authorised share capital will be increased to 50 million.

As a result the 2,732 million issued shares will increase to 27,32 million ordinary shares.

Based on yesterday's closing price of R56, E L Bateman's market capitalisation will increase from R153 million to R1,5 billion after the split.



Graphic: FIONA KRISCH Source: JCI

Losses, sale put squeeze on JCI

BD 5/9/91 MATTHEW CURTIN (189)

LOSSES at ferrochrome operation Consolidated Metallurgical Industries (CMI) and last year's disposal of the Lennings engineering group squeezed earnings at Johannesburg Consolidated Investment (JCI) in financial 1991.

JCI's equity accounted earnings slid 6,1% to R430m from R418m in 1990 as the group's retained earnings from associated companies fell from R172m to R142m on top of a smaller drop (2,7%) in attributable earnings to R565m. Equity accounted earnings a share fell from 408c to 383c. The overall dividend was unchanged at 132,7c.

Chairman Pat Retief said JCI was relatively unscathed by a year of unfavourable trading conditions at home and abroad, which he attributed to the scope of the group's strategic investments.

CMI contributed R36m to equity accounted earnings in 1990 but in 1991 contributed a loss of R11m. The company was knocked first by its debt burden from acquiring Purity Metals, made up in the year by its successful issue of preference shares, and then by static and low ferrochrome prices.

Retief said he was reasonably confident CMI's contribution would improve in the current year.

JCI's sale of engineering group Lenning to Anglo American Industrial Corporation not only saw earnings from its engineering interests fall from R20m to R700 000 year on year, but the disposal cost R46m.

Earnings from its mining interests im-

☐ To Page 2

JCI BD 5/9/91 (189)

☐ From Page 1

proved 7% in the year as better earnings at Rustenburg Platinum and coal earnings, boosted by JCI's stake in Rand Mines' Middelburg colliery, offset smaller returns from gold mines and its De Beers stake.

Retief said the soaring rhodium price had underpinned Rustenburg's performance in 1991, but he was worried about the company's future as platinum and rhodium prices weakened.

Retief was puzzled by the price weakness because, although the worldwide recession was affecting market sentiment and demand, Rustenburg was selling every ounce of platinum it produced. New EC pollution standards and tightening US controls were likely to boost demand in 1993 by as much as 500 000 ounces a year, and there had been a dramatic slowdown in Soviet sales in the past two weeks.

He said JCI was intent on expanding its coal exporting potential which had risen from nothing in 1980 to the extent to which the group envisaged exporting 2-million to 3-million tons a year by about 1996.

SA Breweries and Premier were the main contributors to the 3% increase in earnings from industrial investments.

Finance director Vaughan Bray said at the presentation of JCI's final results that the group had an asset base of about R9bn.

Tax boost for new industrial undertakings

Star 6/9/91

By Derek Tommey (189)

Tax concessions for major industrial ventures have been announced by Dr Dawie de Villiers, the minister responsible for mineral beneficiation projects.

Dr de Villiers was responding yesterday to calls for short-term tax relief by a number of companies planning huge investments.

Brian Gilbertson, chairman of Genmin, which will have a major stake in two huge ventures, said last night the proposed tax relief was helpful.

He said he was pleased that there was now certainty about the Government's proposals.

Genmin has plans to build a R3 billion stainless steel plant and a R3 billion aluminium plant. Sasol is also believed to have a major venture, which could benefit from the tax concessions.

Companies will be given two years to qualify for the measures, which allow them to depreciate machinery and plant from the year the expenses are incurred instead of when production starts.

Building depreciation is treated similarly. They will also be allowed to deduct pre-production interest in the year it is incurrred.

To qualify, a project must be conducted on a scale that makes it internationally competitive; must add at least 200 percent value; must export directly or indirectly at least 60 percent by value of the intermediate or final product; and the impact of the project on the balance of payments must be minimised.

The members of the statutory committee, which will evaluate projects, will take into account the time needed to commission the projects, the conditions on which the products will be available to local processors and the exent to which the projects will be supportive of down-stream industry.

It will also consider the quantified effects of the projects on the Treasury, the extent to which preference is given to SA products and expertise and the effect of such projects on small and medium industries.

The benefits will come into effect as soon as possible.

CULLINAN FM 6/9/91

Clearing the decks (189)

Though Cullinan had a disappointing year, the outlook for the reconstructed group looks rather better. The main problems, African Cables, and interest, are under control.

EPS fell by 48%, thanks mainly to the 40% smaller contribution from African Cables. Equally important, interest rose more than a third to R25m and wiped out 60% of the operating profit. With the sale of African Cables, gearing looks a lot sounder. Short-term liabilities were wiped out leaving R5,6m cash and R106m in long-term debt.

Electrical operations had the weakest performance, though electrical contracting, which remains a core activity, held up better. Property increased its contribution by 4,5%. Group MD Ray Tyler says that manufactur-

FM 6/9/91 (189)

ing interests, particularly, suffered from reduced demand and margins. But ceramics weathered the downturn in demand quite well, as divisional earnings fell by only 5%, to 60,1c a share.

Not surprisingly, Cullinan is pinning hopes on exports, both of refractory products, which potentially have a worldwide market, and electrical contracting, which is more applicable to the developing world.

NO SPARKLE

Year to June 30	1990	1991
Turnover (Rm)	668	666
Operating profit (Rm)	54,4	42,5
Attributable (Rm)	19,1	10,3
Earnings (c)	135	70,7
Dividends (c)	53	34

Since the results, Cullinan has slipped from 780c to 725c, a 43% discount on NAV. It offers a p:e of 10,3 and dividend yield of 4,7%. Investors should wait to see results of the restructuring before considering the share.

Stephen Cranston

STEEL EXPORTS FM 6/9/91 (189)

Getting back in the door

Steel exports to the US and EC, largely cut off by sanctions, may start flowing again by the end of the year.

But local steel makers are running at close to capacity and they're exporting any steel that can't be sold locally to lucrative markets in the Far East and elsewhere. So the possibility of a 720 000 t export market reopening soon is not creating the excitement that might be expected.

Another reason for the subdued reaction is that stumbling blocks remain in both markets. European sanctions on SA steel exports were voted out by the EC Ministers' Council early this year, but formal abolition has been held up by Denmark, which has not yet approved the move. However, Iscor deputy MD Nols Olivier believes Denmark will step aside in the next month or two. Before sanctions, SA sold 300 000 t a year to EC countries.

Meanwhile, though the US dropped sanctions in July, SA must still negotiate its re-entry into the market. SA's chief director of trade, Hardy Vos, left for Washington this week for talks with the US Trade Representative. While US cartel laws won't allow manufacturers to join Vos's team, steel company representatives "will be in the room next door" when discussions start, he says.

SA signed a Voluntary Restraint Agreement with the US in 1984 that allowed local steel makers to export up to 420 000 t a year to the US. The deal was cancelled when sanctions were imposed in 1986 and later, the US decided to terminate its restraint agreements with all countries at the end of next March, Vos says. So negotiations will determine SA's steel quota under a new, multilateral trade deal now being hammered out. The deal will include 20-odd steel exporting nations and should be in place by April.

In the interim, SA hopes to sign a tempo-

continue →

rary agreement with the US to allow SA steel exports until the multilateral deal takes effect. This agreement could open the way for SA to export 80 000-100 000 t to the US until April, says Olivier, who is also a director of the Rolled Steel Producers Council. "While US steel prices are not attractive now — our most lucrative exports are to the Pacific Rim — it remains vital to obtain entry into this important market," he says. "At Iscor we are looking at expanding our added-value, hi-tech steel exports such as tinplate, tin-free steel, high-grade mainline rails, seamless pipes and wire products, while boilerplates such as the ones developed for Mossgas also should find buyers." But there are no plans to expand production, he adds, especially with the EC market also "very competitive and not very profitable now."

As for Highveld Steel, chairman Les Boyd says his mills are running at full capacity and he also takes a wait-and-see view towards the two big markets re-opening.

Arnold van Huyssteen

COMPANIES

T&N takes dive in sagging sector

BRENT VON MELVILLE

INTERNATIONAL engineering and industrial group T & N Holdings has suffered from deteriorating market conditions in its core activities to report a sharp 74% drop in earnings to 2,82p (10,97p) a share for the six months to June.

The nosedive in earnings came off a 56% decline in pre-tax profit to £20,3m (£46,1m), largely as a result of a £7,6m (£3,5m) write-off of redundancy costs. Despite the poor showing the dividend was left at 3,6p.

Chairman Colin Hope attributed the poor results to the drop in demand for automotive components in the UK, Europe and the US, as well as lower activity in the aerospace and general manufacturing sectors in the UK.

Hope said the group had continued to rationalise through investment and employee reductions. In the last 18 months the number of employees in the UK and European businesses had fallen by 3 300 and by a further 700 elsewhere. He said total reductions over the 1990/91 financial years would be about 4 800, or about 11%.

Capital investment for the first half amounted to £43m, compared with £37m for the same period in 1990, and Hope said that a similar output was expected during the second half of the year.

The automotive components division saw contribution to operating profit slipping 32% to £21,1m (£31,1m) while engineering and industrial dropped by the same amount to £21,7m (£31,4m).

On a regional basis, one of the stronger performers was the SA division, which is 51% held by the parent group. With the SA division's earnings largely reliant on automotive component manufacture, it moved its contribution up slightly to £11,9m. Both Continental Europe and the UK saw operating profits drop dramatically, by 42% to £7,4m (£12,7m) and 48% to £17,1m (£32,9m) respectively.

(189) B/Day 6/9/91

Longmile feels heat of tax and recession

BDay 6/9/91. (196) (189)

MARC HASENFUSS

RECESSIONARY conditions, exacerbated by a heavy tax bill and intense competition, caused a sharp drop in earnings for diversified industrial group Longmile.

Longmile directors said the level of earnings was anticipated and was in line with predictions made at the interim stage. Attributable earnings fell 37% to R15,2m (R24,2m) or 30,4c (48,3c) a share on the back of a 12% decline in turnover to R352,7m (R402m) for the year to end June.

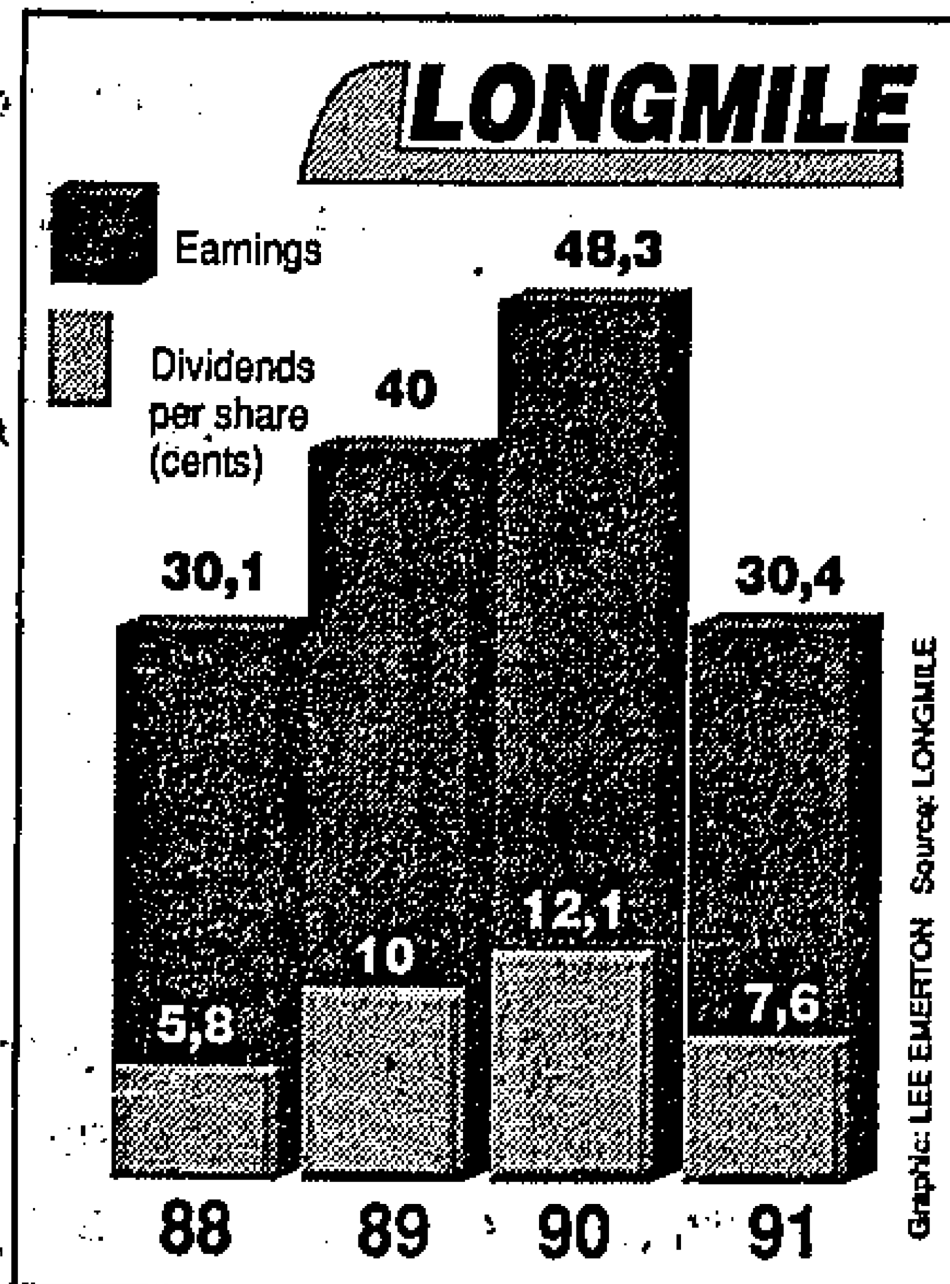
Earnings were to some extent the consequence of an increase in taxation and continued intense competition in the marketplace, directors said.

They said the increase in taxation reflected reduced tax allowances available for utilisation.

The directors added that Longmile's 12-month period of consolidation had better positioned the group to weather the remainder of the economic downturn and they anticipated an improvement in earnings in the year ahead.

The total dividend payout was slashed to 7,6c (12,1c) a share while keeping with group policy of maintaining dividend cover at four times.

Longmile passed its interim dividend in order to fund capital expenditure aimed at strengthening its capital base.



Better margins allowed the group to limit the reduction in income to 7% at operating level. Operating profit came in at R41,4m (R44,2m) but was offset by 57% increase in taxation to R13,3m (R8,5m).

Longmile's share was untraded at 210c yesterday, below its March peak of 225c.

Longmile's main operating divisions include Silencer Services, Utility Fasteners, Trentyre and Mastertreads.

Huge potential for new jobs

Tax revamp paves way for export plans

B|Day 6|9|91

(189)

LESLEY LAMBERT

THE R3,2bn Columbus stainless steel venture and other multibillion-rand projects are likely to get the go-ahead soon, following government's approval yesterday of short-term tax incentives for export ventures.

The long-awaited incentives, made up of accelerated tax write-offs for capital expenditure on facilities used in the beneficiation of local raw materials, will be allocated for a two-year period. They will become available once projects are approved by a government-appointed committee.

● MARAIS

The incentives will provide vital bridging assistance to many large projects which may not have been able to get off the ground under the existing tax regime. These, in turn, would create massive new job opportunities and foreign exchange, giving the economy the kick-start it needed for growth, Trade and Industry Minister Org Marais said yesterday.

Columbus, the joint stainless steel venture between Anglo American's Highveld Steel and Gencor's Samancor, is almost certain to qualify for the assistance. Another project likely to apply is Gencor's Alusaf aluminium smelting venture, while Anglo American subsidiary African Explosives is also understood to have a major chemical project in the pipeline which could qualify.

Anglo American executive director and Highveld Steel chairman Leslie Boyd and Samancor MD Hans Smith confirmed yesterday that they planned to apply for the incentives.

"Obviously we will have to see what we can negotiate with the committee, but the incentives will provide valuable bridging assistance," Smith said.

"They will reduce the amount of outside capital needed to start projects and will assist the projects over the risky first three years. But it must be remembered that they are merely a bridging measure — the concessions government makes now will be recouped at a later stage," he said.

The main incentive will enable beneficiaries to start writing off the capital costs of machinery, property and pre-production interest once the costs are incurred. Existing depreciation of 20% over five years will apply, but the beneficiaries will not have to wait for the plant to be commissioned before they start depreciating.

The Commissioner for Inland Revenue will issue negotiable tax credit certificates in cases where deductions cannot immediately be written off against income.

Additional assistance could be made

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Tax revamp

B|Day 6|9|91

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available by the Industrial Development Corporation in the form of subsidised loans, a DTI spokesman said yesterday.

There are various conditions on which the committee, chaired by DTI director-general Stef Naude, will evaluate projects.

They must be internationally competitive, they must add at least 200% to the value of the base mineral or intermediate products processed and at least 60% of the intermediate or final product must be exported directly or indirectly.

The impact of the projects on the balance of payments must be minimised by the use of medium-term credit financing provided by the importing nation.

The committee will also consider the period taken to commission the projects, the conditions on which the products will be made available to local processors, the extent to which they support downstream industries and their effect on small and medium-sized enterprises.

(189)

The projects' effects on Treasury and the amount of local products and expertise they use will also be taken into account.

Enabling legislation, approved by Parliament this year, will be amended retrospectively to limit the wide discretion granted to the committee. It seems unlikely the committee will be able, as proposed in legislation, to allow for depreciation of more than 100% of capital costs.

Beneficiaries will not qualify for existing assistance programmes, such as the regional industrial development programme and the general export incentive scheme.

Columbus makes strategy change

S|Times (Bus) 8|9|91 (189)

TWO MAJOR changes have been made to the R3,2-billion Columbus stainless-steel project.

Columbus chief executive Fred Boshoff says one is that Columbus is no longer committed to a foreign partner.

When the Samancor-Highveld project was announced, it envisaged inclusion of a Taiwanese partner for foreign cold-rolling of hot-rolled semis produced in South Africa.

The strategy was designed to gain access to international markets, but was abandoned when agreement could not be reached with the Taiwanese last year.

The second change of plan relates to export products.

The relaxation of sanctions will now permit Columbus to export steel directly to customers abroad. The project will be oriented to the export of both cold-rolled (CR) and hot-rolled (HR) steel. Cold rolling increases the value of HR steel several fold.

But the project might have been dropped had the Government not come to the rescue with a generous capital spending write-off scheme.

By IAN ROBINSON

Columbus and other large capital investment projects for the beneficiation of raw materials have received a boost from a Government announcement.

The Government has accepted measures in Section 37E of the Income Tax Act, 1962, promoting investment in new projects which add substantially to the value of base minerals and intermediate products.

Full

The legislation was designed to reduce the risk to projects requiring large capital investment for the beneficiation of raw materials. Provision was made for tax incentives which could grant companies write-offs on plant and equipment over five years from the date of capital expenditure instead of plant commissioning.

Mr Boshoff will not confirm figures published in a daily newspaper this week that at full output the Columbus project will produce about 400 000 tons a year of HR band and will then convert more than half of it to CR steel.

However, he confirms the intention to produce larger quantities of CR steel.

SA's only stainless-steel producer, Middelburg Steel & Alloys (MS&A), is not concerned about competition in export markets from Columbus.

MS&A exports a large proportion of its annual production of 100 000 tons.

But managing director John Gomersall believes these export markets are secure because they are based on long-term relationships with customers.

Mr Gomersall is more concerned about the potential macro-effects of the Columbus project on the world industry. He believes that the scale of the project could contribute to perpetuation of the world oversupply.

Apart from Columbus, several major projects are under development in various parts of the world. In the Far East, an important potential market for SA, three expansion projects are under way.

Highveld Steel declines to comment on any aspects of the Columbus project.

JOHN GOMERSALL: Middelburg's OK

Delta charged up to make acquisitions

By IAN SMITH

DELTA Electrical Holdings, bright spark of the JSE's electronics sector, has not entirely escaped the effects of the recession, but it is in fine shape to take advantage of an upturn in the economy.

The difficult trading conditions, which have probably damaged its proud six-year run of 30% compound earnings growth, could provide acquisition opportunities — if the right companies in the right sectors come up for grabs.

Strong cash flow, which has become characteristic of the group, reduced borrowings at the June 30 midyear to R2,6-million from R3,8-million at the end of last year.

With R2,9-million cash on call Delta is looking at acquisitions, says managing director Evan van Zyl.

"But we would have to be satisfied that the company and its products or services would fit into the group."

Happy

The group's progress, in which net income jumped from nearly R3,8-million in 1985 to R27,1-million last year, came from a happy mix of acquisition and organic growth.

Delta gives the management of operating subsidiaries great autonomy. In many cases management retains a minority stake.

"It provides greater motivation," says Mr Van Zyl.

He is happy with the performance in the six months to June 30, given the state of the economy and the unprecedented cutbacks in the mining industry.

Operating income was up 9% at R21,7-million, but attributable income increased by a creditable 17% to R10,7-million.

An interim dividend of 9,5c was declared — 8c for the same time last year.

Investors are obviously confident of the group's ability to return to stronger growth because the share price is at a high of 940c.

Mr Van Zyl says the group made its plans to ride out the recession some time ago and great attention was paid to managing assets and keeping the balance sheet in good shape.

Rubber

"We have tightened up wherever necessary and everyone has kept a close watch on costs. The result is that all the companies are in a good position to take advantage of any upturn or new opportunities."

Delta has subsidiaries operating in five general divisions.

It is the SA leader in electrical repair engineering and has 12 repair shops operating under several names. At the end of last year acquisition Metalplus, which carries out mechanical repairs, was brought into the division.

Both sectors have been affected by the slowdown in the mining industry, but coastal operations have helped to sustain results.

Listed

In the insulation and conductions division are Transwire, which makes enamelled copper wire, and Wire Electric, a distributor to the electrical repair industry. Miprod is licensed by European companies to make insulations and Keval is one of two heating element manufacturers in SA.

The cable and accessories division embraces Delta Cables, which manufactures XLPE and rubber power cables at Cape Town, and 21%-held Jasco Electronics, which markets mainly electronic products. Jasco is listed on the JSE.

The industrial products division includes Equipment Spare Parts, which supplies spares for earthmoving equipment, and 21%-held Valhold, which is also listed. It supplies industrial and automotive products.

The final division holds 60,3%-owned Delta EMD, SA's only producer of electrolytic manganese dioxide, which is widely used internationally in dry cell batteries.

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for the issue of 444 534 shares at 350c. Aurora to pay R100 000 to Freddev.

Technihire warns. Ldr for U-Con dividend of 2,25c a share now 20/9. Members may take cash or receive 3,3 U-Con for every 100 held or one new Unihold share for every 2 U-Con held.

Ldr for Unihold dividend of 4,5c now 20/9. Adcorp rights offer 0,93% subscribed. Metpol's rights issue attracted subscription of 107,7%. Oversubscription to be allocated in terms of a formula

Metro Cash & Carry reorganisation detailed. Score Food Holdings scheme meeting is on 30/9 in Johannesburg.

R30bn projects in pipeline

B|Day 9/9/91

LESLEY LAMBERT

SHORT-term tax incentives approved by government last week, coupled with Industrial Development Corporation (IDC) funding, could be the catalyst for new capital projects worth R30bn.

The IDC announced earlier this year that it had provided R10bn to fund new export projects in the next five years. It has since identified several projects which could qualify for direct financial support and the tax incentives, IDC senior GM Malcolm Macdonald said at the weekend.

"The IDC, which has been instrumental in getting existing projects off the ground, has been talking to the parties behind proposed new projects, such as Columbus. If their projects qualify, we will provide partial funding by way of subsidised loans or equity participation," Macdonald said.

"The IDC's R10bn could involve it in new ventures worth R30bn over the next five years," he said.

The Columbus stainless steel project has developed a high profile but there are several other large ventures in the pipeline. Sasol had committed itself to about R5bn worth of new projects, at least 50% of which could qualify for assistance, a spokesman said on Friday.

Gencor's Alusaf aluminium smelting venture is another contender, as is AECI, which is understood to have one or two major chemical projects in the offing.

The incentives are a short-term measure pending longer-term policies aimed at improving SA manufacturers' competitiveness on international markets.

The long-term policies are being considered as part of comprehensive new eco-

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Projects

B|Day 9/9/91.

□ From Page 1

nomic and industrial policies. They include ideals such as lower inflation, lower interest rates and higher productivity to enable local manufacturers to charge competitive prices for exports. Sacob estimates that manufacturers have to charge 15% more than their international competitors.

Policymakers are also considering incentive packages, such as tax holidays, to attract foreign investment.

A range of measures have already been introduced this year to cut the cost of capital investment and attract foreign investors.

In this year's Budget, Finance Minister Barend du Plessis reduced the import surcharge on capital goods from 10% to 5% and on intermediate goods from 7,5% to 5%. When VAT is introduced at the end of this month, purchasers of capital and intermediate goods will be entitled to a full credit for tax paid on these goods.

Together, these measures will result in an estimated R8bn saving for commerce and industry, while the new tax incentives will provide substantial bridging relief during the risky start-up periods of capital projects.

Calculations done by the Department of Trade and Industry indicate they could reduce peak cash requirements by between 25% and 30% and improve profitability by as much as 25%. This would boost a 6% internal rate of return to 7,5% and a 4,4% IRR rate of return to 5,5%, according to a department spokesman.

● Comment: Page 6

B/Day 11/9/91

TEK signs R4,5m packaging deal

(189)

PAUL ASH

TEK Appliances, East London-based manufacturers of Ocean and Defy fridges, have signed a R4,5m packaging deal with Shaft Packaging of Durban.

Constant reports of many of the 250 fridges produced a day being damaged in transit caused Tek to commission Shaft to investigate its packaging system.

Shaft has designed a new pack which not only eliminates stress areas evident in the previous system but also protects the fridges from being soiled during transit.

The new pack is fully recyclable; polystyrene is not being used as Tek found it environmentally unfriendly and wasteful.

In initial trials, 20 fridges were sent by road from East London to Durban.

Half in the Shaft packs arrived undamaged, and six of the 10 fridges in the old packs were damaged on arrival, Shaft MD Henry Frandsen said yesterday.

Since June Tek has been transporting all its fridges in the new pack with no recorded damage.

Tek East London MD Tony Gates said cost savings on labour and damage would be around R350 000 a year.

New packs were being developed to transport other appliances, Frandsen said.

Manganese demand is set to fall

Own Correspondent

LONDON — World demand for manganese is expected to fall during the '90s, but in SA demand could increase as sanctions against steel exports are lifted, according to Roskill Information Services consultancy group.

In a report, Roskill says the most substantial fall in manganese demand will be in Eastern Europe and the Soviet Union.

This region has the highest level of unit consumption at 12kg of manganese for every ton of steel produced, the report says. The Eastern European steel industry is expected to reduce production capacity in the 1990s to two-thirds of the 1980s level.

The Soviet Union is the biggest manganese producer (8,8m tons in 1989), followed by SA (3,8m tons), China (2,7m tons) and Gabon (2,5m tons).

But SA, with about 80%, has the largest reserves of high-grade metallurgical manganese ore. SA's main suppliers, Samancor and Assomang, were unaffected by sanctions because manganese was classified as a strategic metal. However, Roskill suggests SA demand for manganese should increase as sanctions on steel exports are lifted. — Financial Times.

Fraser Alexander survives cutbacks

B/Day 12/9/91. (189)

MATTHEW CURTIN

CUTBACKS by SA's mining companies in the face of low commodity prices and rising costs took their toll in financial 1991 on Fraser Alexander, the mining services, waste treatment and construction group.

However, chairman Peter Flack said he was confident the group's diversification and expansion programmes would provide a sound base for improved earnings in 1992.

Earnings a share dropped from R165,5c to R124,9c and the year-end dividend was cut by 15% from 46c to 39c. Earnings at holding company Fralex fell from 91,8c to 67,1c a share, while its dividend for the year was slashed by 29% from 26c to 18,5c.

At a presentation yesterday of Fraser's results, Flack said that after a disastrous first quarter in which Fraser struggled to break even, the group doubled interim earnings, down 27% at R5,5m from 1990, in the second half of the year.

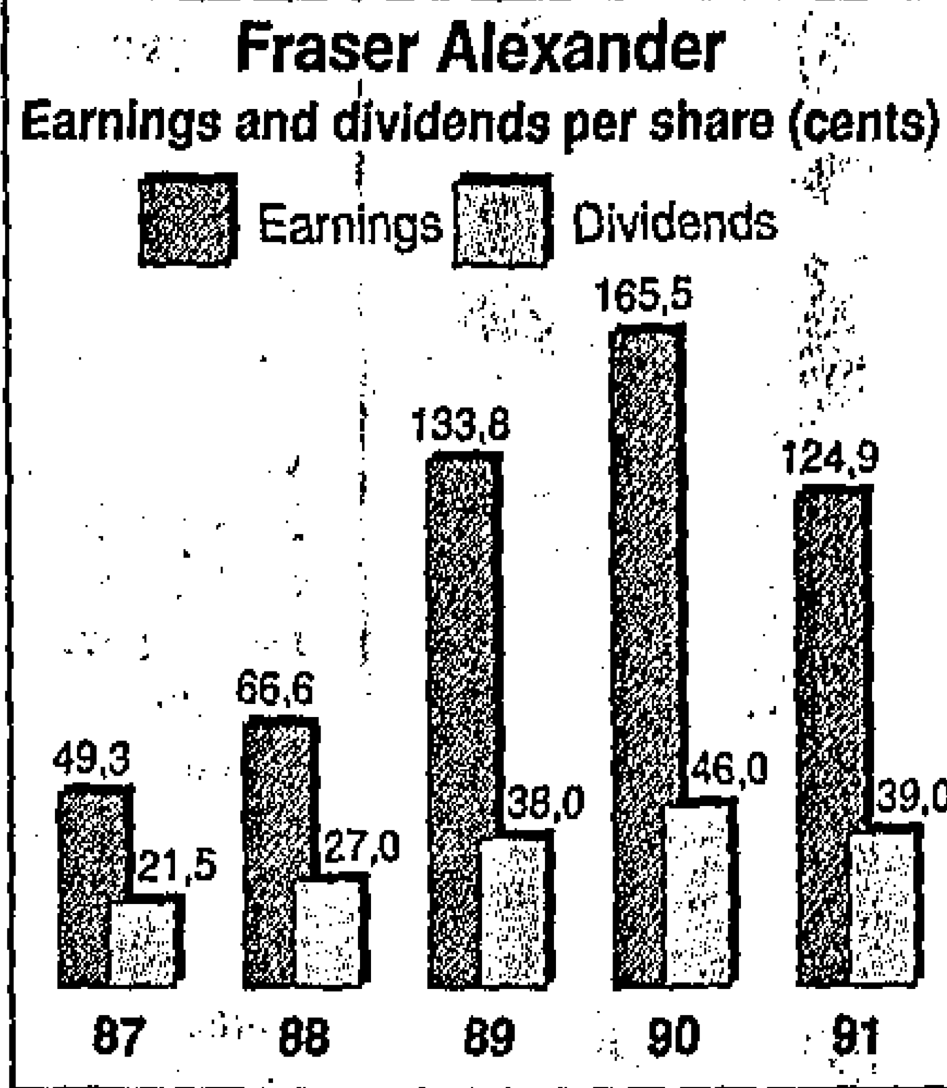
Takeover

He said the group would announce details of a major acquisition next week, while two others "related to the core businesses of the group" were in the pipeline.

A source close to Waste-Tech, a subsidiary of the Transport Technical Services Industries Group and SA's largest private waste management company, said yesterday the company was considering a takeover offer from Fraser.

Flack said his group's improved performance in the second half of the year reflected a change of attitude in the mining industry, which first panicked as the recession set in, then adopted strategies after it realised the importance of maintaining mining infrastructure and services.

The group had also won a five-year contract to treat coal discards from JCI's collieries and its coal beneficiation plant in Swansea, Wales, started in October.



Graphic: FIONA KRISCH Source: FRASER ALEXANDER

These developments, revenue from coal-mining operations and R8m Mega-Waste sanitary landfill site serving the East Rand RSC, will boost earnings in 1992. The new investments pushed long-term borrowings up from R7,6m to R24m, and gearing up from 35% to 71% in 1991.

Flack said the rand's depreciation against the dollar in 1991 raised the contribution of overseas interests to earnings, with a major contribution coming from its Australian mineral services operation.

The recession and unrest in the townships meant Fraser's concrete division was the only operation not to turn in better results in the second half of the year.

Turnover rose 9% year on year from R215m to R233m, but pre-tax profits crumbled by 27%, with attributable earnings down by 24% from R20m to R16m.

Fralex, 39% held by the Rembrandt Group, owns 74% of Fraser Alexander.

Mining pinch hits Alexander

Star 12/9/91

189

By Jabulani Sikhakhane

Mining services and construction group Fraser Alexander (Alexander) was hard hit by the cutbacks and cost controls in the mining industry in the 12 months to June.

Earnings a share fell 24 percent to 124,9c (165,5c) and dividends 15 percent to 39c (46c).

But chairman Peter Flack says group perfomance in the second half was better than the first half and that this has continued into the current year.

If conditions do not deteriorate further and if the the first-quarter perfomance holds (indications are that all operations are ahead of plan or on target), Alexander's earnings for the year to June 1992 should be up 25 percent.

Mr Flack says there are some exciting prospects in Africa, one being an approach to Alexander to beneficiate a mining dump in Kenya. The group is also expected to announce a major local acquisition next week.

In the first quarter of the year to June, business activity dropped sharply and the whole group made R132 000 in the period — R32 000 in July and August and the rest in September.

Most divisions recovered in the second quarter and Mr Flack says almost all of the interim earnings of R5,5 million were earned in that quarter.

The recovery continued into the second half. Overseas operations were the main contributors to the nine percent turnover growth for the full year to R233,95 million.

Clough Mining Services, a joint venture in Perth, Australia, contributed R1 million to Alexander's earnings, helped along by the Australian dollar/rand exchange rate.

The contribution should fall this year because of a fall-off in Australian mining activity.

The UK coal trading operation, Deca, which was acquired last October, did not make money and is not expected to make a significant contribution in financial 1992.

This operation, says Mr Flack, is still establishing itself. Sourcing of coal was a problem, while some of the coal sales were loss leaders to establish markets.

Mining-related activity, which accounts for 46 percent of group business, suffered.

Mining waste managed by Alexander dropped 4,9 percent in real terms to 194 million tons (204 million tons). Price increases received were the lowest in Mr Flack's memory.

The concrete business was depressed, although it traded profitably. At year-end the division was sitting on three months of stock, subsequently falling to one-and-half week's worth.

Several contracts were lost during the year, while loss-making Mumry Quarry was sold. Mr Flack says the plant and equipment sales division, which lost R1 million, has been rationalised.

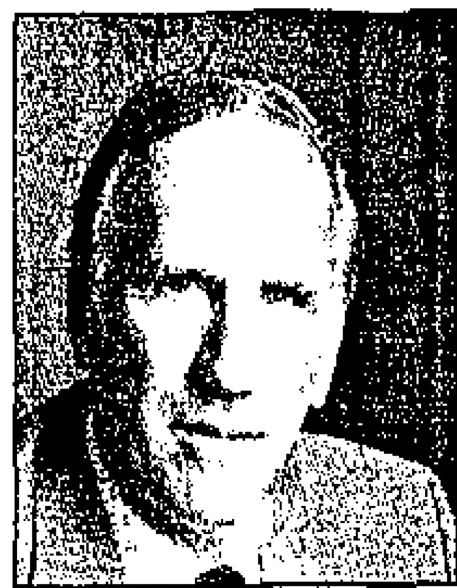
Despite a R20 million cut in planned capital expenditure, interest-bearing debt rose R11,498 million to R26,03 million, lifting gearing from 35 percent to 72 percent. Group benchmark gearing is 42 percent.

Mr Flack says gearing can be extended to over 100 percent to serve long-term contracts in its core businesses.

Capex for the year was R35 million — R15 on capital replacement programmes and R20 million being the cost of setting up operations for new local contracts and Deca. All the new contracts are for five years and longer.

Siemens copes with tough times

(189)



Reinhard Sanne is CE of Johannesburg-based Siemens Ltd, which turned over R1,4bn last year and employs 5 000 workers. Siemens AG owns 52% of the company, with the Industrial Development Corp, Gencor and Sankorp each holding 16%. Sanne began his career with Siemens AG as a commercial trainee near Munich in 1954. He came to SA in 1963 and has been CE since 1986.

FM 13|9|91.

***FM*: What was the impact of economic sanctions on Siemens?**

Sanne: Siemens was always against sanctions because they interrupt the interdependence in world trade. They did not work even in Napoleon's time. In SA they helped prevent the economy from growing enough to employ the increasing population. It is one of the reasons we are in a recession. Now with the lifting of sanctions, exports are easier. But the real upswing will come only when the International Monetary Fund is allowed to grant loans to SA again. It's difficult to say how much business was lost because in many countries SA companies were not even allowed to give quotes.

Many companies, especially American companies, left SA. Why didn't Siemens?

Because we've been here for more than 100 years and we want to stay for another 100 years. There was no real pressure on us. But worldwide, Siemens did have some problems because of our activities here.

Last December the European Community lifted the ban on new investment in SA. Does this mean Siemens AG will undertake new investment in SA?

This legislation had never affected our investment decisions. During the ban, we continued with our normal investment, funded out of local resources. In any case, in the past 10 years there has been no need for major investment because we had sufficient capacity. As a matter of fact, we have overcapacity in SA. Because of this, and the recession, our investment decreased slightly.

Are you planning new investment?

Yes, we are taking a majority shareholding in African Cables, together with Reunert. This is a step towards rationalisation between African Cables, African Telephone Cables, which is majority-owned by Reunert, and Siemens' cable factory. The 51% shareholding will cost R76m.

What problems do you face in SA?

The biggest problem is the recession, which means a zero growth rate for a number of years and higher unemployment. The second major problem is inflation. We believe that if the high inflation rate continues, we will not move into a growth phase. The third problem is that the SA market is small, so that production has to be rationalised to achieve the same efficiency as in Europe.

Do you have difficulty finding enough skilled workers in SA?

Not at the moment. There are skills available on the market even in engineering. The opening up of training for blacks also has reduced the skills problem. Today about 40% of our artisan staff is non-white. The same will happen in computer technology, engineering and eventually in management.

Much of SA industry has problems in coping with the recession. How has Siemens coped?

We've had a slowing down of our activities. The level of orders from the Post Office went down by between 60% and 70%. We had to re-allocate resources to different areas of our operation and we survived in reasonably good shape. We also intensified our export drive. But we will be affected more next year because the electronics industry runs six to 12 months behind the rest of the economy. We are now slightly worried because the investment level in SA is sluggish.

What hurdles do you see for reform?

What SA is trying to do is a complete restructuring of society. This took about 100 years in Europe, with many wars. In SA we're trying to do this in a peaceful, evolutionary, negotiating style. There are hiccups in such a process. And the longer the negotiation process takes, the more complicated the issues will become. Negotiations will have to be concluded before 1994, when under the current legislation an election must take place.

Are you optimistic?

Yes, I'm optimistic that not only the situation in SA will be resolved, but that co-operation in southern Africa will increase.

What should SA do in the years ahead?

We should not move away from a market-orientated economy. Because of the special situation in SA, some elements might have to be planned. We know that 1m-2m houses for the underprivileged are needed; I do not think that private initiative alone could build that many houses. Also, the medical system will face very high demands because of population growth. So here some State initiatives are necessary. And obviously we must spend a lot of money on education. But we also must get inflation under control and reorient the economy away from overprotection so it can be competitive and export-driven.

In 1980 Siemens was No 2 in the SA electronics sector. Now it is No 4. What happened?

What happened in the Eighties was that some of our competitors grew quite substantially because of disinvestment and takeovers. One example is the takeover of the IBM subsidiary by Reunert. Also, Altron has been very involved in takeovers. We have not been in that game. Our growth came from within.

In the next few years American and Japanese companies will return to SA. Can you adapt to the competition or has the protectionism here made you less competitive?

We are confident that we can compete on international standards. But I don't think there will be major overseas investment soon in our sector. There is a production overcapacity that makes it difficult for other companies to enter the market.

What will be the impact of splitting the Post Office into two companies, for telecommunications and postal services?

I don't think it will have an impact on our business. The major advantage is that the decision-making might be easier. They will be able to take decisions on their own and they will be more long-term orientated, like a private company. Also, the constraints of having a budget controlled by parliament will fall away.

Would you support the privatisation of the Post Office?

I support everything that improves and speeds up the decision-making.

Siemens gets a lot of orders from government. Will this change as SA moves towards privatisation?

The Siemens System EWS-D is accepted in around 40 countries, including the US. We are confident that we will continue to be successful in SA.

MASTERBORE

Back to basics

FM 13/9/91

Activities: *Contract surface drilling for the mining and construction industries.*
Control: *Directors 37%.*
Chairman: *W H P P Rawson; MD: W J Davies.*
Capital structure: *16,66m ords. Market capitalisation: R4,2m.*
Share market: *Price: 25c. Yield: 15,2% on earnings; p:e ratio, 6,6. 12-month high, 45c; low, 20c. Trading volume last quarter, 1,09m shares.*

(189)

Year to Feb	'88	'89	'90	'91
ST debt (Rm)	0,1	8,4	9,6	5,7
LT debt (Rm)	0,2	2,1	1,8	2,1
Debt:equity ratio	n/a	0,95	1,20	0,42
Shareholders' interest	0,54	0,41	0,31	0,48
Int & leasing cover	115,1	2,3	1,2	1,8
Return on cap (%)	23,4	9,9	9,6	17,0
Turnover (Rm)	17,0	27,7	38,5	22,9
Pre-int profit (Rm)	3,3	2,6	2,9	3,2
Pre-int margin (%)	19,6	9,6	7,5	14,0
Earnings (c)	24,6	16,6	5,2	3,8
Dividends (c)	13	5	—	—
Net worth (c)	71	74	64	34

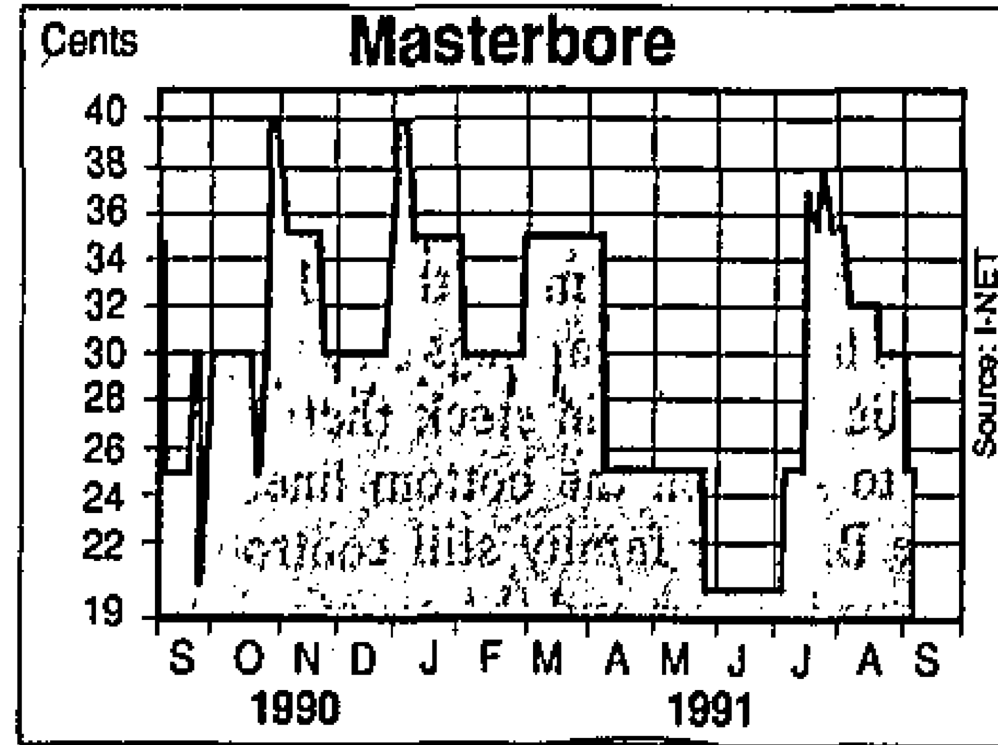
In 1987, before the market Crash, the share peaked at 330c. Subsequent performance has been disastrous, a major reason being the diversification into the Brits company, Cliff's Engineering (Pty), of which 51% was bought for R1,35m in 1988. It has spent most of the time since then firmly in the red. Cliff's has now been liquidated. The 51% interest in Explochem Water Treatment (Pty) was also sold, but extraordinary provisions of R5m almost halved NAV.

Inadequate accounting records and controls precluded the consolidated of Cliff's — hence the 40% slump in turnover. But at least the group got back into profits at trading level — the 1990 profit stemmed entirely from abnormal (as distinct from extraordinary) items. Chairman Peter Rawson (perhaps better known for his alleged involvement in the Old Mutual insider trading scam) says the verdict of a commission of inquiry into Cliff's is now awaited.

At the halfway stage, the group apparently did manage to consolidate Cliff's, as there was a six-month profit of R1,3m after writing back R589 000 minority shareholders' interest in losses of subsidiaries. At that

Continue →

 FM 13/9/91



(189)

stage, Rawson was still making encouraging sounds about an expected recovery at Cliff's, so either the situation must have deteriorated fast or skeletons crept out of cupboards.

Rawson implies that the traditional drilling activities remain "highly profitable". They maintained their turnover, of which about half is now generated outside SA.

In some compensation for the trading loss, the Cliff's disposal helped strengthen the balance sheet. Stock and debtors were cut by 40% and the overdraft halved. A R3,3m debenture issue converted short- into long-term debt, and a property at Heriotdale was bought from Lorraine Lawson (Peter's wife) for R1,58m, settled by the issue of 3,16m shares at 50c. This too will have boosted the ratios, while since year-end there has been a rights issue of 6,7m 18% unsecured compulsorily convertible debentures at 50c.

