

MANUFACTURING — FURNITURE

1988 — 1989 ~~State~~ ~~Survey~~

# Ellerines strike talks today



*Inyathun  
7/1/88*

NEGOTIATIONS between Ellerines and the Commercial Catering Allied Workers Union of South Africa would continue today in an attempt to resolve the strike which has been in effect since December 8 last year.

In a statement, a spokesman for Ellerines Holdings Ltd said the strike which has affected 144 stores in the group, was still in progress and the situation remains unchanged.

The spokesman said negotiations between Ellerines and Ccawusa would continue today.



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D. A. A. A.

# Natal joins

## Ccawusa

### strike at

#### Ellerines

THE Commercial, Catering and Allied Workers Union made a breakthrough yesterday in their strike against furniture chain Ellerines Holdings, when 35 workers in one of the Natal stores went on strike.

The Ladysmith store was the first store in Natal to band together with strikers in the three other provinces in their battle for increased wages.

Union negotiator Jackie Masuku said he was "awaiting confirmation from other stores in Natal on the strike situation in the province" as there was a strong possibility that workers in "a few more stores in the area" had begun striking yesterday.

#### Management figures

According to Ccawusa's figures, workers at 132 stores in the Transvaal are on strike, while 41 stores in the Free State have been affected by the strike, two in the western Cape and 25 in the eastern Cape.

However, a statement from Ellerines GM, human resources, Pierre de Villiers put the total number of stores on strike at 144. Of these, 110 are in the Transvaal, 14 in the Free State and 20 in the Cape. Of a workforce of 6 567, De Villiers said, 2 402 were taking part in strike action.

"Negotiations continue today with the understanding that Ccawusa will be represented on a national basis," he said.

#### Sales targets

Talks between the union and management continued for the most part of last week, but although talks on one of the major issues — salesman's targets — had been successful for both parties, agreement on the central issue — wages and increases — had not yet been reached.

Ccawusa is asking for an across-the-board increase of R200 and a minimum wage of R550 a month. So far, Ellerines has proposed an increase of R95 a month — Sapa.

**Labour Un**

*Smetan*

**2 stores  
join  
strike**

*(scribbles)*

TWO more stores have joined the six-week Ellerines strike, as talks to end the dispute continued yesterday.

According to the Commercial Catering and Allied Workers' Union (Cawusa) the total stores affected was now 203, after workers in Ladysmith and Dundee downed tools over the last two days

*281*

Strike co-ordinator Mr Jackie Masuku said the total number of workers involved exceeded 5 000

*20/1/88*

He said all Cawusa shop stewards in the furniture chain are invited to a meeting at its Johannesburg offices on Thursday at 10am Issues to be discussed will include negotiations and developments

Refusing to be drawn into commenting on the progress of the talks, Mr Masuku said some move forward had been made

Ellerines' general manager of human resources Mr Pierre de Villiers said the situation remained unchanged, with 144 stores out of the group's 209 stores still out on strike

He said the number of workers on strike had risen to 2 421

ICS

# Waking the sleeping giant

Imperial Cold Storage (ICS) MD Russell Chambers has been told repeatedly that his group is a sleeping giant. Latest results show that the group is waking up. With a 301% increase in earnings in the year to end-September 1987, the turnaround process is well under way, but further benefits lie ahead.

Not all this year's improvement will filter through to earnings per share, as the preference share conversion pushed the number of ordinaries on issue up 20% last December, with another 17% rise due in December this year. Despite this, it seems distinctly possible that an increase in eps will be achievable in the next two years and dividend growth should not be curbed.

Several factors are working for ICS. With red meat sales accounting for 60% of turnover, the drought had a major impact — and now the end of the drought is helping. During the worst years, lack of fodder resulted in the wholesale slaughter of cattle and a flood of beef onto the market. Now that the rains have come, herds are being built up and cattle withheld from slaughter. The resultant increase in prices, which spilled over into the higher-margin processed foods, poultry and fish helped push up margins for the entire group. This was the main reason for last year's turnaround.

Chambers thinks that the ultimate reversal of this situation will also benefit profits. Supply should increase markedly as more farmers turn to beef farming because of changes in the system of maize subsidies, and as farmers supply beef to the market once herds are built up. Chambers believes the consequent price fall will bring red meat into the range of lower income groups and

**ICS looks well set to benefit from a further turnaround and from current changes in the agricultural sector. Even with the sharp increase in shares in issue, dividends should continue their growth trend.**

ICS's sales should rise sharply

ICS does not supply a breakdown of profit or turnover by division, but it is widely spread in the food business from manufacturing to retailing. It should therefore be well placed to take advantage of any increase in consumption and of changing food patterns. Chambers says ICS has already noticed a sharp rise in sales to cash and carry stores, which are big suppliers to the black market. Changes in black eating habits, such as increased purchases of higher-margin items of processed food (ready-to-cook chicken in batters and sauces) will benefit the group, as well as rising income permitting higher con-