The debentures are convertible after three years or whenever ordinary dividends reach 9c in any 12-month period.

Rawson says tough times will reduce business from gold mining, but the group intends to diversify into energy exploration drilling. It has since announced what MD Wilf Davies calls a "multimillion rand" contract to drill for oil off Namibia for Taiwan's Overseas Petroleum & Investment Corp.

In his chairman's statement, Rawson says trading conditions will remain difficult until mid-1992. It will be essential to generate foreign currency earnings wherever possible. But order books are ahead of expectations and he says the company is better placed than for some time to exploit new business opportunities at home and abroad.

Liquidity should now be sound and tax losses of R2,8m are available. On the other hand, there's a contingent liability of US$250 000 on a dispute with the vendors of subsidiary Universal HS Drillers (Pty) over the purchase price.

New management seems determined to put things right. It has made a bold start, but one needs to be a particularly risk-seeking investor to consider re-investing just yet.

Michael Coulson

FM 13/9/91 (189)

SUPALEK FM 13/9/91

Riding demand (189)

***Just before** the 1991 financial year began,* hire purchase restrictions on audio and video products were eased. According to chairman Tony Brookstone, pent-up demand was released and Supalek took full advantage. The company changed its year-end from December to April, so the previous report was for a 16-month period. Sales were double the annualised 1990 figure and EPS increased by more than 150%.

Supalek was predominantly an audio product distributor until 1991. It then broadened its product range by entering an agreement to distribute a range of products for Samsung, including televisions, audio and video, washing machines and microwave ovens.

To support the brand as well as substantially increased turnover, stockholdings at year-end were sharply up — by 168%, from R3,5m to R9,4m. But the balance sheet was strengthened. Cash increased from R2,8m to R7m, exceeding borrowings by more than 10 to one. Cash flow also improved, with cash available from operating activities rising fourfold to R6m. There was a R3,5m cash surplus, compared with a R1m shortfall in 1990.

Unfortunately, the launch of the Samsung brand coincided with a slowdown in the economy, so the stocks now seem high. Brookstone claims Kenwood continues to dominate the SA hi-fi market, despite a proliferation of competitors and Cortina, which serves the lower end of the market, is gaining market share.

Management wants to maintain earnings, which looks difficult in view of the downturn in appliance sales. But the strong balance sheet will help and Samsung is a fast-growing brand worldwide.

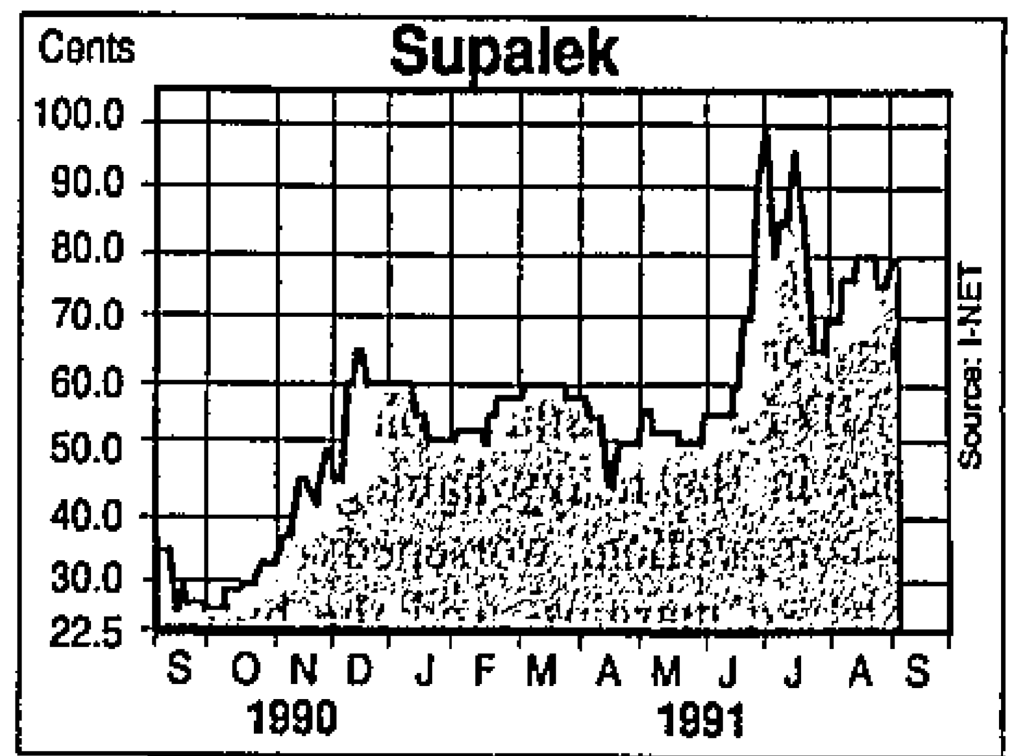
The share price is not too demanding. At 80c, it offers a dividend yield of 10% and an earnings yield of 20,6%. Though there is a good chance of a weaker result in the short term, the group looks well-placed for the upturn. The share may still have some appreciation potential.

Stephen Cranston

Activities: *Distributes Kenwood and Cortina audio equipment and Samsung home entertainment products.*
Control: *Anbeeco Investment Holdings 52,5%.*
Chairman: *A N B Brookstone; Joint MDs: C Cohen, I I Cohen.*
Capital structure: *32m ords. Market capitalisation: R26m.*
Share market: *Price: 80c. Yields: 10,0% on dividend; 20,6% on earnings; p:e ratio, 4,8; cover, 2,1. 12-month high, 100c; low, 25c. Trading volume last quarter, 2,906m shares.*

Year to Apr 30	†'87	†'88	‡'90	'91
ST debt (R000)	1 200	38	89	307
LT debt (R000)	200	109	230	592
Debt:equity ratio	0,27	—	—	—
Shareholders' interest	0,35	0,59	0,55	0,40
Int & leasing cover	27,2	20,4	24,7	14,1
Return on cap (%)	38,7	57,3	31,0*	40,4
Turnover (Rm)	30,2	36,3	36,7*	73,1
Pre-int profit (Rm)	4,8	5,8	4,2*	10,2
Pre-int margin (%)	15,8	15,8	11,4	13,9
Earnings (c)	7,3	8,9	6,4*	16,5
Dividends (c)	1,5	3,5	4	8
Net worth (c)	13,0	18,5	23,0	31,5

† Year to December.
‡ 16 months to April.
* Annualised.



Supalek's Brookstone ... *pent-up demand was released*

Fraser Alexander goes for the big acquisition

S Times (Bus) 15/9/91 (184)

BUYER'S remorse is something Fraser Alexander chief executive Peter Flack says he usually suffers after making an acquisition.

But he feels none this time. The mining and allied services group warned on Tuesday that negotiations which could affect the share price were under way.

He and other executives gave a presentation of the group's results for the year to June 1991 the following day.

Mr Flack was itching to tell the audience — the Investment Analysts Society — about the deal.

The target would become the group's second-largest contributor in terms of both turnover and profit.

"We have been looking to buy this company for 3½ years," says Mr Flack. He cannot be accused of rushing into things.

Details should be announced in the coming week.

Earnings were 24% down on 1990's at 125c a share on a 9% rise in turnover to R234-million. The dividend was reduced by 15% to 39c at the expense of cover.

Mr Flack says the group — which had considered itself bullet-proof — had a rude awakening in July 1990, the first month of the financial year just passed. Total profit from the group's eight operations was only R32 000.

PETER FLACK: Confident

Scrutiny showed that a small amount of fat had crept into the group.

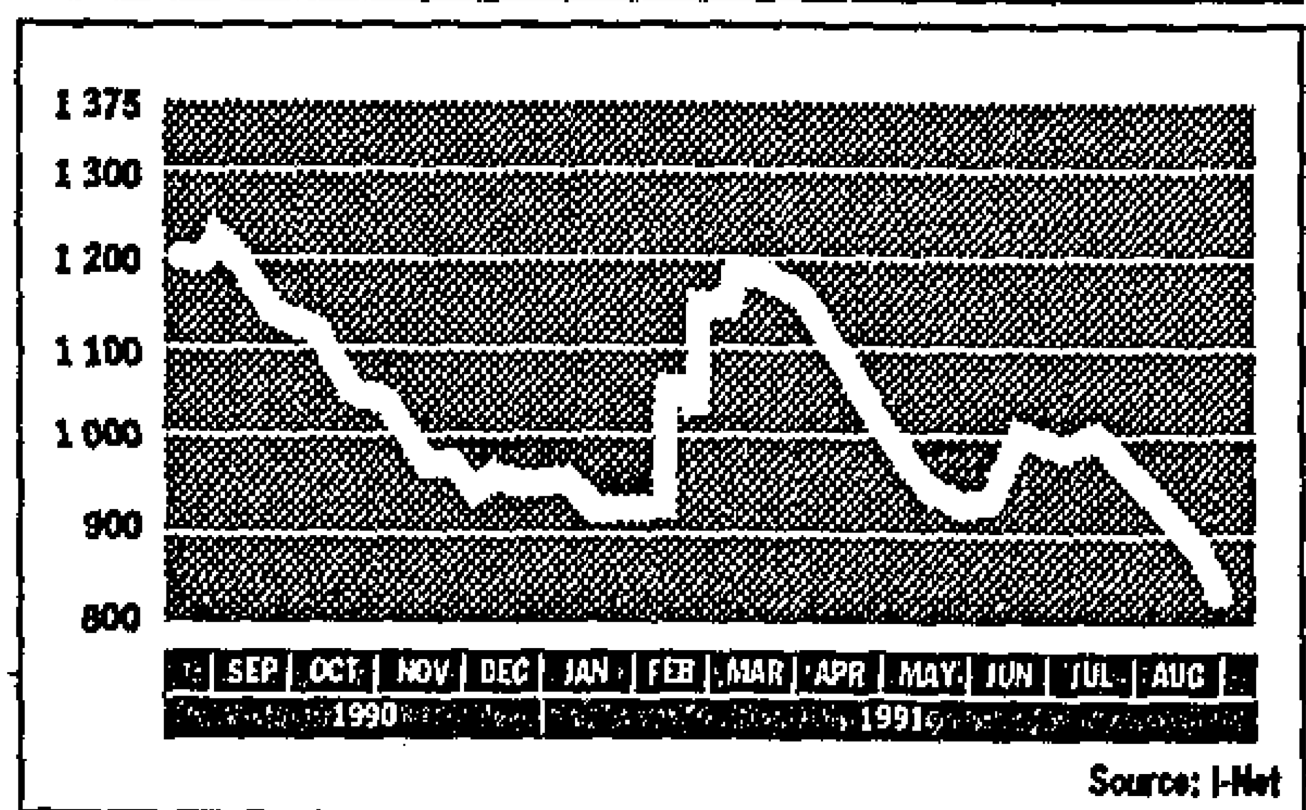
More significantly, customers cut back on spending — something Anglo American gold and uranium division chairman Clem Sunter had promised.

Fraser Alexander's management gained a little more experience on life's long learning curve — and profitability was restored.

At the interim it made about R5-million, almost exclusively in the second quarter. The second half-year was twice as good and attributable profit hit R15,6-million.

Foreign investments began to yield dividends and Australian operations chipped in more than R1-million to the bottom line.

Mr Flack acknowledges the efforts of the concrete pipe division, which suffered a 32% drop in volume last year on top of the previous year's 21% decline. Innovative products developed by management are beginning to bear fruit.



Mr Flack says the group has never been desperately alarmed about percentage gearing. The amount climbed from 35% to 71% in the year, but it is not a matter for "all hands to the pump".

Several acquisitions and big contracts called for funding. The first was a coal beneficiation plant on the quayside at Swansea, Wales. It cost R6 million, but will allow Fraser Alexander to land both its own and other coal in the United Kingdom.

The group was awarded a five-year contract to handle the East Rand Regional Services Council's mega-sanitary landfill site at Platkop. It won another five-year contract to manage the coal discards from JCI's quartet of collieries, requiring R4-million of capital.

Lastly, a discard and coal recovery system has been developed for Lonrho's Tweefontein colliery. It needed another R5-million.

Mr Flack says the group could have dressed up the capital expenditure figures by holding back on necessary replacement of mobile plant, but sees no point in doing so in the long run.

The hoped-for acquisition will probably be financed through a scrip issue. Mr Flack says there are two reasons for this.

One is that he is confident of being able to place shares so issued at a lower discount to the current market price than a rights issue to shareholders might bear. The other is that the placement of shares might improve their tradeability on the JSE.

The share price added 50c to 950c on the strength of the presentation and prospects. Mr Flack is quietly confident that this year's earnings will improve.

Star 16/9/91.

KNJ group slumps to loss situation

189

The KNJ group has reported a hefty turnaround in its figures for the year to June, with an attributable loss of R2,5 million after notching a profit of R21 million previously.

The economic situation and unrealistic loss evaluations played a major role in the situation.

The group has reported earnings per share as a loss of 1,2c (20,8c profit).

A dividend of 2c, compared with the last year's 6c, has been declared.

The company says that had the non-recurring item not been included, attributable profits would have been just over R3,44 million. Total write-offs were just over R6 million.

In spite of this, turnover was markedly down at R289,7 million (R333,88 million) and attributable income for the year, before the loss, was well down at R3,446 million (R14,81 million).

Operating income also showed a marked decline at R14,44 million (R21,49 million). — Sapa.

Hulett Aluminium in 'dumping' row

TAIPEI — The Taiwanese Finance Ministry has tentatively decided to impose anti-dumping duties on Hulett Aluminium in retaliation against "unfair trade practices".

Wang Deh-hwei, director of the ministry's customs administration, said last week the SA company was charged by China Steel Corporation with selling its aluminium products in Taiwan at prices far lower than those quoted in its home market.

As the practice might, in the long run, hurt domestic companies in the same line, the Finance Ministry decided to impose anti-dumping taxes on Hulett products.

The decision, however, is still awaiting cabinet approval. If approved, this will be the first time Taiwan has imposed anti-dumping duties on foreign imports since it formulated a "penalty" duty system against unfair foreign trade practices in 1967. Hulett could not be reached for comment yesterday. — Sapa-CNA.

Star 17.9.91

SA set to join the steel giants

By Derek Tommey

South Africa's two biggest mining groups, Anglo American and Gencor, have joined forces to make South Africa the world's fifth-biggest stainless steel producer.

They plan to increase production from about 120 000 tons a year to just under 500 000 tons by 1996. (189)

The first stage of the plan, announced last night, involves the payment of more than R1 billion in cash to the Barlow Rand group for its stainless steel and ferrochrome producer, Middelburg Steel, and for other chrome interests.

Middelburg's stainless steel interests will provide the base for a R2 billion expansion programme needed to reach planned targets.

● Steel men forge R1-bn deal — Page 14

Steel men forge R1-bn deal to set up Columbus project

Star 17/9/91. (189)

By Derek Tommey

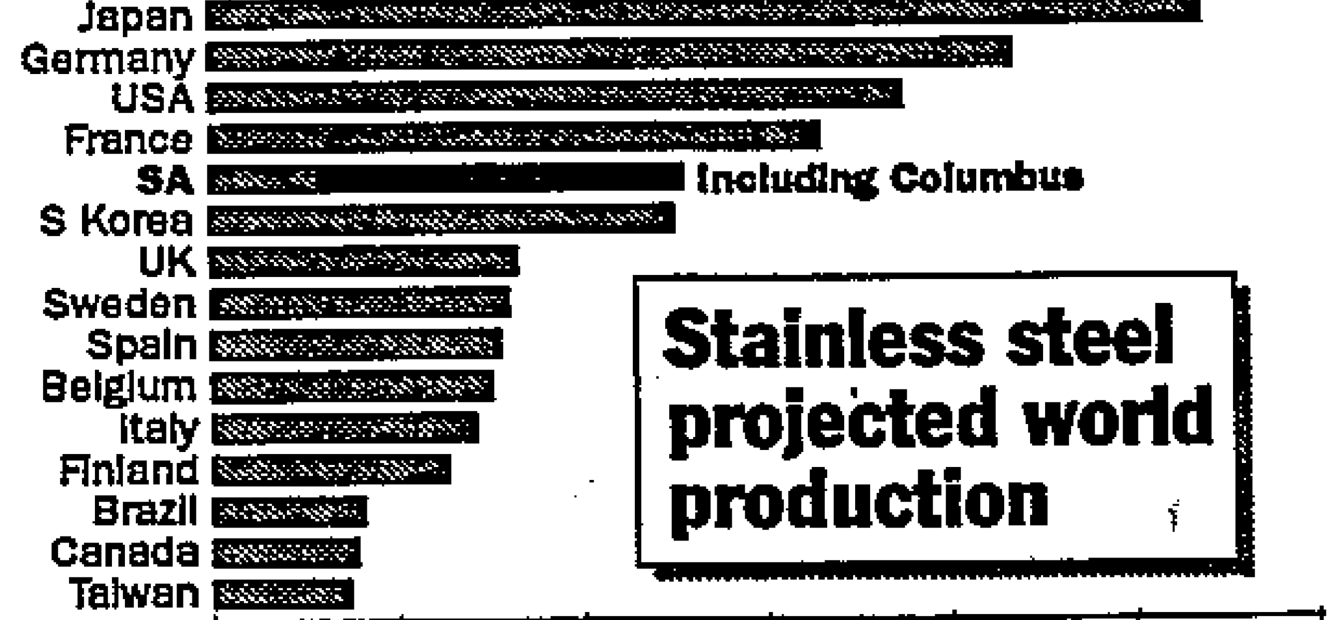
A billion rand cash deal announced last night between Anglo American and Gencor on the one hand and the Barlow Rand group on the other has put South Africa on the road to becoming the world's fifth-biggest stainless steel producer.

At present this country ranks only about 16th.

The deal is also good news for the Gencor and Anglo ferrochrome producer, Samancor, as it will enable it to become the world's biggest and most dominant producer of ferro-chrome by far — with between 30 percent and 40 percent of world production.

It might also enable it to curb the current over-production of ferro-chrome and get a better price for the product.

The deal provides for the sale by the Barlows group of Middelburg Steel, a producer of ferrochrome and stainless steel, and of Barlows' other group chrome interests to Anglo American and Gencor for R1 075 million.



Middelburg's stainless steel interest will go to the Columbus Venture, which is jointly owned by Anglo American's Highveld Steel and Samancor for a cash payment of R500 million.

Middelburg will then become the launching pad for the proposed vast Columbus stainless steel project.

Brian Gilbertson, chairman of Genmin, said yesterday that this could reduce the proposed capital cost of Columbus, recently put at about R3,1 billion, by between R500 million and R1 billion.

Trevor Jones, managing director of Highveld Steel, said Columbus would benefit from Middelburg Steel's expertise in the production and marketing of stainless steel and also from Highveld's steel-making skills.

Fred Boshoff, who heads the Columbus project, said a detailed study would be made of the Middelburg Steel plant, which currently has the capacity to produce 120 000 tons of stainless steel a year.

The study is expected to take about six months, after which orders for new and additional plant will be implemented.

Major extensions aimed at increasing steel production to about 495 000 tons are not expected to be fully operational until 1995.

Mr Gilbertson said a transaction of this scale could only have been brought about by large, financially sound companies such as Anglo American and Gencor, the country's two biggest mining groups.

He said the deal would not only benefit the parties concerned, but would contribute to growth in the national economy.

The taxpayer also stood to benefit, as the cost of the Government incentives required to launch Columbus would now be smaller.

Michael King, executive director of Anglo American, said the transaction was noteworthy as it extended the partnership that underlay the AAC/Gencor Columbus joint venture and strengthened the ties between the two groups.

Samancor will acquire Middelburg Steel's ferro-chrome interests and Barlows' other chrome interests for R575 million, also in cash.

This will increase Samancor's ferro-chrome capacity to about 1 060 000 tons a year.

However, in view of the depressed ferro-chrome market it is planned to close the high-cost production units, resulting in lower output, but greater efficiency.

This could lead to a higher ferro-chrome price in time. An increase of 1c a pound in the US ferro-chrome price could add R20 million to Samancor's pretax profits.

The cash to be paid by Samancor and Highveld to Barlow Rand will be financed by an issue of shares by the two companies to Anglo American, De Beers, Amic and Gencor.

This will increase the stake of De Beers and Anglo American in Samancor from 25 percent to about 28 percent.

Barlow Rand reported last night that it would be selling its interest in Middelburg Steel and Rand Mines would be selling its chrome mineral rights interests and its interest in Henry Gould (Pty) for a total cash consideration of R1,025 billion.

Vansa Vanadium will be selling its interest in the Winterveld Chrome Mines for about R50 million in cash.

If these transactions had taken place a year ago Barlows' earnings a share would have risen by 50c and its tangible net asset value by 120c a share.

Vansa's earnings would have risen by about 5c a share and its tangible net asset value by 28c a share.

Barlows said the transaction would have an immediate impact on its profit statement and balance sheet and place it in a position to pursue new investments.

It would also shed Middelburg Steel, which, owing to fluctuations in commodity prices, was having a disproportionate impact on group earnings.

Hartebeestfontein mine considering more lay-offs

Star 17/9/91.

By Sven Lünsche

Anglovaal's largest gold producer, Hartebeestfontein, is considering more lay-offs, given the static rand gold price and escalating costs.

Chairman Basil Hersov says in the annual report that the prevailing gold price and higher costs will force the mine to focus operations on higher-grade areas and reduce the underground mining rate.

The mine plans to reduce underground tonnage by 5,4 percent to 2,84 million.

At these lower levels, "careful consideration is being given to a reduction in the labour complements", Mr Hersov says.

In the past year operating costs rose 14,3 percent and are expected to rise further because of additional expenses in water-pumping costs incurred after the closure of Stilfontein mine.

Capex was limited to R29 million, substantially below the planned level of R48 million. In the current year capex is budgeted at R39 million.

Anglovaal's exploration company Middle Witwatersrand had a successful year, with earnings rising to a record R47 million.

Chairman Clive Menell says the major reason was interest received on funds from last year's R440 million rights offer.

In the current year expenditure on exploration, feasibility studies and the acquisition of mineral rights will be R21,1 million (R27,1 million).

arlow Rand Limited
(Registration number 02/00095/06)
("Barlow Rand")

VVSA
Vansa Vanadium
SA Limited
(Registration number 84/11475/06)
("Vansa")

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Middelburg Steel & Alloys and the Barlow Rand

Steel men forge R1-bn deal to set up Columbus project

(184) Star 17/9/91.

By Derek Tommey

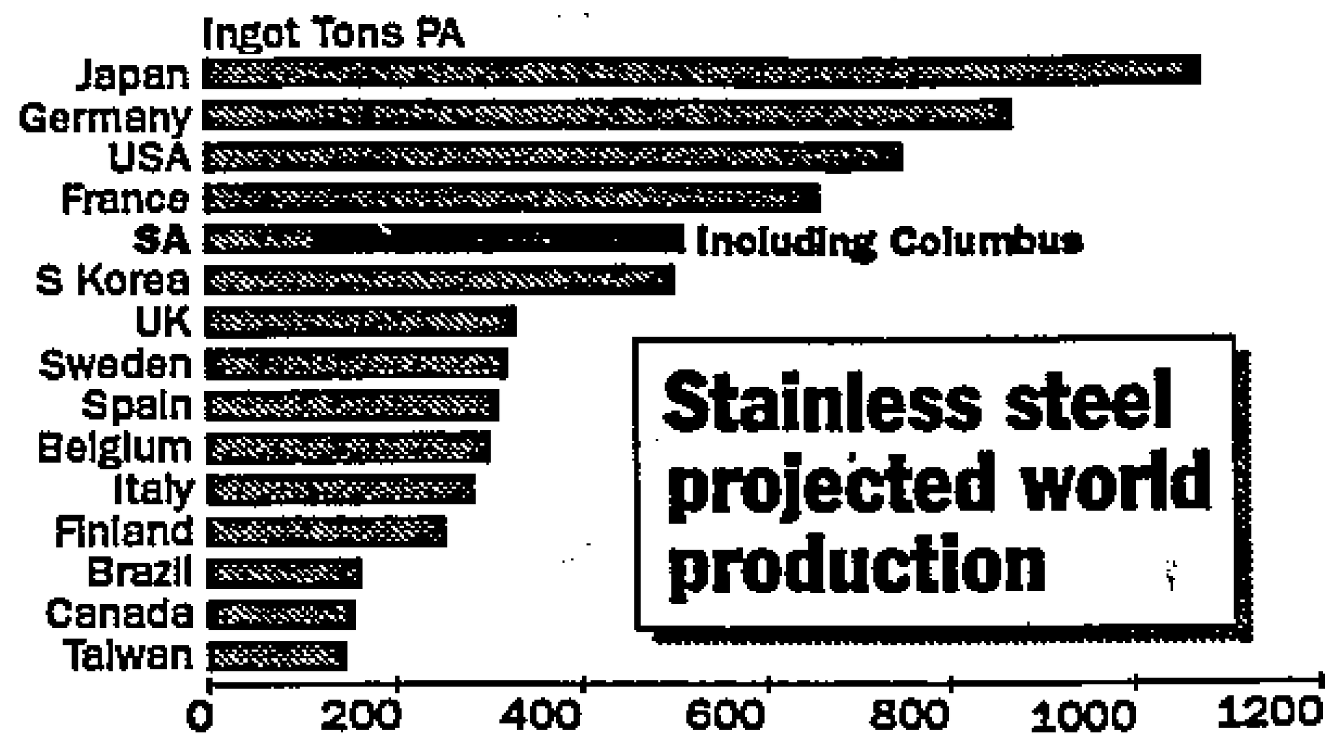
A billion rand cash deal announced last night between Anglo American and Gencor on the one hand and the Barlow Rand group on the other has put South Africa on the road to becoming the world's fifth-biggest stainless steel producer.

At present this country ranks only about 16th.

The deal is also good news for the Gencor and Anglo ferro-chrome producer, Samancor, as it will enable it to become the world's biggest and most dominant producer of ferro-chrome by far — with between 30 percent and 40 percent of world production.

It might also enable it to curb the current over-production of ferro-chrome and get a better price for the product.

The deal provides for the sale by the Barlows group of Middelburg Steel, a producer of ferro-chrome and stainless steel, and of Barlows' other group chrome interests to Anglo American and Gencor for R1 075 million.



Middelburg's stainless steel interest will go to the Columbus Venture, which is jointly owned by Anglo American's Highveld Steel and Samancor for a cash payment of R500 million.

Middelburg will then become the launching pad for the proposed vast Columbus stainless steel project.

Brian Gilbertson, chairman of Genmin, said yesterday that this could reduce the proposed capital cost of Columbus, recently put at about R3,1 billion, by between R500 million and R1 billion.

Trevor Jones, managing director of Highveld Steel, said Columbus would benefit from Middelburg Steel's expertise in the production and marketing of stainless steel and also from Highveld's steel-making skills.

Fred Boshoff, who heads the Columbus project, said a detailed study would be made of the Middelburg Steel plant, which currently has the capacity to produce 120 000 tons of stainless steel a year.

The study is expected to take about six months, after which orders for new and additional plant will be implemented.

Major extensions aimed at increasing steel production to about 495 000 tons are not expected to be fully operational until 1995.

Mr Gilbertson said a transaction of this scale could only have been brought about by large, financially sound companies such as Anglo American and Gencor, the country's two biggest mining groups.

He said the deal would not only benefit the parties concerned, but would contribute to growth in the national economy.

The taxpayer also stood to benefit, as the cost of the Government incentives required to launch Columbus would now be smaller.

Michael King, executive director of Anglo American, said the transaction was noteworthy as it extended the partnership that underlay the AAC/Gencor Columbus joint venture and strengthened the ties between the two groups.

Samancor will acquire Middelburg Steel's ferro-chrome interests and Barlows' other chrome interests for R575 million, also in cash.

This will increase Samancor's ferro-chrome capacity to about 1 060 000 tons a year.

However, in view of the depressed ferro-chrome market it is planned to close the high-cost production units, resulting in lower output, but greater efficiency.

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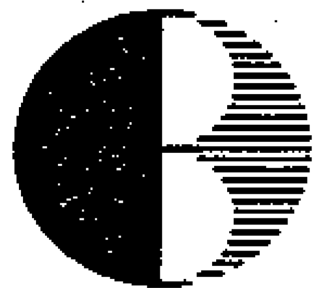

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Middelburg Steel & Alloys and the Barlow Rand

Hefty tax break helps Gentyre pull through

Star 17/9/91.

By Jabulani Sikhakhane

Gentyre's useful and large tax breaks helped turn a 5,7 percent fall in turnover into a 14 percent advance in earnings for the six months to June.

Earnings were up 23c a share to 186c and the dividend was maintained at 55c, with the dividend cover increasing to 3,4 times.

The tax breaks result from the restructuring of the Gentyre group in 1989. In the review period Gentyre's effective tax rate fell from 25 percent to less than one percent and the tax charge was R148 000 from R8,51 million.

Chairman Terry Rolfe says sales of the tyre and industrial divisions declined in real terms. The market for industrial products was depressed, but tighter control of costs and working capital helped the division maintain its contribution to group profitability.

The tyre division, which contributes about 86 percent of Gentyre's profit before interest and tax faced excessive discounting and more freely available tyre imports which saw the group's operating margin fall from 12,7 percent to 11,1 million.

Turnover fell R13,99 million to R229,35 million and operating profit dropped R5,59 million R25,44 million. Interest received was up 25 percent to R3,73 million.

Mr Rolfe says the group actively pursued export opportunities, with encouraging results. However, he cautions that the four-week strike at the tyre plant will affect profitability in the second half.

Export drive lifts Bateman earnings

(184)

Star 17/9/91.

By Sven Lünsche

A successful export drive enabled engineering group EL Bateman to boost attributable earnings by 20 percent to R21,93 million (R18,31 million) in the year to June.

The rise in earnings was on the back of a 33 percent surge in turnover to R786,11 million (R588,98 million) and a 24 percent boost in operating income to R36,19 million (R29,12 million).

Earnings per share were 19 percent higher at 803c (672c), from which a dividend of 265c (216c) has been declared.

Chairman Bill Bateman says the group was able to more than balance the local downturn with a very successful export drive.

The group has diversified significantly on the local market and is less dependent on the severely depressed mining industry.

Conditions in company-related industries are not conducive to short-term growth.

The company will strive to maintain earnings in real terms in the 1992 financial year, which would be considered a good performance, Mr Bateman says.

At its current share price of R60 Bateman's shares are trading at an earnings yield of 13,4 percent and a dividend yield of 4,4 percent.

To make the shares more tradeable, the group is planning a 10-for-one share split in November.

Claude Neon out to remedy its flickering performance

BRENT VON MELVILLE

LABOURING Claude Neon, which last year fell from its position as SA's premier sign group, has taken remedial steps and hopes to bolster earnings for the coming year.

Chairman David Royston said the past year was one of consolidation after major restructuring in the previous year.

In his annual review Royston said the company was planning to increase its market share and had the production capacity to handle a greater workload.

As part of its rationalisation steps, capex in the year under review was limited to only essential plant and equipment replacements worth R160 000, compared with R1,4m the previous year.

But the steps seemed too little, too late for parent Aveng, subsidiary of Anglovaal Industries (AVI).

Subsequent to the year-end, Claude Neon announced that AVI had accepted an offer by Ronald Holdings (held by Claude Neon marketing director Ron Nel) for AVI's 65% stake in the company worth 420c a share, translating into R15,9m.

Claude Neon is currently trading at 390c, but has been labouring well below that for the past 18 months, at between 260c and 120c a share.

The low rating comes from the company's terrible financial showing in the past two years, and staff walkouts which led to several court actions.

This year's results show a dramatic recovery, attributed largely by Royston to MD Brian Bain, who was installed last year by AVI.

Bain said there had been no hitches so far in the bid by Ronhold and that scheme of arrangement papers were due to go to minority shareholders next week.

Bain will return to head office after the buyout.

Launch pad for Columbus venture

Big three seal deal for Middelburg

(189)

B/Day 17/9/91.

MATTHEW CURTIN

A CONSORTIUM of three of SA's leading mining groups yesterday bought Barlow Rand's Middelburg Steel and Alloys (MS & A) for R1,1bn.

As part of the deal, Anglo American, De Beers and Gencor have acquired MS & A's stainless steel and ferrochrome operations, as well as Rand Mines' chrome mines and mineral rights.

The deal will turn MS & A's steel operation into the launch pad for the multi-billion-rand Columbus stainless steel joint venture between Samancor and Highveld Steel & Vanadium.

Samancor chairman Brian Gilbertson said the revised Columbus project meant SA had the potential to become the world's fifth largest stainless steel producer by the time it reached full production.

Gilbertson, Highveld MD Trevor Jones, Columbus CE Fred Boshoff and Anglo executive director Michael King announced the deal to stockbrokers and journalists yesterday evening.

Barlow Rand has sold the stainless steel plant for R500m. Samancor would raise R288m through the issue of 11-million shares to Genmin, while Highveld would issue 16-million shares to Anglo.

The group has sold the chrome and ferrochrome operation for R575m. Samancor would raise R288m through the issue of 11-million shares to parent Genmin and pay R250m in cash. Minority shareholders in Samancor and Highveld would have their interests diluted in the two deals.

Gilbertson said the inclusion of MS & A in Columbus would knock between R500m and R1bn off the project's original estimated R3,1bn capital cost. Consequently, Columbus would be less dependent on government's short-term tax incentives for export ventures.

MS & A would bring technological and marketing expertise to Columbus, as well as stainless steel facilities which overlapped with Columbus's production plans.

The revised plans would initially slow down the timing of the project. Gilbertson said it would take an extra six to 12 months to modify Columbus's plans. Thereafter, the development of the project would move faster because of MS & A's existing infrastructure.

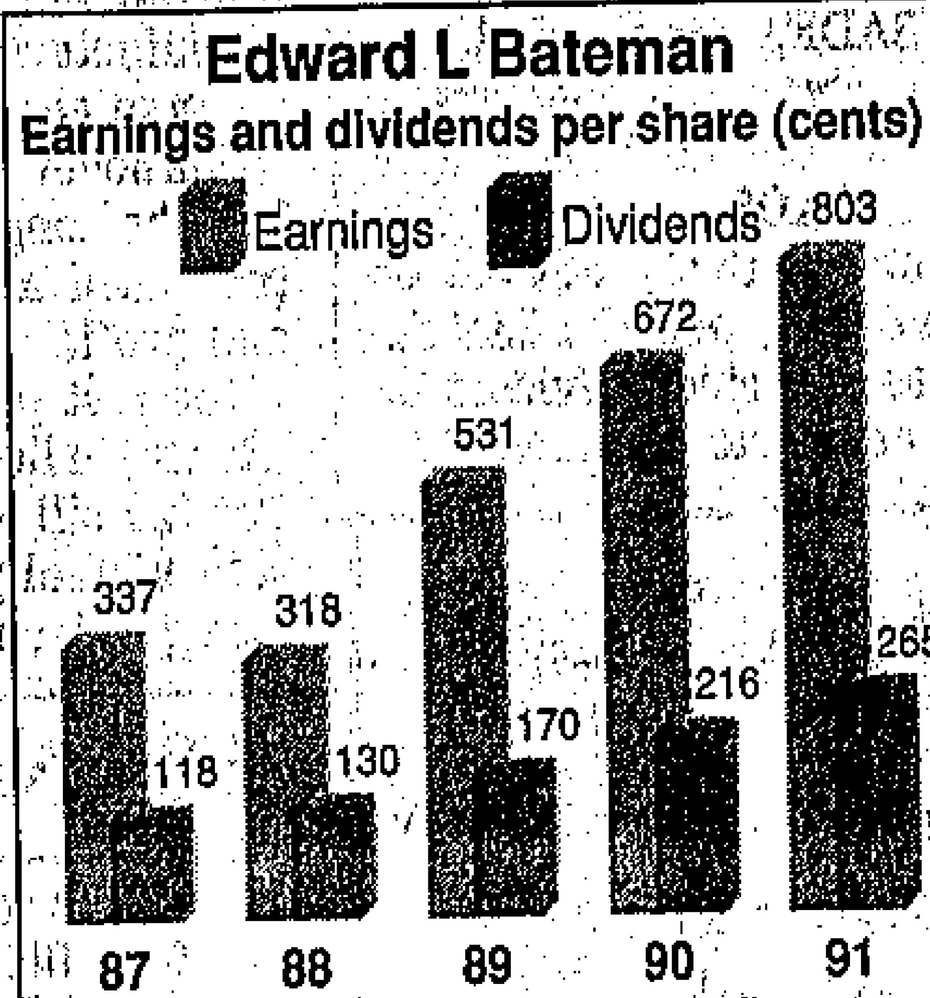
The consortium has valued MS & A's stainless steel interests at R500m, less than a fifth of the value of Columbus despite having a third of its production capacity. Gilbertson attributed the discrepancy to inflation and the fact that Columbus would be using new state-of-the-art technology.

He said Samancor and Highveld had approached Barlow Rand in the past about acquiring MS & A but had been turned down. However, when Barlow Rand said earlier this year it intended a partial listing of MS & A to reduce its exposure to the cyclical nature of the steel and ferrochrome markets, the two parties approached Barlow Rand again.

Gilbertson said in acquiring MS & A's ferrochrome interests, Samancor, the world's largest producer, would see its share of world ferrochrome capacity boosted from 20% to 30%.

Merging the two ferrochrome operations could reduce current oversupply.

See Page 11



Graphic: FIONA KRISCH Source: EDWARD L BATEMAN

EL Bateman group proposes share split

BIDay 17/9/91 (189)

MARC HASENFUSS

ENGINEERING group Edward L Bateman (ELB) continued its growth record by posting a 20% increase in earnings in the year to end-June.

In a move to bring the group's share price within more tradeable levels, the directors have proposed a 10-for-1 share split for November 1991. The share was untraded at its R60 high on the JSE yesterday. It was languishing at a low of R36,50 almost a year ago.

Attributable earnings increased to R22m (R18m) while earnings rose 19% to 803c a share (672c) with slightly fewer

☐ To Page 2

EL Bateman

BIDay 17/9/91 (184) ☐ From Page 1

shares in issue. A final dividend of 193c was declared, increasing the annual payout to 265c a share.

The group was able to offset the local downturn with a successful export drive.

Chairman Bill Bateman said ELB's incentive scheme had motivated employees to perform exceptionally well in difficult conditions.

Furthermore, the group's spread across the full mining spectrum as well as the manufacturing industry cushioned the adverse economic conditions.

Turnover lifted 33% to R786m (R589m) but the long-term nature of contracting precluded any linkage between turnover and profit.

Interest paid was 17% lower at R2,4m (R2,8m) in line with debt and interest rates. The tax bill was R6,3m (R5m) with the tax rate virtually unchanged at 19% due to foreign income and incentive allowances.

Bateman said the ratcheting effect on net profits attributable to convertible preference shareholders under management's profit-linked incentive scheme was in strong evidence for the last time.

This factor largely accounted for profits due to the preference and outside shareholders growing by 85% to R5,6m (R3m) against the 29% in net income to R27,5m (R21m) and reducing growth in attributable profits to 20% at R22m.

Bateman said the ratcheting effect would now tone down and profit growth attributable to the minority executive shareholders would be similar to overall earnings.

At the current price of ELB shares, the new earnings yield 13,4% and the dividend 4,4% against the average engineering sector earnings and dividend yield of 8,35 and 3,3% respectively.

Columbus will be big forex earner

Star 18/9/91 - (189)

By Derek Tommey

The huge Columbus stainless steel project, which should be completed by the end of 1995, will make a major contribution to SA's prosperity, says Columbus's chief executive Fred Boshoff.

When the plant is in full operation its revenues should be R2 billion to R2,5 billion a year — equal to one-eighth of the revenues generated by the entire gold mining industry.

However, there will be a strong multiplier effect, which is difficult to quantify at this stage.

There will be the normal multiplier effects arising from the spending of huge amounts by Columbus.

But the availability of much cheaper and more varieties of stainless steel is expected to encourage the growth of local fabricating industries.

This development could also raise export earnings and generate prosperity.

Columbus should start contributing to economic growth in about six months' time when the first orders for new plant start going out.

Altogether, the Columbus project is expected to cost about R2 billion, of which 40 percent will be spent locally.

Because Columbus will be using the most modern and efficient equipment, many of its rolling mills and furnaces will have to be imported.

Nonetheless, the local engineering industry should start getting a significant boost early in the new year.

Stainless steel fabricators have welcomed the news about Columbus.

Barlows' Middelburg plant, which is to be incorporated into Columbus, mainly served the local market and its prices made it difficult for local fabricators to compete in overseas markets.

However, Columbus's price structure will be geared for the export market.

It should, therefore, have no difficulty supplying the local market at competitive prices, enabling domestic fabricators to be more competitive overseas and increase their exports.

Cash

However, economists say the cash Columbus and its ancilliary industries will generate is not the only benefit the project will bring.

It could ultimately generate R3 billion to R5 billion a year in foreign earnings.

This would make a major contribution to the balance of payments, and allow the monetary authorities to let the economy expand at a faster rate without having to worry so much about getting into debt.

● The Competition Board said last night it intended holding discussions with all parties concerned. It said that certain meritorious aspects of the transaction were self-evident.

But it was obliged to take cognisance of the impact the transaction could have on economic concentration and the potential restrictions on competition that could arise.

Barlows sold Middelburg after seeing poor results

B Day .18/9/91 (189)

BRENT VON MELVILLE

THE decision to sell off Middelburg Steel and Alloys (MS & A), which had been in the Barlows group for more than 20 years, came after poor results agitated the group's bottom line.

The R1,1bn sale sees MS & A become part of a new consortium involving Anglo American and Gencor, and enables Barlows to get out of the cyclical commodity business and concentrate on areas where it can remain a dominant player.

There is now the question of who will make up the new management of MS & A. Market analysts yesterday suggested that as MS & A had been bought as a going concern, and as its management was well entrenched, the consortium might not be too keen to shake it up.

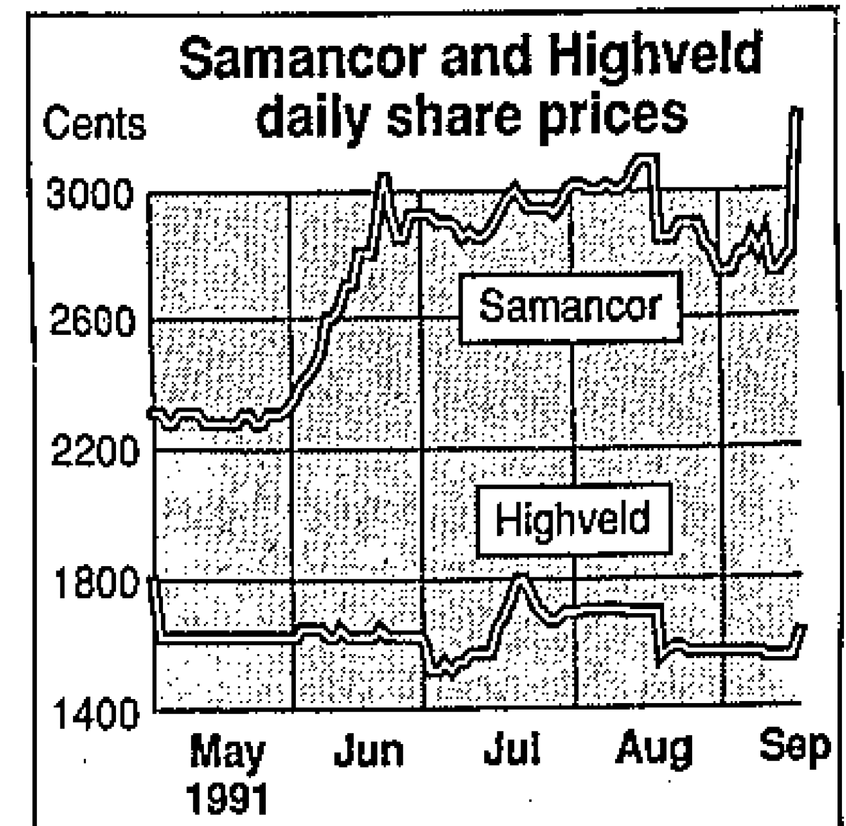
Two years ago MS & A's management was separated into a three-pronged corporate structure, with MS & A Chromium, MS & A Stainless and MS & A Industrial as individually run elements.

The separation was orchestrated by John Gomersall, 45, who has been with MS & A since its inception and group MD for the past six years.

Gomersall, a Barlows director, will leave MS & A after the transition to new ownership. He gave no hints yesterday of his plans with Barlows.

Gomersall said the stainless steel division, in particular, run by MD Keith Luyt, was excited about the challenge posed by the Columbus project, for which the division was to become the springboard.

The division is currently capable of producing about 120 000 tons of stainless a year. The Columbus plans aim to increase this to 495 000 tons, making SA about the fifth largest producer after France, the US, Germany and Japan.



Graphic: FIONA KRISCH Source: I-NET

The consortium is to pay the division R500m and plans are to spend an additional R2,5bn on the Columbus venture.

In terms of the original feasibility study, the project was to cost about R3,1bn, but marrying it with MS & A will cut as much as R1bn off.

Gomersall said the current stainless steel market was looking a bit softer than in the first half, although there were expectations of slightly healthier prices for the first half of next year.

He added that the Columbus project would be looking to the market two to three years down the road.

COMPANIES

MS&A deal will steady market

Bday 18/9/91. (189)

MATTHEW CURTIN

SAMANCOR'S R575m acquisition of Barlow Rand's ferrochrome and chrome interests would stabilise the ferrochrome market and bolster prices, analysts said yesterday. That would boost profits at Samancor and other ferrochrome producers.

The low prices triggered by oversupply and fierce competition among SA producers have slashed producers' profits in the past 18 months.

Ferrochrome prices set by SA producers plummeted from $0,82/lb to near $0,50/lb in a matter of weeks at the end of 1989, and have been unchanged for the past three quarters at $0,49/lb. SA current working costs are estimated to be about $0,45/lb, with profits helped by the rand's weakness against the dollar.

Falling ferrochrome profits at Middelburg Steel and Alloys (MS & A) was one factor which prompted Barlow Rand to reduce the group's exposure to operations affected by cyclical markets.

Analysts said frequent appeals by SA ferrochrome producers — which include Consolidated Metallurgical Industries (CMI) and Chromecorp Technology (CCT), as well as Samancor and MS & A — for closer co-operation in setting prices as they plummeted, were partially a response to the maverick marketing tactics of MS & A. One analyst said MS & A was always ready to offer a 1,5c reduction on any price Samancor offered.

With MS & A out of the market, producers could look forward to more stable prices.

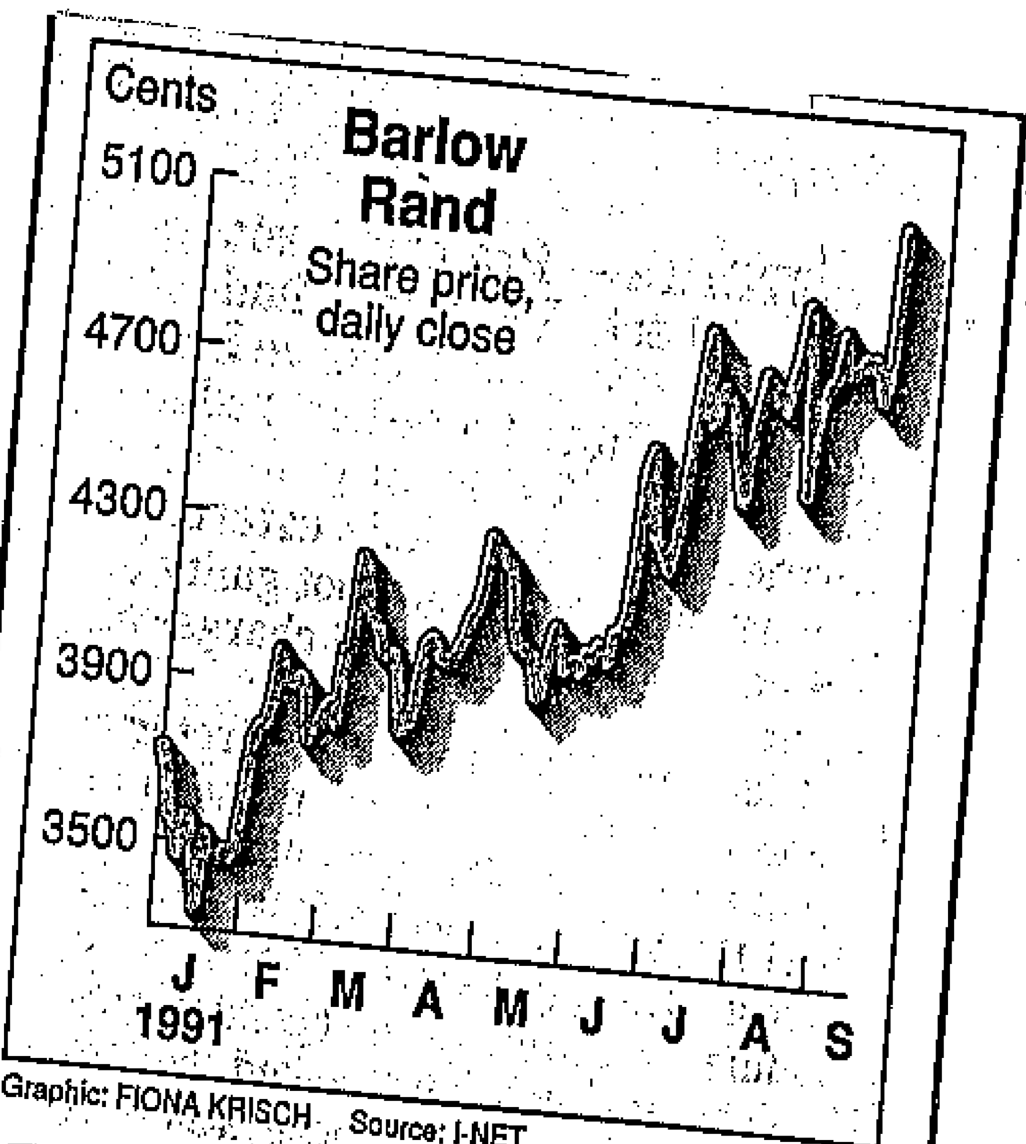
MS & A had also contributed to the problem of oversupply with its programme to increase its conventional ferrochrome capacity of 300 000 tons a year by an extra 120 000t through installation of a chrome direct reduction (CDR) furnace using latest German technology. Teething problems meant the new furnace was never commissioned, but the additional capacity fuelled market fears of oversupply.

Samancor chairman Brian Gilbertson said on Monday that in eliminating highest cost production from the combined ferrochrome operations, overall production would be reduced in the short term.

Simpson McKie analyst Hennie Vermeulen said that with Samancor's estimate that current oversupply would be 40 000 tons in 1991, taking MS & A's CDR furnace out of play produced a shortage of 80 000 tons. This, though, could be wiped out quickly.

Customers were likely to start building up stocks, because of the consolidation of SA production, to lower the risk of shortfalls should Samancor's supplies be interrupted.

● Comment: Page 12



Steel deal boosts Diagonal Street

189

MATTHEW CURTIN

VANSA Vanadium and Samancor led a surge in the share prices of mining groups and companies party to Monday's R1,1bn deal which saw Barlow Rand sell its stainless steel and ferrochrome producer Middelburg Steel & Alloys (MS & A).

Vansa, Rand Mines' vanadium operation which sold its vanadium assets for R17m last month and this week parted with its chrome subsidiaries to Samancor, has been reduced to a cash shell. Shares rocketed 47% or 35c to close the day at 110c, up from 75c on Monday. B/Day 18/9/91

Samancor stock climbed 425c to finish the day 15% higher at R32,25 against the previous day's close of R28.

Highveld Steel & Vanadium showed more modest gains, with shares improving nearly 4% or 60c to R16,25.

Barlows' shares rose nearly 6% to R51,25, taking the group's market value close to the R10bn mark.

Anglo American stock firmed 75c to finish at R118,25, while Gencor shares remained unchanged at R13 in light trading.

The market's enthusiastic reception for the deal bore out Samancor chairman Brian Gilbertson's statement on Monday that the transaction was a "win, win, win situation" for all the parties involved.

However, some analysts said Barlow Rand had come off less well from the deal. They noted the R1,1bn payment was equivalent to the sum invested for no return by Rand Mines in its ill-fated Barplats platinum venture. Rand Mines also took on

☐ To Page 2

Steel deal

B/Day 18/9/91

189

☐ From Page 1

R430m of debt as part of the deal in which Impala Platinum took control of Barplats.

Barlow Rand had also sold MS & A at the bottom of the current trough in the stainless steel and ferrochrome markets.

Barlow Rand has said the main reason for selling the company was to reduce its exposure to cyclical commodities markets. Analysts said Barlow Rand chairman Warren Clewlow told stockbrokers at a briefing yesterday morning that had the Columbus project gone ahead as originally planned, it would have put pressure on the group to invest heavily in MS & A to stay competitive. That would have been at odds with the group's new strategy.

MS & A turned in a R17m loss in Barlow Rand's interim results in March, contributing to the group's 14% drop in earnings.

That followed a R160m drop in the company's profits in 1989/90 from R322m to R68m, helping the group to a 15% fall in year-on-year earnings. Falling stainless steel and ferrochrome demand, and tumbling ferrochrome prices, knocked profits.

However, in the mid-1980s, MS & A was the force behind Barlow Rand's rapid earnings growth. In 1988 attributable earnings jumped 39%, with MS & A lifting its profits by 37%. This performance contrasts with Barlows's other forays into mining and mineral beneficiation in the '80s. Through Rand Mines, its investments in new gold mine Barbrook, vanadium and platinum came to naught, with operations since mothballed and/or sold.

● See Page 8
● Comment: Page 12

Steel deal with the US

(189) (88) Own Correspondent CT 19/9/91

JOHANNESBURG. — The US and SA have negotiated a new steel contract which will see exports of locally produced steel on the American market once more — albeit at greatly reduced levels.

In terms of the deal, SA steel exports to the US will be regulated to below 20% of pre-sanctions levels.

The agreement, the first since the lifting of sanctions on July 10, was negotiated at bilateral talks involving Department of Trade and Industry director Hardi Vos.

Vos was unavailable for comment and industry sources were tight lipped on the agreement yesterday, but according to well placed sources the scheme was given the go-ahead by both parties last week.

Toco poised to exploit upturn

BRENT VON MELVILLE

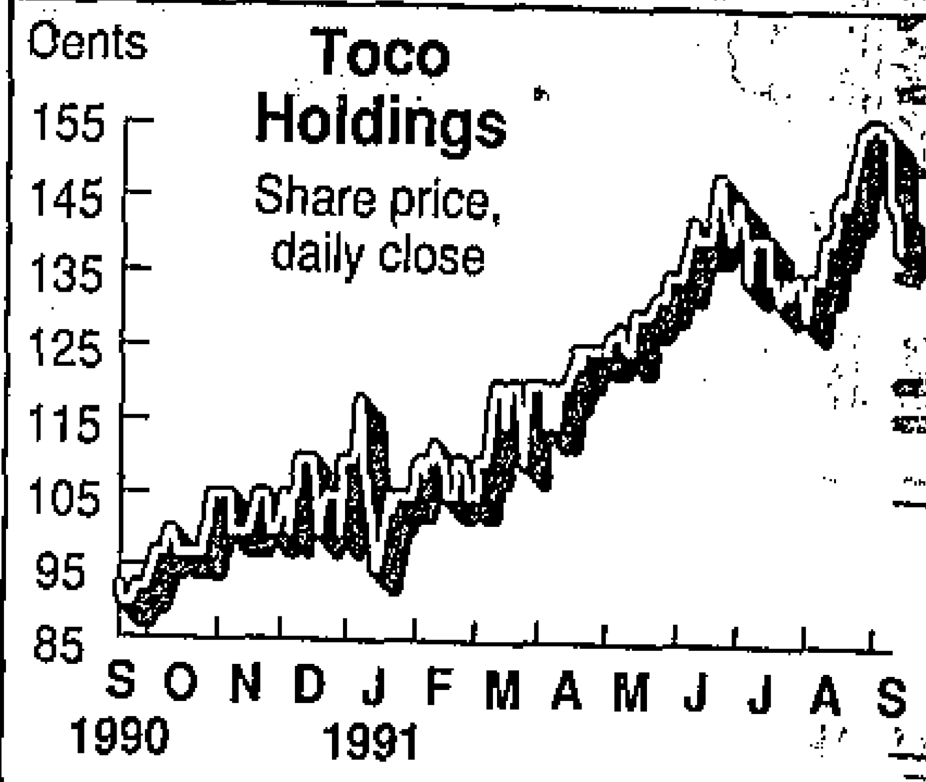
STEPS taken by Toco Holdings since its management buyout have positioned the industrial group to take immediate advantage of the impending economic revival.

Chairman Paul Todd said strategic investments and acquisitions were intended to blend into Toco, and the group was expecting good development from these companies. BDay 19/9/91

At operating level Todd's strategies have paid dividends. For the past financial year earnings climbed 22,5% off a 31% improvement in operating profits.

Since 1988 return on equity has grown by a compound average of 25%, while operating profit has grown by an average 40%. On the balance sheet gearing is at a manageable 25% and the total liabilities ratio is at 59%, compared with 66% the year before.

During the course of the year Toco acquired full ownership of National Hardware Wholesalers, 100% of SA Industrial Supplies, 60% of Alzac Holdings for R3,9m,



Graphic: FIONA KRISCH Source: I-NET

and the entire operating business and trade names of Premier Chemical Industries for R6,6m.

The acquisitions pushed total assets for the group up 42% to R111,5m (R78,5m) while total liabilities went up to R42m.

Shares in the group are 50% held by directors and have recently attracted strong institutional support. Analysts favour the group because of its strong pro-active management style which includes innovative marketing techniques.

US market open to steel exports again

B Day 19/9/91.

BRENT VON MELVILLE

THE US and SA have negotiated a new steel contract which will see exports of locally produced steel on the American market once more — albeit at greatly reduced levels.

In terms of the deal, SA steel exports to the US will be regulated to below 20% of pre-sanctions levels.

The agreement, the first since the lifting of sanctions on July 10, was negotiated at bilateral talks involving Department of Trade and Industry director Hardi Vos.

Vos was unavailable for comment and industry sources were tight lipped on the agreement yesterday, but according to well placed sources the scheme was given the go-ahead by both parties last week.

They said the contract was intended to close the steel trade loophole left by the lifting of sanctions in July.

This week's Metal Bulletin reported that the deal would limit SA exports to the US to less than 100 000 tons a year. Pre-sanctions levels peaked at about 585 000 tons in the mid-1980s, worth about R1,7bn in 1986 rand terms.

It is understood that SA originally agreed to take part in the talks to end unfair trade, although the Metal Bulletin report said SA was also prompted by calls for a voluntary restrictions agreement to cover SA steel imports following the lifting of sanctions on steel and iron ore. The pre-sanctions voluntary restrictions agreement quota represented 0,42% of US consumption.

According to the bulletin's report, the negotiators decided against a new voluntary restrictions agreement because the US's programme was set to expire at the end of March 1992. "While there is no formal agreement, there are import limiting numbers," the report said.

The agreement also provides for the unilateral ending of all export subsidies for steel shipped to the US, and will require exporters to obtain export licences from the US, enabling the US government to monitor closely the amount of SA steel entering the domestic market.

The report quotes a US congressman as claiming that the export licensing agreement will prevent the loss of about 1 500 steel jobs.

Iscor deputy MD Nols Olivier and Rolled Steel Producers' Council secretary Johann van Zyl would not comment yesterday.

Steel industry sources have estimated that it would take about three or four years for SA producers to win back their pre-sanctions export levels.

Brooks looks into steel deal

189

BD 19/9/97

MATTHEW CURTIN

THE Competition Board had started a preliminary investigation into the R1,1bn acquisition of Middelburg Steel and Alloys (MS & A), board chairman Pierre Brooks said yesterday.

The board had received no complaints about the deal; the probe was launched because of the size of the transaction, he said. The initial investigation would determine whether a formal investigation was necessary.

Brooks said the board was notified of the deal only on Friday. It had not had time to evaluate its merits.

Samancor MD Hans Smith said the probe would be a formality. Relevant documents had been submitted.

Production from the Columbus stainless steel joint venture with Highveld Steel and Vanadium, incorporating MS & A's plant, was intended for export, while local stainless steel production was already a monopoly. MS & A is SA's sole stainless steel manufacturer.

The board had been approached by parties to the deal before it was signed. Its response had been favourable.

FRASER ALEXANDER FM 20/9/91

Off the bottom (189)

Materials handling group Fraser Alexander used to argue that it was providing cost-effective, essential services and products to major industries and would not suffer from a recession.

Chairman Peter Flack says it is in the business of moving muck, mainly from mines, which always has to be done. From 1986, the time that Rembrandt acquired its stake in the group, to 1990 EPS more than quadrupled to 165,5c. This year, however, the group took a severe knock. Sales grew by 9% and EPS slumped by 24%.

Flack says there was a considerable improvement in the second half. The group barely broke even in the first quarter, but earned R5,5m in the second, and almost twice that in the second half. Flack says the loss-making Mamre quarry was disposed of during the year, and the range of the plant and equipment sales division has been cut back significantly.

Valuable long-term contracts were won at four JCI mines. The concrete division, which primarily makes piping for infrastructure, did not recover. Flack notes that its volumes fell by 32% on top of a 21% reduction the year before and still made money, which, he says, shows that the division is being effectively managed. Flack is confident about the future of the division as township infrastructure urgently needs to be built.

Gearing increased from 35% to 71%, but Flack argues that the group is growing rapidly and needs to finance long-term projects. It spends R15m a year upgrading its mobile plant, which is vital to prevent the capital stock from becoming redundant. Planned capital expenditure was nevertheless cut by R20m.

Flack predicts that earnings will increase by 25%, recovering to 1990 levels as all divisions are either on or ahead of budget. Though about 46% of group business is with the mining industry, just 22% is with gold mining. Fraser Alexander has a coal trading operation in Swansea, UK, and an operation in Australia, which contributed R1m to the bottom line.

At 950c, the share stands on a p:e of 7,6 and a dividend yield of 4,1%. Pyramid Fralex offers a p:e of 8,3 and a dividend yield of 3,3%. Despite the disappointments of the year, neither share appears to be at unduly demanding levels. *Stephen Cranston*

FRAIL FIGURES

Year to June 30	1990	1991
Turnover (Rm)	215	234
Pre-tax profit (Rm)	34	24
Attributable (Rm)	20	16
Earnings (c)	165,5	124,9
Dividends (c)	46	39

COLUMBUS-MIDDELBURG STEEL & ALLOYS

Winners all round

FM 20\9\91

(189)

Barlows gains most immediately while Columbus looks better than ever

Both the seller and the buying consortium of Middelburg Steel & Alloys (MS&A) are describing the R1,1bn deal as good for both parties. In fact, Barlow Rand chairman Warren Clewlow calls the transaction an "absolutely freak deal" while Genmin's Brian Gilbertson calls it a "win-win" deal.

That would make it an unusual arrangement. However, while both sides involved are citing benefits to come, Barlows will enjoy the gains soonest. It is receiving a large cash inflow in exchange for a major asset, which at present is a drain on profits.

On the other hand, though the start-up of the Columbus stainless steel project has been delayed while its management evaluates the best way of absorbing MS&A, the shareholders will end up with a much larger venture requiring a lower capital investment and, it is hoped, at lower competitive risk.

By buying MS&A, the consortium may also have further enhanced the prospect of the Columbus venture going ahead and, at the same time, reduced the project's reliance on an incentive package from government — though this will still be needed.

Essentially, the consortium is collectively buying all of MS&A — now wholly owned by Barlows — as well as Rand Mines' chromite interests, including Winterveld Chrome Mine, Henry Gould mine and related mineral rights. As Gilbertson puts it, these interests are being sold as a package for a global price of R1,075bn. But the agreement involves a series of deals that have varying effects on several listed companies.

Samancor, in which Gencor has an effective 50% interest and Anglo American Corp 24,9%, is acquiring the ferro-alloy operations and the chromite interests for about R575m. This will be financed by issue of about 22m new Samancor shares, at 2 775c each, the market price before the deal was announced on Monday. Anglo and De Beers will take up half of these new shares in proportion to their current interests in Samancor, so raising their total interests from about 25% to about 28%. Genmin (Gencor's mining arm) will take up the rest.

The stainless steel operations of MS&A, valued at about R500m, will be included in the proposed Columbus stainless steel project, a 50:50 joint venture between Highveld Steel and Samancor. Highveld will finance its 50% acquisition of the stainless steel assets by issue of some 16m new shares, at 1 565c apiece, which again was Monday's market price. Samancor will pay for its 50% share in cash.

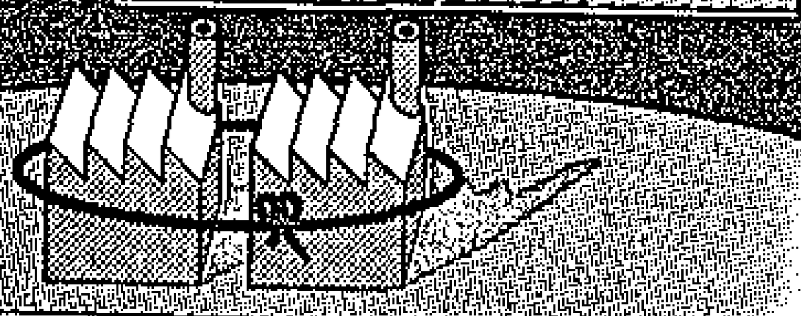
Management control of the various interests involved has changed with immediate effect and the deal is scheduled to take effect — with the risk being passed — from October 1. There is still no go-ahead for Columbus. Gilbertson says the Columbus management team will spend the next six to 12 months fully evaluating the MS&A operations and deciding how these can be best used as a platform for Columbus.

continued

Stainless steel ... joining forces

Columbus and MS&A* production (t)

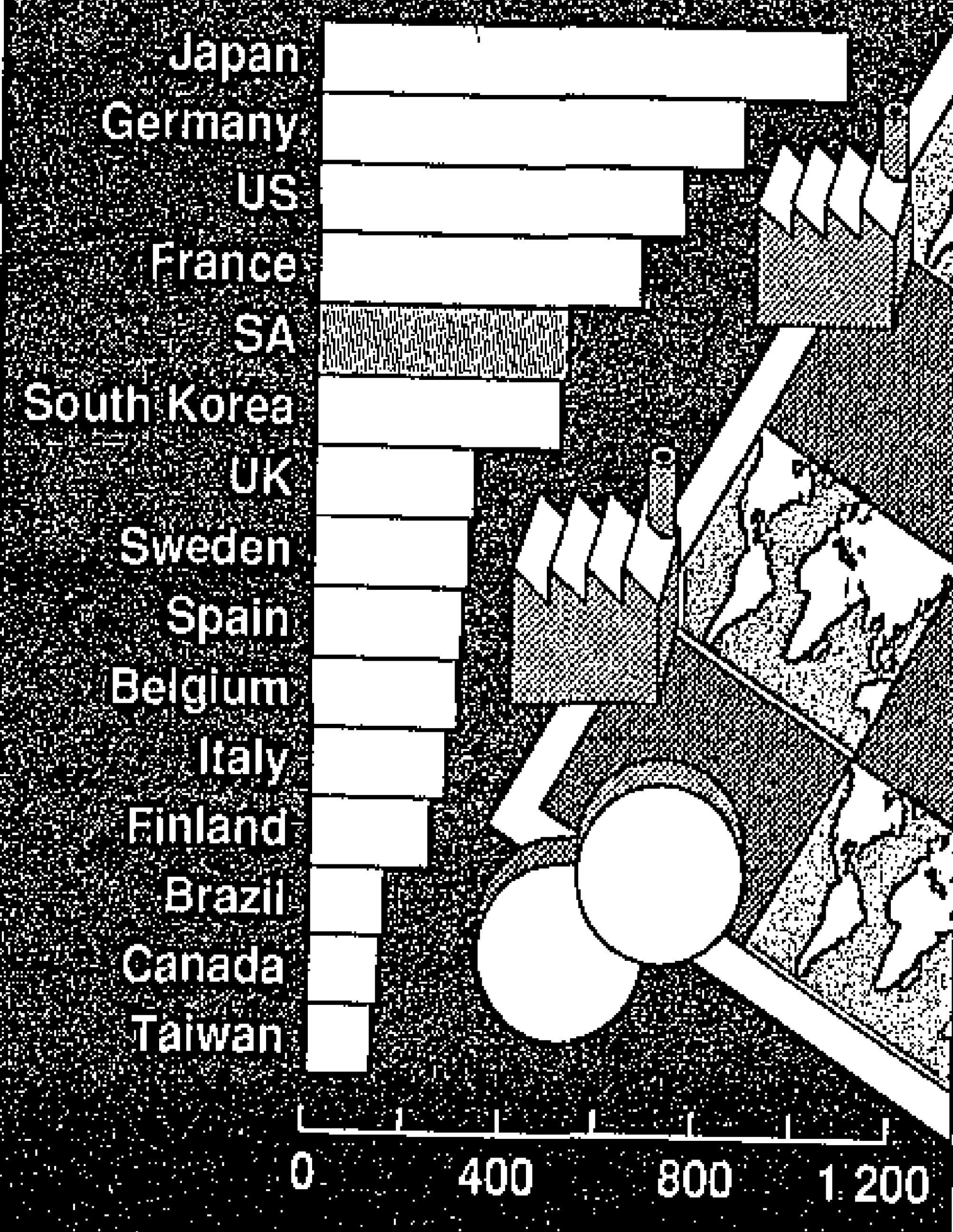
	Columbus	MS & A	Combined
Hot rolled steel	175 000	60 000	175 000
Cold rolled	200 000	60 000	200 000
Billets	-	-	120 000
Total	375 000	120 000	495 000



*Middelburg Steel & Alloys

... becoming a world player

World production ('000 t)



Meanwhile, the parties to the deal should see immediate and marked effects on earnings. In particular, from Barlows' standpoint, there is a cash injection of the full purchase price. At present rates, this could earn annual interest of about R200m, whereas MS&A is expected to lose about R30m in its financial year to end-September. Clewlow says he was not expecting to see any significant recovery for MS&A over at least the next couple of years.

The decision to sell MS&A follows the intention spelt out by Clewlow — who became chairman in January 1991 — in his 1990 review as CE, when he said Barlows was examining ways of reducing effects of MS&A's cyclical nature on the group's performance. At the same time, he noted that the entire portfolio of Rand Mines (of which MS&A is not a part) was being reviewed and its cash position would be strengthened by the disposal of underperforming assets and non-core businesses.

Commenting on the MS&A deal this week, Clewlow said the decision to sell these interests was part of a plan to reduce Barlows' exposure to cyclical commodities. "We were becoming increasingly commodity-driven. I've been trying to steer the group away from that. There was too much buffeting from commodity markets we could not control."

It was announced with the 1991 interims that the MS&A exposure would be reduced by listing the company, with some of the shares passed on free of consideration to Barlows' shareholders. Clewlow reckons that there will be greater benefits for shareholders from the present deal, which was struck after the Columbus consortium approached Barlows — not for the first time — following the announcement of the listing plan.

MS&A has been highly profitable at times but its performance has certainly swung widely. Between 1981 and 1984, it was either generating small profits or making losses. Operating profit then climbed steadily from about R50m in 1985 to R135m in 1988, before leaping to R322m in 1989; with demand flagging, profit crumbled last year to about R65m and the company was deeply in the red this year.

In 1989, MS&A contributed almost 22% of Barlows' total attributable earnings of R1bn, which were higher than the previous year's by a third. This year, it will play a large role in pulling down the group's earnings.

Clewlow cites other strategic considerations. He contends that once Columbus reaches full production, MS&A would have found it difficult to compete with the new but significantly larger producer. Being a capital-intensive business, MS&A would eventually have required further injections of equity finance, though if Columbus develops as planned then MS&A would have become a relatively small player in its industry. Barlows, of course, generally prefers to be the dominant player in the markets in which it operates.

Even so, there must be mixed feelings about the sale at Barlow Park and on the part of some existing and former directors. MS&A chairman John Hall, for example, spent years building up the company. Indeed, Clewlow says he views the deal with relief, but also with regret. It is, in fact, yet another — and a very large — step in the dismemberment and the disposal of what is left of the proud mining house that Rand Mines once was.

Ferrochrome ... shifting the balance

FeCr supply and demand ('000 t)	1989	1990	1991
Samancor	446	480	490
MS & A	232	220	240
Rest of SA	312	378	450
Total SA	990	1 078	1 180
Rest of world	1 620	1 582	1 490
Total world	2 610	2 660	2 670
Demand	2 630	2 600	2 630
Surplus/ (shortage)	(20)	60	40
Average FeCr price - US $/lb	76,3c	48,5c	48c

MS&A was part of Rand Mines when the latter was acquired by the then Thos. Barlow & Sons in 1971. The company was greatly expanded under Barlows' control, with its growth accelerated by an investment of some R150m in the early Eighties in the Southern Cross stainless steel plant; the subsequent development of a new steel product, 3CR12; and, in the last years of the Eighties, the decision to invest R260m in a new chrome direct reduction (CDR) process developed by Krupp.

Rand Mines will raise R75m by selling its chromite interests, consisting mainly of Winterveld chrome mine, which is the world's biggest, and chrome ore reserves. These funds will be added to liquidity raised by other recent sales, such as the holding in Lotzaba Forests and will be deployed to repay debt. When Rand Mines sold its platinum interests to Impala Platinum some weeks ago, it was left holding Barplats' borrowings of several hundred million rands.

Clewlow says Rand Mines will be left with a debt-free balance sheet once all these transactions are complete. Rand Mines is now left holding only its coal interests and the investment in Barplats, which is being closed. But, according to Clewlow, it is an efficient and large coal house and there is no intention of selling remaining mining operations (including the platinum stake) or of delisting Rand Mines. Nor, for that matter, is it intended to drop the word "Rand" from Barlows' name.

For Barlows, this deal marks a distinct change in thinking. Unlike many big players, the group has never been shy to invest its capital. But, while mining has at times been a valuable cash generator, the sector, in recent years, has been hungry for cash while providing limited returns — and the group burnt its fingers severely with platinum. The ferro-alloys and stainless steel interests are intrinsically capital-intensive, but have also been problematic in other ways. Aside from the cyclical markets, MS&A is having considerable difficulties commissioning its new CDR plant.

Both these sectors have dragged down Barlows' overall returns on capital employed; so from the standpoint of profitability there is logic in the disposals. Clewlow would wince at the thought, but can J Bibby be altogether excluded from the same logic? In contrast, Gilbertson describes capital-intensive industries — which require long patience — as being "like mother's milk to us ... it's what we were brought up on."

Barlows, too, will have a net cash position in its balance sheet. At this stage, management is not targeting specific areas for investment of its cash, though some of the subsidiaries may have large capital programmes over the next few years.

Sighs of relief doubtless are also being breathed in the ferrochrome industry. By moving MS&A's ferrochrome operations into Samancor, the stage is set for a marked reduction in price competition in this mar-

Continue

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ket. Other producers have cited MS&A as one of the suppliers contributing to the severely depressed prices of the product over the past few years.

It also greatly concentrates supply among fewer SA producers, who already dominate the world market for ferrochrome, with a total share of about 44% of world output of 2,67 Mt. Notably, the bulk of SA production is now heavily concentrated in the suppliers controlled by Gencor, Anglo and JCI. Samancor is already the world's biggest ferrochrome producer, with a capacity of 640 000 t a year. This acquisition expands that capacity by 300 000 t a year of conventional capacity and by a further 120 000 t a year produced by the CDR furnace.

Gilbertson says it is expected that the purchase will lead to an improving ferrochrome price, which has been languishing around US48c/lb. Each 1c increase in the product price will add about R21m to Samancor's pre-tax profit. Also, Samancor's production of chrome ore will be increased by 1,6 Mt a year to 3,6 Mt a year, and the company will add "substantially" to its chrome ore reserves.

Samancor MD Hans Smith says a study of the combined ferrochrome and chrome ore capacity is being carried out with a view to rationalising the highest cost production units. A likely outcome would be lower production for the immediate future, but at greater efficiency. Commissioning of the CDR plant will be delayed to enable various start-up problems to be addressed — all of which is likely to help reduce the present oversupply of ferrochrome in world markets.

David Kovarsky, chairman of JCI's ferroalloys producer CMI, says he regards the deal as very positive for the ferrochrome industry. "Prospects for an increase in the price of ferrochrome are looking much better now," he says. "It should reduce competitiveness between the SA producers — and we have been very competitive."

However, CMI currently buys 50%-60% of Winterveld chrome mine's output and CMI management has said that it would not be happy about the mine being controlled by a competitor. For the present, supplies are assured, since there is a two-year contract. But Kovarsky says that CMI intends to approach Samancor and offer to buy control or joint control of Winterveld. If that cannot be done, then CMI will probably develop its own chrome mine.

MS&A's stainless steel operations are relatively profitable and should make an immediate profit contribution to the new owners. And, while the chromite interests are a very useful strategic acquisition, the stainless steel assets are the core of the deal as these will form the platform for developing Columbus. Most of the key process plants that will have to be developed by the new venture are already in place, as is the existing infrastructure.

By expanding from the MS&A plant, Columbus can draw upon the considerable pool of technical and management expertise in what remains a highly specialised industry in this country. That could help to ease the usual learning phase involved with such a large venture.

From a financial standpoint, Gilbertson estimates that the capital cost of Columbus, which in the past has been put as high as R3,5bn, could be reduced by between R500m and R1bn.

As a combined entity, the position of Columbus in world markets should also be strengthened. With a total stainless steel output of 495 000 t, it is forecast that it would be the fifth largest producer in the world (see chart).

There is still no assurance on when the go-ahead will be given for Columbus. Absorption of MS&A will probably delay the start-up for some months, but then the development of the venture could move rapidly. This week's deal should have bolstered its profit prospects and perhaps drawn the payback period nearer — though the Competition Board may not be enthusiastic about the transaction. The market was quick to show its approval of the effects: on Tuesday, Samancor gained R3, Barlows 310c and Highveld 60c.

Andrew McNulty

SOURCE NOTED

A corporate report on Fidelity Bank, published with the *FM* of August 23, contained a number of graphs from a booklet, *Banking Survey SA 1991*. Due to an oversight, the report failed to acknowledge that the booklet was prepared by KPMG Aiken & Peat. We regret the omission.

Samancor is warned over prices

B/Day 20/9/91 (189)

IAN HOBBS

LONDON — Samancor, now pre-eminent in the ferrochrome world, was warned this week that it would suffer the consequences if it was tempted to raise prices too high.

The journal Metal Bulletin said that with a 30% share of world ferrochrome production capacity since the take-over of Middelburg Steel and Alloys, Samancor could become a price-maker rather than a price-taker.

"It is big, but not so big that it can afford to alienate its customer base by imposing unreasonable price hikes when the fundamentals do not warrant it, said Metal Bulletin.

The journal said that Samancor had clearly been unhappy over the past 18 months with the slide in prices, caused initially by oversupply (and helped along by Middelburg).

"But to hike prices too high now would only provide scope for other marginal producers to bring back mothballed capacity and tempt some of those waiting on the sidelines to go ahead with investment in new production units."

The fact that the number of ferrochrome suppliers had been cut further ought in itself to bolster prices.

A cut in output in the medium term, as Samancor was planning, was the best way of restoring prices to levels more acceptable to the producer and consumer, concluded Metal Bulletin.

COMPANIES

Shrinking market squeezes Bearman

MARC HASENFUSS

ENGINEERING group Bearing Man (Bearman) reported an 8% drop in interim earnings after experiencing the "worst trading conditions" since 1974 in the ball-and-roller bearing industry.

Bearman directors attributed this to a shrinking market undercutting prices.

Competitors' efforts to rectify their positions regardless of market consequences and long-term market stability had resulted in overstocking.

Earnings slipped to R2,7m (R2,9m previously) or 54c (59c) a share on the back of a 4% rise in turnover to R49m (R48m) in the six months to end-June. The 15c interim dividend was maintained, covered 3,6 (4) times. Operating income fell 19% as uneconomic discounting crushed margins to 15% (19%). "This has led to a situation in which the inflationary effect on overhead costs is not being fully recovered by selling price increases," the directors said.

A 26% reduction in interest paid to R2,4m (R3,3m) and 20% drop in taxation to R2,3m (R2,9m) partly offset the fall in operating profit.

Directors said the reduction in interest paid was attributable to a successful asset management programme.

Interest-bearing debt was brought down to R16,7m from R29,9m in the corresponding period last year. The debt-to-equity ratio stands at an acceptable 1,6 (2,4).

Directors expect difficult trading conditions to continue in the short term.

Bearman traded at its high of 410c yesterday. Two hundred shares changed hands.

The share has recovered strongly from a 290c low in May.

The company issued a cautionary last month advising that it was involved in negotiations. A further announcement is expected soon.

(189) B/Day 20/9/91

Steel merchants under scrutiny

S/Times (Bus) 22/9/91. (189)

By DON ROBERTSON

THE COMPETITION Board is investigating allegations of price collusion by steel merchants.

The board's director of investigations, Wouter Meyer, says that although the investigations are not formal, a general look at the industry has been conducted "for the past few months".

A merchant, who declines to be named, says collusion is present in the business, particularly among larger groups, such as Macsteel, Trident and Baldwins.

"We have been involved in a price cartel revolving around a fixed price structure. We used to buy from Macsteel and it told us what discounts to offer our customers. When we refused to do this, it, other members of the Macsteel group and large merchants reduced the discount they offered us. That stopped us from dealing with them. We believe they are trying to drive us out of business.

Guarantees

"We now have to import steel. We believe an application has been made to the authorities to increase import duties."

Michael Hoffman, deputy chairman of Macsteel in charge of domestic sales, says: "I am unaware that this has taken place. It might be possible that we would reduce supplies, but this would be done for other reasons, such as a problem with creditworthiness or if buyers conducted their business in a way we do not agree with."

Trident Steel managing director Ben Fourie agrees that users can buy directly from producers, such as Iscor and Highveld Steel & Vanadium, in quantities of any size provided they offer payment guarantees.

JOHN VAN REENEN: Rigging's difficult

Regarding allegations that the large merchants dominate the market by colluding on discounts offered to small traders, Mr Fourie says: "We give discounts to customers who have dealt with us for a long time and who pay promptly. In many instances we have to act as a bank in providing finance for up to 150 days."

Another trader who refuses to be named says that because no merchant is able to hold a full range of stock, there is a lot of trading between companies. As a result, they have to stay close to one another on prices because of poor economic circumstances.

"There is no future in merchants cutting each other up on prices. It would be silly to do so."

Another says there have been accusations of price fixing, particularly in sheet metal, but he has no proof of this.

John van Reenen, managing director of steel merchant Van Reenen and Nichols, says that in every industry it is usual to follow market leaders on prices.

Each company has a standard price list. But if one company wished to enter the cold rolled-steel business, for instance, it would probably base its prices on the market leader.

Light

Mr Hoffman, who is also chairman of the Steel Merchants Association, says he was approached by the Competition Board about three months ago and he responded to its inquiries in writing.

"This was part of an investigation into the steel industry as a whole, embracing producers as well. The board is investigating other industries, such as cement, timber and bricks, and its interest in steel should be seen in this light.

"Any end user of steel can buy directly from producers and avoid dealing through merchants, so it would be difficult for there to be price collusion," says Mr Hoffman.

Merchants handle between 40% of the 4-million tons of steel sold in SA for about R5-billion a year.

Steel deal three times a winner

GENCOR mining boss Brian Gilbertson describes this week's three-way deal among his group, Anglo American and Barlows as "win-win-win". He mentions:

- An estimated saving of between R500-million and R1-billion should be made on the Columbus stainless-steel joint venture now that Middelburg Steel & Alloys is to be the foundation.
- The cyclicality of mineral prices will be removed from industrial group Barlows' income statement.
- Columbus will ultimately push SA into fifth slot in the big league of stainless-steel producers.

A consortium of Anglo American, De Beers and Gencor companies is to buy MS&A's stainless-steel operations — valued at R500-million — from Barlows.

The consortium will also buy Barlows' chrome interests, including three mines and mineral rights belonging to Barlow subsidiary Rand Mines. The whole deal is worth R1,075-billion.

Columbus partners Samancor and Hiveld will finance 50% each of the MS&A acquisition. Hiveld will issue 16-million shares of R15,65 to parent Anglo American and Samancor will pay cash.

Samancor will buy MS&A's ferroalloy operations as well as the chrome interests by issuing 22-million shares of R27,75. Anglo American and De Beers will split 11-million shares between them to raise the combined stake from 25% to 28%. Gencor's Genmin will take up the balance.

Already the world's largest producer, Samancor's ferrochrome capacity will rise to above a million tons a year. Mr Gilbertson says the group will examine the costs at every operation with a view to rationalising.

He will not be drawn on his hopes for the price of ferrochrome, currently 48 US cents a pound. Every cent on the price will gross R21,1-million pre-tax profit for Samancor, so if the price scrambles to the suggested 55c/lb, it will be in the pound seats.

Samancor will have almost 40% of the cost-effective world capacity of 2,7-million tons.

Its share price jumped 300c to R31 on the deal news.

Chrome-ore capacity will almost double to 3,6-million tons and Samancor's reserves will be strengthened.

It was a well-kept secret, but the market liked what it heard. On Tuesday, Hiveld added 60c to R16,25, Barlows 200c to R50,50 and Anglo American 50c to R118.

The cost estimate for Columbus was greater than R3-billion and its capacity is to be three times that of MS&A, whose stainless-steel operations were valued at R500-million.

Mr Gilbertson believes MS&A is a good acquisition. At a presentation to analysts and the media, I asked him who made the first move. He replied that Genmin had been looking to buy MS&A for some time, but it was not for sale.

After this year's big loss, Barlows announced it was seeking to shed some of the burden and was more receptive when another approach was made.

MS&A furnishes Columbus with a launch pad. The infrastructure is in place. Combined production of hot rolled, cold rolled and billet steel will be almost 500 000 tons a year.

Columbus, already long on the drawing board, will face a six-to-12-month delay while its management team gets to grips with MS&A. The go-ahead previously hinged on three things: sanctions (now overcome); an appropriate financing package (already well advanced); and level playing fields with foreign competitors.

Every rand spent on Columbus will result in a redeemable tax certificate to the tax value — a move Mr Gilbertson compares to the lifting of ring-fencing in mining. Happily for taxpayers, expected capital savings mean the incentives will not cost them as much.

The paperwork will take a month or so, during which time it will be decided whether the MS&A company or its assets will be taken over. Whatever the outcome, the new management came into power on Tuesday and the deal becomes effective in October.

Mr Gilbertson speaks of the importance of bringing together traditional rival companies to develop projects. Partnership is the name of the game if SA's minerals beneficiation dreams are to be realised.

The Winterveld chrome mine is wholly owned by Rand Mines-controlled Vansa. It supplies JCI ferrochrome producer Consolidated Metallurgical Industries (CMI) with ore.

CMI's David Kovarsky said in July that he had been told Winterveld was not for sale, but that he wanted to buy it.

Mr Kovarsky says CMI would still be interested in buying or jointly owning Winterveld and has approached the new owner.

He says it is not altogether satisfactory that Winterveld is now owned by a major competitor.

- **At the presentation, Mr Gilbertson said the Competition Board's response to the purchase of MS&A was initially positive because most of the production is exported and does not affect domestic consumer prices.**

Now, the board says it was only told at a late stage about the MS&A deal.

It says: "Certain meritorious aspects of the transaction are self-evident. However, the board is also obliged to take cognizance of its impact on economic concentration and potential restrictions on competition that could arise.

"These and other relevant issues will be fully canvassed in discussions the board intends holding with the parties concerned."

Fraser Alexander battens on muck

THERE'S brass in muck for Fraser Alexander — it has bought SA's largest waste management company, Waste-Tech, for R35-million.

Waste-Tech has been Fraser Alexander's target since March 1987. That year Fraser Alexander set up its own waste management division, which recently won a contract to operate the East Rand Regional Services Council's sanitary landfill site at Platkop — the first RSC site to be handled by a private company.

Waste-Tech will be merged with the waste division and boosted into second slot in the Fraser Alexander group in terms of turnover and profit. In the year to June 1992, Waste-Tech should turn over R80-million and make R8-million pre-tax.

Fraser Alexander chief executive Peter Flack says the Environmental Conservation Act of 1989 is intended to tighten up environmental controls.

Waste-Tech has four class 1 hazardous waste disposal sites and five class 2 sites. Mr Flack believes the licensing of such sites will become more difficult when new legislation is effective. They have to be properly engineered with an impervious lining such as clay.

Guidelines also under consideration include the proposed registration of hazardous waste generators. A precautionary principle that waste is presumed hazardous unless proven otherwise is likely to be adopted and the polluter will be liable.

Mr Flack says: "This country is short of water, but only 5% of our supply comes from underground. In America it is more than half. It is important that we do not pollute our underground water as it is likely to be needed in the future."

Municipalities handle 75% of all solid waste and Fraser Alexander now has most of the balance.

Mr Flack believes more municipalities will opt to contract out waste management, especially as environmental legislation tightens.

Waste-Tech has also introduced a medical waste handling system and has secured contracts with most of Cape Town's hospitals and some in the PWV. Mr Flack warns of the problems of this type of waste being dumped in an unsafe way.

The purchase price will be settled either in cash or by the issue of Fraser Alexander shares at the buyer's election. If the sellers of Waste-Tech decide not to accept all the shares, Mr Flack hopes to place them across a broad spectrum of institutions with the aim of improving tradeability.

It can be safely stated that political organisations, such as the ANC and the PAC, are influenced by "green idealists".

The quality of township life will be greatly improved by efficient waste management.

Waste-Tech managing director Geoff Wood will join the Fraser Alexander board and head the enlarged waste division. He believes the deal heralds a new growth phase for the company.

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Charter set to deliver goodies — at long last

JEFFREY HERBERT: Shaker

CHARTER Consolidated has been under several managements in its 26-year history.

But managing director Jeffrey Herbert and his team under the chairmanship of Sir Michael Edwardes look like being the first to deliver the goods.

The British company gave presentations to the Investment Analysts Society this week.

I wondered what was in it for Charter, but many SA companies have shares in it and shareholders are treated with more courtesy in England than they are here.

After the Johannesburg presentation, a Scottish sage told me he wanted to buy a few shares before my article appeared.

He said: "Let's face it, Charter's been a bum steer for 20 years. But it looks like it's coming right now. Mind you, Herbert's not the first young man who was going to put it on the map."

Mr Herbert is nevertheless the first to show that Charter is capable of sustainable growth. He concedes that Charter is not yet all he wants it to be, but there has been much commercial decision making in the three years he has been there.

So much change has taken place that the group no longer warrants being listed under mining financials. The closest thing to a mining interest is a 38% stake in Johnson Matthey.

Charter sold its 40 000m² premises at Holburn Viaduct for £20-million and bought offices a quarter of the size for £4-million. Head office staff was cut from 280 to 36.

"How could we justify sitting on £16-million of shareholders' funds tied up in property we did not need?" asks Mr Herbert.

CHARTER CONSOLIDATED

4 500, 3 000, 1 500, 800, 500, 300, 175

69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91

Source: I-Net

In the year to March 1991, a quarter of Charter's profits came from cash, a third from Johnson Matthey and the rest from managed investments.

The four managed businesses are Anderson, Pandrol, Cape and Cast.

Anderson is world leader in longwall coal-mining equipment, distribution and services. Longwalling is an efficient mining method accounting for a third of production from America's 2000 mines. Of the 90 faces now being mined, Anderson equipment is on 20.

Mr Herbert says British coal mines face difficulties and Anderson has expanded in other countries. Longwall mining is growing in America, Australia, China, Poland and Russia.

Pandrol's business is rail fastenings and track maintenance. It manufactures in 14 countries and sells to 70, reducing its reliance on British turnover to only 12%.

Mr Herbert says railway investment is expected to grow by 9% a year in Europe for the rest of the decade at least. Italy alone is to spend £4-billion a year. Pandrol's standards set those for the industry. Its profits grew by 60% in 1990. It has even secured business in Japan against stiff domestic competition.

Cast quarries aggregates in Yorkshire and carries out open-cast coal mining in Indiana, where 50% of the work is on Cast's reserves of high-quality, low-sulphur coal. Quarrying had a difficult year in England where markets fell by 16%, but Mr Herbert says the businesses are the best in their area.

Cape is the British leader in fire-protection building products and industrial contracting services. It has grown well in the past three years, but the intention is to expand outside the UK. Foreign sales rose by 35% last year and Cape is expanding in Europe and the Far East.

Costs have been cut — 1 682 redundancies resulted in a saving of R100-million a year. Financial controls and reporting have been strengthened.

Gone is the 4% cross-holding in Minorco, which owns 36% of Charter. The yield was too low. Other traditional businesses have been sold for £105-million and £109-million has been spent on new businesses.

The disposals and acquisitions have resulted in a compound annual growth rate in turnover of 5% since 1986 to R5,4-billion (currency conversion) in the year to March 1991. Pre-tax profit rose by 22% a year to R376-million in the same time. Earnings a share grew by 19% and dividends 13%.

The return on capital employed increased by 32% a year since 1986 to 19% at March 1991.

Slightly more than half its profits come from Britain and Mr Herbert does not expect it to drop below 40%. North America chipped in 28% and Europe 10%.

Charter has R645-million in cash and access to R1,5-billion in borrowings if required to follow an industrial strategy. This could be through organic growth, bolt-on acquisitions or new fields.

SA investors have done well from Charter's rand-hedge characteristics. In five years since 1987, taking into account the rand's depreciation against sterling, earnings a share in rand terms have grown at a compound rate of 31% and dividends by 24%.

Mr Herbert expects SA shareholders to continue to benefit by being in Charter because the rand will probably slide further because of different inflation rates.

Mr Herbert is nigh scornful of analysts who appear to have a fixation with the platinum price, Charter's holding in Johnson Matthey and Minorco's in Charter. He says that cash is critical and he is aware of the lack of control over the dividend policy of Charter's investment in Johnson Matthey.

It seems that the stake will either be boosted, or sold. The status quo is unsatisfactory.

Sanlam has 5% of Charter. No doubt other SA institutions will be looking to get aboard. The current price is R28,60 — off February's high of R30,25, but well above the July low of R23.

A move to industrial holdings might improve its rating.

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MS&A sale boost for Barlow profit

S|Times (Bus) 22/9/91. (189

By DAVID CARTE

THE sale of Middelburg Steel & Alloys (MS&A) by Barlow Rand for R1,1-billion will add R200-million a year to Barlows' pre-tax profit, says vice-chairman Derek Cooper.

Mr Cooper says MS&A would not have contributed to Barlows' bottom line in the coming next year had it remained in the stable.

Proceeds of its sale will reduce interest costs by more than R200-million before tax.

Mr Cooper says it will eliminate debt in the holding company and enable it to fund developments in underlying companies.

"The price was good for us, but it was a win-win-win deal. We win in becoming less cyclical and gaining a large amount of cash at the centre — also by avoiding spending billions on a world-scale plant.

"The buying consortium wins by receiving a kick start in stainless steel, by being able to add its Columbus project on to the MS&A plant and increasing its share of the world ferrochrome market to 40%.

"Finally, the country wins by becoming a world player in two markets and through vast export earnings."

The Barlows share price gained R4 to R51 this week shortly after the deal.

Tiger

Analysts say Barlows deserved a rerating because it at last acted resolutely on two of its biggest problems — the continuing disasters in platinum and gold in Rand Mines and the excessive cyclicality that MS&A lent to the whole group.

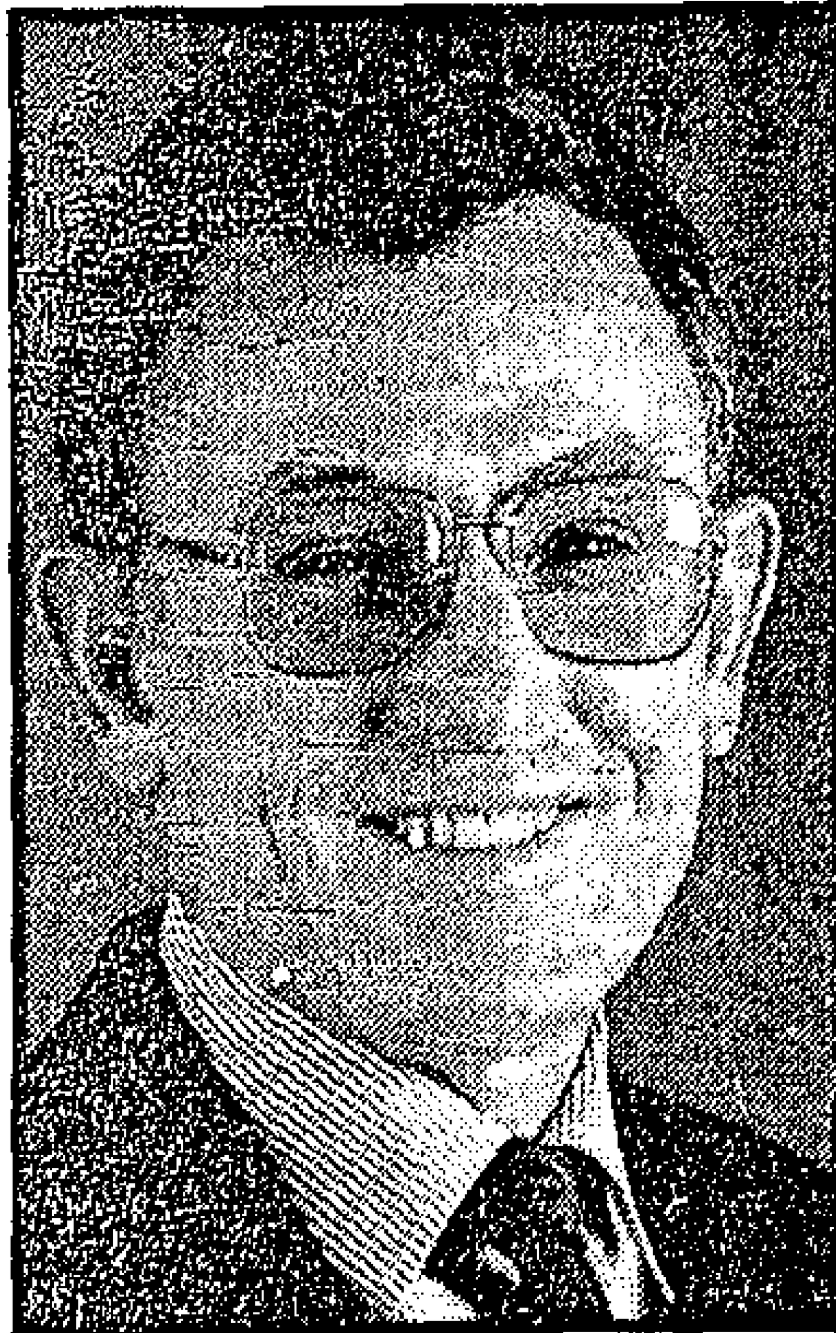
They say Barlows can now fund its better businesses, such as Tiger, if necessary, through rights issues.

But Mr Cooper warns against reading too much of a renaissance under a new chairman into the deal.

"These were particular circumstances. We are not basically a seller of assets. We have long felt MS&A made us too cyclical. We had already put in motion a plan to reduce our holding.

"The need to act became more urgent when the consortium decided to go ahead with its Columbus project. We were receptive when it came to us with this proposal.

"We did not sell wishing to do something specific with the proceeds. But I suppose we demonstrated that we are



DEREK COOPER: The wise thing to do

prepared to sell assets when it is obviously the wise thing to do and that we don't hang on for sentimental reasons."

Top management of MS&A was told about the transaction only after it had been concluded.

MS&A managing director John Gomersall is a director of Barlow Rand and will stay with the group. He says he and his team were astounded when told about the deal, but he cannot quarrel with its basic wisdom.

Although there is some concern about possible rationalisation, there is general acceptance.

Mr Cooper says: "Our people in MS&A have a better future in the industry they're in. The potential for them in a world-sized plant is unlimited."

Mr Cooper says negotiations started with informal talks between the chairmen. Once they became serious, the parties believed they had to reach agreement quickly for the sake of MS&A's customer relations. Negotiations took only 10 days.

Sources close to Barlows say only eight people knew about the talks — Julian Ogilvie Thompson, Graham Boustred and Leslie Boyd from Anglo-Highveld, Derek Keys and Brian Gilbertson of Gencor-Samancor and Warren Clewlow, Mr Cooper and George Bulterman of Barlows.

Mr Cooper says Barlows' portfolio remains outstanding. A slimmer Rand Mines will concentrate on coal and properties. It retains a large stake in Barmine. He is convinced that platinum will revive, but relieves Barlows no longer has a management role.

Barlows' other much-criticised investment, Bibby in the UK, is doing well in difficult conditions after returning to good profitability last year. Bibby is now in four basic businesses — animal feed, paper and allied products, materials handling equipment and science products.

"People say correctly we are in mature businesses. But they are mature in the First World, not in SA. Markets, such as packaging, food, cement and paint, are all still growing here because of population growth and urbanisation. We are market leaders in nearly every field we are in."

Mr Cooper says he and Mr Clewlow are old friends, understand the Barlows culture and work well together. Barlows is not as centralised as many think.

"The executive committee comprises seven men. There are four chairmen — Robbie Williams, who is in charge of food, Brian Connellan, packaging and textiles, John Hall, mines and minerals beneficiation, and Clive Parker, who looks after industry.

"George Bulterman and Dammy Watt, who retire in March, with Warren and I, form the rest of the central team.

"Control from Barlow Park works on an 80-10-10 principle. About 80% of the activities of downline company managers are completely independent. They inform us about 10% of their activities and come to us for authority on the other 10%."

Mercy

One analyst says the sale of MS&A and the clean-up of Rand Mines were forced on the company. The sale shows Barlows does not have the stomach for large-scale greenfields investment or for competition.

But Mr Cooper denies it, pointing out as examples of greenfields MS&A, the (mothballed) Dwaalboom cement plant and Nampak's glass plant.

The group is glad to be less at the mercy of commodities, but is still well represented in them through cement, sugar, coal and milling. Nearly every industry in which Barlows is represented is highly competitive.

What does he see as the weaknesses of Barlow Rand?

"We have long developed people from within. It is therefore difficult to bring outsiders in at the top. I guess we have been a little too patient with underperforming assets."

Where are the best growth prospects in the group?

"Because of rising population and urbanisation, I would say those areas closest to the consumer."

SML controls Bearman

B/Day 23/9/91

MARC HASENFUSS

ANGLOVAAL subsidiary Steelmetals (SML) has acquired a controlling stake in ball and roller bearing distributor Bearing Man (Bearman) through a merger agreement announced at the weekend.

The merger, which unites SML and Bearman's businesses under the Bearman name, will see the formation of the largest distributorship of bearings in SA with an estimated 23% share of the local bearings market.

Bearman distributes ball and roller bearings, power transmission products, seals and related products. SML is the sole distributor in southern Africa of NSK bearings manufactured by Nippon Seiko (Japan).

The expanded Bearman will represent three major Japanese bearing manufacturers: Nippon Seiko, Nippon Thompson and the Nachi-Fujikoshi Corporation.

The purchase consideration will be settled by the allotment and issue of a number of Bearman shares based on the net asset value (NAV) of Bearman shares at the end of September. The share issue will equal the aggregate NAV of the merged businesses.

Although the merger is subject to approval at a Bearman general meeting, the group's controlling shareholders have irrevocably undertaken to vote in favour of the merger.

SML will hold more than 40% of the increased share capital of Bearman. An offer will be made to minorities equal to Bearman's NAV a share.

(189)

Bearman says the NAV of its shares will not exceed 450c a share. Bearman's NAV currently stands at 476c a share.

According to the statement, if the NAV exceeds 450c a special dividend equivalent to the excess NAV will be declared and paid by Bearman.

Bearman's NAV a share will not be affected by the merger but the financial structure of Bearman will be substantially improved as a result of the issue of new shares.

A further announcement on the financial effects of the merger on Bearman will be made after the establishment of the NAV of Bearman and SML at the end of the month.

Last week Bearman reported an 8% dip in interim earnings to R2,7m (R2,9m).

Bearman was untraded at the weekend at its 410c high. The share bottomed at 290c in May this year.

MS&A deal could steel chrome price

B Day 24/9/91 (189)

MATTHEW CURTIN

STAINLESS steel sports cars never took off — except in Hollywood where the infamous De Lorean, a handful of which were made at vast cost to British taxpayers, whizzed through time and space as a time-machine in the Back To The Future film series.

Fortunately, the stainless steel industry did not depend on the eye-catching but impractical car for its survival, and the sector has been growing at 3% to 4% a year for many years, with the same growth forecast for the 1990s.

What Michael J Fox no doubt does not realise, nor most Japanese — who consume about 18kg of stainless steel a year per person — the Swedes (also 18kg), Germans (12kg), Americans (6kg) or British (5kg), is that a sizeable proportion of what goes into their stainless steel time-machines, cutlery, sinks, urinals, vats and industrial plant could come from such exotic locales as Elandsdrift and Winterveld.

Between 15% and 25% of stainless steel content is chrome, the remainder made up of iron, nickel and small amounts of other material. Stainless steel accounts for three quarters of demand for chrome.

SA has 75% of the world's reserves of chrome ore enough to satisfy world demand for about 500 years. We currently mine more than 35% of the world's chromite, and produce 30% of the world's ferrochrome, the iron/chrome alloy used in the stainless steel manufacturing process.

Pressure

With steadily growing stainless steel demand and accessible, plentiful ore reserves which are still the cheapest in the world to mine, SA ferrochrome producers would seem to be sitting with a golden-egg laying goose.

Until last week, the goose was distinctly sick and had been so for nearly two years, with a labouring ferrochrome price knocking the bottom line of producers. At Middelburg Steel and Alloys, earnings were hit so badly it pressured parent Barlow Rand into selling the whole operation.

Stainless steel demand accelerated between 1987 and 1989 and pushed prices up by as much as 50%. SA producers' prices hit $0,82/lb, with free market spot prices even higher.

The high prices encouraged producers worldwide to expand capacity. In SA, Samancor, Consolidated Metallurgical Industries (CMI) and MS & Aincreased capacity by as much as 33%, and two new producers arrived on the scene: Chromecorp Technology CCT, run by former Samancor employees; and Purity Metals, bought last year by CMI.

But from end-1989, SA producers faced a less promising future. Committed to expansion programmes, they set prices at $0,47c in the September quarter last year.

Ferrochrcme supply & demand

	89	90	91
Samancor	446	480	490
M.S. & A.	232	220	240
Rest of SA	312	378	450
	990	1 078	1 180
Rest of world	1 620	1 582	1 490
Total world	2 610	2 660	2 670
Demand	2 630	2 600	2 630
Surplus/ (Shortage)	(20)	60	40
Average FeCr price US ¢/lb	76,3¢	48,5¢	48¢

Spot prices fell in the face of a huge potential surplus, as the recession took hold and steel manufacturers began to destock.

It was not all bad news as SA producers, the lowest-on-cost producers, still enjoyed profit margins and were able to close furnaces for refurbishment.

However, the ferrochrome price has remained depressed, rising to $0,49 in the December quarter last year and not moving since.

Analysts and producers also attribute the weak price to the ferocity of SA competition for market share.

The main culprit in the price war was MS & A, analysts say. Not only had the company expanded its conventional capacity and undertaken to install new lower-cost furnaces, but MS & A was undercutting any price Samancor and the others could offer.

Hence, the beauty of last week's R575m deal in which Samancor bought MS & A's ferrochrome operations and associated chrome mines. In a single move, Samancor "took out" the maverick in SA's pricing strategies and absorbed a third of current ferrochrome production.

The move prompted the influential London-based Metals Bulletin to warn Samancor, now in control of 40% of the world's profitable ferrochrome producton, against driving prices too high. That would rile customers and encourage current marginal and loss-making operations to maintain, if not expand, capacity.

Samancor MD Hans Smith admits there is some truth in what the Bulletin said. A $0,10 hike in price would send "every man and his dog" scurrying to get into the ferrochrome industry, he says.

Samancor's priority is to stabilise prices at a profitable level, ideally $0,55/lb. Smith says he would like to see prices rise to that level in 1992, but no higher. He says he hopes the times of "senseless competition are over" and more reasoned negotiations with his customers will prevail.

CCT MD John Vorster says it would be crazy to send prices soaring. The goose is now on the mend, but that sort of approach would seriously damage her health.

New steel project a money-spinner for SA

(189) AUG 25/9/91

DEREK TOMMEY

JOHANNESBURG. — The huge Columbus stainless steel project, which should be completed by the end of 1995, will make a major contribution to South Africa's prosperity, says Columbus's chief executive Fred Boshoff.

When the plant is in full operation its revenues should be R2 billion to R2,5 billion a year — equal to one-eighth of the revenues generated by the entire gold mining industry.

However, there will be a strong multiplier effect, which is difficult to quantify at this stage.

There will be the normal multiplier effects arising from the spending of huge amounts by Columbus.

But the availability of much cheaper and more varieties of stainless steel is expected to encourage the growth of local fabricating industries.

This development could also raise export earnings and generate prosperity.

Columbus should start contributing to economic growth in about six months' time when the first orders for new plant start going out.

Altogether, the Columbus project is expected to cost about R2 billion, of which 40 percent will be spent locally.

Because Columbus will be using the most modern and efficient equipment, many of its rolling mills and furnaces will have to be imported.

Nonetheless, the local engineering industry should start getting a significant boost early in the new year.

Stainless steel fabricators have welcomed the news about Columbus.

Barlows' Middelburg plant, which is to be incorporated into Columbus, mainly served the local market and its prices made it difficult for local fabricators to compete in overseas markets.

However, Columbus's price structure will be geared for the export market.

It should, therefore, have no difficulty supplying the local market at competitive prices, enabling domestic fabricators to be more competitive overseas and increase their exports.

However, economists say the cash Columbus and its ancilliary industries will generate is not the only benefit the project will bring.

It could ultimately generate R3 billion to R5 billion a year in foreign earnings.

This would make a major contribution to the balance of payments, and allow the monetary authorities to let the economy expand at a faster rate without having to worry so much about getting into debt.

■ The Competition Board said it intended holding discussions with all parties concerned. It said that certain meritorious aspects of the transaction were self-evidient.

Samancor unlikely to improve performance

B/Day 25/9/91 (189)

CLIMBING unit costs, the phasing out of export incentives, and the prevailing conditions in the chrome and manganese ore and ferro-alloy markets will make it hard for Samancor to match 1991 profits in the current financial year, chairman Brian Gilbertson says.

Samancor turned in after-tax profits of R367m in 1991 down from R483m in 1990. The group produces both chrome and manganese ores and alloys, and is about to enter the stainless steel business. Ten days ago, Samancor signed a R1,1bn deal for the purchase of Barlow Rand's Middelburg Steel & Alloys which will become the basis for the Columbus stainless steel joint venture with Highveld Steel and Vanadium.

In his annual review, Gilbertson said the manganese high grade ore market was likely to remain in balance in the coming year. Sales tonnages would not increase until the carbon steel industry resumed its past growth and customers ran down stocks.

Western world production of carbon steel, in which manganese is a key ingredient, fell below 1989 levels in 1990, and the decline continued in the first half of 1991. As customers resorted to using up inventories, demand for manganese dropped considerably, and Samancor's export tonnages fell 29%.

MATTHEW CURTIN

Ore prices held up well in the year, Gilbertson said, with the group winning average prices of $3,35 a ton, against $3,40 a ton in 1990.

He said current manganese alloy prices were such that many Western world producers were operating at a loss. When customers finished destocking, both factors would enable Samancor to regain lost tonnage. The market was still oversupplied and prices were unlikely to rise in 1992.

In the past year, demand for manganese alloys was weakened by increased supplies of low priced material from China and the Eastern Bloc, which helped knock Samancor's sales by 33%. Prices for high carbon ferro-manganese were stable, but silico-manganese prices fell 15%.

Gilbertson predicted chrome ore prices would be stable in the current financial year, while prospects for ferrochrome remained bleak as long as the current oversupply persisted.

In 1990 Western world stainless steel demand, which accounts for three quarters of ferrochrome demand, grew only 2% to 10,7-million tons. Oversupply and severe competition among SA producers pegged back prices.

Audiobuild slashes jobs at ailing Buildcor

(189)

BDay 25/9/91.

MARC HASENFUSS

ELECTRONICS-listed Audiobuild Holdings, which reduced its losses in the year to end-February to R6,8m (previously a loss of R39m), has rationalised the Buildcor division's production facilities and retrenched almost 60% of its workforce.

Buildcor lost R19m as the prolonged downturn in the building industry knocked down volumes and margins.

The rationalisation programme will consolidate seven door and frame factories into one factory at Wadeville.

Although turnover soared to R184m (R69m), hefty increases in the interest bill to R9,3m (R1,8m) prevented this reaching bottom line in the period under review.

No dividend was declared.

Audiobuild financial director Martin Capper attributed the increase in interest-bearing debt (R35m) to increased working capital requirements following the acquisition of door manufacturer Bruply from PG Glass, the cost of re-locating Bruply from Boksburg to Wadeville and trading losses.

Directors believe Buildcor is now in a position to operate profitably and attention is being given to the high level of debt.

Manufacturer and distributor of low-cost radios and hi-fi equipment Audiocor posted a net profit of R11,9m (R7,9m).

Audiocor was adversely affected by retrenchments in the mining sector, consumer boycotts and the economic downturn in the period under review.

Directors expect the division to make a reduced contribution to the group in 1992.

Holding company Abacus Industrial Holdings reported a loss of R6,4m (R15,7m).

Caution

The inclusion of an extraordinary item, relating to profit on disposal of a subsidiary, over provision and restitution of funds and assets, reduced losses to R26 000.

Audiobuild and Abacus reminded shareholders to exercise caution as both groups were still involved in negotiations.

Audiobuild is currently at 70c just above last month's low of 66c while Abacus stands at 20c after a 15c low earlier in the month.

Alusaf ties up deal for French smelter

BDay 25/9/91 MATTHEW CURTIN 189

ALUSAF has concluded a deal with French aluminium and packaging group Pechiney to design the smelter for the company's proposed R4,5bn expansion programme, MD Rob Barbour said yesterday.

Pechiney would design the entire plant and the contract provided for two years' operational support. The deal meant Alusaf would expand production by an extra 466 000 tons a year, from current levels of 172 000 tons and against original plans for 420 000 tons of additional capacity.

The go-ahead for the expansion programme is dependent on government applying its new export incentive scheme for large capital and export-orientated projects to Alusaf. Barbour said the agreement with Pechiney included a let-out clause if the project did not go ahead. He said the chances that the project would get off the ground were excellent.

He said Alusaf was keen to "deter" others from proceeding with their plans to build new aluminium smelters, moderating an article in yesterday's London Financial Times which reported Barbour as saying his mission was to "frighten off" investors who might be tempted to put up money for other new projects.

Barbour said the timing of the Alusaf project was crucial. If it went ahead, it would be on-stream by 1994. Current aluminium demand was about 15-million tons a year, and with forecasts that consump-

□ To Page 2

Smelter

BDay 25/9/91 (189)

□ From Page 1

tion would grow by 3% a year, Alusaf's new capacity would absorb some of that excess demand and have no downward effect on prices.

However, there were as many as 15 other projects on the drawing board and if some of these — the most likely of which were in Venezuela and Nigeria — went ahead, the market would be flooded and prices would fall. Aluminium prices were already low and would make the early life of the Alusaf venture difficult.

Barbour said he wanted to impress upon international investors that the Alusaf programme was unstoppable.

He said the cornerstone of success was the deal with Eskom by which the utility would provide electricity for 25 years at a rate tied to aluminium prices. This meant Alusaf's power supply was competitive with, if not as cheap as, hydroelectric and gas flare powered options in South America and the Middle East.

Government assistance was vital to defray the capital costs of the project, but labour costs would be relatively low because the new plant was highly automated.

Alusaf also had the backing of Gencor, which has a 31% stake in the company, the Industrial Development Corporation (41%), and Swiss aluminium group Alusuisse (22%). Eskom had the option of taking a 25% stake.

The IDC has announced it has allocated R10bn to finance new export projects in the next five years.

Aberdare feels pinch

By Jabulani Sikhakhane

Continued delays in infrastructural development projects, including mass housing and the electrification of black areas, combined with cutbacks in major capital projects, hit Aberdare's performance for the six months to June.

Earnings declined five percent to 109,5c (115,6c) and dividends by the same from 58c to 55c.

Aberdare, a subsidiary of Powertech, manufactures power and communication cables.

Most of its business is linked to the gross domestic fixed investment.

In the medium to longer term, the directors are confident that infrastructural development projects, including mass housing and electricity for all, will fundamentally be part of SA's economic revival.

"There is significant potential for the whole power electrical industry in this process."

The directors say market conditions were still difficult in the review period.

Turnover fell two percent to R208,38 million. But margins were under pressure (falling from 14 percent to 12 percent), with operating income down 15,4 percent to R25,399 million.

Combined with a two percent drop in the tax rate, higher interest receipts, up 35 percent at R4,38 million, compensated.

The fall at the taxed income level reduced to five percent to R15,96 million (R16,81 million).

Cash balances rose R22,37 million to R52,65 million, the directors saying the positive cash situation enabled the group to proceed with investment strategies.

Powertech's Aberdare sees earnings dip 5%

B/Day 26/9/91 (189)

MARC HASENFUSS

POWERTECH-owned cable manufacturer and supplier Aberdare posted a 5% drop in interim earnings as difficult market conditions eroded the group's margins.

Earnings slipped to R16m (R16,8m) or 109,5c (115,6c) a share in the six months to June 1991. An interim dividend of 55c (58c) was paid out, with the dividend cover maintained at two times.

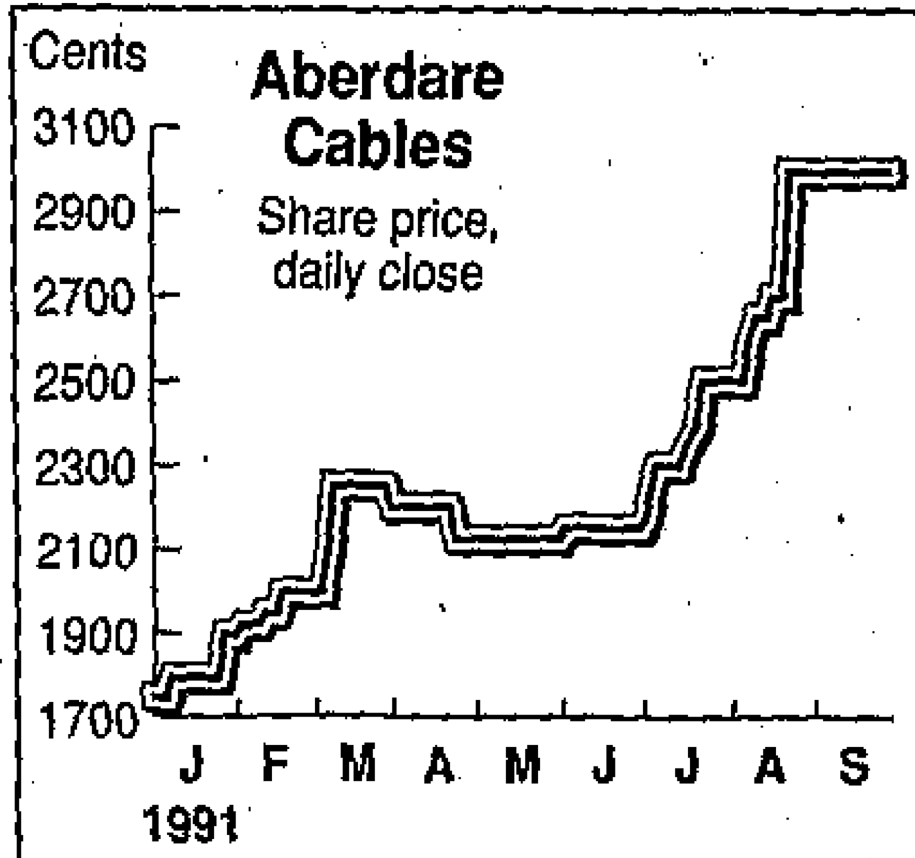
Directors said most of Aberdare's markets were influenced by gross domestic fixed investment levels which were affected by socio-political factors, the gold price and capital project cutbacks.

The infrastructural development process, incorporating the provision of mass housing and electricity, contained significant potential for the electrical industry, directors said.

"The group's capital upgrade programme is being pursued, and export strategies are securing meaningful tonnages," they said.

Chairman Peter Watt said in the group's annual report that Aberdare's low-cost products had been accepted in world markets and that inroads had been made into Africa, the Far East and South America.

Turnover fell marginally to R208m, but with margins down to 12% (14%), operating profits fell to R25m (R30m).



Graphic: FIONA KRISCH Source: I-NET

A 35% boost to R4,4m in interest received and small contributions from investments and associated companies helped stem the earnings decline.

The balance sheet remained healthy with cash reserves showing a substantial improvement to R52m against the R30m in the corresponding period last year. Directors said this would enable the group to proceed with investment strategies.

The share looks set to go lower from its recent peak of R30. The share was at a R17 low in October last year but climbed to R30 on the back of an inflation-beating performance in the last financial year.

Iscor, Rennies sign on terminal

(189)

CT 26/9/91

From BRENT VON MELVILLE

JOHANNESBURG. — Iscor, in a move intended to capitalise on increasing export potential, has entered into an agreement with Rennies for the development of a dedicated terminal for the export of steel at Richards Bay.

Industry sources say the move will dovetail neatly with the joint Iscor-Safmarine venture for the construction of a new $50m bulk iron ore-steel carrier.

Bigger volumes

The deal will also see Rennies clearing and forwarding a much bigger volume of Iscor steel.

At a presentation to analysts in Johannesburg this week Rennies CE Pete Steyn confirmed plans for the terminal, but did not divulge its size.

According to Iscor figures, current steel exports account for about 46% of sales, or 2,6-million tons.

Iron ore exports have increased over the past few years, with 1991 levels reaching 14,3-million tons, compared with 7,7-million tons four years ago.

The new bulk iron ore carrier, in which Iscor will have a 60% interest, will be built in Romania and will be capable of carrying 150 000 tons.

STEELMETALS/BEARING MAN

Bigger share

FM 24/9/91 (189)

A major rationalisation in the ball-bearing industry should markedly improve the prospects for both companies involved. The ball-bearing interests of Steelmetals will be

Continued

(189) FM 24/9/91

merged with Bearing Man (Bearman), and Steelmetals' parent Anglovaal Industries (AVI) will hold 51% of the enlarged company, which will continue to be called Bearman.

Steelmetals chairman David Royston says the merger will help with the rationalisation of stock levels and capacity in the sector — though this process will, unfortunately, result in some job losses. Savings will arise from the merger of the computerised information and stock control systems.

Pressure on margins

Margins have certainly been under pressure because of competition in the industry — in the Bearman interims to August, the operating margin fell from 19,3% to 15,2%. Bearman's operating income fell by 19% but, thanks to a reduction in finance costs and tax, attributable income fell by just 8% to R2,7m. Steelmetals' results are buried in AVI's accounts but AVI's preliminaries noted that there were adverse trading conditions and excessive stockholdings.

Royston says the distribution systems of Steelmetals and Bearman complement each other. Bearman has 28 retail outlets, while Steelmetals has concentrated on wholesaling to independent operators. Bearman will be the largest ball-bearing business in SA, holding a 23% share of the R520m annual market. Its main competitors are Hudaco, SKF and FAG.

Steelmetals will bring rights to distribute NSK bearings, the largest bearing manufacturer in Japan. Bearman already has the rights to IKO and Nachi bearings. Steelmetals' only other asset will be Forest Engineering machine tools, a much smaller business.

New shares in Bearman will be issued, so that the NAV per share will remain the same as it was for the old Bearman. One share will be issued for every 450c of Steelmetals' net worth as of September 30. AVI will make an offer to shareholders at net worth. If an insufficient number of minorities accept the offer, the present controlling shareholders have undertaken to sell shares so that the 51% target is met, and to buy the shares back from AVI if the target is exceeded.

Lower gearing

Bearman's balance sheet should improve substantially through the deal. The last balance sheet showed gearing of 90%, but the merger will increase shareholders' funds by 40% without materially increasing debt. Gearing will fall to less than 70%, still not low but a marked improvement.

Bearman is trading at 410c, on a p:e of 4,6 and a dividend yield of 7,8%.

The likely offer price of 450c looks acceptable, though the prospects for the company could improve markedly with AVI's backing.

Stephen Cranston

FRASER ALEXANDER FM 24/9/91

Bigger in waste

(189)

Fraser Alexander recently tried to expand its exposure to domestic and toxic waste by trying (unsuccessfully) to purchase Wade Refuse for R18m. It has now bought the much larger Waste-Tech for R36m, payable in cash or paper — whichever looks more attractive on the date the deal takes effect, November 30.

Fraser Alexander financial director Les Maxwell says that Waste-Tech was always the first prize and there is a much better fit in people and management styles than there would have been with Wade Refuse.

Waste-Tech already owns the only national network of hazardous waste sites in the private sector, which would have been difficult for Fraser Alexander to build up from scratch. It has the best hi-tech laboratory for research into waste, and holds contracts with local authorities and hospitals.

Fraser Alexander's strength has been in mining and industrial waste, though in the past three years it has tendered for municipal landfill sites. The group was anxious not to be over-exposed to the mining sector.

"With the combined level of expertise in the new group, we will be in a stronger position to bid for municipal and industrial business," says Maxwell.

He adds that the purchase price equates to Fraser Alexander's valuation of Waste-Tech's tangible and intangible assets. The intangible assets include airspace, or rights to develop sites.

If Fraser Alexander settles in shares, its net worth will increase by 5,3% from 565,6c to 595,3 a share. If it settles in cash, then net worth will decline by 18,4% to 461,5c a share. A cash transaction, however, would have a larger benefit on the bottom line, as it would increase EPS by 10,5%; the figure would rise by just 4,6% if new shares are issued. On the other hand, a cash payout will stretch borrowings, which are already standing at R51m, and will increase gearing from 71% to about 85%.

The quality of earnings will not diminish. In the year to end-June, Waste-Tech turned over R80m and made a pre-tax profit of R8m, showing about the same operating margin as that of Fraser Alexander. Fraser Alexander's waste division will be merged with Waste-Tech, which will still be run by Geoff Wood.

The market has responded favourably. Fraser Alexander's price improved from 1 000c to 1 050c after the deal. This offers an historical p:e of 8,4 and dividend yield of 3,7%. *Stephen Cranston*

Disputed tax bill skins Buffalo Corporation

PAUL ASH

ENGINEERING group Buffalo Corporation (Buffcor), manufacturer and distributor of number plates and safety signs, saw attributable earnings for the year to end-June climb to R1,68m (R1,44m), but performance was hampered by a R1,5m extraordinary item.

Earnings a share before extraordinary items were boosted to 50,8c (24,4c) on the back of a rise in turnover to R26,1m (R20m). However, the extraordinary items, which include taxation of R930 830 arising from the disallowance of expenses claimed by the company translated to a drop in earnings a share of 24,6c a share, leaving earnings at 26,2c (23,3c).

The company has appealed against the Receiver's decision.

Taxation rose to R2,45m from R597 000 for the period under review, mainly as a result of some companies within the group, previously in loss positions, being subject to taxation in the current year, the directors said.

Powertech warns of tough trading

S Times (Bus) (189) 29/9/91

By JULIE WALKER

POWERTECH's earnings edged up in the half-year to August 1991, but executive chairman Peter Watt warns of possible difficult trading in the second half.

Mr Watt calls for greater co-operation among all parties involved in housing and electrification if development is to boost the economy.

Manufacturing capacity and productivity are to be increased and exports sought.

Powertech's turnover fell R15-million to R605-million and operating income was R8-million lighter at R57,7-million. Interest of R1,5-million was earned compared with R4,8-million paid at 1990's interim. Earnings a share were up a shade at 15,2c.

The balance sheet looks robust, with cash of R38-million replacing borrowings of R48-million at last year's half-way stage.

Duty

A 5 500 drop in the sale of motor vehicles across the industry in the six months to June 1991 did not stop Toyota from increasing its market share. Toyota sales of 47 110 were only 775 lower than previously and market share climbed from 28,7% to 29,1%.

Toyota's turnover was 16% up at R1,71-billion, but operating profit was only 5% firmer at R100-million.

Earnings a share were 7% up at 113,7c and the dividend was lifted 2c to 19c.

The local content requirement for June to August was 70% and from September to November is 78%. Ad valorem duty was raised by 2,5% on passenger vehicles and 2% on commercials. The directors expect these factors to affect prices adversely.

PETER WATT: Call for co-operation

A strike cost 11 production days and labour is resisting overtime work. More trouble could affect the second half-year.

Fintech expects the rate of earnings growth in the second half to match that of the first — provided business conditions do not deteriorate.

Fintech's share price has climbed from 370c to 1 325c since February because investors anticipated an improved performance. New products and joint ventures boosted profitability.

In the six months to August Fintech's turnover grew by 7% to R275,6-million, but a swing in interest from a bill of R2,8-million to income of R357 000 helped pre-tax profit 56% higher to R11,7-million.

The group still has significant tax losses, but has a tax equalisation smoothing policy. This year's R2-million charge was almost double last year's.

Earnings a share rose by 111% to 65,6c. Fintech is taking out minorites in Fininfo and delisting it. No results were published for Fininfo because it was included under Fintech.

Buffcor improved gross margins on a 30% rise in sales and kept overheads down in the year to June 1991.

Excluding extraordinary items of minus R1,5-million, the company earned R3,4-million, or 50,4c a share. The extraordinary item contains R930 830 disallowed by the Receiver of Revenue against expenses claimed by Buffcor. It has appealed to the Income Tax Special Court.

Buffcor's 1991 earnings reduced the accumulated loss to R4,1-million at the yearend.

Medhold — formerly IEM — doubled pre-tax profit in the year to June 1991.

The medical disposables manufacturer and hospital equipment supplier rationalised operations from five to two sites to reduce operating expenses.

Managing director Jack Marcelino says the group can expand the product range without expensive machinery or complicated techniques. Exports will also be pursued now that trade barriers are falling.

Inflation

Preliminary results were reported by 17 companies this week and 14 made interim announcements. Only Meritex incurred a loss.

Among the interims, seven improved on their previous financial years and three — Molyslip, Fintech and Basil Starke Group — outstripped inflation.

Out of the preliminaries, seven did better than last year, all by a bigger margin than the inflation rate. But six incurred losses and two all but broke even.

Notable for a loss was blue-chip office furniture company Mathieson & Ashley, whose sales in the year to June fell by 7%. Operating profit disappeared. It lost R300 000 before tax compared with a profit of almost R10-million in 1990.

Atlantis looks to Africa

S Times (Bus) 29/9/91

ATLANTIS Diesel Engines (ADE) is investigating the appointment of distributors in Zimbabwe, Zambia, Mozambique and Malawi as part of its plans to gain a 10% share of the industrial engine market in Southern Africa.

It dominates the SA market in automotive diesel engines.

The company has also re-established its SA industrial engine distribution network after severing links with Pro-Power, a member of troubled NEI group.

The network includes three new distributors — BTR Power Products in the Transvaal, Free State and Northern Cape; P&S Power Products in Natal; and Peninsula Power Products in the Western Cape.

They will be complemented by Equipment Sales in Botswana, Namibia Engineering Corporation in Namibia and Cape-based marine engine distributor, Prokura Diesel Services.

Greg scores double coup in bearings

(189)

S/Times C/B4SS 29/9/91

DIAGONAL STREET by Julie Walker

BEARING MAN managing director Greg Till has scored a double coup in expanding by a third the bearings distribution business his wife Relle founded in the 1970s.

Not only has he persuaded three Japanese bearing companies to do business in SA under a single agency and distribution network, but Mr Till has won the backing of mining and industrial group Anglovaal.

Bearman and Anglovaal Industries subsidiary Steelmetals are to pool their bearings distribution businesses under the Bearman banner, Bearman becoming a 51% subsidiary of Steelmetals.

Bearman is controlled by its directors. Chairman Reg Sherrell, now a director of Rand Merchant Bank which put the deal together, has about 20% and the Tills 40%. Also aboard are Farm-ag's Robert Maingard and Merhold's Christopher Seabrooke.

Bearman acts for Nachi, the fourth-largest ball and roller bearings manufacturer in Japan. Nachi is way behind the top two Japanese companies, but does well in SA.

It also distributes the IKO range of needle and linear bearings from Nippon Thompson, and has other sole and authorised distribution

GREG TILL: Staying aboard

agreements with American and Austrian manufacturers.

Steelmetals acts for NSK, the largest Japanese and second-largest world player. Steelmetals turnover is about R40-million, but the profit performance has not matched expectations. Prospects should be enhanced through rationalisation benefits.

In a nutshell, the deal means that Steelmetals will gain instant access to Bearman's strong management and distribution network. Bearman pre-empts the possibility that NSK might have channelled extra effort into boosting its Southern African business.

The joint announcement says all three Japanese companies have consented to continue the sole distributor agreements.

Mr Till says Bearman will have the largest slice of the SA bearings market with 23%.

Bearman's share price has jumped smartly to 415c since its May low of 290c. In August it announced that negotiations were under way and the Steelmetals deal arrived this week.

Minorities in Bearman will be made an offer by Steelmetals at a net asset value to be determined within 20 days of tomorrow.

Bearman's net asset value will not be affected by the deal. At August 31, 1991, it was 476c a share, but Bearman's directors have warranted that it will not exceed 450c a share. If it does, the surplus will be distributed as a special dividend.

Steelmetals used to be listed, but Anglovaal Industries took out the 27% minority in 1989. Steelmetals had been an underperformer and hardly warranted a listing because of poor tradeability of the shares.

In the year to February 1991, Bearman's earnings dived from 132c a share to 95c, and at the August 31, 1991, interim the trend was still down.

Operating margins were squeezed by uneconomic discounting. Costs rose faster than did revenue. On the brighter side, the ratio of total debt to equity was reduced to 1,6 times.

Mr Till says Bearman has undergone rapid expansion in the past 10 years with a consequent toll on gearing. The Steelmetals deal will result in shareholders' funds of about R40-million and interest-bearing borrowings of less than R20-million.

Bearman moved into the Steelmetals operations on Thursday and will manage the enlarged group.

A restraint of trade agreement has been signed by Mr Till, precluding him from selling his shares in Bearman for six years, or from setting up in opposition for three years if he should leave.

Mr Till says the restraint payment is well under R1-million. But he will not leave, neither will he sell out.

"My wife Relle started this business in 1974 and I joined five years later. We have built it up to what it is today, and there is no way I would start all over again.

"The restraint was not the rationale, the synergies of the deal are good for business."

I asked him about the protection demands bearing manufacturers might make. Mr Till says there is a question mark over the future of the SA bearings manufacturing industry. It is unable to compete against the mass producers of the Far East and not even the whole of Africa would justify a modernised industry because the market is too small.

Iscor seeking relief from foreign dumping

Star 30/9/91 (189)

By Derek Tommey

Iscor does not expect to maintain its 1990-91 profits in the current year, says chairman Marius de Waal.

The upturn in the economy is not expected to impact on Iscor and its operating profits until the second quarter of next year, making it difficult to repeat the previous result.

Managing director Willem van Wyk says the company is seeking protection against the dumping of steel by foreign producers.

With the lifting of sanctions, it is also planning to re-enter its former markets as soon as possible, but in an orderly fashion.

He says Iscor is capable of competing in South Africa with foreign manufacturers who sell at prices reasonably related to their own costs.

But the current world surplus has led to steel being traded at abnormally low prices, resulting in SA's steel producers requiring protection against dumping.

Mr van Wyk says in Iscor's annual report to shareholders that steelworks have high fixed costs and to keep total costs a ton as low as possible they have to maintain production in order to spread their fixed costs over the best aggregate tonnage.

World consumption is now 15 percent below production. And with manufacturers continuing to produce at high levels, dumping is taking place.

Mr van Wyk says ordinary market forces are not enough to enable producers to compete against dumping.

For this reason, all steel-producing countries, including the US and those in Europe, provide protection in some form or other for their local industries.

The South African Rolled Steel Producers' Co-ordinating Council has asked the Government to update the current steel tariff formula, which is still based on 1985 component values.

It has asked the Government to incorporate the latest published overseas domestic prices, shipping rates and exchange rates relative to the South African currency.

He says that the over-supply of steel in foreign markets has led Iscor to improve competitiveness rather than expand output.

As a result, in the medium term Iscor will not embark on capital expenditure programmes specifically to increase capacity, though this could be a by-product of some key modernisation programmes.

Mr van Wyk says the economy is expected to bottom out towards the end of this year or early next year, resulting in a slow recovery in the first half of the year.

But the recovery is not expected to come soon enough to have a beneficial impact on local sales in the first half of 1992.

However, Iscor will continue to exploit available sales opportunities, both local and international — a comment echoed by Mrde Waal.

He says the formal lifting of sanctions against steel exports by the US and imminent steps in this direction by the European Community are being explored with enthusiasm by the SA steel industry and Iscor in particular.

Iscor plans to re-enter these markets at the earliest possible opportunity.

It already possesses established marketing networks which will give it a wide choice of outlets, particularly for its value-added lines for which niche markets should be readily available.

This will help compensate for unfavourable market conditions.

COMPARISON OF LOCAL PRICES IN RESPECT OF REPRESENTATIVE PRODUCTS IN THE RSA, UK, USA, FRANCE AND GERMANY

(RAND PER METRIC TON)

Product	Iscor FOR works Rc/ton	United KINGDOM(*) (basis point) Higher/lower(—) than Iscor %	USA (FOR works) Higher/lower(—) than Iscor %	FRANCE(*) (basis point) Higher/lower(—) than Iscor %	GERMANY(*) (basis point) Higher/lower(—) than Iscor %
Angle sections	1 241,70	(8,54)	34,43	22,63	13,93
Taper flange channels	1 266,55	22,28	35,34	6,51	5,95
Channels	1 332,90	(10,22)	35,58	(0,40)	4,32
Flat sections	1 272,40	(10,74)	43,04	31,64	(2,16)
Plate (structure)	1 329,25	7,68	30,16	6,86	20,42
Plate (pressure vessel)	1 605,25	(0,02)	15,18	5,98	15,83
Hot-rolled sheet	1 399,80	12,48	21,28	18,13	26,48
Cold-rolled sheet	1 731,45	(0,53)	11,05	2,92	12,52
Hot-rolled sheet (strips)	1 450,05	12,95	9,83	10,92	12,62
Galvanised sheet	2 360,55	(3,18)	13,41	(7,78)	9,59
Electolytic tinplate	2 046,83	48,24	68,74	46,31	67,52
Wire rod (netting wire)	1240,95	(8,48)	31,67	(1,07)	25,73
Exchange rate as on 1991-06-19		R1=£0,2131	R1=$0,3434	R1=FFr2,1015	R1=Dm0,6185

* Rebate included in prices.

TPN suffers sagging sales

BDay 30/9/91 (189)

MARC HASENFUSS

NUTS and bolts manufacturer and distributor TPN Investments improved its performance in the second half, thanks to higher exports, but could not offset a slowdown in local demand.

Chairman Trevor Thompson said the local market had "sagged terribly" and the group was relying heavily on exports.

Earnings for the year to end-June 1991 were down 10% to R3,3m (R3,7m) while a reduced 2c dividend was declared, covered a conservative 3,3 (2,1) times.

No turnover figures were disclosed but operating profit fell a hefty 36% to R4,3m (R6,6m).

The increase in exports helped to cut the tax bill to R863 000 (R2,7m).

Thompson said prospects for the year ahead depended on the success of TPN's broadened product base.

TPN is currently languishing at a 30c low on the JSE after peaking at 50c in November last year.

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Penrose Financial A13851a

COMPANIES

Cash balance boosts Powertech

MARC HASENFUSS

A HEALTHY cash balance and income from associate companies enabled Powertech to partly offset flat trading conditions and report slight growth in interim earnings.

Although turnover fell to R605m (R620m) in the six months to June, the group's strong cash flow of R38m (borrowings of R48m last year) realised R1,5m in interest received, buoying earnings to R20,5m (R20m).

Earnings were reinforced by a R560 000 contribution from associated companies and a R2m reduction in outside shareholders' earnings.

In line with group policy, no interim dividend was declared.

Executive chairman Peter Watt said all operations contributed to earnings, with improved performances recorded by Lascon Lighting, Willard Batteries and Litemaster through expanded product and customer base and effective expense control.

The effects of the declining economy, a persistently weak gold price, and reduced pre-VAT spending on capital investment had some impact on the contributions from Brown-Boveri Technologie and Aberdare Cables, he said.

The strong balance sheet positioned Powertech to move rapidly on any opportunities and several possible acquisitions were being investigated, Watt said.

Certain group operations would invest significantly in modern plant to enhance productivity and improve capacity.

Export opportunities were being actively pursued, especially in Africa, he said.

Trading conditions for Powertech are likely to remain unchanged for the rest of the year, but further political developments could lay the base for the start of the economic recovery during 1992.

Although the share has declined from its June high of 425c, Friday's price of 380c is still well above its 170c low recorded in November last year.

Crocodile River deal not finalised — Rusplat

MATTHEW CURTIN

TALKS between Rustenburg Platinum (Rusplat) and Impala Platinum (Implats) over Implats' possible acquisition of mineral rights owned by Rusplat near the Crocodile River mine had progressed but had not been settled yet, Rusplat MD Barry Davison said on Friday.

Implats said at its takeover of the Crocodile River mine from Rand Mines last month that it was intent on acquiring the pockets of mineral rights owned by Rusplat within the proposed mining lease area. Implats said it needed to get hold of these rights to continue exploration in the western part of the lease area and negotiations were under way.

Government stripped Rusplat of more extensive mineral rights in the area near Brits in 1987 and awarded them to Loucas Pouroulis's Salene Mining, the holding company for the Crocodile River mine, then called Lefkochrysos. The move facilitated the development of the platinum mine which Rand Mines bought at the end of 1988.

Davison said in his annual review of Lebowa Platinum's (Leplat) 1991 results last week that lower dollar prices for platinum group metals would not be offset by expected increases in production volumes in the coming year. Leplat's profits for the current year were unlikely to match 1991 levels.

Leplat shares continued to fall on Friday as platinum stock fell across the board against a sudden drop in platinum prices which ended at $348,75 in London on Friday.

Leplat stock fell to near three-year lows at 290c, 10c down on the day. Implats led the falls on the platinum board as it and market leader Rusplat shed 240c to R47,85 and 225c to R60,00c respectively.

Davison said despite the first surplus in platinum supply since 1984 in 1990 further growth in demand was expected by the end of this year. However, with market uncertainty in the short term fuelled by Soviet metal sales, it was impossible to predict where prices would go.

He said as a general statement it was improbable that platinum prices would show any real improvement until US and international economic activity picked up. There were signs that the US motor industry and economy in general were pulling out of recession.

Syfrets to launch Trustee

EXECUTIVE SUIT

Rumour that Elcentre may sell Voltex stake

SHARON WOOD (189)

TODAY's cautionary notice involving Voltex, Elcentre and Berzack has sparked market and industry speculation that Elcentre may be considering selling its stake in Voltex to Berzack.

Berzack group joint chairman Myron Berzack would not comment on the talks, but said something should happen within the next week. B/Day 30/9/91.

Market observers suggested that discussions were likely to revolve around the sale of electronics group Voltex (formerly H & J Supreme Cables & Electronics) to diversified engineering group Berzack.

There was also speculation that a move to sell the Voltex stake could be prompted by FSI, a 34% shareholder in Elcentre. FSI has been taking steps to improve liquidity in order to deal with its debt load.

While a source close to Elcentre indicated yesterday that FSI was not involved in the present talks, he said there was a strong feeling that Elcentre would be happier without FSI in the group. He added that there might be talks pending with a view to hiving off FSI's stake.

Elcentre currently holds a controlling 53% of Voltex, while Berzack holds 40%. Voltex's results are expected this week.

Rusfurn's suspension may not be good news for shareholders

(188)

By Ann Crotty Star 4/16/91

Today's suspension of the Rusfurn listing has given rise to concern in the market that the financial 1991 figures including details of the balance sheet, (all of which will be released next week), will be considerably worse than expected.

The suspension will be lifted next Wednesday with the release of the results for the 12 months to end-June. Details of the new financing arrangement including a massive rights issue are expected to be announced at the same time.

Presumably the directors felt that at this stage of play there was a significant danger that share dealing would be influenced by leaked information or speculation.

Next week's release of financial '91 results, the financing arrangements and, information on the condition of the balance sheet will ensure that all investors are equally informed when the suspension is lifted.

What happens to the share price at that stage will depend on the price at which the rights issue will be pitched. Senbank has agreed in principle to underwrite the issue.

Market speculation has hiked the amount of the rights issue from an initial R100 million to over R300 million. If this is the sort of ballpark figure at which Senbank is looking it suggests that there has been significant re-writing of the Rusfurn balance sheet, using much more conservative accounting policies.

More conservative accounting policies, even for treatment of deferred tax, could see the sort of reduction in net asset value that would require a major injection of funds.

The on-going funding of Rusfurn's debtors' book is likely to see the creation of a separate financing company along the lines of that devised by the JD group.

NEW TAX BRINGS IMMEDIATE SAVINGS FOR MANUFACTURERS

S Times (Buss) 6/10/91.

188

By TERRY BETTY

WHOLESALE prices of furniture should drop by 2%-3% with immediate effect due to VAT.

The furniture industry is one of many where production costs will be reduced because of VAT. Manufacturers are now eligible for rebates on the VAT they pay on the expenses which previously carried 13% GST.

Others which have already announced reduced prices as the result of VAT savings include beer, cement and newspapers. The steel and engineering industry is also to reduce prices by between 1% and 2%.

Federation of Furniture Manufacturers executive director Winston Smith says these benefits will be felt within the next few weeks, as the furniture industry makes only to order.

Competition

Dr Smith explains that the savings come about because wooden furniture is a capital-intensive industry. It also uses a large percentage of consumables on which GST was previously paid.

He says competition is tight, which will ensure that the benefits are passed on.

The news is not so good for the appliance and electronic sector. TEK managing director Richard Ferrer says VAT benefits are minimal as they did not pay much GST before.

The benefits are partly offset by the 2,5% increase in excise duty on luxury goods, announced to compensate the drop in the VAT rate from 12% to 10%.

He points out that manufacturers are burdened with a negative cash flow as their average debtors book is 60-70 days. This means they will be paying the Receiver VAT they have not yet collected, and incurring interest charges.

He says there will not be the usual October increase as it could be misconstrued as being VAT-related.

Dion financial director Mannie Chaimowitz says 15% of Dion's costs incurred GST, half of which is advertising. He says the tax saving on this is substantial and will release funds for more advertising.

Mr Chaimowitz says VAT has produced savings. But they are not as great as expected, and he warns the benefits can only be passed on to the consumer once they filter through the system.

But retail customers will still benefit from the fact that the old GST, which added 13% to the untaxed price of the item, has been replaced by VAT, which adds only 10%.

Pick 'n Pay financial director Chris Hurst says VAT will have a negative effect on retailers' cash flow. Under GST they paid the tax collected over to the Receiver on the 20th of the next month. They will now have to pay VAT to suppliers.

He says they pay on average 40 days after delivery.

RUSFURN FM 11/10/91

Gloomy forecasts (188)

Suspending the Rusfurn share might seem a radical step to take before the results and the new financial structure are announced. But it is now an open secret that Rusfurn has made a loss for the year to end-June, and estimates in the market have been varying from R50m to R100m.

The bad news was delivered to about 80 senior Rusfurn staff on Friday and Saturday at a conference in Johannesburg. At least some of the loss can be explained by a more

Continue →

FOX

FM 11/10/91 (188)

rigorous approach to bad debt write-offs by new chairman Laurie Korsten, but there were trading losses in the January-June period.

Some of the heat should be taken off the results by the announcement of a financial arrangement on the debtors' book with a consortium led by Senbank, which a source close to Rusfurn says will inject R400m cash into the group's strained balance sheet.

This would be followed by a R200m rights issue, though it remains to be seen who will follow their rights other than Senbank; the terms of the issue will obviously influence this.

Alan Chonowitz, joint MD of Unidev, which has 22% of the equity, says he would rather invest Unidev's cash into operations which the company manages itself. But he adds that, at present prices, Rusfurn offers good recovery potential for investors with money to spare.

Meanwhile, staff shareholders, including directors, have been released from their share obligations in exchange for a 30-month restraint of trade. They had borrowed money, mainly from TrustBank, to buy shares at 140c. Originally, the dividends from the share were expected to cover interest payments.

Rusfurn's share price fell to 105c at the time of the resignation at mid-year of previous chairman Geoff Austin, and stood at 55c by Friday's suspension.

There will probably be ample opportunity to pick up shares at these rock-bottom prices but current estimates suggest net worth is as low as 29c. If the more extreme loss forecasts prove to be anywhere near correct, then there may be a further move out of the share after relisting probably later this week.

Stephen Cranston

COMPANIES

Real growth in earnings puts Ellerine far ahead of its rivals

810W 18/10/91 (188)

MARCIA KLEIN

ELLERINE Holdings has been the only furniture company to report real earnings growth in the last few months, albeit at a lower rate than in previous years.

The Malbak subsidiary, which is the most highly rated furniture share in the sector, reported a 16% increase in earnings to 774c (669c) a share in the year to end-August on the back of a marked decline in demand for household durables in the second half.

It also moved into a gearing situation, which chairman Eric Ellerine said was considered necessary as the group had previously "closed shop" every time there was a downturn. Now it had adopted the policy to go full steam ahead with its expansion programme, which would see it open its 400th store in 1993.

At the interim stage, when earnings had increased by 27%, directors were confident the group would maintain its performance in the full year if there was no deterioration in the economy or the political environment.

However, the second six months saw a marked decline in demand for household durables in line with the drop in consumer spending, Ellerine said.

Although earnings were lower than in previous years, the group "has further consolidated its rating at the head of its sector by sustaining growth". Even after this slowdown, earnings have grown at an average compound rate of 28% a year over the past five years.

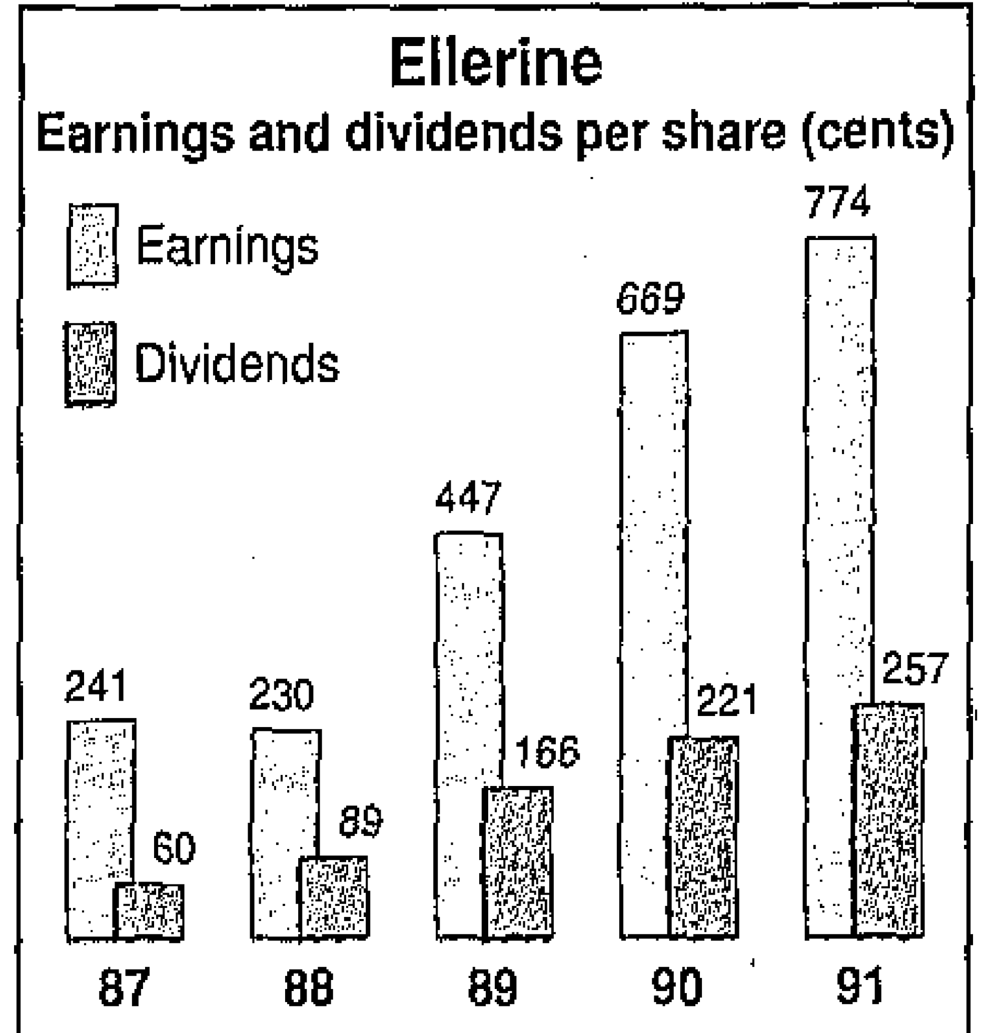
Turnover for the year was up by 23% to R592,4m (R483,2m) due to "a slightly improved market share" and the opening of 26 stores during the year. The expansion programme at the group's FurnCity chain, targeted at the middle to upper market, would continue this year.

A reduction in operating margins in a competitive market saw operating profits 20% up at R104,8m (R87,1m).

The absorbtion of cash balances by the major expansion programme was reflected in a dramatic 80% drop in interest received to R757 000 (R3,8m).

This resulted in a 16% increase in pretax profits to R105,5m (R90,9m) and after a similar tax rate to the previous year, profits after tax rose by 17% to R55,7m (R47,7m), and attributable profits by 16% to R55,5m (R47,5m) after minority shareholders were taken into account.

Dividends of 257c a share were 16% up on the previous year, and cover was maintianed at three times.



Graphic: FIONA KRISCH Source: ELLERINE

Ellerine warned that earnings for the first six months of financial 1992 would be lower in comparison to the previous period. September and the first half of October had been exceptionally poor, and had been hampered by industrial action.

Ellerine said directors had discussed tradeability, with Malbak holding 59,5% of the company and the Ellerine families holding 18%. Ellerine might consider a share split in the future.

The share closed yesterday at R56, giving it an earnings and dividend yield of 13,8% and 4,6% respectively. This compares to index averages of 23,3% and 7,2% respectively.

R30m for furniture

(188)

FURNSTEEL and Husky, makers of steel cabinets and office chairs, have won a R30-million contract to supply the Government with office furniture. S/Times (BUS)

The two companies have about 90% of the contract.

Office furniture manufacturers and retailers have reported extremely difficult trading conditions in the past 18 months, many having to rationalise to survive. 27/10/91

1610

Office furniture failures forecast

BDay 25/10/91 (188)

MARCIA KLEIN

A CONTINUATION of business failure in the office furniture industry will eliminate some of the excess manufacturing capacity in the market, Mathieson & Ashley (Math Ash) chairman Winky Ringo says.

In his annual review he says that in an attempt to maintain market share, office furniture manufacturers and suppliers have resorted to price-cutting to the levels of three years ago in the local market, and to price levels which now represent a discount of about 30% on equivalent European prices.

This has resulted in a fair degree of business failure in the industry, Ringo says, and this trend will continue until more manufacturing capacity is withdrawn from the market and significant or new export opportunities are realised.

Ringo believes Math Ash's efforts in the export and retail markets will begin to generate more meaningful earnings for the group in financial 1992, resulting in its outperforming the general trend.

Math Ash's earnings plunged from 50,2c to 3,3c a share on a 7,3% drop in turnover to R125m in the year to end-June — one of the worst years for the office furniture industry in the past two decades.

One of the reasons for Math Ash's optimism is its recent entry into the retail market through OfficeMart. Ringo says OfficeMart "has proved more successful than anticipated", although this division was very much in its infancy and had expended fairly significant startup costs.

Ringo is also confident of the new export division, K H International, which has concluded several contracts. Revenues from this venture will be realised only in financial 1992. A significant long-term export contract has been concluded with a major UK-based company.

Benefits of the group's focus on its internal organisational structures will also be felt in the coming year.

Ringo says there will be small improvement in trading conditions in the industry for the remainder of this calendar year, partly due to the deferment of orders resulting from the introduction of VAT.

While this short-term improvement will be only marginal, the second half of the financial year is likely to show a steady improvement on the assumption that general economic activity will improve.

Senbank props up flagging Rusfurn

B/Day 28/10/91 (188)

MARCIA KLEIN

A SENBANK-led consortium of banks hopes that a major refinancing package will turn the tables for ailing furniture group Rusfurn.

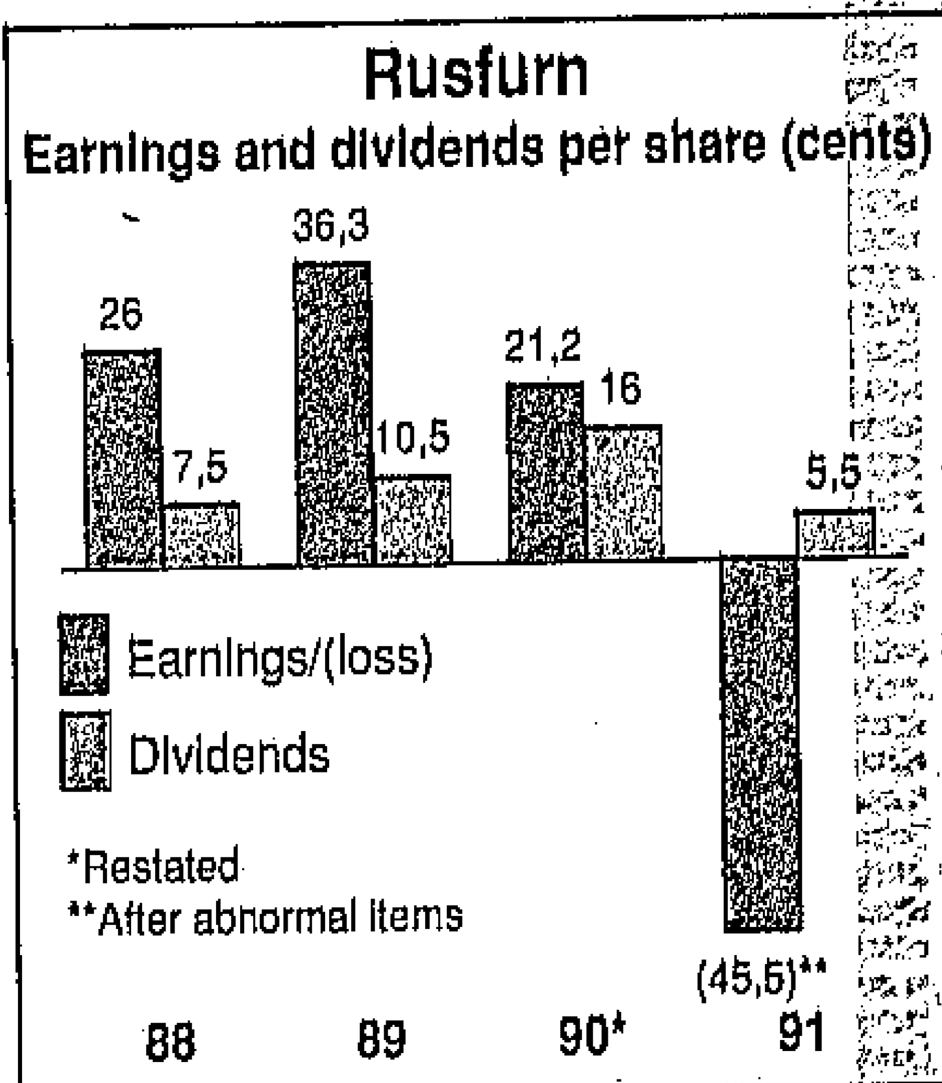
Announcing an attributable loss of R79,2m for the year to end-June, new executive chairman Laurie Korsten said the refinancing package would "re-incentivise" management by relieving it of its intolerable debt burden and its cash flow crisis.

The recovery package includes a R250m rights issue of convertible debentures underwritten by Senbank, which will acquire control of the group from its directors and Unidev.

Bankorp chairman and Senbank CE Piet Liebenberg said it also included a funding agreement which would see a continuation of existing bank lines of R461m for at least four years, and fresh debt funding of R200m.

Top executives had been released from their 1989 management buyout obligations (in which certain earnings and dividends had to be achieved for them to increase their stakes), but were obliged to remain with the group until 1994. Being free of funding problems, management could focus on the business, Liebenberg said.

In order to improve operational focus, the group would be reorganised into three divisions reporting directly to Korsten.



Graphic: FIONA KRISCH Source: RUSFURN

Financing and banking activities would come under executive director Bill Pienaar, furniture and household goods trading would be restructured under Ian Sturrock, and Dion would be run separately under MD Jannie Els.

Senbank has taken control of Rusfurn directors' 25,8% stake and of the 16,4% stake of Unidev subsidiary Gillis Mason, giving it 42,2% of the issued share capital of Rusfurn.

Senbank has been exempted from the

□ To Page 2

Rusfurn

B/Day 28/10/91. (188)

□ From Page 1

obligation of making an offer to minorities due to the serious financial position of the group and the extent and nature of the support Rusfurn will be getting from Senbank and other banks.

Last year saw earnings for the group leap 54,5% to R92,9m, and a full year dividend of 16c declared. Directors attributed the group's success solely to internal efficiencies and market share gains, and were confident of a real growth in earnings in financial 1991.

This year the financial situation of the group paints a different picture.

An abnormal item of R154,9m refers mainly to revised provisions for bad debt arrears, bringing the bad debt provision from 19% of gross debtors to 30,1%. Turnover, which had increased by 37,8% in the previous year, showed a pedestrian 9,5% growth to R1,41bn (R1,29bn).

A squeeze on margins and increased provisions for bad debt levels reduced operating income by 17,2% to R128,3m (R154,9m), off a pedestrian 9,5% growth in turnover to R1,4bn (R1,3bn).

Increased borrowings to fund the growing debtors ledger resulted in an 87,5% hike in financing costs to R73,6m (R39,3m), and a 52,7% decline in pre-tax income to R54,7m (R115,6m).

After the abnormal item and a R47,3m provision for deferred tax, Rusfurn showed a R57,3m loss after tax compared to restated earnings of R56,1m in the previous year.

Woodcreations' skill scoops top honours

B/Day 29/10/91

Business Day Reporter

WOODCREATIONS, a specialist manufacturer which converts timber into quality products, last night won the SA Non-Listed Company Award.

The award, sponsored by Business Day, Arthur Andersen & Co and Wits Business School, was presented at a banquet in Sandton. The contest, now in its sixth year, recognises the company which best demonstrates creativity and entrepreneurial skill in meeting business challenges.

A panel of top businessmen voted Woodcreations the winner, and three other companies, among 20 finalists, were given special awards. They were Callguard Security Services, Nordberg and Elvinco Plastics.

Yolande Kristiansen's trophy design was chosen in a competition among Witwatersrand Technikon sculpture students.

One of Woodcreations' most innovative products is a re-usable packing case for the motor industry, which allows the company to convert internally manufactured plywood into a branded, patent-protected, high value-added product.

MD Rob Taylor said Woodcreations' involvement in the packaging market hedged it against what would otherwise have been dramatic effects of the recession in the office furniture business.

Guest speaker Warren Clewlow, chairman of Barlow Rand, said the effect of information technology on business meant it was no longer necessary to be big to compete in world terms, and some small, agile companies had performed very effectively in niche markets.

"While the economic and political debates rage around us, it is . . . the individual enterprises in an economy that create wealth, and they have to be managed and run in such a way that they produce that wealth as efficiently as possible."

● See Pages 3 and 8
● Special supplement inside

(188)

MURRAY & ROBERTS FM 1/11/91 (189)

Expanding the assets

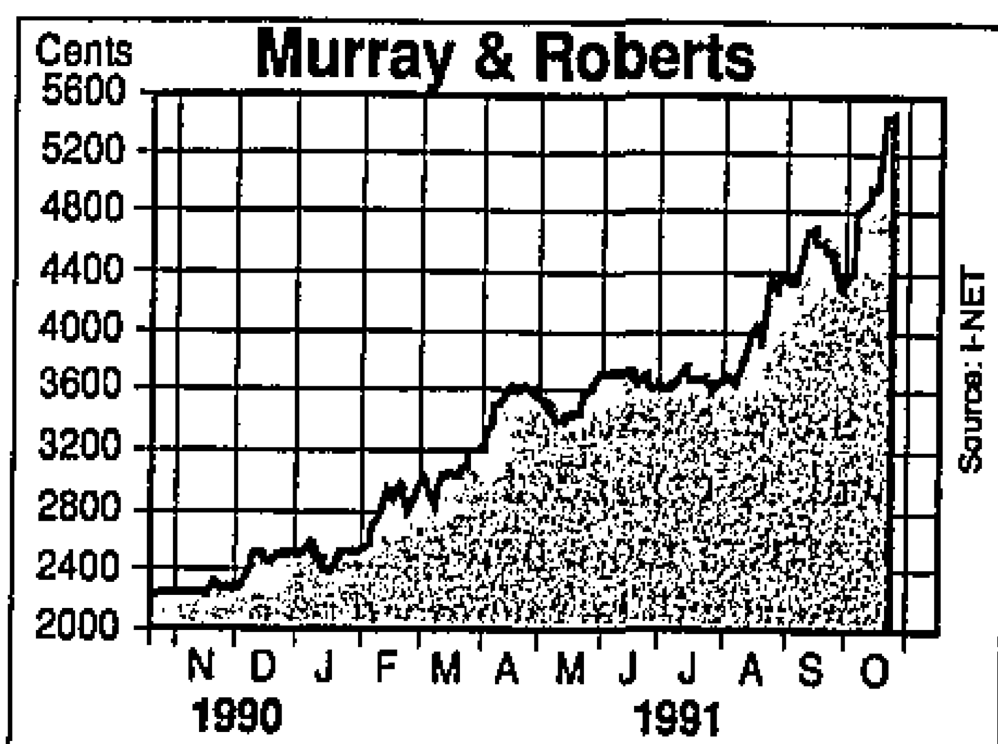
Activities: *Construction, engineering and related industries.*
Control: *Sankorp through M&R Investments (43,6%).*
Chairman: *M H Daling; MD: D C Brink.*
Capital structure: *36,1m ords. Market capitalisation: R1,81bn.*
Share market: *Price: R50. Yields: 3,1% on dividend; 10,0% on earnings; p:e ratio, 10,0; cover, 3,2. 12-month high, R50; low, R21,75. Trading volume last quarter, 380 000 shares.*

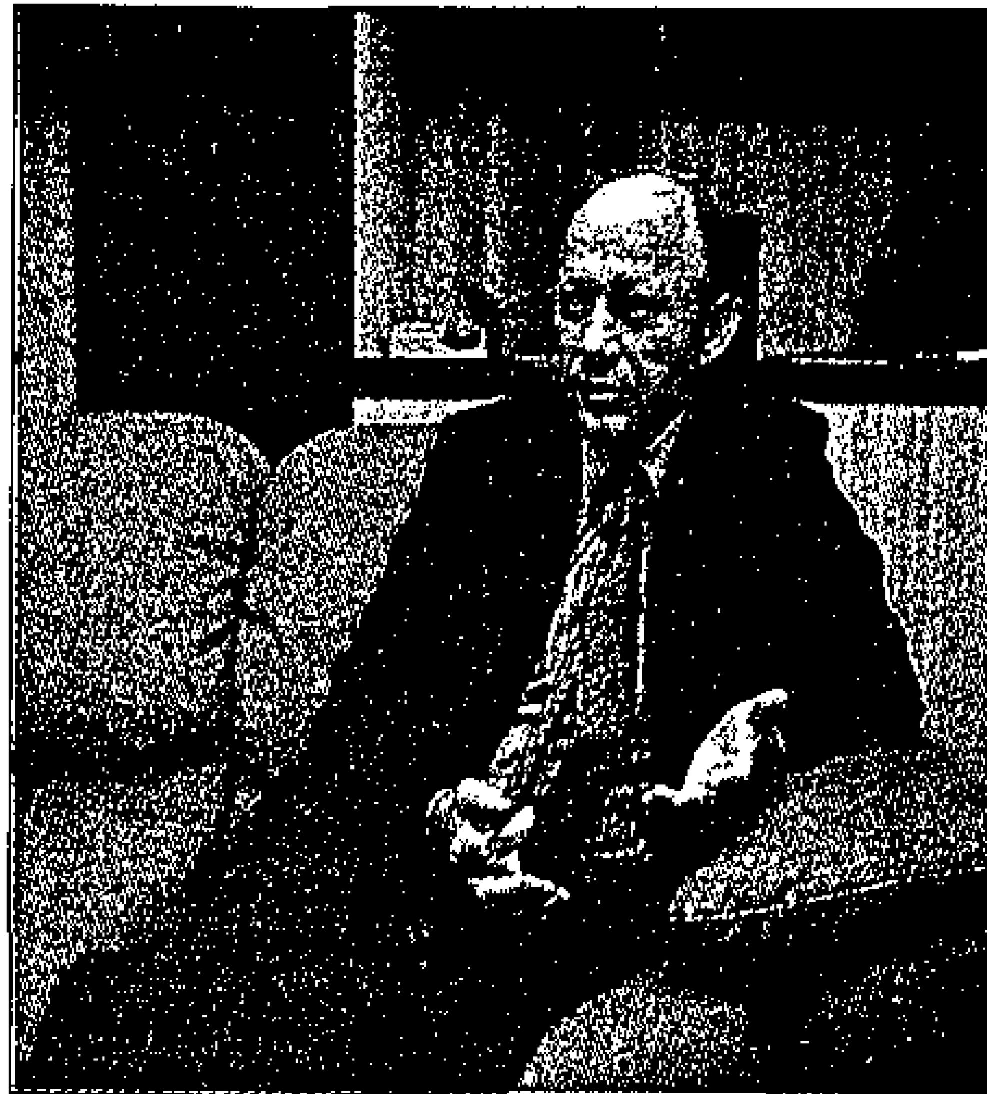
Year to June 30	'88	'89	'90	'91
ST debt (Rm)	4,6	4,8	46,3	79,7
LT debt (Rm)	76,4	96,4	101,6	123,4
Debt:equity ratio	0,30	nil	nil	0,06
Shareholders' interest	0,37	0,41	0,41	0,40
Int & leasing cover	5,6	7,7	9,6	11,7
Return on cap (%)	14,1	19,1	20,4	17,0
Turnover (Rbn)	3,04	3,45	4,01	4,60
Pre-int profit (Rm)	141	221	301	323
Pre-int margin (%)	4,5	6,3	7,5	7,0
Earnings (c)	254	349	437	501
Dividends (c)	80	110	132	156
Net worth (c)	1 022	1 291	1 565	2 002

Since the financial year-end, M&R's participation in Sankorp's asset shuffle (*Fox* October 25) has increased its tangible asset base by 21%, total shareholders' funds by 43% and net worth by 28% — in short, the group has changed quite considerably since its 1992 budgets were prepared.

Those budgets indicated a probable 10% decline in this year's earnings, though CE Dave Brink nevertheless expected that dividends would continue to grow. On paper, the position has been strengthened by the acquisition of 61% of Darling & Hodgson and 35% of Standard Engineering. But, because there will be only a 10-month contribution from this source for the 1992 financial year, there is some doubt as to the short-term benefits to be expected from these transactions.

Most tangible benefit, and one that accrues immediately, is a further strengthening of M&R's balance sheet. With the acquisitions financed entirely with paper, and after taking into account minority interests, total shareholders' funds (excluding goodwill) have been expanded by more than R300m. D&H, which is ungeared, is bringing with it net cash resources of almost R50m, which exceeds M&R's own net borrowings of R46,4m at June 30. The enlarged balance sheet will therefore revert to an ungeared position. Even without the acquisitions, the group's net gearing ratio was a minuscule 0,06, so benefits here really depend on M&R's finding some way of productively using its enhanced financial muscle.





Murray & Roberts' Brink ... *expecting dividend growth*

As regards the income statement, the main advantage would appear to be a stronger dividend flow in the enlarged group. D&H and Standard Engineering both operate on lower dividend covers than M&R. Assuming a full year's contribution, receipts from these two companies would total R18,7m, against the additional R13,8m which M&R would have to pay out, based on its 1991 dividend, on the 8,9m new shares in issue. This R4,9m "surplus" would enable M&R to add 11c to its payout, on the full 45m shares in issue, at almost no cost to itself.

In the case of earnings, M&R has, in effect, bought additional attributable income of just over R49m at a cost of R399m, giving a p:e ratio of 8. Given that both D&H and Standard Engineering are forecasting unchanged earnings for 1992, this is quite attractive; M&R's own prospective p:e; based on its forecast of a 10% decline, is probably around 10 at the R45 at which its shares were valued for the deals. Putting the two together, this would, on a full contribution from D&H and Standard Engineering, have reduced this year's earnings shortfall to about 6%.

As indicated earlier, it seems unlikely that these full benefits will accrue in this financial year. Because of the holiday season, 10 months' profits from D&H and Standard Engineering will probably not equal 80% of last year's totals. Unless there is an offset from cost savings, this could dilute the final outcome.

Before the acquisitions, the sectoral reviews in the annual report indicated that M&R was expecting much the same pattern of results from its five operating subgroups as in 1991 (see table). Construction, still by far the largest contributor to profit, was expected to level-peg after last year's slight decline, while Engineering and Industrial were both forecasting extensions of their 1991 gains. This left Suppliers & Services and Property as the main potential weak spots; the former reflecting the general business climate, while the latter expected some reversal of its strong 1991 profit improvement derived from the completion of several major projects.

Though last year's earnings were up 15% on a comparable basis, the increasing severity of the recession saw an across-the-board decline in profit ratios — starting with a fall in the trading margin from 7,5% to 7%, and ending with a return on equity which, at 25%, was 2,9 percentage points down on 1990.

These considerations presumably also contributed to a fall in asset turn from 2,7 times to 2,4, though in this instance chairman Marinus Daling highlights another factor; namely, that the expansion of the asset base partly reflects investment in activities which have not yet contributed to results. However this ratio has declined in each of the past five years, after having peaked at 3,4 in 1986, suggesting scope exists for a considerable increase in activity in the existing asset base.

That is something for the future. For the present, M&R's business cycle is largely defined by fixed investment activity, which normally lags the general economy by up to a year. Any major (organic) improvement in turnover is probably still 18 months to two years away, underlining the point made repeatedly in the annual report that 1992 trading conditions will remain difficult.

Looking further ahead, the group should benefit from its acquisitions and, with its strong balance sheet, maintaining this year's dividend in real terms is probably not an

DIVISIONAL SWINGS

Pre-tax profit (Rm)

	1990	1991	% change
Construction	110,9	107,9	−3
Engineering	45,9	68,5	+49
Supplies & Services	61,0	59,9	−2
Industrial	37,0	42,8	+16
Property	16,9	24,3	+44
	271,7	303,4	+12
Head Office	2,2	(4,1)	—
	273,9	299,3	+9

Cont → P.T.

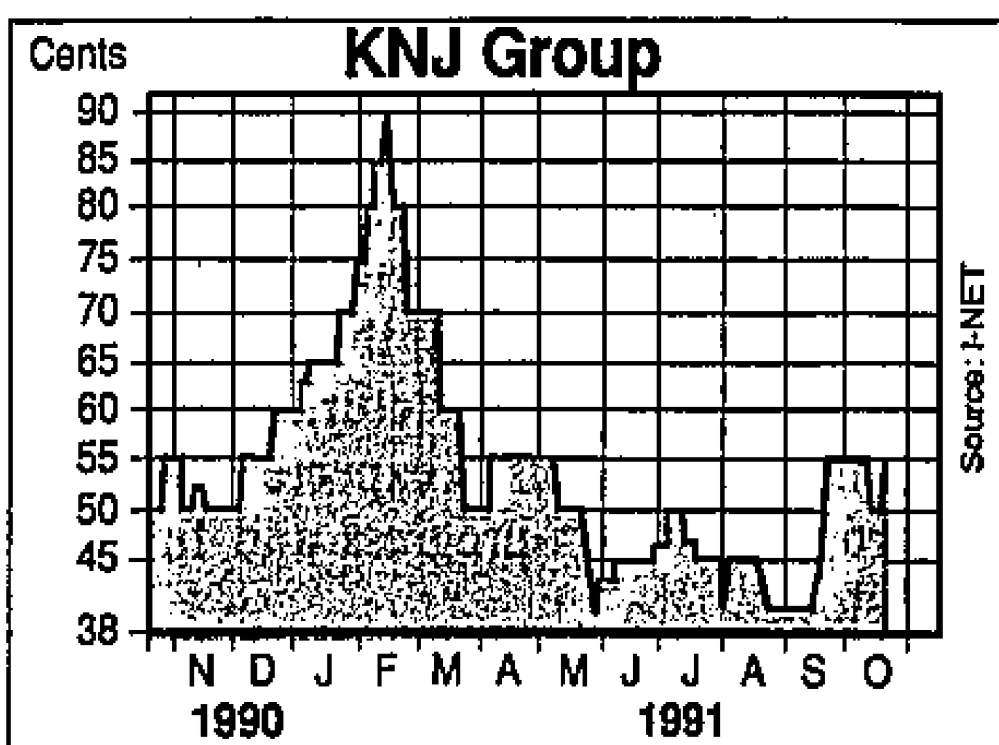
KNJ's Jenkins ... *some problems closer to home*

spect of certain disposals from the 1990 financial year. The amount is not specified but receivables in respect of disposals at June 30 1990 had a balance sheet value of R8,4m and indicates the group has probably taken quite a knock in this regard.

One success last year was a further strengthening of the balance sheet, which now reflects a debt:equity ratio of 0,40 against 0,43 in 1990 and 0,57 two years ago. Total borrowings, including redeemable prefs, declined to R53,1m from R59,4m though, in terms of savings in finance costs, benefits will be offset by a rescheduling of the pref share capital redemption, which was supposed to take place in May this year.

Only R9m of the R25m was repaid, reflecting in part severely curtailed operating cash flow. Repayment date for the remainder has been extended to June 1994 but in exchange KNJ has had to agree to an increase in dividends from 5% of the issue price to 70% of the prime overdraft rate. Assuming prime stays where it is, this in a full year means the R16m in pref shares outstanding will cost KNJ R2,3m, whereas it was paying only R1,25m previously on the full R25m.

The question now is what can be expected of the group after the clean up. The fact that a 2c dividend is being paid despite last year's negative earnings (after taking into account discontinued operations) is an indication that management is confident the slimmed-down operations will be able to cope better with a business environment expected to remain difficult.



The market seems to have endorsed this view. At 55c, the share price is 5c higher than when the *FM* reviewed the 1990 report. However, the price remains 70% below net worth, which underlines the extent to which KNJ has underperformed since its listing in 1988.

Brian Thompson

FORIM HOLDINGS

Low-key prosperity

Activities: *Property owning, investment and management.*
Control: *Forman/Gelbart family.*
Chairman: *J Forman; MD: M Gelbart.*
Capital structure: *35,55m ords. Market capitalisation: R17,8m.*
Share market: *Price: 50c. Yields: 3,0% on dividend; 5,0% on earnings; p:e ratio, 20,0; cover, 1,6. 12-month high, 60c; low, 30c. Trading volume last quarter, 14 000 shares.*

Year to Feb 28	*'88	*'89	*'90	'91
LT debt (Rm)	n/a	n/a	n/a	5,2
Debt:equity ratio	n/a	n/a	n/a	0,25
Shareholders' interest	n/a	n/a	n/a	0,73
Return on cap (%)	n/a	n/a	n/a	7,2
Turnover (Rm)	1,8	2,3	2,6	2,4
Pre-int profit (Rm)	1,0	1,5	1,6	1,5
Pre-int margin (%)	n/a	n/a	n/a	63
Earnings (c)	1,3	2,0	2,1	2,5
Dividends (c)	0,6	0,95	1,1	1,5
Net worth (c)	n/a	n/a	n/a	43

* Pro forma from transmuted listing statement.

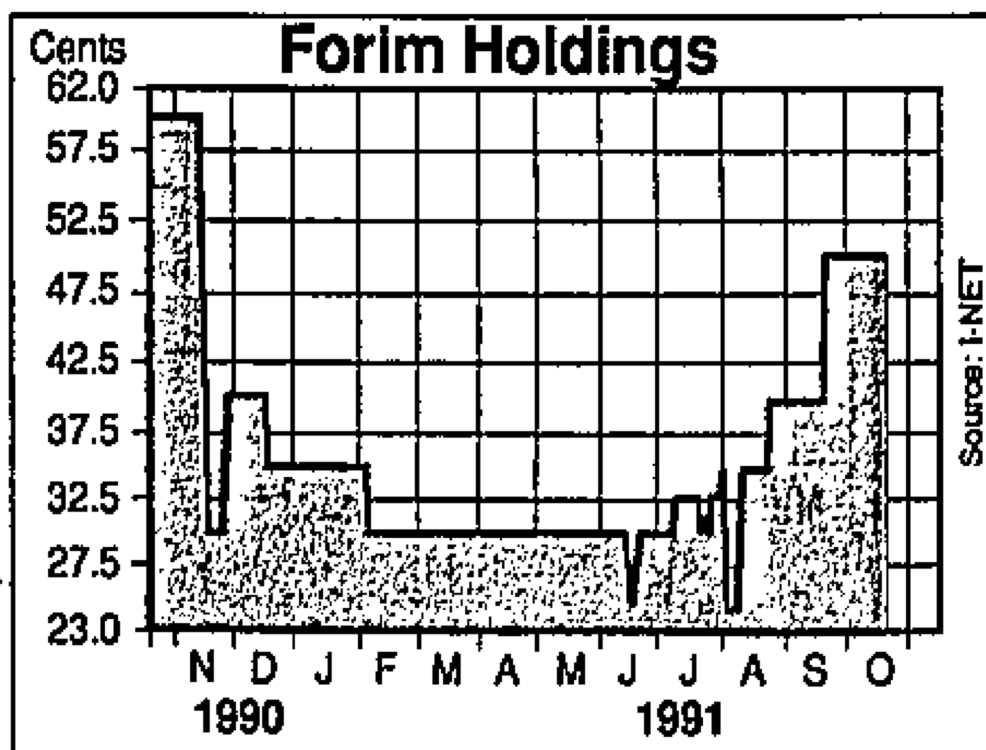
This property company created out of the wreckage of Playtime Holdings just topped its earnings forecast of 2,3c a share in the first year in its new guise, but dividend performance is more notable. With a cover of only 1,6 times against the 2,3 times projected in the transmuted listing statement, the single annual dividend is 50% higher than the total then forecast for the interim and final.

MD Meyer Gelbart tells the *FM* this slimmer cover should not be treated as a precedent; cover will probably revert to the more conservative level but not, it is hoped, at the expense of a cut in the actual payment.

The report gives few specifics about performance or the portfolio, though some properties can be identified by their photographs. Chairman Jeffrey Forman is confident that recent results show an inherent strength in management which bodes well for the future and repeats the intention to grow by acquisition into "selected markets of high-yielding financial, trading and manufacturing areas thus ensuring the continued growth of your investment and wealth creation for our shareholders and employees."

Gelbart says there is already a diversification into pharmaceuticals, with a couple of troubled manufacturing and trading concerns having been picked up cheaply. He is confident that the group (which built up SA Vulcanising before selling it to Natyre) has the expertise to run any sort of business.

With total balance sheet value of R19,6m (an independent valuation of R21,5m would add 5c a share to reported NAV), it is clear



that the portfolio contains no glamorous high-rises. The transmuted listing statement put replacement value at R34,3m and indicated that roughly half the portfolio consisted of two industrial/commercial buildings in Johannesburg's Selby and Village Main.

Gearing is low for a property company, providing insulation against interest rate swings and vacancies — though, remarkably, Forim claims 99% occupancy.

This is the sort of low-key, conservative property group that may never perform dramatically but will still be around when the highflyers aren't. NAV on the independent valuation would be 48c a share, or on replacement value 84c, solid asset underpinning to the share price (which was put at 56c for the purposes of the reconstruction).

But why is Forim listed at all? Some 97,7% of the present equity was issued to vendors of the properties. This year a mere 24 000 shares, worth R7 000, have traded.

JSE executive president Tony Norton says that at the time of the reconstruction, over a year ago, the controlling shareholders undertook to spread 4m shares (just over 10% of the increased equity) in public hands and raise the number of shareholders from the then 219 above 300 within six months.

Gelbart confirms that shares are available, but says it wasn't feasible to sell them off when the price was languishing at 30c. As the price recovers towards intrinsic value and especially if (as he seems confident) the pending interim figures are good, he says the obligation will be honoured.

Though the yield pattern is demanding, the share could be worth keeping an eye on. But it would be premature to commit funds to it until a genuine market develops.

Michael Coulson

workplace.

Picardi waives div payment

Star 1/11/91 (189)

CAPE TOWN — The directors of Picardi Appliances have decided to waive payment of dividends until interest-bearing debt reaches acceptable levels, says chairman Jan Pickard in his annual review.

However directors' remuneration was lifted to R1,6 million from R626 000 — a rise which shareholders must approve at the AGM. Debt was reduced by R44 million to R61,7 million in the year to June.

Export volumes were increased and further growth in export was expected this year.

Alusaf sticks to its guns on pricing

(189) ST (BUSS) 3/11/91.

ALUSAF remains committed to its domestic aluminium pricing policy in spite of a premium over the depressed London Metal Exchange (LME) price.

At R5 530 a ton, Alusaf's price exceeds the August average LME landed duty paid price in South Africa by about R700.

Alusaf managing director Rob Barbour says the industry believes that a stable pricing policy is in its long-term interest. The current price was fixed in September 1989.

Average

In the past 20 years Alusaf has changed its prices at average intervals of about a year.

Pricing stability gives aluminium a marketing advantage over other materials which have volatile pricing systems, such as copper. This has promoted the rapid growth of aluminium consumption in SA — an average compound rate of 5% in 20 years. This is well above the world growth rate.

Mr Barbour says Alusaf's prices are based on three factors: cost of production, cost of competing materials, such as copper, tinplate and glass on the domestic market, and the LME price.

By IAN ROBINSON

Prices have increased at a rate below the consumer price index.

Mr Barbour say Alusaf's price was at a discount to the LME from early 1987 until late 1989. The fact that it is now above the LME price is due to exceptional circumstances in the world industry. Exports from Eastern Europe have forced prices down to their lowest-ever real levels.

Russia and other East European countries have an annual capacity of about 3,5-million tons, equivalent to nearly a quarter of annual demand in the West.

Large quantities are being dumped in the West at low prices to generate foreign currency.

Hulett Aluminium also follows a stable pricing policy with prices being based on its processing costs and the Alusaf ingot price. When Alusaf prices exceed the LME', the prices of SA—produced semi-fabricated products will also inevitably exceed those of imported products and vice versa.

The current position has resulted in some imports by stockists and consumers. However, most customers appreciate the long-term benefits of stable pricing and

Jolt for ferrochrome in new world order

BDay 4/11/91 (189)

MATTHEW CURTIN

A LOOMING shortage of stainless steel scrap, the rebuilding of the economies of eastern Europe and the Soviet Union, and economic growth in the developing world will raise ferrochrome prices in the 1990s, says Consolidated Metallurgical Industries chairman David Kovarsky.

These factors would shake the ferrochrome industry out of its slump, in which low prices and weak demand had combined to make 1,5-million tons out of world capacity of 3,5-million tons unprofitable.

Speaking at a Metals Bulletin conference in Geneva at the weekend, Kovarsky said when the US and European economies recovered from recession, the pressure on ferrochrome suppliers to meet demand would be "tremendous", especially if consumers had run down stocks and supplies of scrap were scarce.

Ferrochrome is the main ingredient in the manufacture of stainless steel and Kovarsky said the state of world stainless steel markets determined the long-term future of the ferrochrome industry.

He said stainless steel mills consumed as much stainless steel scrap as possible — as an alternative to virgin ferrochrome and nickel — when the price of scrap was lower than the price of virgin ferrochrome.

When the stainless steel market contracted, there was initially a greater availability of scrap, a reflection of earlier high production. For ferrochrome producers, not only did the stainless steel industry need less material but the position was aided by good scrap supplies.

Kovarsky said the opposite was true at times when stainless steel production accelerated. Reliance on virgin material increased until enough scrap found its way back to the steel mills.

It appeared the trend in scrap consumption lead the trend in stainless steel consumption by 15 to 20 years. As stainless steel demand last dropped sharply in 1975, scrap availability would fall sharply in the '90s.

He said the slow integration of the Soviet Union into the world economy could have a major effect on the ferrochrome industry, while the booming economy of communist China augered well for stainless steel demand and ferrochrome consumption. A turnaround in the next five years in the economic fortunes of eastern Europe and developing countries would provide extra impetus for stainless steel.

Stainless steel demand had grown by at least 3% a year since 1974, although the effective rate was much higher because of more efficient production techniques.

Iscor price hike is well received

(189)

BRENT VON MELVILLE

STEEL converters have accepted, with a minimum of grumbling, Iscor's price increases for the coming year. The rises, announced on Friday, are likely to be emulated by Highveld Steel & Vanadium, SA's second largest steel producer.

Price increases ranged from 0% (for reinforcing bar) to 13% (for heavier structural steels).

Industry sources said rises below the inflation rate were gratefully received. BDay 4/11/91

A National Association of Automobile Manufacturers of SA (Naamsa) spokesman said yesterday rises on such items as cold rolled steel and galvanised sheets had been left at a very reasonable 5% to 6%. The Naamsa spokesman said the industry was assuming this was a "once-off" increase for the year.

Naamsa has been openly critical of Iscor's pricing policy and application for increases in protection for imported steel, and has threatened to "go elsewhere" if prices were not kept within reasonable levels.

Iscor deputy MD Nols Olivier said at the weekend that Iscor steel prices would be adjusted differentially, the weighted average being 9,3% taking market factors into consideration.

Olivier noted that taking the savings due to VAT into account, the increase of 9,3% was 1,5% less than the increase of 12,3% in the PPI from January to August this year.

Rationalised Picapli pulls itself out of a debt mire

LESLEY LAMBERT

PICARDI Appliances, the mainstay of the diminished Picardi Group, has cut its debt:equity ratio from 319% to 130% by reducing interest-bearing debt from R106m to R61,7m over the past two financial years.

This strengthening of the balance sheet was part of the rationalisation programme which had contributed to the company's dramatic turnaround last year from the previous year's R13,2m loss to a pretax profit of R14,6m, Picapli chairman Jan Pickard Snr said in the annual report.

The programme was aimed at refocusing the company's wholesale trading towards its core business, domestic appliances.

With continued pressure on the cost of imported products, locally manufactured appliances contributed a much greater proportion of business than in the past, Pickard said.

The manufacturing division expanded its range of refrigerators, built-in ovens and geysers, and introduced a new range of free-standing stoves. The division has advanced to the final phase of its microwave localisation programme.

Pickard expected consumer expenditure on durables to remain depressed during the current financial year as tough trading conditions continue. Market pressures were likely to be compounded by the effect of VAT on disposable incomes.

"However, our concentration on established branded products ... will ensure that our market position is maintained, while our focus on working capital management and operating efficiencies will provide the basis for sustained profitability," Pickard said.

Bateman confidently defies poor conditions

(189) B/Day 6/11/91

MARC HASENFUSS

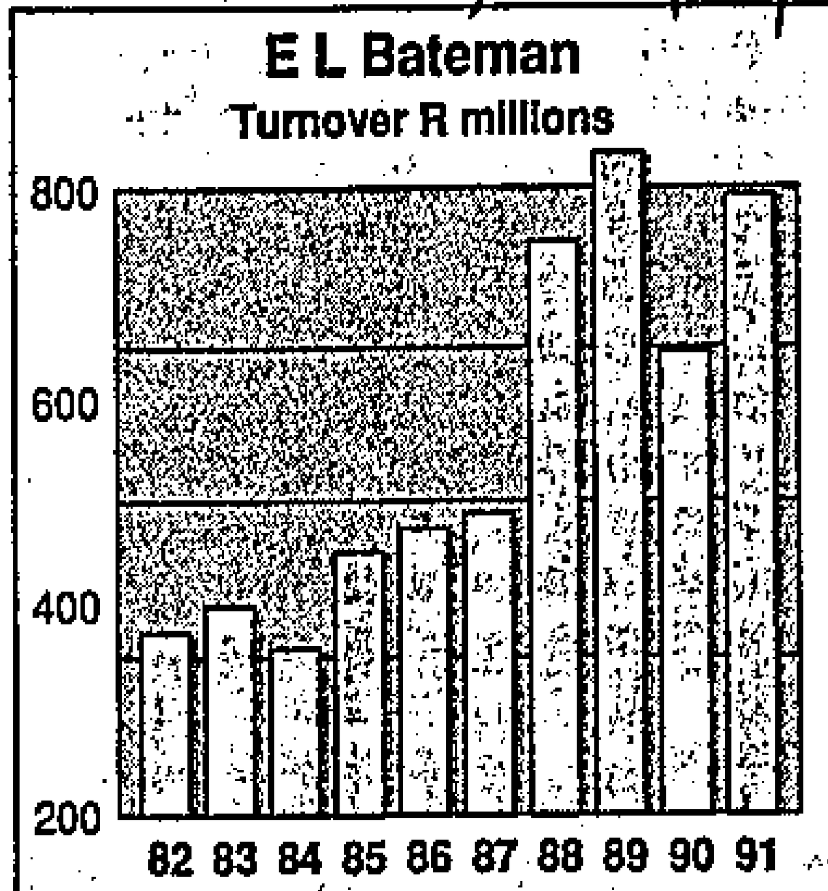
DETERIORATING conditions in the engineering sector are not intimidating Edward L Bateman (ELB) and the group is forecasting a repeat of 1991's earnings in real terms for the year ahead.

In his annual report, chairman Bill Bateman said delays in announcing incentives to major industries, low gold and commodity prices, and the depressed economy, made conditions in the industries served by ELB very difficult.

"In the circumstances, maintenance of earnings in real terms is a reasonable and challenging objective for 1992."

ELB's activities are divided into two broad categories — equipment supply and engineering/contracting — which have a profit contribution of about 63% and 37% respectively.

ELB's Equipment (Bateman) MD Peter Brereton said that more of the division's businesses were feeling the strain of the business downturn than at this time last year. However, the operating order book was higher than a year ago, though at a lower margin.



Graphic: FIONA KRISCH Source: E L BATEMAN

Brereton said that business and product acquisitions made during the year, and new markets, should enable Bateman to improve earnings in the year ahead.

Bateman had achieved a balance between supplying capital equipment and providing the aftermarket with spares and service.

Exploration, mining and mineral beneficiation still remained the biggest profit contributors in the equipment division. The weak rand gold price had forced the industry to take remedial action and the market for equipment and consumables remained depressed, Brereton said.

Increased emphasis was placed on orders received from the platinum, coal, diamond, iron and steel, base metals and ferro-alloy industries.

ELB's Engineering (Batepro) MD John Herselman said that an improvement on last year's results in real terms would be difficult to achieve. "Batepro enters the new financial year with a reasonable order book and cautious optimism."

He said Batepro was well positioned for growth and broader involvement in future projects.

Acceptance of SA in the international community had increased the demand for local services and products abroad, and Batepro was placing considerable emphasis on the development of these markets, Herselman said.

Brian Porter Holdings relying on cost control

B/Day 6/11/91

MARC HASENFUSS

THE continuing slump in new and used vehicle sales will see Cape-based motor retailer Brian Porter Holdings (Port) relying heavily on cost control to resume earnings growth in the year ahead.

Executive chairman Brian Porter said the group would continue its stringent control over working capital, particularly the policy of closely watching debtors' acounts.

In the year to end June, Port increased turnover 7% to R307m but higher operating costs knocked margins and operating income declined 6% to R4,4m.

Port recently extended the Porter BMW Somerset West, Porter MMI Parow and Porter MMI Muizenberg dealerships and also purchased new electronic workshop equipment.

The group's new car franchises include BMW, Delta/Isuzu, Ford, Jaguar/Daimler, Land/Range Rover, Nissan-/Uno, Porsche, Rolls Royce/Bentley and Toyota in the Western Cape. It also has Mazda/Ford/Mitsubishi dealerships in the PWV.

Porter said that a close monitoring of new developments and marketing techniques in the US car market enabled the group to pioneer the concept of major sales over weekends.

He said the group would remain on the alert for takeover opportunities. It recently acquired businesses at Olifantsfontein and Midrand.

Porter said the Transvaal operation continued to grow well. The acquisition of a site in Germiston is expected to be of great value to the group in the years ahead.

The development of Port's action display boards remained disappointing but opportunities in the UK and Australia were being investigated, he said. (492) (30)

Port was untraded at 400c yesterday, wedged between its July high of 500c and November 1990 low of 320c.

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Star 7/11/91

Reunert posts 2 percent rise in earnings

(189)

By Derek Tommey

Reunert maintained profits in the year to September, with attributable earnings of R74,6 million — an increase of two percent on last year's R73,3 million.

Earnings a share rose from 234,1c to 237,5c and an unchanged final dividend of 59c has been declared, making an unchanged payment of 81c for the year.

Turnover rose 14 percent from R1,4 billion to R1,6 billion, mainly because of of the inclusion of Sandock-Austral's figures for the full 12 months and African Cables' figures for three months.

Operating profit dropped three percent from R131,6 million to R127,6 million, but pre-tax profit improved nine percent from R109,8 million to R119,2 million after a cut in interest paid from R21,9 million to R8,4 million.

However, tax payable rose 60 percent from R22,3 million to R34,0 million, resulting in taxed profit dropping four percent to R85,2 million.

A small rise in the share of associate companies' profits and a small reduction in preference dividend payments led to the two percent increase in attributable profit.

MD Tony Ellingford says the group has been placed on a strong footing to take full advantage of any upturn.

COM

Buffeting affects Fenner's performance

Bidcy 7/11/91

BRENT VON MELVILLE

ENGINEERING group Fenner, though buffeted by deteriorating trading conditions for the year to August, managed to turn in a 9% rise in earnings to 66,4c (60,7c), and declare a dividend of 22c (20c).

The performance is a far cry from the 31% rise reported at the group's interim stage, which arose from the completion of major contracts at KSB Pumps and Control Specialists companies.

Trading conditions in the second half tempered the results, with operating profits registering a 12% increase to R27,8m (R24,7m) off a 17% increase in turnover to R245,8m (R209,3m).

(189)

Net finance costs were up 19% to R4,1m (R3,5m), not yet reflecting a borrowings drop to R14,6m (R21,7m). Cash resources also improved, to R7,9m from R2,3m, despite acquisition of rubber wear parts manufacturer Selflex by Trellex.

Net asset value climbed to 325,8c (282,5c) a share during the year, compared with the market price of 300c. The results put Fenner on a p:e of 4,5 times and a dividend yield of 7,3%. Directors warn that order books look depressed for the coming year.

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L STREET
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More waves at NEI

S Times (Buss) 10/11/91

NEI Africa shares have hit a low of R14 after holding up in the midst of financial embarrassments.

In June the engineering group admitted the books had been improperly kept and that profits had been overstated and assets overvalued.

Bill Beaumont, financial director of NEI's major shareholder Rolls-Royce plc was at the company offices earlier this week, but did not respond to my calls.

But I hear that there have been several management changes, including the replacement of the head of the Ical division by a retired NEI man.

Ical laid off 80 people earlier this year and is thought to have incurred losses on certain Mossgas contracts.

Former managing director Blitz Bieber — widely expected to succeed Len Abrahamse as chairman — is no longer on the board.

COMPANIES

Standard will stick to exports

MARC HASENFUSS

STANDARD Engineering would continue its policy of developing export markets in the sectors where local market demand was inconsistent, chairman Hugh Brown said in his annual review. (189)

He said Standard's sound performance, at a time when the domestic market for capital goods was in the doldrums, represented a triumph for the group's decision to expand its export activities.

The group's 27% increase in earnings to R41,4m (R25,7m) in the year to August was attributed to the doubling of export volumes. Export turnover rocketed to 17,4% of total turnover from a meagre 6,7% the previous year. B Day 12/11/91.

Strong-performing export division, Union Carriage should benefit from the improved political situation and further easing of sanctions. Significant inquiries from the Far East and Africa were pending.

The pipe division's recently upgraded Electric Resistance Welding (ERW) mill would operate at full capacity to cope with increased export tonnages, which were expected to exceed local deliveries in the coming year, Brown said.

Further export growth was also forecast for the group's automotive and metal-pressing divisions.

With Standard lowly geared and in a sound financial position, Brown said the group was actively looking for acquisitions to supplement and extend activities.

Standard's gearing shifted to 34,5% from 30,1% following the purchase of Protea Technology in the year under review.

Brown said although uncertain political and economic conditions made an accurate forecast difficult, the group was budgeting to maintain earnings in the year ahead.

R433m setback for Barlow Rand

B Day 12/11/91 (189)

BRENT VON MELVILLE

INDUSTRIAL conglomerate Barlow Rand has disclosed extraordinary losses and write-offs amounting to R433m, after incorporating profits of more than R200m arising from the sale of Middelburg Steel & Alloys (MS & A) in its results for the year to end-September.

The write-offs, on the back of a 7% decline in earnings to 430,9c (462,4c) a share, follow the restructuring of subsidiary Rand Mines. As part of this, Rand Mines wrote off debt totalling about R735m.

The bulk of the write-off was related to the disposal of Barplats Investments, which affected Barlows results as an extraordinary item of about R363m.

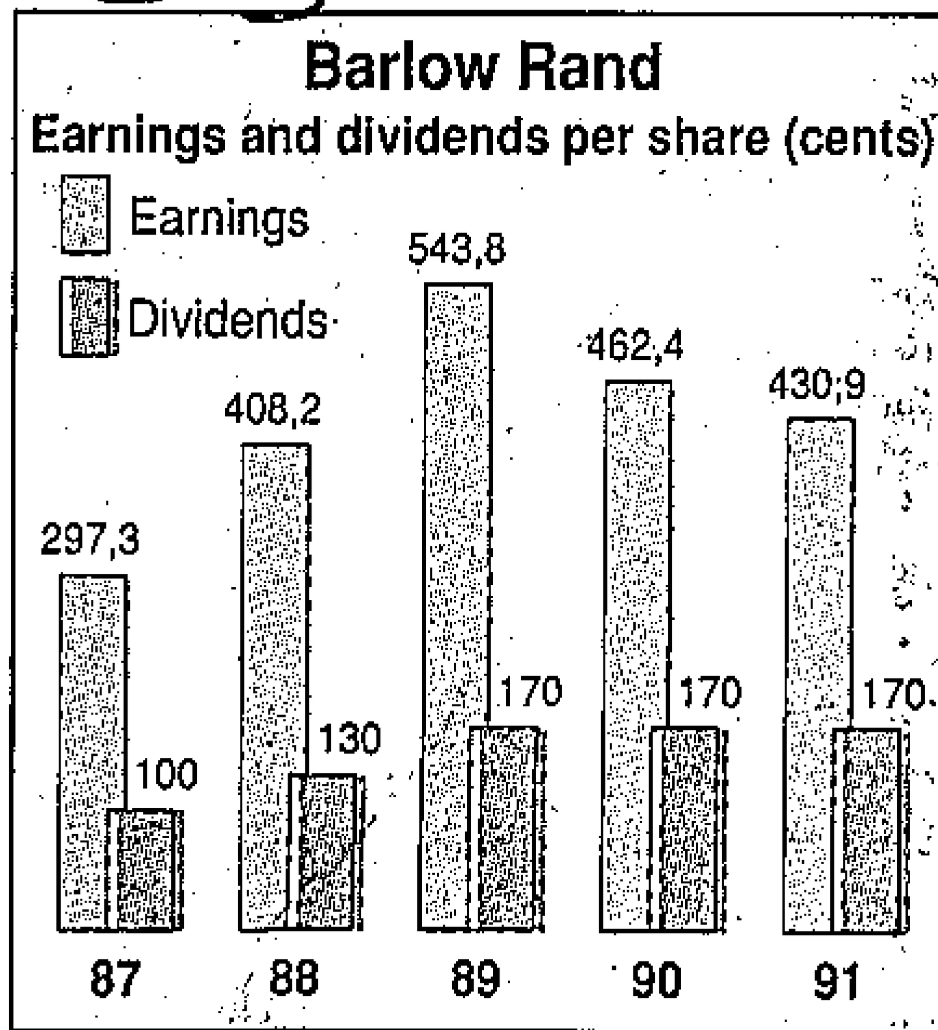
During the year the group sold MS & A and the group's chrome mining interests to a consortium in the Anglo American and Gencor groups for about R1,1bn. Deputy chairman Derek Cooper said the sale would net the group a profit of about R220m, also reflected in extraordinary items.

A final dividend of 119c brings the total dividend for the year to an unchanged 170c, and directors have given shareholders the option of taking the final dividend in cash or shares.

The share offer, at a ratio of 2,48 shares for every 100 ordinary shares held, translates to about R48 a share, down on the current price of R52. Even after deducting the dividend of 119c the offer represents a discount of about 5% to the ruling price.

Cooper said if 90% of shareholders took up the offer it represented a "mini rights issue" of just more than R200m.

The ratio of shares would be subject to a possible downward revision, in the event that the market price should necessitate it, for up to 24 hours before registration date.



Graphic: FIONA KRISCH Source: BARLOW RAND

● Picture: Page 5
● See Page 15

Barlows' 7% decline betters expectations

BDay 12/11/91 (189)

BRENT VON MELVILLE

BARLOW RAND, SA's biggest industrial conglomerate, has reported a 7% decline in earnings to 430,9c (462,4c) a share for the year to end-September, bettering expectations of a 12% fall in earnings.

The performance comes on the back of a stronger showing than forecast for Middelburg Steel & Alloys (MS & A) and Rand Mines. Deputy chairman Derek Cooper said MS & A came in with a "small profit". None of the group's unlisted operations had shown losses for the year.

The showing, and an announcement that the group would offer its unchanged final dividend of 119c to shareholders as either cash or shares, prompted a 40c share price rise to R52.

In terms of the share offer, shareholders may take 2,48 shares for every 100 held, translating to R48 each, which, even deducting the final dividend from the current market price, represents a 5% discount. Cooper said majority shareholders had already indicated a willingness to accept the offer.

Operational turnover climbed 10% to just less than R32bn (R29,1bn). Operating profit before interest rose 4% to R2,6bn (R2,5bn). Interest charges rose 15% to R674m (R586m) reducing cover slightly to 3,8 times.

Contributions from equity accounted associated companies were bolstered 33% to R56m (R42m), although outside shareholders accounted for R799m (R716m), leaving attributable profits to ordinary shareholders down 6% at R806m (R855m).

Below-the-line extraordinary items absorbed a significantly higher R433m (R115m) related primarily to the write-off of Barplats Investments to market value. The profit on the sale of MS & A was also incorporated into extraordinary items, meaning total below-the-line write-offs amounted to about R600m.

Barlows did not disclose the loss incurred on its trading venture in Zaire, hit by riots and upheaval. Sources put it at about R20m. Barlows chairman Warren Clewlow said it was a setback in that the group was only "just getting going" in Zaire. However, this would not deter Barlows from moving further into African markets.

In mining and mineral beneficiation, Rand Mines showed a 12% improvement before extraordinary items, while Pretoria Portland Cement increased its contribution 7% with bottom-line earnings at R114m (R106m). Cooper said MS & A produced a "small profit" with a strong performance from the stainless steel division.

Firm demand for consumer products and a marked slowdown for capital goods saw Technology Systems International push earnings up 20% and Reunert post a marginal improvement to R74,6m in attributable earnings. Cooper said reduced Armscor orders at Reunert would be offset by the move into other markets. The recent R76m acquisition of African Cables was a step in that direction.

A good performance from Tiger Food on the back of recent acquisitions helped boost Tiger Oats's earnings 13%, while ICS showed a 24% rise. CG Smith Food recorded a 14% rise despite declining world sugar markets.CG Smith's earnings were up 9%.

Barlows' international arm J Bibby improved its earnings moderately. Cooper said the group was in a position to spend about £100m this year.

Total capex for the group would probably exceed last year's R1,4bn.

EXECUTIVE SUITE

TPN banks on revival of the economy

(189)

B | Day 13/11/91

MARC HASENFUSS

TPN Investments' prospects for the near future were heavily dependent on a revival in the local economy and gold mining industry, chairman Trevor Thompson said in his annual review.

The ability of the nuts and bolts group to increase the volume and profitability of exports was also of cardinal importance, Thompson said.

Increased export revenue in the second half of the year to end-June had helped the group to offset a dismal interim performance and restricted the drop in earnings a share to 10%, to 6,7c (7,4c).

Although results for 1992 were likely to be better than 1991, Thompson conceded a return to profitability levels of earlier years was unlikely.

The group was well placed to contend with a testing year ahead, he said.

Competent management had kept TPN in a sound financial position. The group's gearing was down to a healthy 12,4% (15,4%), the current ratio stood at 4,4:1 (4:1) and net asset value a share increased to 43,9c (39,3c).

Genmin seeks joint venture for Alusaf

BD 14/11/91 PETER GALLI (189)

GENMIN yesterday confirmed it was talking to international companies with a view to setting up a joint venture for part of its new R3bn Alusaf aluminium smelter.

Genmin chairman Brian Gilbertson said it would consider putting up equity in an offshore operation, but this would depend on the nature of the transaction.

Genmin would like to decrease the project's dependence on pure commodity pricing and was therefore looking at the possibility of establishing a downstream plant to convert aluminium output from the Alusaf expansion into semi-end-user products.

"Genmin has considered a number of companies as potential end-product partners, and has already spoken to some," he said. He declined to name the companies.

He added investigations and talks would continue into the first quarter of 1992.

The feasibility study into the new aluminium smelter, that could earn SA $400m a year in foreign exchange, is expected to be completed by April.

Gilbertson said the project needed two ingredients to be successful: a source of competitively priced electricity, which it had already secured from Eskom, and a source of competitively priced alumina.

"This could be obtained through traders in the market, by a long-term supply contract with alumina producers or via direct participation in a joint venture with an alumina producer," Gilbertson said.

Iscor forecasts tough year ahead

(189)

CT 14/11/91

JOHANNESBURG. — Iscor will find it difficult in the current financial year to repeat the results of the year to last June 30, chairman Marius de Waal said in the annual report.

Budgets were prepared in the knowledge that markets served by Iscor tend to turn once economic recovery is well under way, he said.

Earnings per share fell to 33c from 50,1c in the 1990/91 financial year, and the dividend was reduced to 11c from 17,6c.

De waal reiterated that ownership of Iscor shares should be considered as a medium- to long-term investment.

Iscor's goal was to maintain efficiency, seeking to buffer the downturns through flexible marketing and sales strategies and to maximise benefits accruing from cyclical upswings. — Reuter

BARLOW RAND FM 15|11|91 (189)

A pleasant surprise in the second half

There are marked similarities between the year-end results of Barlow Rand, released this week, and Malbak, reviewed two weeks ago. Both saw significant second-half profitability improvements.

Of the two, the stronger performance was from Malbak, which achieved an 18% improvement in EPS during the second half of its year to end-August against a first-half gain of 1%. At Barlow, on the other hand, second-half earnings level-pegged at 244c after a first-half decline of 14%, reducing the shortfall for the year to 7%.

The difference in performance underscores a point of major importance in any interpretation of Barlow's results: that a far greater proportion of earnings is derived from activities which depend on infrastructural spending, compared with Malbak's more consumer-orientated portfolio.

This dichotomy is evident in Barlow's own results. For instance, C G Smith's year-end earnings were up 9%. The industrial division specifically mentions firm demand for consumer products (benefiting Barcep in particular), while there was a marked slowdown in capital goods markets (which hit, among others, earthmoving equipment, steel merchanting and building materials).

Indirectly, this brings us to the next point, the extent to which the group has suffered over the past two years from Middelburg Steel (MS&A) and its related ferrochrome interests; now in the process of being sold.

While MS&A's results last year were better than expected, ending with a small profit after losing R17m at the halfway stage, this does not alter the fact that since 1989 (when Barlow's earnings peaked at 544c), its contribution to group earnings has declined by well over R200m.

This exceeded the overall decline in group attributable earnings from 1989's R1bn to R806m last year, from which it is apparent that the rest of the group in aggregate has achieved a relatively steady performance despite the progressive tightening of the business environment.

Contributing to this has been intensified asset management and the benefits of this will be seen when the balance sheet is published. Chairman and CE Warren Clewlow says gearing is down even before allowing for the R1,1bn to be received from the sale of MS&A and chrome mining operations.

Barlow Rand's Clewlow ... *will want higher dividend cover*

Something else that will contribute to strengthening the balance sheet is Barlow's decision to jump on the scrip dividend bandwagon, by offering shareholders the opportunity of taking up additional shares instead of the 119c cash final dividend. The new shares are being issued at R48, giving a ratio of 2,47917 for every 100 shares held.

A novel aspect is that shareholders are protected from any abnormal decline in Barlow's share price, virtually until registration date, by the group reserving the right, in such an event, to adjust the issue price downwards. There will, however, be no corresponding adjustment to reflect any increase in the share price.

With this safeguard, the offer is attractive. At the current share price of R52, the ex-div value of the scrip alternative is 126c and increases the effective dividend total for accepting shareholders to 177c, from the 170c that shareholders taking cash will receive.

No indication has been given at this stage as to the current year's prospects. But after the sale of MS&A and the resolution of Rand Mines' problems, Clewlow believes the group is clean and operating as well as it can in present circumstances.

EPS should reflect the productive employment of the R1,1bn from MS&A. This alone could be worth at least an extra 50c a share. On the face of it, therefore, 500c does not seem an unrealistic target. If this is achieved, the group will have recovered more than half of the cumulative decline since earnings peaked at 544c in 1989.

Depending on the outlook for 1993, this would probably warrant an increase in distribution, though it should be noted that by maintaining the payout in the face of lower earnings in the past two years, cover has slipped to 2,5 times. It can be assumed that rebuilding cover to the favoured level of three will be among management's objectives: so dividend growth may lag earnings until this is achieved. *Brian Thompson*

LIMITED DROP

Year to September	1989	1990	1991
Turnover (Rm)	21 179	29 119	31 994
Operating profit (Rm)	2 705	2 471	2 569
Attrib earnings (Rm)	1 001	855	806
EPS (c)	544	462	431
Dividends (c)	170	170	170

NEDCOR FM 15|11|91

In from the cold

Looking at the Nineties-style Nedcor, whose operating and financial ratios match up to — and in some cases beat — those of its major competitors, it's hard to remember that this was the group so entangled in the debt standstill in 1985 that it had, in effect, to be bailed out by Old Mutual. Three years later, Nedcor mounted a quasi-rescue of its own (though many would no doubt dispute the term) when it "merged" with the SA Perm.

But in the long run, Mutual has no reason to regret the money it pumped into the rights issue 3½ years ago, at 630c a share — less than half the current R14,65. And it's the traditional banking interests that have made the running, with Nedbank, Nedfin and the Nedcor banking division kicking in R220m, or over 60%, of the latest R344m net profit. Net profit of the Perm was barely changed, at R63m (R65m).

The sale of MIBSA affects some of the comparative figures, but as its net profit contribution in 1990 was only R3m, it does not really alter the overall picture.

There are several features in the accounts. First, perhaps, is the impact of a relatively modest shift in interest margins on profitability. For while interest received, up 16% (with contributions from both higher rates and larger books), rose only slightly more than the 15% increase in interest paid, the result was a 21% gain in net interest income.

Then, "other" income (largely fees and commissions) grew a similar amount. CE Chris Liebenberg finds this particularly pleasing, as such business generally carries no capital requirements and is also a better hedge against inflation. He would like to see this trend extended and also a greater investment in inflation-hedge instruments.

Cont →

STILL ADVANCING

Year to Sep	1989	1990	1991
Deposits (Rbn)	24,4	28,9	35,4
Advances (Rbn)	20,2	24,4	30,8
Net income (Rm)	257	287	344
EPS (c)	138	154	185
Divs (c)	46	51	57

FRASER ALEXANDER (189)

Brass in muck FM 15/11/91

Cutbacks in the mining sector, in gold mining in particular, have hit Fraser Alexander which derives the bulk of its income from this sector: earnings fell for the first time since 1985.

The group barely broke even in July-September 1990; thereafter, earnings improved steadily.

Earnings sources have broadened consid-

Cont →

FM 15/11/91 (189)

Activities: *Materials handling including the operation of tailings and waste dumps, ash handling; service and effluent treatment; industrial work management; concrete pipes and open cast coal mining.*

Control: *Fralex 72,9%; Remgro holds 39% of Fralex.*

Chairman: *P H Flack.*

Capital structure: *12,5m ords. Market capitalisation: R147m.*

Share market: *Price: 1 175c. Yields: 3,3% on dividend; 10,6% on earnings; p:e ratio, 9,4; cover, 3,2. 12-month high, 1 200c; low, 825c. Trading volume last quarter, 57 000 shares.*

Year to June 30	'88	'89	'90	'91
ST debt (Rm)	22,8	22,6	16,4	33,7
LT debt (Rm)	5,3	8,1	7,6	24,3
Debt:equity ratio	0,74	0,53	0,37	0,74
Shareholders' interest	0,40	0,39	0,45	0,40
Int & leasing cover	12,2	13,9	27,2	4,2
Return on cap (%)	16,0	23,7	26,0	19,0
Turnover (Rm)	126	176	215	234
Pre-int profit (Rm)	13,8	27,5	34,9	32,1
Pre-int margin (%)	10,9	15,6	16,2	13,7
Earnings (c)	66,6	133,8	163,8	124,9
Dividends (c)	27	38	46	39
Net worth (c)	279	373	486	545

erably since year-end. Waste-Tech will be bought for R35m in cash or shares on November 30. This dominant private-sector operator in waste management is strong in municipal contracting and management of toxic waste. With turnover of R80m and pretax profit of R8m, it will enlarge the group by a third.

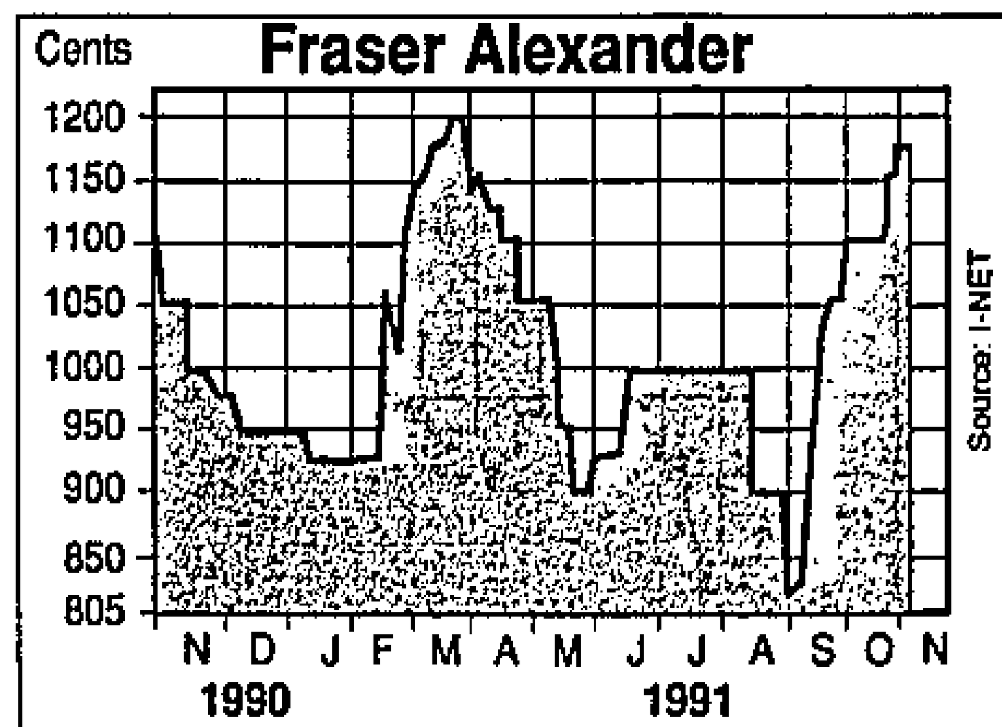
The existing waste division won a five-year contract to manage the landfill site for the East Rand Regional Services Council at Platkop and a privately-owned site near Springs. The combined group will be in a strong position to tender for business.

Even before the Waste-Tech acquisition, Fraser Alexander had been diversifying from its core business of tailings for gold mines, developing its presence in platinum and base metals. The diversification cushioned the fall in income from gold mining.

Hydraulic mining operations in Australia contributed R1m to the bottom line. The mining construction business maintained volumes, though at lower margins.

Gearing rose from 37% to 74%, if mining rights are treated as intangibles. Flack says this is because the group buys its own plant and equipment for long-term contracts. It was unwilling to postpone spending on upgrading fixed assets, which cost R15m.

Contracts won during the year included one for the management of coal discard at four JCI collieries and a discard and coal



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FM 15/11/91 (189)

recovery contract at Lonrho's Tweefontein colliery. These required capex of R4m and R5m respectively. The group has also spent R6m developing a coal beneficiation plant on the quayside in Swansea, Wales, as part of its European trading operations.

Concrete division Fraser Fyfe had a difficult year. Sales fell by 32%, after a 21% decline the previous year, but it was still profitable, thanks to productivity improvements and strict cash control. The loss-making Mamre quarry was disposed of. The range of plant and equipment sold by the group was severely rationalised.

Flack says large-scale housing development is a national imperative and the appropriate structures to oversee this process are being set up.

Waste-Tech should add between 5% and 10% to EPS, depending on whether cash or shares are used for the purchase. It is often said that where there's muck there's brass and waste management will be increasingly profitable in the environmentally friendly Nineties.

The share price has been volatile but is close to its 12-month high of R12, though a p:e of 9,4 is relatively undemanding. Flack expects earnings to recover to 1990 levels in the current year and then resume a growth path. It is a cautious buy.

Stephen Cranston

FM 15\11\91 (189)

KLIPTON FM 15|11|91 (189)

Reaching maturity

Activities: *Manufactures and markets specialised industrial products in the fields of materials handling, power tools and security.*

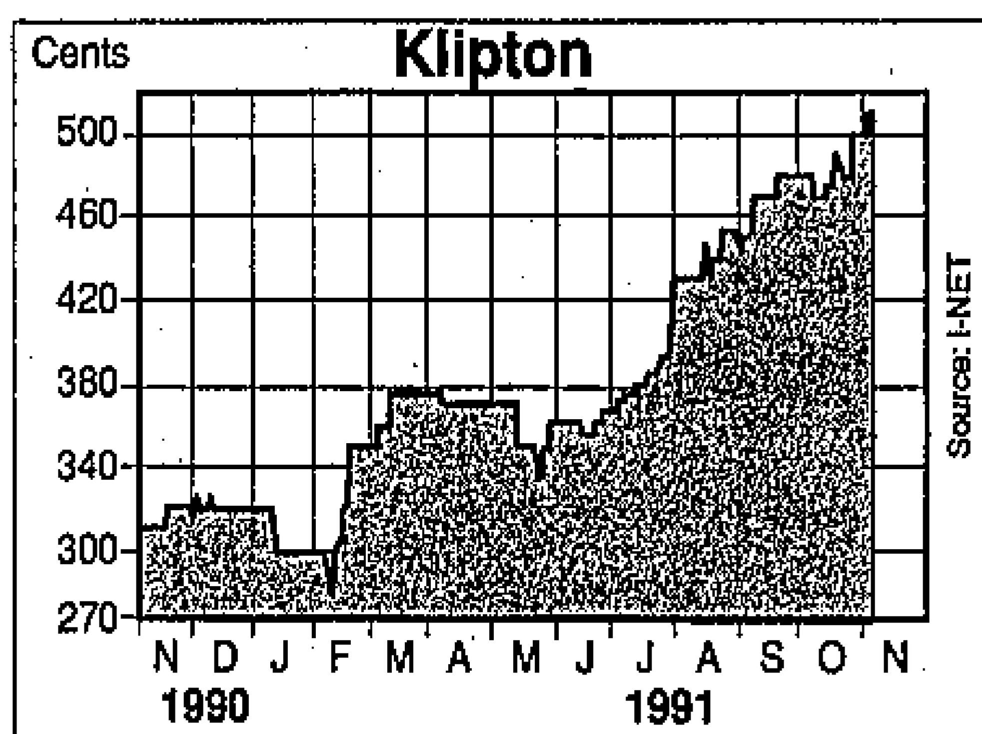
Control: *Directors 20,9%.*

Joint chairmen: *I N and R J L Matthews.*

Capital structure: *115,m ords. Market capitalisation: R57,5m.*

Share market: *Price: 500c. Yields: 3,8% on dividend; 11,8% on earnings; p:e ratio, 8,5; cover, 3,1. 12-month high, 500c; low, 280c. Trading volume last quarter, 231 000 shares.*

Year to June	'88	'89	'90	'91
ST debt (Rm)	1,4	2,0	3,3	4,4
LT debt (Rm)	2,5	2,6	5,0	6,4
Debt:equity ratio	0,37	0,37	0,34	0,31
Shareholders' interest	0,41	0,39	0,32	0,33
Int & leasing cover	11,7	5,6	8,6	7,8
Return on cap (%)	13,1	19,0	22,3	20,8
Turnover (Rm)	40,5	57,0	88,9	106,8
Pre-int profit (Rm)	2,9	5,4	9,7	11,7
Pre-int margin (%)	7,2	9,4	10,9	11,0
Earnings (c)	37,6	46,7	58,6	59,0
Dividends (c)	12	15	19	19
Net worth (c)	145	174	160	162



Since its listing in 1987, Klipton has thrived on a steady diet of organic growth spiced with acquisitions. The success of this formula is reflected in the growth of EPS from a base of 19,6c in 1987 to 58,6c in 1990.

Last year, however, though the basic formula remained unchanged, earnings stagnated and, for the first time, there was no increase in dividends. Against other industrial company results, there is, of course, nothing remarkable in this. But in this case, it may be simplistic to attribute lack of growth entirely to the state of the economy.

Closer examination suggests a secondary factor: it has become increasingly difficult to generate the synergistic benefits — whether from organic growth or acquisitions — responsible for previous strong earnings gains.

Take, for example, trading margins. This ratio has since 1987 increased from 7,2% to 11%, yielding in the process a ninefold increase in operating profit from a 164% improvement in sales. And while it is undoubtedly true that last year's virtually unchanged margin (11% against 10,9% in 1990) reflected recessionary trading conditions, it is equally true that this ratio cannot go on growing indefinitely and may, in fact, already be in sight of its optimal level.

The same considerations apply to asset-based profitability ratios. Accepting that these are a bit more difficult to measure accurately because of the timing of acquisitions, the group's own calculations indicate that, over the three years to 1990, pre-interest return on average funds employed (excluding interest-free liabilities) improved from 15,3% to 55,4% before backing off slightly to 52,1% last year, while ROE (again on an average equity base) rose from 9,4% to 40,2% before shading to 37,9%.

So, realistically, one has to accept that the group has already established an excellent rate of profitability and that further upward movement in these ratios is limited.

This is not necessarily negative. Though it probably means that in future the group will find it difficult to grow earnings faster than turnover, which has been one of its main characteristics, the positive side is that it has reached a size that provides some protection from changes in the business climate.

Nor does it mean that no further productivity benefits can be won. In fact the annual statement of joint chairmen Nigel and Robin Matthews is peppered with comment on planned improvements in asset management.

In the Safety & Security division, expanded from two to four companies last year, this involves investigating how to integrate operations with a view to eliminating product and overhead duplication.

Interestingly, the market was not put off by last year's lack of EPS growth, as is reflected in the advance in the share price from 315c when the *FM* reviewed the 1990 report to the present high of 500c; comfortably ahead of the industrial market's 52% advance over the same period.

The market obviously recognises that the group is soundly structured, well run and prepared to accept that exceptional earnings growth cannot be kept up forever.

Even if 1992 turns out another flat year, the share, on a 3,8% dividend yield, is well priced in relation to the market and carries only limited downside risk. *Brian Thompson*

Tax credit lifts Titaco interim earnings 9%

B/Day 15/11/91 (189)

MARC HASENFUSS

ENGINEERING group Titaco, helped by a substantial tax credit, lifted interim earnings 9% in the six months to end-August.

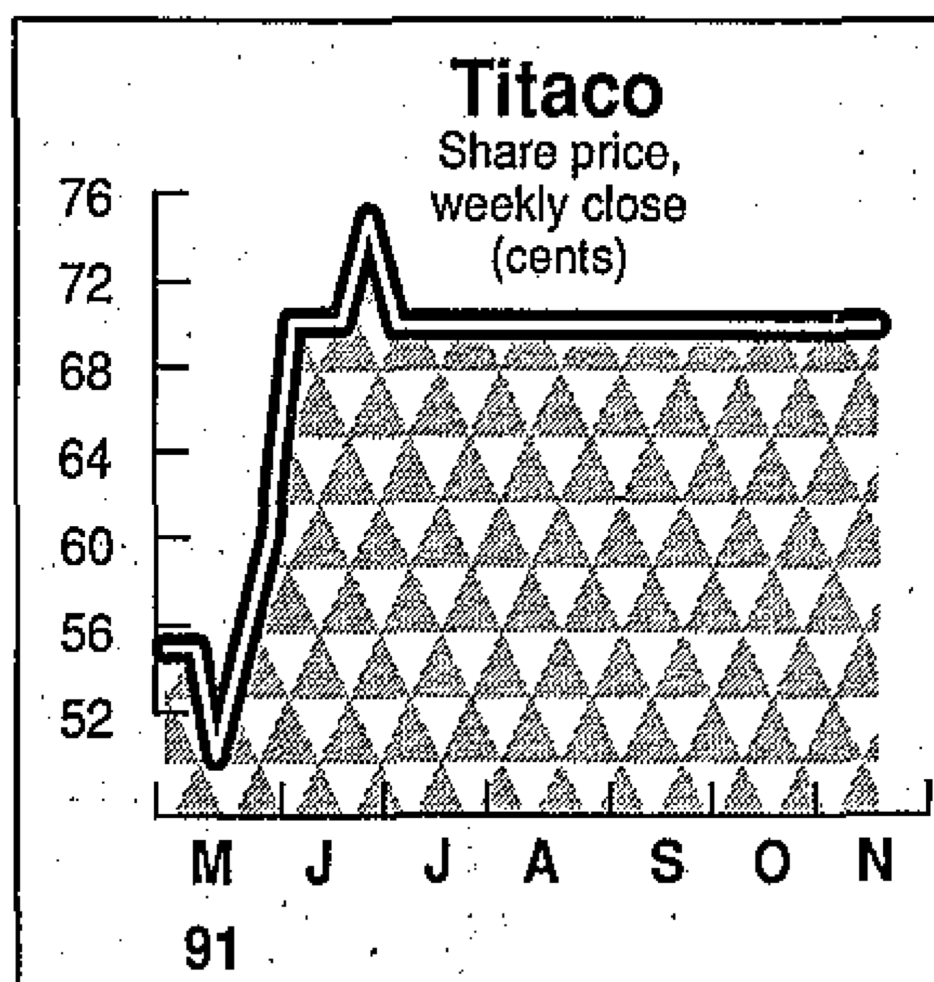
The tax credit came from export incentives and overprovision for deferred taxation in previous years.

Earnings increased to R564 000 (R518 000) or 9,3c (8,6c) a share as a R518 000 tax credit offset a 60% drop in turnover to R19,8m (R50,1m). In line with group policy no interim dividend was paid.

Directors said the drop in turnover stemmed from the "conscious shift" to managed rather than turnkey work.

They said the turnover figure for the preceding six months, R23m, was a better comparison of the trend which was expected to continue for the full year.

Although variable costs were reduced in line with workload, the prevailing adverse and uncertain conditions in the capital projects market and the lower level of group activity affected profits negatively.



Graphic: LEE EMERTON Source: I-NET

Operating profit came in lower at R439 000 (R1,5m) and was further eroded by a R393 000 interest bill to R46 000 at pre-tax level.

Net asset value fell to 95c (99,8c) after paying a premium on the balance of shares in associated company FCT.

Cummins Diesel on the way back

S/Times (Buss) 17/11/91

(189)

By DON ROBERTSON

THE new-look SA has prompted US-based Cummins Diesel to return and challenge Atlantis Diesel Engines (ADE) for the truck market.

A high-powered management team from Britain and America arrived in SA this week with the aim of expanding its markets, particularly in trucks and buses.

Cummins decided in May this year to develop the SA market and John Harris, regional manager for Africa, moved to Johannesburg in June.

Conferences

Cummins intends to set up a full-fledged office to provide technical and marketing facilities.

For the past 45 years, Cummins diesel engines have been distributed in SA by Propower, a subsidiary of the NEI group.

The team in SA is led by Arthur Mulligan, director in charge of Africa and the Middle East.

It will hold several conferences with Propower staff members and customers in the mining and automotive fields.

Discussions will cover new products and technology and the company's expansion plans.

In the past, Cummins was involved in supplying engines for off-road vehicles, the mining industry, power generation and marine use.

The thrust now will be in the truck and bus markets.

Mr Harris says it is possible to import a 400hp engine for between R65 000 and R70 000 compared with a similar engine from ADE which sells for R89 000.

He concedes that convincing manufacturers to switch to Cummins will not be easy because most truck makers, should they wish to import engines, would probably get them from their parent companies in Germany or Japan.

Manufacturers such as Ford, Leyland, ERF and Navistar, formerly International Harvester, traditionally use Cummins engines.

Cummins Diesel SA imports directly about 200 engines a year, another 600 to 1 000 arriving indirectly in Navistar, ERF and Komatsu trucks and earth-moving equipment.

Mr Harris says it is planned to more than double engine imports in the next five years. He hopes most of them will go to the truck industry.

Edge

"An important aspect will be to get a manufacturer to fit our engines," says Mr Harris.

Cummins has an engine on test with Transnet, which it is assessing for its CX and PX container services.

The possibility of assembling engines in SA has been considered, but will depend on how the market grows.

Mr Harris says SA could become the entry point for further expansion in Southern Africa. Cummins has full representation in most countries in Africa. This should give it an edge on ADE, for instance, in expanding in these areas.

Probuilt, a subsidiary of Propower, rebuilds Toyota, ADE and Delta engines. But Mr Harris is eyeing the facility with a view to switching it to the rebuilding of Cummins engines only.

JOHN HARRIS: Spearheads truck drive

Stainless steel in the dumps

(189)

S/Times (Buss)

17/11/91

By IAN ROBINSON

THE growth of the domestic stainless-steel industry has not lived up to expectations.

MS&A Stainless managing director Keith Luyt says that before its R150-million cold-rolling strip mill was installed in 1980, his company forecast that domestic demand for cold-rolled austenitic (nickel-bearing) stainless steel would grow from 19 000 tons in 1980 to 42 000 in 1991.

Sales in 1991 are now expected to be only 24 000 tons. Demand peaked at more than 29 000 tons in 1988 before falling to 20 600 last year.

Mr Luyt believes the low growth reflects the economy's weakness and the lack of major new capital projects rather than factors which specifically affect stainless steel or inadequate promotion of the product.

Although the Columbus project will be oriented to exports, chief executive Fred Boshoff told the annual meeting of the South African Stainless Steel Development Association (SASSDA) he regarded the SA market as being of "prime importance" and additions to the product range were being considered.

Lower unit production costs and improved productivity from Columbus could provide cheaper stainless steel to fabricators.

Worried

However, one fabricator says he is disappointed that Samancor-Highveld have taken over MS&A. He would have welcomed competition between MS&A and Columbus.

Fabricators are concerned about domestic prices which affect their competitiveness on export markets. They are also worried about the competitiveness of stainless steel against materials such as glass fibre, high-density polyethylene and ceramics.

Prices of semi-fabricated products reflect not only MS&A's production costs but distribution ones.

After a spell of intense competition which reduced margins to 2% or 3%, the three major stockists have stabilised prices at higher levels.

A fabricator describes the current uniformity of pricing as "rather puzzling".

Taiwan

Total sales of MS&A stainless-steel products on the domestic market in 1991 are forecast at about 44 000 tons including 24 000 tons of austenitic grades, 7 300 of ferritic (non nickel-bearing) grades and 12 400 of 3Cr12. This represents about 40% of annual production of 110 000 tons.

Stainless steel for consumer products — pots, pans and cutlery — usually has a thickness of less than 2mm.

Capital goods are produced from stainless plate of thicknesses exceeding 2mm. They include pressure vessels, storage tanks and heat exchangers which are used in the chemical, mining, food, pharmaceutical and other industries.

MS&A is optimistic about long-term growth in the SA market.

Chill winds at MS&A

S/Times (Buss) 17/11/91.

By IAN ROBINSON (189)

THE COLUMBUS stainless-steel consortium will make sweeping changes to the MS&A head-office operations in Sandton.

Columbus chief executive Fred Boshoff says in reply to questions about the possible closure of the Sandton office and head-office retrenchments:

"As a result of the purchase of the MS&A group by the consortium it has become clear that it is operationally necessary for the business to transfer certain Sandton-based operations and services to the plant at Middelburg and/or Samancor House in Johannesburg and that certain consolidation and/or rationalisation of the current Sandton operations and services are unavoidable."

The weak ferrochrome market is placing additional pressures on the consortium as it grapples with the problems of rationalisation.

Samancor general manager, finance, Chris Norval says the company is still studying the integration of MS&A's production facilities. No decision has been made about the closure of plants or furnaces.

Because of low demand for ferrochrome there is no need to hasten the recommissioning of MS&A's 120 000-ton-a-year chrome direct reduction (CDR) plant which was closed because of technical problems.

The plant is based on new technology which could drastically reduce power consumption and slash production costs.

It is believed that MS&A blamed plant supplier Mannesman Demag for the breakdown. It alleged equipment did not meet specifications.

But Mr Boshoff says the dispute has been amicably resolved.

Samancor managing director Hans Smith said recently in Japan that the CDR furnace would be redesigned. It would take 18 months before it operated.

Cost cutting will help Maxmech

189

PAUL ASH

IMPLEMENTATION of a lower cost structure and disposability of certain stock items would help return seal manufacturer Maxmech Mechanical Seals (Maxmech) to an acceptable level of profitability, chairman Mike Lang said recently in the group's annual report. BDay 18/11/91

Maxmech disclosed a 23,5% drop in turnover in the year to end-February 1991 with a net loss before tax of R573 054 compared with a R85 993 profit previously. Net loss attributable to ordinary shareholders was R558 917 (1990: R50 952 profit). The loss was made up largely of a R197 740 interest payment and R155 781 in depreciation. There was an abnormal item of R75 000 from the write-down of obsolete stock.

Following changing specifications in the market, the group was left with an inventory which would not sell, Lang said at the weekend.

Lang said in his chairman's statement that the cost-containing exercise had been successful, with costs increasing only 3,3% over the previous year. Having broken the downward plunge, the group would attempt to reach full profitability and pay a sound dividend at the end of the financial year.

Tax rate cuts Sondor's profits

(189)

BD 18/11/91.

LINDA ENSOR

CAPE TOWN — Engineering company Sondor Industries suffered a 35,5% decline in earnings a share to 5,64c (8,74c) in the six months to end-September.

While turnover growth of 16% to R11,3m (R9,7m) kept pace with inflation, lower margins and a significantly higher tax rate had a negative impact on the bottom line. An amount of 15c per debenture and 3c per share will be paid out.

Analysts predict drop in Dorbyl's earnings

BDay 18/11/91 (189)

MARC HASENFUSS

STAGNANT business conditions are certain to keep the brakes on engineering group Dorbyl's performance in the year to end-September, and analysts are expecting a small drop in earnings.

Analysts' expectations are supported by a market which saw a sudden plunge in Dorbyl's share price in October to R15,50 from R19,75 at the end of September.

The Dorbyl group will be publishing its full results for the past year tomorrow.

Analysts forecast a 3% drop in earnings a share to 335c (previously 345c) despite a marked improvement in export orders. The dividend, however, is expected to remain unchanged at 103c.

However, analysts believe that revenue derived from the tail end of the Mossgas project could not be gauged and might reinforce earnings.

Earnings at the interim stage were up a mediocre 6% to 160c (150c) a share after weakening economic conditions were exacerbated by problems at the group's pipe manufacturing Tosa plant.

Additional capital expenditure required for the upgrading of the Tosa seamless plant could knock margins, analysts said.

Baldwin's Steel would continue to show the adverse effects of weak domestic demand, although this could be partly offset by increased exports.

The automotive division's contribution would be static in line with the slump in the new vehicle market.

Automotive's contribution could be further muted by industrial action which halted production at most auto assembly plants for two weeks in July/August.

The heavy engineering division would continue to be a thorn in the side.

Production in the engineering division has been running at about 40% of capacity, as the number of large-scale projects has diminished and substantial losses were reported in the previous year.

Although a major reorganisation has improved the situation, the heavy engineering division is not expected to return to profitability by the current year end.

Dorbyl transport products have seen the demand for buses taper off dramatically in line with government cuts in subsidies to bus companies.

However, Busaf has won a number of lucrative export contracts and has found various local niche markets.

Analysts expect the marine engineering division to continue its past sterling performance.

The marine engineering division is currently building three ships for export, but the effect of this transaction will only be reflected in next year's financial results.

COMMODITIES

Tiny electrical component is key to palladium's future

B Day 19/11/91 (189)

MATTHEW CURTIN

TINY electrical components vital in the manufacture of the latest video recorders and high-definition television sets hold the key to the strength of the palladium market in coming years.

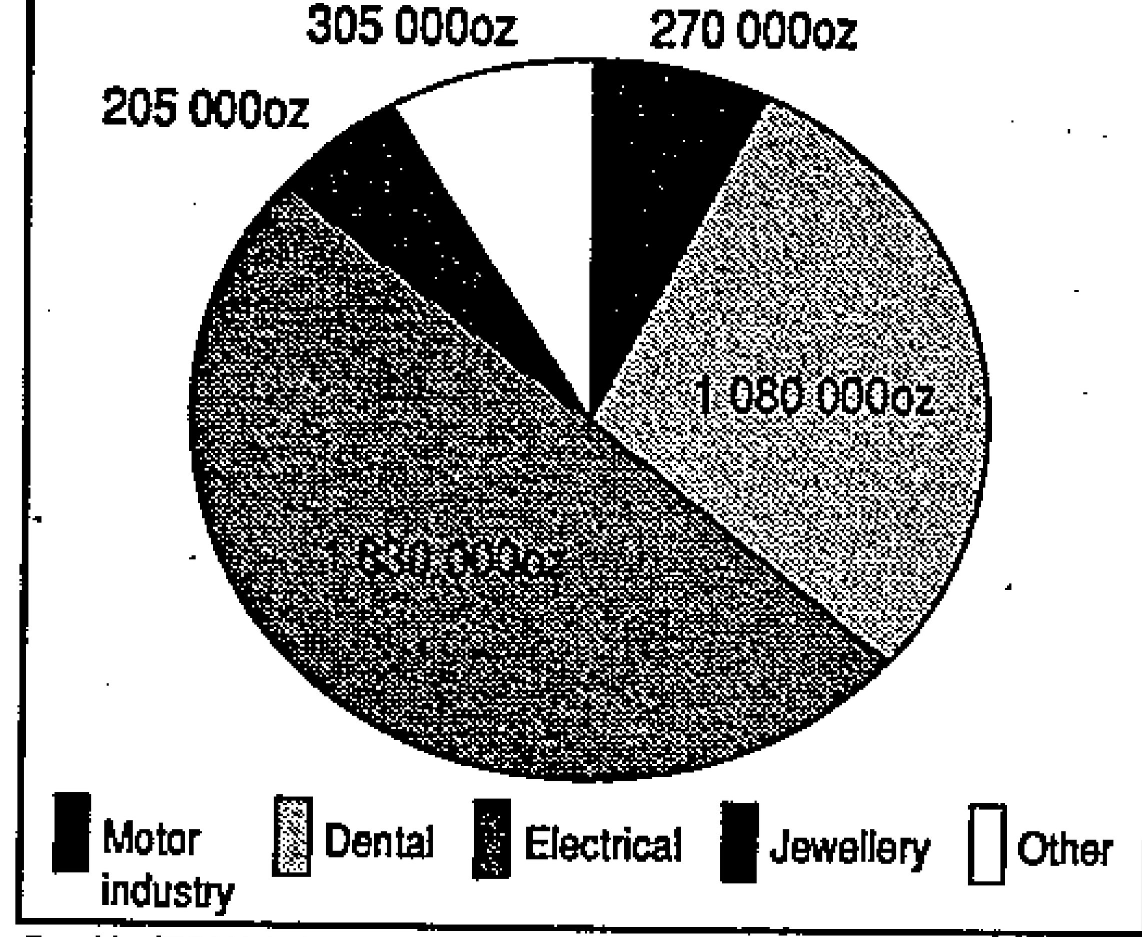
Platinum and rhodium, the other main platinum group metals (PGMs), are consumed primarily by the motor industry. The electrical industry consumes half of current palladium supply. But the low cost of palladium has made the metal an attractive substitute for platinum and rhodium in the manufacture of catalytic converters in cars.

In its 1991 interim review, Johnson Matthey says palladium use in the Japanase electronics industry will jump by 14% this year to 1,1-million ounces, out of total demand in the sector worldwide of 1,8-million ounces.

Growth in demand is due to the production of palladium-containing multilayer ceramic capacitors in Japan.

Johnson Matthey says the rise in capacitor manufacture is due not so much to an increase in the production of electronic consumer goods as to a growth in their complexity. Videos equipped to receive satellite broadcasts contain more than twice as many capacitors as a conventional VCR. High-definition televisions use more than three times as many capacitors as a standard television does.

Capacitors made in Japan will be halved in size by 1995, compared with the mid-80s, to average 1,6mm by 0,8mm. Although smaller, components and the use of silver and copper as subsitutes have damped palladium demand to some degree, smaller capacitors use relatively more palladium "to give the best performance and highest production yield".



Palladium demand by application - 1991 forecast

Graphic: FIONA KRISCH Source: JOHNSON MATTHEY

If palladium is not being used in the electronics industry, it is most likely finding its way into your teeth. Demand for palladium in the dental sector is set to rise 6% in 1991 as palladium-rich dental alloys replace more expensive gold alloys.

Demand has been strong in Germany where, in the former communist part of the country, unemployed workers are making the most of the state insurance scheme's full reimbursement of the costs of dental treatment.

Since Ford's 1988 announcement — which knocked the stuffing out of the platinum market from which it has never recovered — that it had developed a platinum-free, palladium-based car catalyst, PGM markets have had hanging over them the threat that platinum might go out of fashion.

Palladium is trading near $84 an ounce, against platinum and rhodium prices of $360 and $2 500. As clean air legislation tightens worldwide, demand for platinum and rhodium grows, and with it the appeal of palladium as a cheaper alternative.

Johnson Matthey says demand for palladium in car catalysts will grow by 14% in 1991, primarily from US consumption, but puts this growth into perspective by noting that the increase in platinum consumption in the motor industry has outstripped that of palladium.

Palladium is the least efficient of the three metals in cutting out the noxious gases from car engines, with many US manufacturers, Japanese exporters and European producers concentrating on the more durable platinum-rhodium catalysts.

Non-rhodium catalysts are unlikely to comply with the stringent US and EC emission standards coming into force except by using such a weight of palladium as to negate their cost benefits.

Despite the overall increase in the use of palladium, supply continues to exceed demand. Johnson Matthey predicts the 1991 surplus will be double that of last year's at 230 000 ounces, with SA production rising by more than 6%.

Dorbyl impresses in stagnant market

B/Day 19/11/91 (189)

MARC HASENFUSS

ENGINEERING group Dorbyl beat stagnant business conditions and market expectations to report a 6% rise in earnings in the year to end-September.

Earnings climbed to R116,5m (R110,1m) or 365,2c (345,2c) a share despite a slender increase in turnover to R2,9bn (R2,85bn). The dividend payout was increased 5% to 108c (103c) a share.

An unexpected plunge in Dorbyl's share price from R19,75 at the end of September to R15,50 in October seemed to support analysts' predictions that Dorbyl would report a small drop in earnings.

The share did not trade yesterday, but firmed at R17 last week.

Although operating income fell 6% to R173m, the bottom line was helped by effective asset management which reduced the interest bill by 9% and a sustained export drive which pushed the tax rate down to 15,6%.

Financial director Tony Welton said that the tax rate fell because of category D and GEIS allowances on exports.

CE Dawid Mostert said that the earnings increase was achieved in spite of expensive teething problems on Dorbyl's new Tosa Seamless tube mill and a much reduced loss in the Dorbyl Heavy Engineering (DHE) division.

With the exception of Tosa and DHE, all divisions met or exceeded group expectations as far as returns were concerned, Mostert said.

Losses at the seamless mill, a joint venture between Iscor and Dorbyl totalled R16m but Tosa as a whole managed to stay

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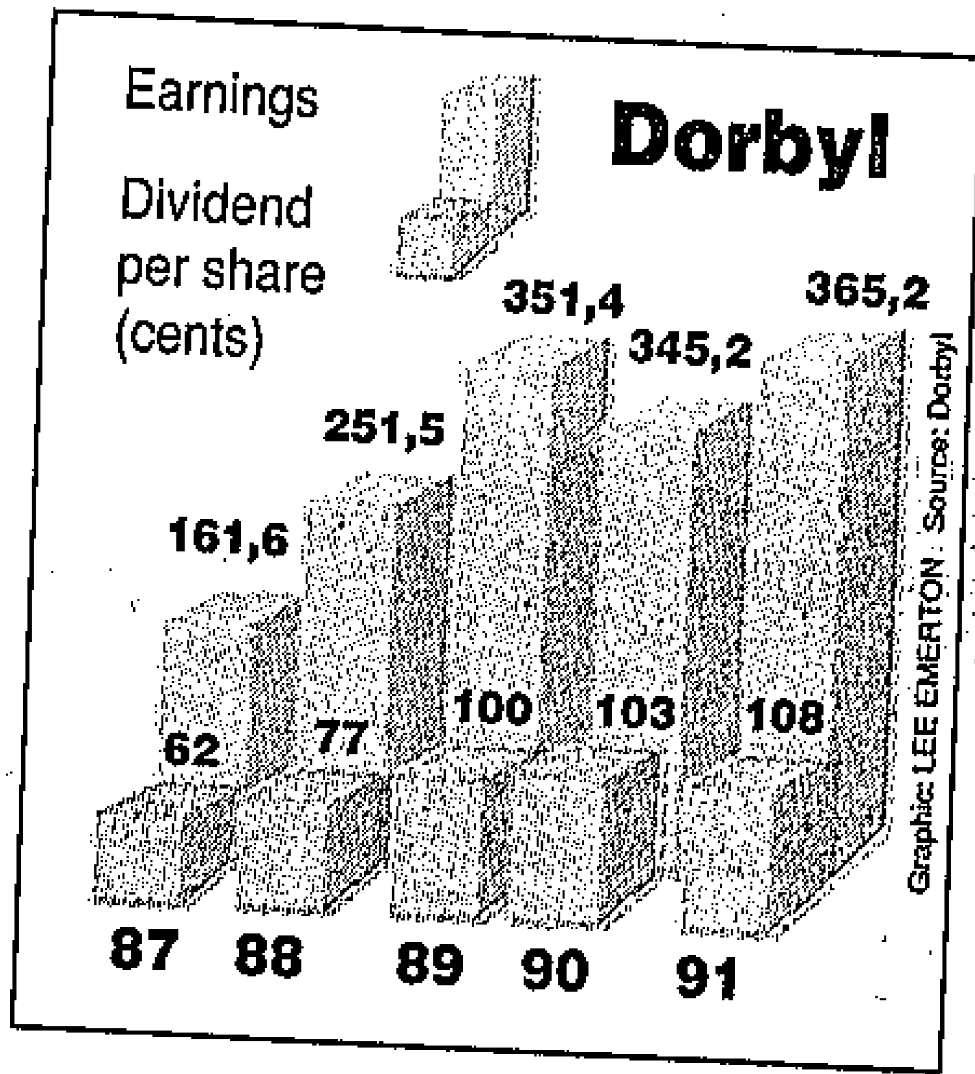


Dorbyl

B/Day 19/11/91 (189)

☐ From Page 1

in the black. The new plant had been temporarily mothballed while work continued on expanding capacity, he said. Capital expenditure of R76m had been earmarked for expanding capacity and ironing out teething problems.

Total capex for the year under review was R118m.

Mostert said that exports accounted for more than R210m or 7% of group turnover.

Tosa, Dorbyl Marine, Dorbyl Automotive Products, Dorbyl Transport Products and Dorbyl structures were the most successful exporters.

Mostert expected exports to reach 15% of turnover in the year ahead. This would include revenue derived from the exporting of two ships, valued at R100m each, currently under construction in Durban.

However, reduced spending in the motor industry and infrastructural development locally forced Dorbyl to curtail a number of its activities and subsequently manning was reduced by a further 4 000 employees to 18 000.

With the refocusing of Dorbyl's activities into three main business units, manufacturing, trading and contracting, Mostert expected improved results "at operating level" for 1992.

Producers battle over ferrochrome

BDay 19/11/91 (189)

MATTHEW CURTIN

EUROPEAN stainless steel producers are battling to fend off a US$0,03c hike in the price of ferrochrome imports from SA as talks with SA producers enter their third month.

Price negotiations between SA producers and customers in the US, Europe and Japan normally start a fortnight before each quarter begins, and last a matter of weeks. Rival marketing teams are continuing talks which began at the end of September in Europe and SA this week.

Producers said this week that the length of talks with European customers was the result of SA concern to push through a price rise against the market trend. Static prices have meant that local producers, the lowest on cost worldwide, have been at best breaking even, but a $0,01 increase in the ferrochrome price boosts their turnover by R20m a year.

Samancor and Consolidated Metallurgical Industries (CMI), producers of a third of the world's ferrochrome, have already won the three cents increase from US customers who have paid $0,52/lb for ferrochrome imports in the current quarter.

Samancor MD Hans Smith said yesterday the group was still in "protracted" talks with European customers.

Producer prices for the ferro-alloy have been stuck at $0,49/lb since the end of last year, and have increased only by $0,02c in more than a year.

Smith said that as no price had been set Samancor had delivered no ferrochrome to Europe in the quarter.

CMI chairman David Kovarsky said yesterday that European customers were "holding out" against the price increase.

Kovarsky said stainless steel demand was slack in Europe as customers had built up large stocks.

However, Kovarsky said the spot market for ferrochrome had dried up and with the prospect of dwindling scrap supplies next year, European customers would have to increase orders of SA ferrochrome.

O N D J F M A M J J A S O N

shares in Rockleigh — unless

tions. — Sapa.

Gas offer by Maputo

HARARE — Mozambique is looking to South Africa as an export market for its natural gas as production gets under way, says Mozambican Mineral Resources Minister John Kachamila.

Star 19/11/91

"Mozambique is very interested in exporting natural gas and we look for the main market in South Africa," he said yesterday.

Industry sources said SA wanted Mozambican gas as feed stock for fertiliser production.

Mr Kachamila said the government hoped to start production of natural gas next year for local use.

Earlier, Mr Kachamila told a Southern Africa metals and steel conference that drilling in the Pande area had confirmed natural gas reserves of 40 billion cubic metres.

The gas was dry, with 95 percent methane and free of sulphur, he said.

Drilling had stopped around the 1 500m level where reserve appraisal had been carried out, but the gas potential could be much greater as deeper wells were drilled. — Sapa-Reuter.

Dorbyl lifts earnings 6%

(189)

Star 19/11/91.

Dorbyl has posted a 5,8 percent increase in earnings for the year to September, despite tough recessionary conditions.

Improved earnings and confidence in the future have enabled the directors to raise the final dividend to 80c, bringing the total to 108c — up five percent on last year.

Dividend cover has been maintained at 3,4 times.

Turnover was up 1,8 percent at R2,89 billion.

The marginal increase in sales reflected lower volumes in a depressed industrial sector.

But the group held the decline in operating income to 5,8 percent, with an operating profit of R173,2 billion.

Rigorous asset management saw borrowings fall 12,5 percent to R171,5 million, resulting in a nine percent lower interest bill at R33 million.

Allowances on a successful export drive pushed the tax rate down to 15,6 percent (22,9 percent).

This, together with a reduced minority shareholding, helped earnings to improve 5,8 percent to R116,5 million (R110,1 million).

Dorbyl has over the past five years increased earnings at an average of 18,4 percent.

The earnings increase was achieved despite costly teething problems on the new Tosa seamless tube mill and a much reduced loss in heavy engineering.

Chief executive Dawid Mostert said yesterday turning the loss-makers around and managing them to an acceptable rate of return was top priority.

At the half-year, Dorbyl was 6,6 percent ahead and the directors then predicted it would be difficult to maintain earnings for the year.

Losses on the seamless mill came to R16 million, but Tosa as a whole stayed in the black.

Mr Mostert was confident the seamless mill would deliver positive results when it reopened early in 1993.

The new plant has been temporarily mothballed, while work proceeds on expanding capacity. Initally, the seamless plant was intended to meet local demand only.

Further capex of R76 million has been authorised to expand its capacity.

Dorbyl remains confident in the long-term future. Last year capital expenditure topped R118 million.

This was funded entirely from R168 million in cash generated by the operations.

The positive cash flow after capital expenditure has resulted in an improved debt:equity ratio.

All the divisions with the exception of Tosa and the heavy engineering division met or exceeded expectations.

Exports accounted for more than R210 million, or seven percent of group turnover.

Tosa, Dorbyl Marine, Dorbyl Automotive products, Dorbyl Transport products and Dorbyl Structures were the most successful exporters.

The target for exports for 1992 has been set at 15 percent of group turnover.

Mr Mostert said repeating the 1991 performance would be a good result. However, management was targeting to do better. — Sapa.

bodies. The high platinum to pall
favoured SA producers, as palla

'Big market' for SA steel

B Day 20/11/91

BRENT VON MELVILLE

THE southern African region represented one of the biggest potential export markets for Iscor and SA's other major steel producers, Iscor group services GM Hans van Vuuren told the conference. (189)

Van Vuuren said general trade among southern African countries had been flourishing and was expected to pick up even further in the future.

Of note is trade with Angola which could pay for steel imports with oil revenue, he said.

Haggle over price squeezes out SA ferrochrome dealers

(189)

MATTHEW CURTIN

FERROCHROME prices for the December quarter are still up in the air with the news that US customers have been buying SA material only on a "me too" basis, as they wait for the outcome of protracted European price talks. B/Day 20/11/91

US market sources said yesterday overstocked stainless steel manufacturers were accepting only minimum contractual deliveries of ferrochrome from Samancor and Consolidated Metallurgical Industries (CMI); and only on condition that the final price would be $0,52 or that settled with European customers, whichever was lower. This is the "me too" clause insisted upon by Bethlehem and LTV in particular.

US traders and market sources said South Africans had been squeezed out of the spot market which was at present dominated by Scandinavian producers Outukumpu and Elkem.

Samancor MD Hans Smith said yesterday: "If, for the sake of argument, European buyers settle at $0,50, we can't ask the US to take larger tonnages at $0,52." However, if Samancor could not reach agreement with European customers and shipped no ferrochrome to Europe in the quarter, Smith said he understood US customers would pay $0,52/lb for their imports of SA ferrochrome.

CMI MD Zed van der Walt would not comment on the details of CMI's exports to the US.

SA producers would like European customers to settle at $0,52 as they believe prices for exports to the US and Japan would then fall into line. However, European customers are holding out against the price hike, although recent reports from Japan have said British Steel has bought ferrochrome from Scandanavian producers at $0,52.

US traders believe Samancor might have overplayed its hand. The company's talks of cutting production, the Americans believe, was a ploy to induce consumers to accept higher prices.

Diversity WLPU's key to success

Star 20/11/91. (189)

The success of Watermeyer Legge Piésold & Uhlmann (WLPU), leading local consulting engineering firm, rests in the wide diversity of its operations.

In the 70 years since it was established to design thermal power stations for Eskom, Watermeyer Legge has developed strengths in fields as varied as military engineering, finite element analysis, project management, quality control and waste management.

"Since the early years, when the firm was established by Francis Kanthack, its philosophy has been specialisation through diversification," says senior partner Ken André.

This is the characteristic that has given WLPU the ability to roll with the punches.

Formerly heavily committed to military engineering, for example, the firm has had to overcome cut-backs in military spending and recent changes in operating philosophy within Armscor.

Similarly, as Eskom's demand for new power stations levels off, WLPU is readily able to shift its centre of gravity to its other expanding operations.

And although the economic downturn has forced a tightening of belts throughout the firm, the spread of its operations has kept it stable.

"Our philosophy of diversification has influenced the geographic distribution of the firm's activities as well as the spread of technical disciplines it offers," says Mr André.

"We made a modest start in the international market in 1961, when we dispatched a small expeditionary force to London.

"Since then, the offshore-affiliated practises of WLPU have grown collectively larger than its domestic operations."

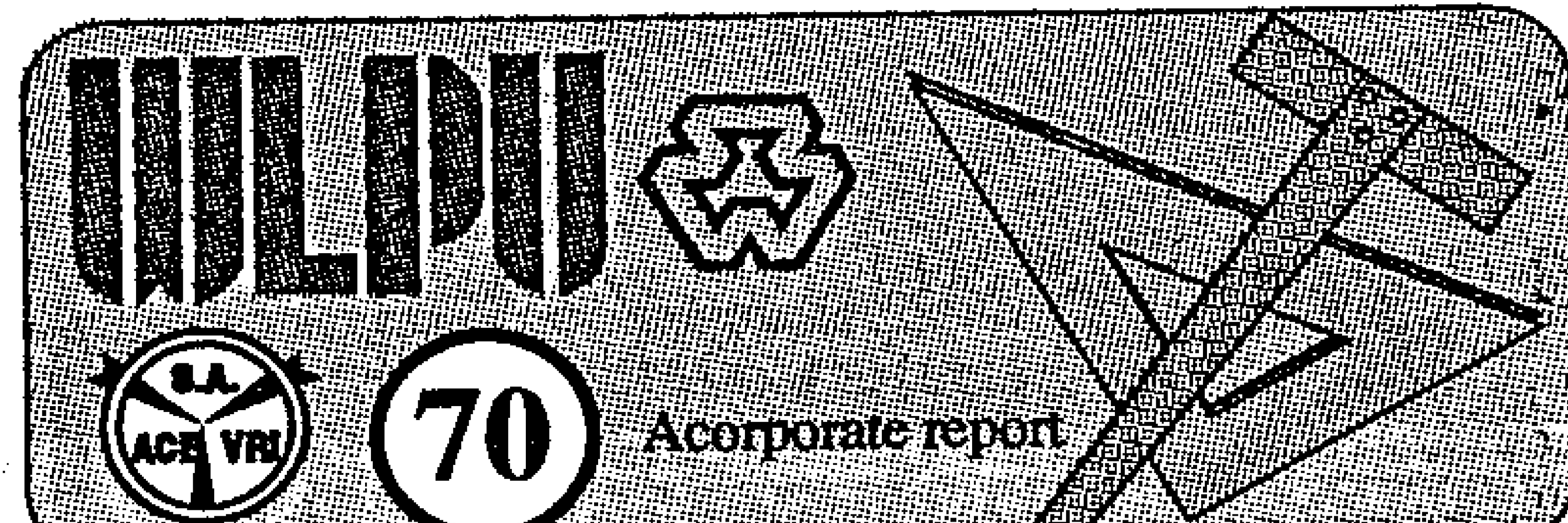
This, he adds, gives the firm a special advantage.

"We are not the largest local consulting engineering firm, although we do rank in the top five, but our widespread international operation is unique," he says.

Today, WLPU operates in 10 major centres, and it has forged international links through its affiliates in Australia, Canada, southern and central Africa, Britain and the United States.

"Each of our operations, both locally and overseas, benefits from constant cross-pollination of technology," he says.

"Over the years, this process has reinforced our commitment to excellence. In every area of expertise in which we operate, Watermeyer Legge ranks alongside the best in the world," Mr André says.



Watermeyer Legge Piesold & Uhlmann, celebrating its 70th anniversary this year, is the leading firm of consulting engineers behind one of the most exciting projects in the country: the proposed development of the R600 million Trade, Tourist & Convention Centre over the railway adjacent to Johannesburg Station. This survey, edited and compiled by Val Pienaar, examines some other exciting projects in which the firm has been involved.

Engineering sector under siege

Star 20/11/91

Worldwide, economic recession has the engineering industry under siege — and the professionals serving this sector are under pressure.

Watermeyer Legge has the strength to withstand the downturn because the diversity of its operations enables it to take full advantage of every opportunity that arises.

But, says senior partner Ken André, a priority in the current climate is to keep the business ticking over and hold on to its technical and engineering staff.

"Over the years we have built up a strong, loyal team with a range and quality of expertise that few firms could match. Financial pressure is forcing many firms to retrench quality employees — but we see that as false economy. It's ironic that in a country as short of skills as South Africa, there should be so many unemployed engineers and other professionals on the market...

"We have recognised that if we allow ourselves to lose anyone, we will probably lose them for good — they could be lost to the industry and even the country."

Ken André.

Instead, the firm's aim is to hold on to its own, adapting to meet the needs of a changing South Africa.

"We will restructure our activities as the need arises. For example, we originally had a strong focus on military engineering, now that Armscor is cutting back its operations this is no longer needed. Because we are involved in a wide range of industries, however, we are reorienting our military specialists into other fields."

The WLPU partners, who head up the various departments have differing perceptions of when market conditions are likely to improve. According to Mr André, however, the local economy is unlikely to bottom out before late next year.

"There is too little capital flowing into the country," he comments. "South African businessmen don't have a great enough understanding of or commitment to export.

"Until we have a healthy flow of capital into South Africa the economy will not be able to generate the growth power needed for recovery."

Mr André maintains that funds for meaningful capital development must be looked for from external sources — and, he says, in the existing socio-political environment overseas, businessmen are still hesitant about investing in this country.

In the meantime, he aims to take advantages offered by development in other African countries.

"Zimbabwe and Zaïre both have huge potential for hydroelectric power schemes — and they have abundant resources of raw materials such as chrome and copper, which can serve as a foundation to economic growth. On the minus side, the politics of many of our neighbours is their downfall.

"World Bank, the EEC and the Africa Development Bank have poured money into these countries and are becoming disillusioned by their failure to repay.

"Africa must compete for funds against both Eastern Europe and South America, and if it doesn't learn to honour its debts it will lose out. And while South Africa is undeniably the hub of economic and industrial development south of the Sahara, we cannot carry an impoverished sub-continent single-handed," Mr André says.

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W/Mail 22/11-28/11/91

Dorbyl to sue metal unionist

By DREW FORREST

ALLEGING defamation, engineering giant Dorbyl is suing metal trade unionist Dr Bernie Fanaroff for R750 000.

The action relates to an article in *Finance Week*, apparently based on an article in *Work in Progress*, in turn drawing on a speech by Fanaroff to the engineering industrial council. In this, he made an uncomplimentary remark about the firm's industrial relations approach.

Fanaroff, the organising secretary of the 280 000-strong National Union of Metalworkers (Numsa), is being sued in his private capacity.

No date has been set for the hearing of the case, which is still at the stage of pleadings.

Comment could not be obtained from Dorbyl on Wednesday, but it is understood the company holds that Fanaroff's offending remark has hurt its business.

Reacting, Numsa general secretary Moses Mayekiso said the union and workers fully agreed with Fanaroff's comment. "This is the workers' case just as much as Bernie's, and workers will attend court with him," he said.

Expanding Afrox geared up for continued growth

(189)

BDay 22/11/91

MARC HASENFUSS

ENGINEERING-listed Afrox is set to maintain its strong growth record in the year ahead.

Chairman Peter Joubert said in his annual review: "The strength of our products and diversity of our customer base . . . enables us to predict with some confidence that our earnings next year will continue to grow although at a somewhat slower rate."

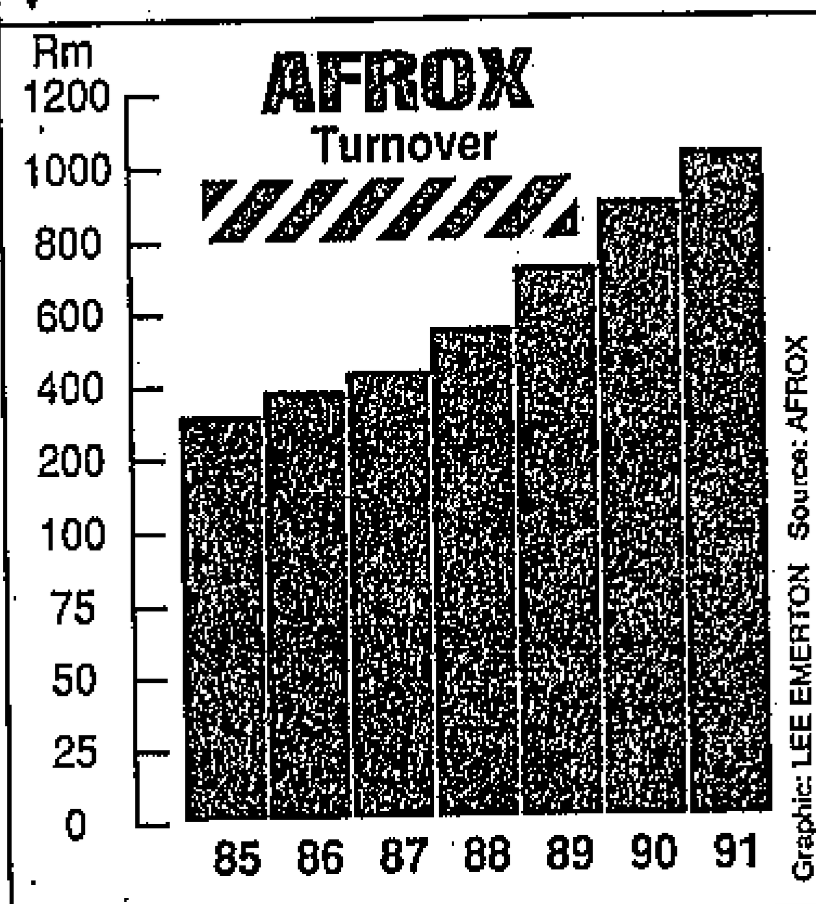
He said Afrox would continue to give a high priority to cost containment, productivity and industrial relations in 1992.

Last year, R123m was invested in the group's planned investment programme bringing capex over the last four years to R400m.

Joubert said the expansion phase would continue in the year ahead with the bulk of next year's expenditure planned to upgrade plant and facilities in the gases business.

In 1992 Afrox's gas capacity will be enhanced by carbon dioxide supplied from Mossgas for the Cape region and by AECI on the Reef. Additional products will also be available in Natal.

These developments would also allow the company to develop new carbon dioxide applications, Joubert said.



Afrox's healthcare division had made a significant contribution to group profits on the back of the completion of major projects at various hospitals and the addition of beds.

Joubert said further refurbishment and building programmes would be initiated in the healthcare division in the new year.

The division increased the scope of its activities into the field of managed healthcare via Medimo, a company established in partnership with the Mediclinic Group and Medicaid Administrators.

Medimo, by reducing the costs associated with healthcare, would extend the advantages of the private healthcare system to income groups previously unable to make use of private facilities, he said.

Joubert welcomed the proposed Medical Schemes Amendment Act. If promulgated, it would bring a degree of deregulation to the healthcare field and enable medical scheme suppliers to negotiate price structures in a free market, he said.

The welding division, which suffered a decline in volumes for the second consecutive year, would remain focused on cost cutting, developing export opportunities and new product development in the new year.

Joubert said accessories continued to form an important part of welding's portfolio and a range of abrasives was introduced to take advantage of the areas allied to the traditional welding business.

Afrox reported a 29% rise in inflation-adjusted earnings to 278c (216c) a share on the back of a 16% increase in turnover to R1bn (R904m) in the year to end-September 1991.

STANDARD ENGINEERING (189)

Export benefits

FM 22/11/91

FM 22/11/91 (189)

Activities: *Manufactures truck components, fluid handling systems, metal pressings, steel pipes and rolling stock.*

Control: *Malbak and Murray & Roberts hold 35% each.*

Chairman: *H F Brown; MD: R T Davidson.*

Capital structure: *34m ords; and 75 000 5,5% cum pref shares. Market capitalisation: R326m.*

Share market: *Price: 950c. Yields: 4,2% on dividend; 12,7% on earnings; p:e ratio, 7,9; cover, 3,0. 12-month high, 975c; low, 450c. Trading volume last quarter, 98 000 shares.*

Year to June 30	'88	'89	'90	'91
ST debt (Rm)	6,4	35	57	77
LT debt (Rm)	1,2	4,7	9,1	5,7
Debt:equity ratio	0,40	0,26	0,30	0,35
Shareholders' interest	0,50	0,53	0,61	0,52
Int & leasing cover	—	5,9	4,3	4,1
Return on cap (%)	—	16,2	24,2	16,6
Turnover (Rm)	569	409	691	639
Pre-int profit (Rm)	(3,8)	43	80	74
Pre-int margin (%)	—	10,6	11,6	11,5
Earnings (c)	(147,2)	92,1	95,2	120,9
Dividends (c)	—	29	32	40
Net worth (c)	600	458	488	552

Domestic markets in all the sectors in which Standard Engineering operates have been depressed this year. Most dramatically, demand for heavy transmissions and steerings was down almost two-thirds, mainly because of cancelled orders from strike-torn Mercedes-Benz. Demand for pipes fell by two-fifths as spending was weak in the mining and construction industries.

Exports have saved Standard Engineering's results, through increased volumes and tax benefits. Exports' share of group turnover increased from less than 7% to more than 17%.

Rolling stock subsidiary Union Carriage almost trebled sales and operating income rose from R4,2m to R14,7m because of the delivery of major commuter train sets to Taiwan and long-distance trains to Botswana and other African countries. Exports accounted for two-thirds of Union Carriage sales.

Exports of electric resistance welding pipes in the final five months of the year, after an upgrade in the first seven months of the year, exceeded those for the entire previous year.

Export incentives made a significant contribution and turned out to be the decisive factor which led to an increase in earnings.

According to chairman Hugh Brown, if the export incentives granted were grossed up, operating income would have increased by more than a quarter from R74m to R93m. Export incentives led to a reduction in the effective tax rate from 34,7% to 10,4%.

Standard Engineering has gained from the recently introduced export incentives, which give the greatest benefit to manufacturers of fully manufactured goods. Investors need to weigh up the risk that these incentives could be changed, though there should be a clear run until at least 1994.

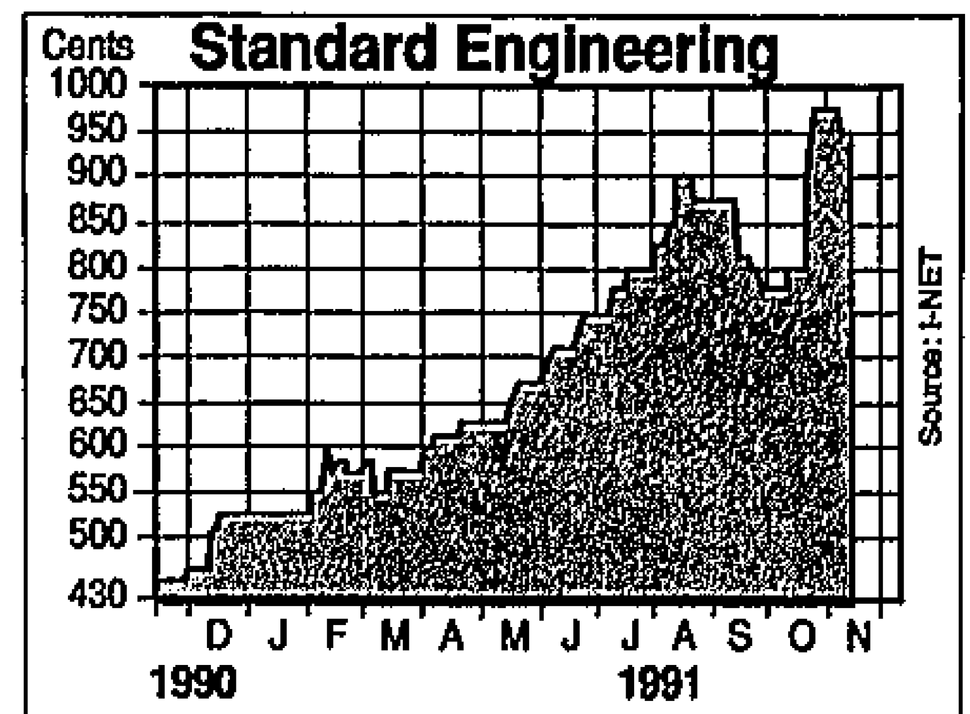
Murray & Roberts (M&R) has wide experience of exporting engineering products, which will benefit Standard Engineering. Ultimately, there is likely to be a rationalisation between their interests in automotive components and pipes.

Like M&R, Standard Engineering aims to focus on higher margin, high return business. To maintain capacity usage, exports will be an increasing focus.

Gearing increased from 30% to 35%; R17m was added to borrowings by the purchase of Protea Technology for cash on May 1. Without this purchase, net borrowings would have been reduced slightly, despite the large increase in stock by the automotive division. As it was, interest paid fell by about 2% to R18,1m.

This year, the automotive division hopes to increase its "modest" earnings by introducing a reward system based on profitability and productivity. But Astas is expecting just 30% of plant capacity to be used next year.

Standard Engineering's Brown ... *help from export incentives*



All divisions expect to improve earnings, except for Union Carriage, which has a reduced order book compared with last year.

Standard Engineering's share price has been improving steadily over the course of the year and is trading close to its 12-month high. It has overcome the problem of cyclical downswings in the economy by moving into exports and by upgrading the quality of its plants to meet export requirements. In view of this and the contribution of management skills from M&R, the present p:e of 7,9 and dividend yield of 4,2% offers value.

Stephen Cranston

DORBYL FM 22|11|91 (189)

Thanks to the taxman

Considering the depressed state of the engineering sector, Dorbyl's latest results are better than expected. Though most margins dropped, attributable income for the year to end September 30 rose 5,8% to R116,5m, pushing EPS up to 365c (1990: 345c).

But performance must be measured against a 15,5% drop in the tax bill, thanks to export benefits, and a 9% reduction in interest paid on lower borrowings. A reduced minority share also helps make results look good but doesn't fully reflect trading.

The R11,7m saving in tax was due to category D and Geis allowances on exports, including tube, structural steel and ships. The group discounts tax incentives into export prices, losing on operating income but

FM 22|11|91 (189)

getting the benefit back on the tax line.

That's fine, but it means future results rely to some extent on an increased export drive and tax benefits staying in place. Not all are: category D allowances, which cover agents' commissions, are soon to be stopped. Financial director Tony Welton predicts that this will see a rise in the tax bill this year but says it will probably still be less than half the nominal company rate of 48%.

CE Dawid Mostert confirms the end of category D won't have much impact. "Most sales have gone through already and agents' commissions are in place. It could affect 1992-1993 results, though I believe other incentives will replace category D."

Exports currently account for R210m, or 7% of group turnover. Dorbyl hopes to raise this to 15% this year.

Three ships under construction by Dorbyl Marine in Durban, worth about R300m, are not yet reflected on the income statement. Mostert says two will be delivered this financial year, the third the following year.

Domestically, Dorbyl hopes capital projects by Engen, Alusaf, Sasol and Sappi will improve the outlook for 1992. This would certainly help the two underperforming divisions, Dorbyl Heavy Engineering and Tosa.

The seamless mill, which lost R16m, has been temporarily mothballed while R74m capex is spent expanding capacity. It is expected to contribute to the export drive when it comes back on stream.

A share price of R17 offers a p:e ratio of 4,7 and dividend yield of 6,4% on the increased payout of 108c. A sharp dip at the beginning of October took it down from close to R20 to R15,50, from which it marginally recovered. It is still trading below NAV of 2 476c (2 314c), so an improvement in operating results should add value. *Shaun Harris*

COMPANIES

Metkor dragged down by Usko

MARC HASENFUSS

METKOR's year-end earnings slumped, as expected, on the back of the substantial losses suffered by associate company Usko. B|Day 22|11|91 (189)

Bottom line profits fell 27% to R23,3m (R32m) or 21,51c (29,63c) a share in the year to end September 1991 as steel group Usko slipped R10,4m (R239m including extraordinary items) into the red.

But shareholders were rewarded with a slightly higher dividend payout at 15,68 (14,80c) a share, covered 1,37 (2) times.

Directors said that further losses were recorded in the group's wholly owned subsidiaries Metkor Industries and Wispeco.

Dorbyl remained the major contributor to group profits, increasing earnings 6% to R116,5m (R110,1m).

Directors said that the equity accounted portion of abnormal losses in Usko effectively reduced Metkor's attributable earnings by R13m or 12c a share.

Despite a slender 2% rise in turnover to R3,21bn (R3,16bn), reduced financing costs, a lower effective tax rate and a trimmed payout to outside shareholders helped push earnings (excluding the non recurring losses) up to R36,1m (R29,6m) for the period under review.

Reflecting the poor results, Metkor was untraded yesterday at 215c.

High costs cut Nu-World earnings

B Day 22/11/91 (189)

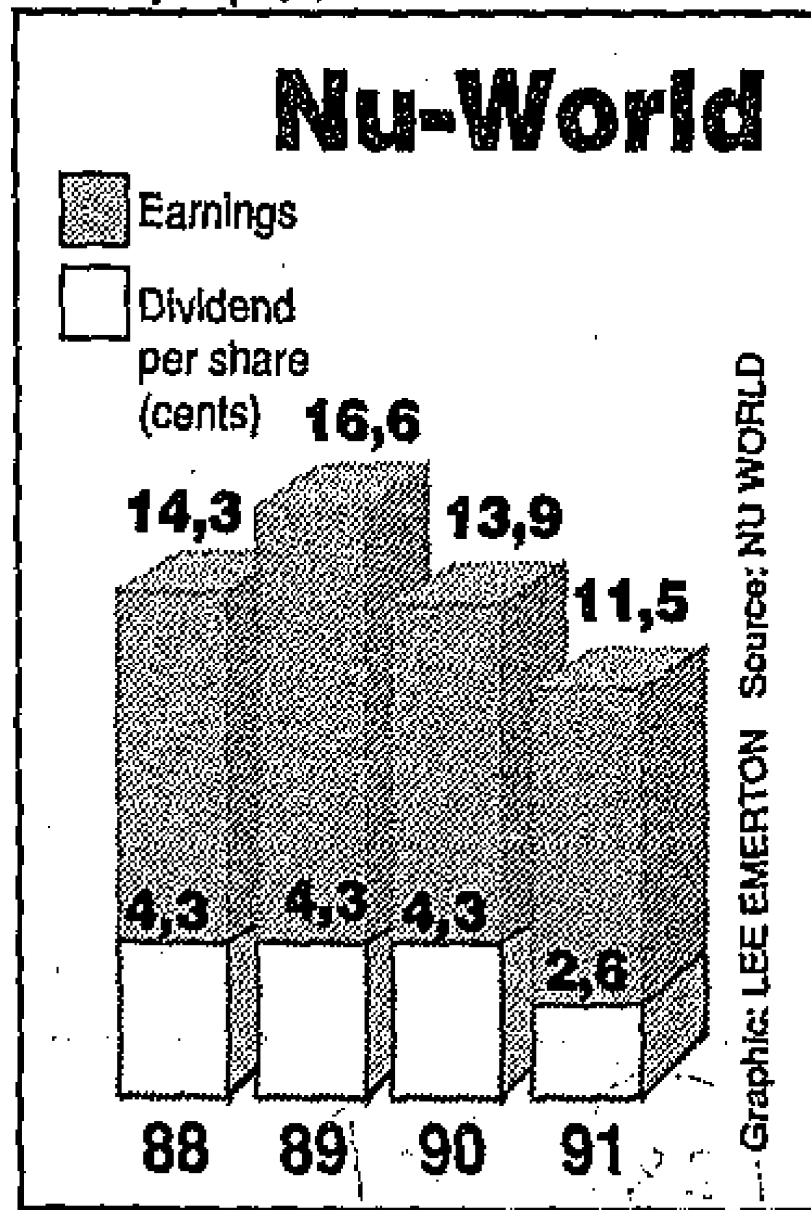
MARCIA KLEIN

SMALL appliance manufacturer Nu-World Holdings, feeling the effects of reduced margins and higher finance costs, has dropped earnings by 17,3% to 11,5c (13,9c) a share in the year to end-August.

Executive director Jeff Goldberg said in an interview yesterday the 15% turnover increase to R40,3m (R35,1m) and the 2,5% higher operating income of R3,25m (R3,17m) indicated Nu-World had gained market share (in a declining industry) at the expense of margins.

But the company's interest bill grew by 33,9% to R1,3m (R999 000), resulting in an 11,9% reduction in pre-tax income to R1,9m (R2,2m). Goldberg said this was due to expenditure on development of two new volume-related products, the relocation of part of its manufacturing plant and restructuring costs.

He said interest would be substantially reduced once the newly-produced goods moved. Nu-World had already received export orders on new products, which would be sold as branded European products.



An increase in the tax rate from 18% to 23% resulted in a 17% decline in income after tax to R1,5m (R1,8m). Retained earnings were 6,5% down at R1,1m (R1,2m).

After paying a dividend of 4,3c a share for the past three years, Nu-World slashed its dividend to 2,6c a share, increasing cover from 3,2 times to 4,5 times.

Exports, mainly to the Middle East, Africa and Europe, had "taken off", Goldberg said, and exports' contribution to turnover — which was 10% at the interim stage — had continued to grow.

Goldberg said the local market had been difficult.

Directors were confident of future growth in light of exports, the introduction of new volume lines and a firming of pricing and margins throughout the industry.

Orders had been excellent in the run-up to Christmas with basic goods — including irons, toasters and kettles — especially buoyant.

Middelburg Steel HQ under fire

Top staff face axe

S/Times (BUSS) 24/11/91

By IAN ROBINSON

SENIOR head-office staff at Middelburg Steel & Alloys (MS&A) are among 100 staff members facing retrenchment after the sale of the company by Barlow Rand to an Anglo American, De Beers and Gencor consortium.

Among those leaving are two MS&A directors, senior managers and highly qualified technical staff.

Samancor managing director Hans Smith says he will not confirm the retrenchments until after the signing of the final agreement between the Columbus stainless-steel consortium and Barlows in the next few days.

But he says about 90% of employees in middle and senior management positions have been "informed of their situation".

Mr Smith describes the retrenchment terms for those who will go as "fair and reasonable".

Business Times has been told by an MS&A employee that some will go at the end of the year and others next April.

Win

He says some of those staying until April were warned they would be dismissed without severance benefits unless they "pull their weight".

Severance terms will be based on the number of years' service times a percentage of annual salary in the 5% to 7% range.

Mr Smith says MS&A's Sandton head office will be closed in the middle of 1992.

The plight of MS&A employees is in contrast with Barlow vice-chairman Derek Cooper's brave words after ing the takeover of MS&A, which is to be incorporated in Columbus and Gencor's ferroalloy producer Samancor.

Mr Cooper described it as a "win-win-win deal", saying: "Our people in MS&A have a better future in the industry they're in. The potential for them in a world-sized plant is unlimited."

One employee not to be retrenched is MS&A managing director John Gomersal who is also a member of the Barlow Rand board. Mr Gomersal will be reassigned to a yet-unspecified post in Barlow Rand.

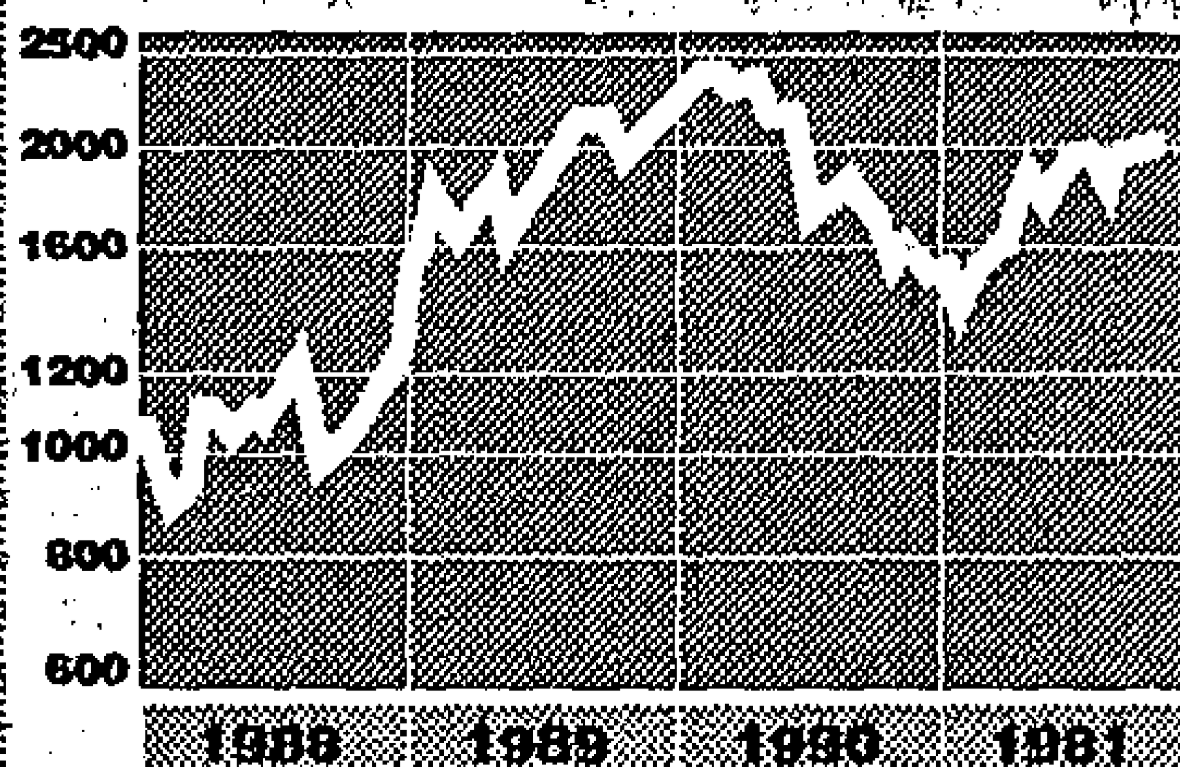
When making inquiries at the Barlow Rand head office Business Times was referred to Mr Gomersal. He declined to comment on the retrenchments or to say whether any other MS&A employees would be taken on by Barlow Rand.

Retrenchments by the new management represent a radical break with MS&A's record of no layoffs when it was in the Barlow camp. The previous management recognised the cyclicality of the industry and the disruptive effect of retrenching highly trained people in recessions and recruiting them again in booms.

Ships come home for Dorbyl

S/Times (Buss) 24/11/91. (189)

DIAGONAL STREET by Julie Walker



TWO ships will come in for Dorbyl in the current financial year and another in 1993.

Chief executive Dawid Mostert says these and other exports will double foreign sales to 15% of turnover in the current year.

In the 12 months to September, Dorbyl's group turnover edged up 2% to R2,9-billion.

At a conference for analysts and the press, financial director Tony Welton explained that because of category D and GEIS incentives, export orders were won at a low margin because the incentives were discounted into the selling price. This was recovered at the tax line.

Tighter asset management and credit collection enabled a saving of 9% in the interest bill. Average borrowings also fell.

Operating income fell 6% to R173-million and interest to R33-million.

A drop of 35% in the tax bill to R22-million on the back of the incentives and smaller outside shareholders' interests led to a 6% rise in earnings a share to 365,2c. The dividend was raised by 5c to 108c.

Mr Welton says Dorbyl has R57-million of assessed losses and none was used last year.

At the yearend, borrowings had fallen R24-million to R171-million and gearing by five points to 21%.

Net asset value is R24,76 — way above the share price of R17.

Mr Mostert says the group has been streamlined into three divisions. More or less equal in size and profit contribution are trading and manufacturing, but contracting is slightly smaller.

Capital expenditure was concentrated on the manufacturing division where R49-million was spent on focusing the factories.

Dorbyl has high hopes for in-house development Tosaline, a hybrid pipe of metal and plastic which is highly wear-resistant.

A light engine has also been added to the trading range.

Dorbyl's businesses span a broad spectrum from motor components to construction and bus building. It still bears that heavy-engineering tag even though it is but a morsel of the operations.

According to Mr Mostert, the heavy arm underwent "a massive improvement from a massive loss, but still a loss", in the last financial year.

He promises the business will be turned around and returns on capital improved. The R200-million of property in the balance sheet yields only a 12% return, but even so, there is plenty of room to get better.

Mr Mostert says the group has won an order for fridge condensors from the UK, is sending steel wheels to Taiwan and building hangars at Tel Aviv airport.

There are several large capital projects in SA alone — Engen, Alusaf, Columbus, Sasol and Sappi — where Dorbyl is sure to win business.

In its favour as far as customers are concerned is ready capacity.

Shareholders can hope for improved returns from higher sales and better productivity. The workforce has been halved in six years to 18 000, largely through the scaling down of the heavy-engineering division.

Dorbyl is geared to even a small uptick in gross domestic fixed investment as well as global recovery.

Its management concedes that to match the 1991 performance will be creditable, but that it aims to do better.

Dorbyl's share price is R17 — less than five times earnings and the downside looks limited.

The share will not be a favourite as long as the current heavy-engineering image thrives even though it should no longer be a bear point.

Streamline Pichold, shareholders demand

B/Day 25/11/91

LINDA ENSOR

CAPE TOWN — Disgruntled Picardi Holdings (Pichold) minority shareholders are demanding the appointment of a committee to investigate streamlining the group to unlock the value of its underlying assets.

They allege that the earnings generated by the operating company, Picardi Appliances (Picapli) and the interest received from Pichold's substantial R21m cash investment in Picapli are not flowing up to Pichold and Picardi Investments (Picbel).

They also claim excessive overhead structures of the holding companies are unnecessary and are dissipating profits. This meant shareholders were not receiving the dividends to which they were entitled and that the share price did not truly reflect the underlying value of the group's assets.

Complaints erupted at the Pichold AGM on Friday after it emerged that directors had failed to unanimously endorse an agreement for the appointment of a committee including directors and minority shareholders to examine the group's structure. One director disapproved of the presence of two minority shareholders on the committee.

"From a capital and income point of view we are being prejudiced," one of the unhappy minority shareholders said after the meeting. Another alleged that the Pickard family was treating Pichold and Picbel as private companies and were siphoning off income in the form of management fees and salaries.

"This is just the beginning of a long battle," he said, adding that the market had such a poor perception of management of the companies that it was discounting actual cash held.

Group chairman Jan Pickard snr has agreed to meet some of the minority shareholders this week to discuss their proposals which include the abolition of the pyramid structure to ensure that the net worth of the company was reflected in its share price.

Pickard said the board had decided to have strategic meetings in February 1992 to look at the group and its involvement in sensitive markets such as the consumer and textile sectors in the light of the changing economic environment.

Minority shareholders complained about the see-saw nature of profits earned by the group which showed no long-term growth. The clothing interests had lost R1,8m last year, R2m was written off on the overseas venture and R17m written off as a result of the Cape Investment Bank (CIB) debacle.

Questions were also raised about the R1,526m paid in director's fees to Pichold directors, Pickard snr and Jan Pickard jnr and to the accountant. Pickard jnr justified this saying 50% of the amount was a once-off payment. Their fees were approved unanimously by the meeting.

Move to delist engineering companies is no surprise

B/Day 25/11/91 (189)

MARC HASENFUSS

ENGINEERING merchants and manufacturers NTC, and holding company National Trading Holdings (NTH), are set to be delisted from the JSE, according to a statement released at the weekend.

The delisting comes as no real surprise as the tightly held shares are scarcely traded.

NTC has proposed the conversion of 1,7-million ordinary shares not held by the controlling shareholders into an equal number of redeemable preference shares and redeem these shares by a cash payment of 900c a share.

NTC was unsuccessfully offered at 775c on the JSE on Friday. The share peaked at 725c last week.

NTH intends converting the approximately 2-million shares held by minorities into "A" ordinary shares and simultaneously cancel them by paying out minorities 450c a share.

NTH traded at 440c last week, just under its August high of 450c.

The 125 000 first preference shares and 150 000 second preference shares of R2 each will be redeemed by a cash payment of 150c a share.

According to the statement, the NTH controlling shareholders (UK-based A Oppenheimer and Co which holds 66%) have advanced NTH and NTC shareholders the funds required to undertake the redemptions.

Berzack's earnings down 16,6%

Business Day Reporter

IN SPITE of conditions described as "extremely difficult", several divisions of the Berzack-Illman group performed well in the year ended June 30. B/Day

Chairman Bennie Illman said "future progress would depend on the ability of all political parties to arrive at an acceptable dispensation". 25/11/91.

Voltex, the biggest single contributor to Berzack Group profits reported simultaneously, having had a "satisfactory year" in spite of a dilution earnings due to the costs of the UK-based B & F acquisition. (189)

The group reported a 16,6% decline in earnings for the year to June 30 and the balance sheet remainedstrong with gearing below 10%.

Ferrochrome looking good

BDay 26/11/91 (189)

MATTHEW CURTIN

THE future for the SA ferrochrome industry is so bright in the long term that it will have to wear shades.

Despite a fall in the rate of growth of ferrochrome exports, a sharp increase in SA's installed ferrochrome production capacity, and the slump in ferrochrome prices, the industry's future is healthy due to the good outlook for stainless steel demand, says Minerals Bureau mineral commodities director Phillip Schreuder.

Schreuder said in a recent paper on the local ferrochrome industry that 90% of annual ferrochrome production was exported, and had increased by nearly 12% a year since the mid-1970s to more than 920 000 tons in 1990.

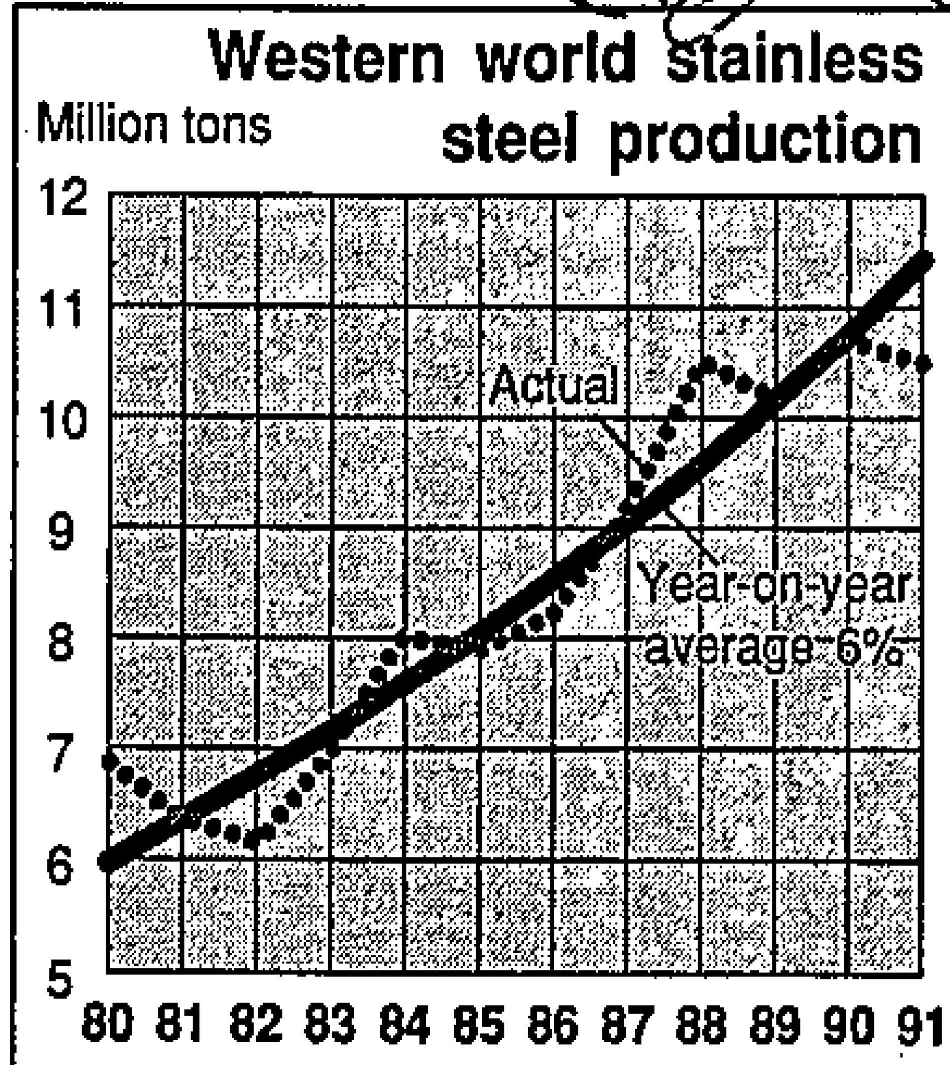
Production capacity had risen from 220 000 tons in 1975 to 1,07-million tons this year, an average annual increase of 11%, taking SA's share of world production capacity to 36%.

He noted that ferrochrome spot prices had fallen from "the abnormal and spectacular" \$1,00/lb in 1988/89 to current levels of \$0,46/lb, while SA's delivered cost of ferrochrome, although among the lowest worldwide, had escalated in recent years to average \$0,48/lb.

That compared with European, North American and Japanese production costs of between \$0,55 and \$0,75/lb, with Brazil losing its competitive edge as higher power and charcoal costs pushed up production costs to about \$0,62/lb.

"It is clear that there is very little ferrochrome capacity around the world that is payable at current spot prices," Schreuder said.

However, he noted that 80% of ferrochrome was used in the production of stainless steel, with the result that demand for the ferroalloy closed tracked demand for stainless steel.



Graphic: FIONA KRISCH Source: MINERALS BUREAU

Chrome and nickel are the key ingredients in the manufacture of stainless steel, imparting the qualities which make it more expensive but more durable than carbon steels.

"The reason for the anticipated strong growth (in stainless steel consumption which would continue to grow at the rate of 6% a year, the average for the 1980s) can be found in stainless's progressive invasion of the carbon steel market", he said.

The ratio of world stainless versus carbon steel production had grown from 0,9% in 1980 to 1,39% in 1990, equal to a 4-million ton increase in stainless steel production.

Japan was leading the way in such substitution as the better strength, corrosion resistance and lower mass of stainless steel, with its associated longer lifespan and lower maintenance costs, favoured its use in the construction industry.

Japan was the first country with a stainless steel building code and the US, Europe and SA were likely to follow suit.

Shreuder said stainless steel was proving to be the best material for building railway trucks and passenger coaches. SA's fleet of Richards Bay dedicated coal wagons were made of stainless steel.

They were lighter because the metal's superior strength meant truck walls could be made thinner while the truck could carry a heavier load. As there was no corrosive reaction between the stainless steel and iron ore or coal, the trucks "tipped clean", with a minumum of cleaning to be done or wastage suffered.

He said shuttle vehicles for the Eurotunnel trains travelling under the Channel from France to Britain had been designed in stainless steel, thanks to the metal's ability to stand up to possible fires — stainless steel can absorb 2,5 times as much energy as carbon steel.

He said "environmental housekeeping" favoured the use of stainless steel too, as stainless steel car exhaust systems and scrubber systems in power stations and smelters were proving to be the most efficient in meeting clean air requirements. Japan used 25 000 tons of stainless steel car exhausts in 1989 against 6 400 tons in 1983.

Other growth areas for the metal were offshore rig platforms with oil and gas projects worldwide expected to consume 23 000km of pipeline by 1995, much of it for use under salt water conditions, requiring anti-corrosive alloys.

Rhovan project could scupper Australians

B Day 26/11/91

MATTHEW CURTIN

PLANS at Rhombus Vanadium (Rhovan) to get a new vanadium pentoxide operation off the ground in SA, after the failure of Usko's vanadium division, may have scuppered the chances of a rival Australian project.

Rhovan MD Rob Still said yesterday that if the international financial community decided to back a new vanadium project, "it will not be Australian".

Earlier this year Precious Metals Australia (PMA) said it would go ahead with a new R150m vanadium mine at Windimurra in Western Australia. This was described by Highveld Steel and Vanadium chairman Lesley Boyd as "a bum decision".

It has been reported that Rhovan is investigating the construction of a new low-cost vanadium pentoxide plant at its vanadium mine at Ba-Mogopa, near Brits. The plant would be relatively cheap to build because of Rhovan's existing infrastructure.

Rhovan has announced it is looking at a range of options for its mine and the troubled vanadium pentoxide plant it acquired from Usko for R1 last month. Usko also paid R19m in penalties to Rhovan for its failure to meet contractual commitments to take concentrate from Rhovan for Usko's vanadium plant, which never met production targets.

Still would not elaborate on Rhovan's evaluation of these options, except to say that there had been progress.

However, he said: "If we want to go ahead with our plans, we have the international backing. We have just not made a final decision."

Rhovan had inevitably been drawn into the debate over the relative merits of new vanadium projects in SA and Australia, as "we are obviously in competition" with PMA.

Still said while PMA might have the theoretical edge in refining techniques, Rhovan had superior proven ore deposits in place. Boyd has said that the high cost of starting up a mine at Windimurra, the poor quality of the ore deposit and the thin margins in the industry meant PMA's project could go the same way as other failed vanadium schemes, such as the Windowie project in Australia, Usko and Rand Mines' Vansa Vanadium.

Still said chances that the depressed vanadium market, blighted by oversupply, unfavourable market perceptions and low prices, was unlikely to improve in the next few years.

In these circumstances, a producer had to have the lowest production costs to justify going ahead with a new project. He said he was confident Rhovan would achieve that goal, unlike PMA and its unproven new technology.

EXECUTIVE SU

NEWS IN BRIEF

ADE is expanding (189)

ATLANTIS Diesel Engines (ADE) is expanding its operations and employing more people to cope with export orders in the coming year. B/Day 28/11/91

ADE MD Fritz Korte said yesterday the company would manufacture about 12 700 engines in 1992, compared with 10 000 units this year. He said the company had also received additional export orders for various components.

PICHOLD/PICAPLI

Slimming down

Picardi Appliances (Picapli) has emerged from a huge debt burden and turned a substantial loss into a commendable profit in a harsh environment.

Picapli MD Peter Spreckley and financial director Ed Teare can take most of the credit for the rationalisation. It involved massive

Activities: *Manufacturer and wholesale distributor of household electrical appliances.*
Control: *Pichold 93%.*
Chairman: *J A J Pickard (Snr); MD: P C Spreckley.*
Capital structure: *25,9m ords. Market capitalisation: R23m.*
Share market: *Price: 90c. Yields: 60% on earnings; p:e ratio; 1,7; cover, n/a. 12-month high, 120c; low, 60c. Trading volume last quarter, 73 000 shares.*

Year to June 30	'88	'89	'90	'91
ST debt (Rm)	113	150	99	36
LT debt (Rm)	15,3	13,0	11,1	27,7
Debt:equity ratio	3,5	3,5	3,1	1,3
Shareholders' interest	0,16	0,18	0,18	0,3
Int & leasing cover	2,9	1,4	nil	1,9
Return on cap (%)	14,9	14,5	7,8	20,0
Pre-int profit (Rm)	34,5	37,2	14,4	31,8
Earnings (c)	51,2	22,2	(52,0)	54,0
Dividends (c)	15,0	7,5	—	—
Net worth (c)	84	149	128	182

pruning of resources — stock, assets and people — to eliminate borrowings. The 1991 result indicates both a management and product resilience that should be reassuring to Picardi's customers and investors.

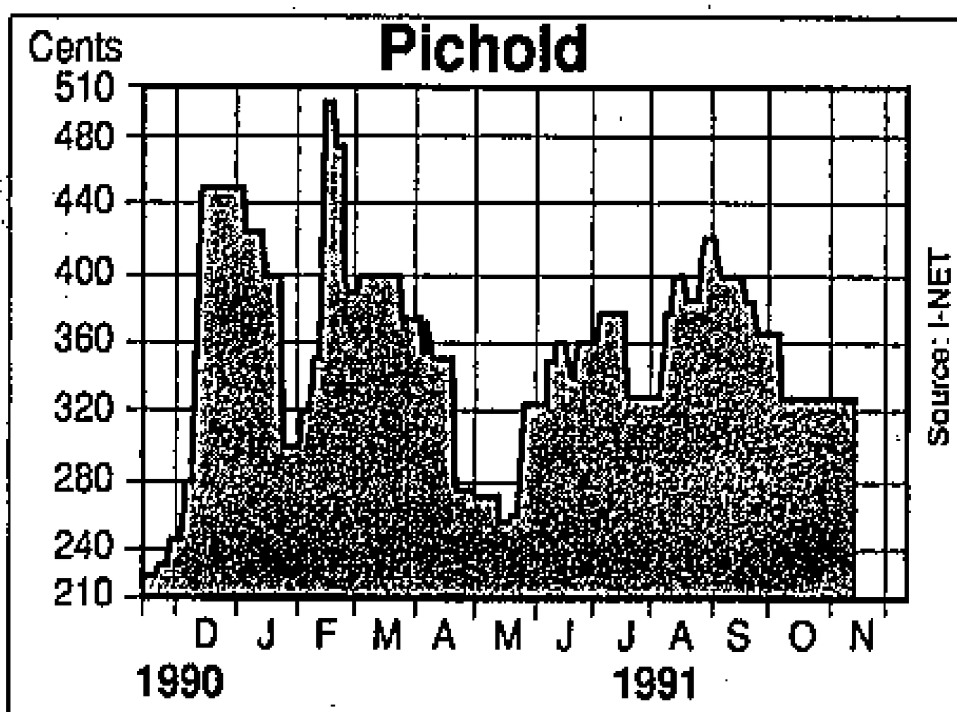
Despite a 5% reduction in turnover, operating income leaped by 121%. The immediate expectation is that debtors would be expanded accordingly. In fact, debtors were reduced by almost 14%. Stock levels were also cut, as working capital has been keenly managed, and short-term loans were reduced to the year-ago R36m.

Only token tax was payable this year. After interest costs of R17,2m, (R27,5m), attributable earnings were R14m. The dividend was passed, with all the profit retained to reduce gearing.

Consolidating Picapli with Picardi Holdings (Pichold) has served to underpin Pichold as its balance sheet shows a marked improvement.

Pichold's profitability was reduced by a small, unlisted subsidiary, Sechic — a maker of sports and leisure garments — which lost R1,8m. However, the group is now a much cleaner entity, and it must be only a matter of time before chairman Jan Pickard Snr decides to dispose of Sechic if it does not turn profitable soon.

Not reflected in Pichold's EPS is a write-off of a net R22,2m, most of which (R17,6m) arises because of the Cape Investment Bank (CIB) debacle. Other write-offs include R2,9m, relating to an overseas investment; and R2,8m, a once-off cost arising from the redemption of preference shares. These were



Pichold's Pickard (Snr) ... *further recovery possible*

partly offset by a R1,3m profit on sale of net assets of subsidiaries.

As Pichold is an investment holding company, and its management was directly involved in CIB, inclusion of the CIB loss in the company's EPS would be a more accurate reflection of the position. Instead of a positive 180c, it would give a negative 111c. Pickard Snr contends the write-off does not exclude the possibility of a recovery — and it is a one-off event.

Spreckley says Picapli has met budget for the first quarter's trading and if consumer demand holds up, EPS growth in fiscal 1992 will equal the inflation rate of about 15%. Picapli's tax rate will be about 30%.

Should this be achieved, EPS in 1992 will

be roughly the same as for 1991. The great imponderable is whether consumer spending will shrink rather than expand over the next eight months. Many retailers are expecting it to shrink.

Picapli's share price is half its NAV and Pichold's is nearly a third below NAV. The respective p:e ratios are low, at 1,7 and 1,8. Considering the turnaround that has been achieved, both shares appear cheap. My preference is for Picapli, the operating company, which is well positioned to take advantage of an improving economy. *Gerald Hirshon*

COMPANIES

Reunert finds the right mix to beat the recession

B Day 29/11/91

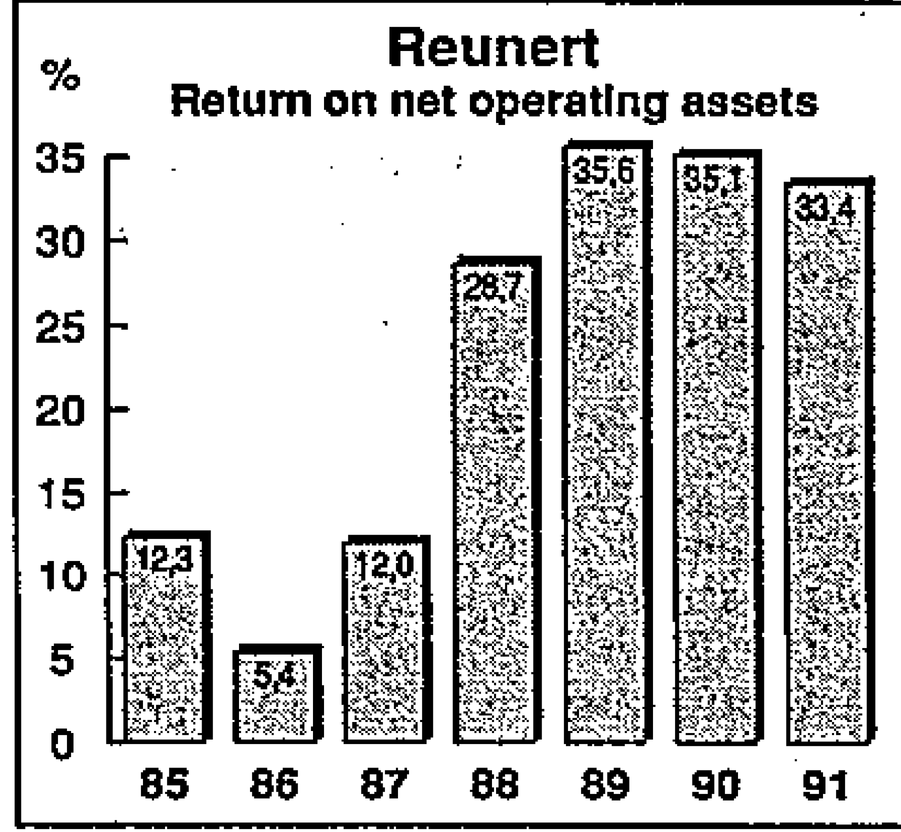
BRENT VON MELVILLE

BARLOW-Rand controlled Reunert, forced to find alternative markets following Armscor cutbacks, believes it has found the right mix to ride out the current recession.

Chairman Clive Parker says the group is now positioned to take advantage of any upward movement in the industrial and mining markets, as well as domestic electrification — and is banking on a slight increase in earnings for the current year.

During the course of the year the company acquired 67% of African Cables from Cullinan Holdings and minorities in partnership with Siemens (SA) for R103m. Subsequent to the year-end Reunert, through subsidiary GEC (SA), increased its shareholding in Telephone Manufacturers of SA from 50% to 67%.

With effect from October 1, GEC Alsthom (SA) acquired the local lamp manufacturing operations of the Thorn EMI group, and further steps are planned for the acquisition of controlling shareholdings in Electric Lamp Manufacturers of SA, and Associated Glass Works.



Graphic: FIONA KRISCH Source: REUNERT

Parker said subsidiary Reunert Technology Systems (Reutech) had done well to maintain profitability over the past year, and benefited from the successful integration of Sandock-Austral and from new product development.

Reutech directors say the electronic engineering companies were adversely affected by the softening of the domestic market for defence products, while export sales were also depressed. The division delivered the first production units of its new wideband airborne radio, and the research and development facility at Stellenbosch produced a radar system.

Exports were also picking up in the Telecommunications division.

ATC, the telecommunications cable company at Brits, turned in a solid performance. Directors said efforts to diversify into areas of product application were beginning to pay off. Cutbacks in SAPT expenditure had a slightly negative effect on Telephone Manufacturers of SA in Springs, though demand is likely to pick-up in the coming year.

GEC Alsthom SA was hurt by the weak local economy. Directors were hope improved productivity, leaner structures and increased attention to exports would offset that.

African Cables directors foresee no imminent upturn and and expected the present slump to continue into next year.

Reflecting the difficult trading conditions throughout all divisions, the group's operating margin slipped to 7,9% (9%), with operating profit of 126,8m (R127,3m) off turnover of R1,6bn (R1,4bn). Return on net operating assets dipped to 33,4% (R35,1%) while return on ordinary shareholders' funds fell to 34,1% (R38,5%).

(189)

Cemenco's fall into red due to mining cutbacks

MATTHEW CURTIN (189)

CUTBACKS in the depressed mining industry and a R3,9m provision for the closure of its electronics division knocked the stuffing out of results for Cementation Company Africa (Cemenco) in the year to end-September. B Day 29/11/91

The construction and engineering group posted a drop in turnover for the first time since 1985 as well as an after-tax loss of R7m against an after-tax profit of R9m in 1990.

Cemenco passed its final dividend — the interim pay-out to shareholders also fell by the wayside — as earnings a share of 101c in 1990 were converted into a loss of 78c a share. That contrasts with a more than three-fold increase in earnings between 1987 and 1989 from 46c to 155c a share.

A spokesman for the group, in which Gold Fields SA has a 20% stake, laid the blame for the "setback at Cemenco" on the recession in the mining industry.

He said half of Cemenco's business was derived directly from contract mining, with 60% of its engineering operations also serving the sector.

The cancellation of major contracts such as the construction of the shaft at the Kennedy's Vale platinum mine, mothballed by former owners Rand Mines a year ago, had hit Cemenco hard in the year.

Cemenco was also affected by the recession elsewhere in industry, with its business with Armscor falling off amid military cutbacks, and a major contract to supply Eskom for valves falling through.

The group also absorbed the costs of closing electronics arm Unilec Industries.

The spokesman said while the group expected no major economic turnaround in the year, its pursuit of new export markets in Africa, Eastern Europe and the Far East would bolster performance.

FM 29/11/91 (189)

HUDACO/VALARD FM 29/11/91

Planning a deal (189)

Engineering groups Hudaco and Valard have both been acquisitive in the past and the management of both are highly regarded. They also have much in common in their operations.

An effective takeover of Valard by the larger Hudaco would result in a new leap forward, with interesting effects for both groups' shareholders and for the industries concerned.

Industrial logic for a merger of operations could extend through several divisions. Among the most important of these are the transmissions and conveyor activities, a field in which each has several companies.

There could, for example, be scope for synergies between Hudaco's Power Systems International and Valard's Ernest Lowe. Valard's clutch and brake areas could also be of interest to Hudaco, which has interests in abrasives.

Valard has seen growth since its listing in 1986, partly through acquisitions. However, the group still has a relatively small asset base and has limited capacity for growth.

The share, currently on a dividend yield of 10,6%, has not gained the high rating of a stock like Hudaco, which yields 4,3% after recent price weakness.

Valard's market capitalisation is around R51m, compared with R262m. Turnover is about half of Hudaco's R400m-odd.

A deal could be structured in various ways, especially as Valard has a listed holding company, Valhold, whose only asset is 80% of Valard. But one route would be a delisting of both Valard and Valhold, with minorities being offered Hudaco shares in exchange for their present shares.

Valhold is controlled by its directors, who last year held some 60% of the issued shares. In addition, about 21,1% of Valhold is held by Delta Electrical Industries, another highly-rated company in the engineering sector. Delta Plc owns 49,9% of Delta Electrical.

No single party has outright control of Hudaco, whose directors hold about 14,4% of the issued shares. The rest are spread between various institutions and pension funds. A fragmented shareholding such as this may influence the negotiations in that there is no one party for the Valard camp to talk to. But management, particularly MD Kevin Clarke, would head the negotiations from Hudaco's side.

It is likely that Valard executives such as chairman David Makins and MD Stephen Connelly are part of the attraction for Hudaco. They would probably remain on board in an enlarged group, as they (with other Valard directors) could retain a meaningful shareholding.

Though both groups have held up fairly well in the recession, they are facing deteriorating trading conditions and weaker margins.

In the year to end-November 1990, Hudaco improved its operating margin and the operating profit was up by a quarter, with EPS rising by 3%. Trading worsened markedly in the half-year to end-May, when turnover was down and operating profit dropped by R1,8m, to R23,8m, with EPS maintained at 47c.

Recent results from Valard followed its acquisition of the troubled Landlock and the subsequent restructuring.

Valhold, whose results for the six months to end-September were more comparable, reported operating profit slightly down, at R8m, while EPS were marginally higher and the dividend was maintained.

Hudaco's May 31 balance sheet showed gearing of 19%. Valard stated gearing at 34% after borrowings were boosted by the Landlock deal. A detailed announcement is expected next week. *Andrew McNulty*