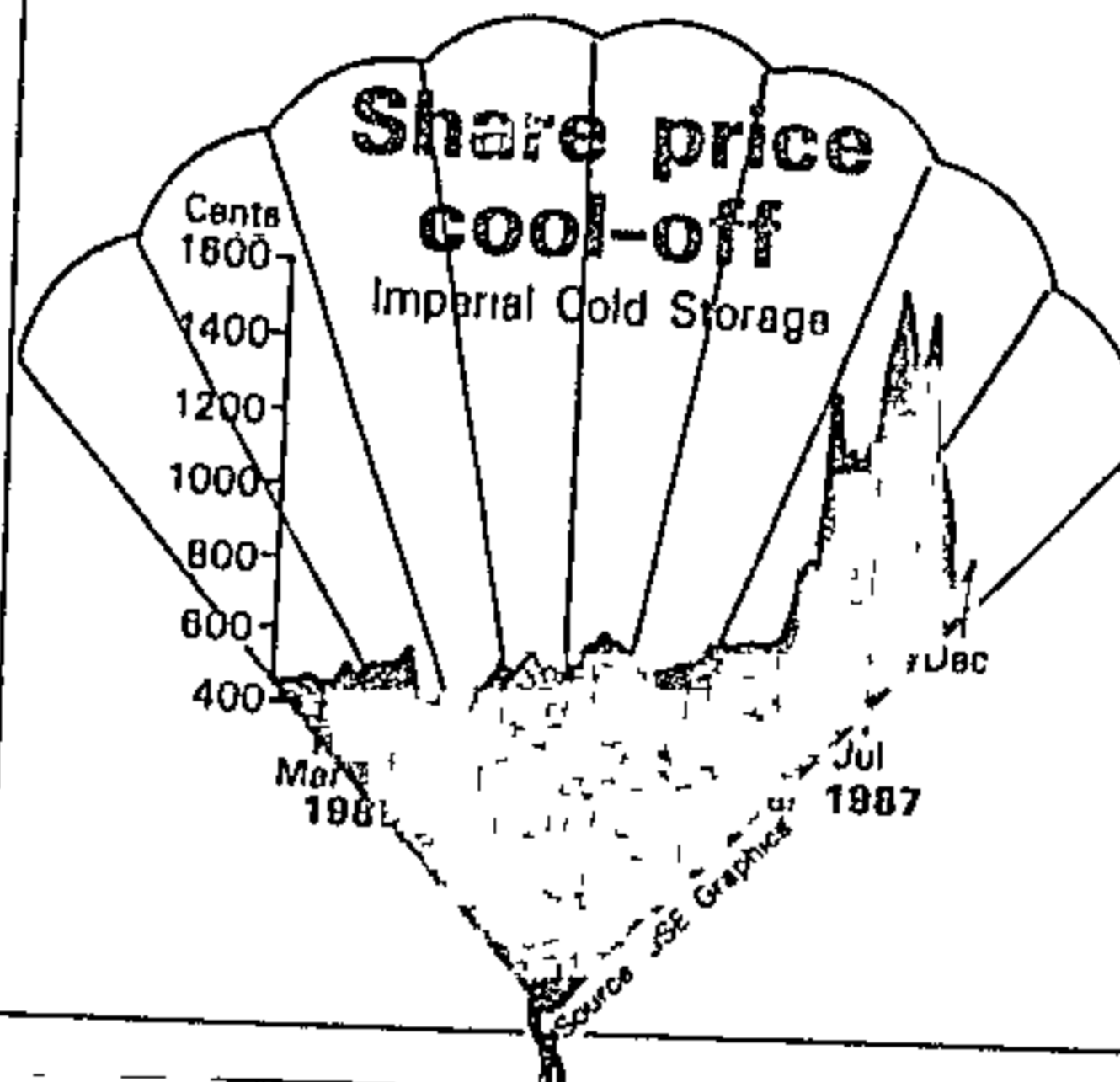
sumption of red meat.

"I believe that urbanisation and increased buying power are making perishables a high growth area," says Chambers. "ICS is in a good position to take advantage of the move from staple foods to First World foods."

A worrying problem area is the dairy section, which has also been buffeted by changes in the agricultural sector. Drought, new health regulations and low profitability persuaded many farmers to close their dairy operations. According to South African Agricultural Union chief economist Koos du Toit, fresh milk prices are under pressure, and the authorities are likely to resist applications for further price rises. Chambers says these developments do not augur well for guaranteed adequate future milk supplies, though Du Toit denies that the situation is cause for concern.

Last year, increased costs of raw milk could not always be recovered in the price of fresh milk and milk products. With 80% of ICS's dairy sales being raw milk, improvements in dairy division margins through concentration on value-added items such as the "In Shape" range are limited.

But Chambers sees improved efficiencies, specifically in the Clayville dairy. This operation has been running at a loss and was responsible for the sharp decline in earnings in 1984. Difficulties were aggravated last year by increased milk prices, milk shortages and labour problems. A turnaround at Clayville will be crucial to the group's performance in coming years. Chambers seems to be fairly optimistic about the chances of achieving this, and says efficiencies are improving.



Net income soars 238% to R2,5m

# Furnfair lifts earnings by 150%, doubles div

*CAT Times 25/1/68*

## Financial Editor

FURNITURE FAIR, the fast-growing Western Cape chain which has turned in consistently good results, has lifted interim earnings by an impressive 150% to 25c a share

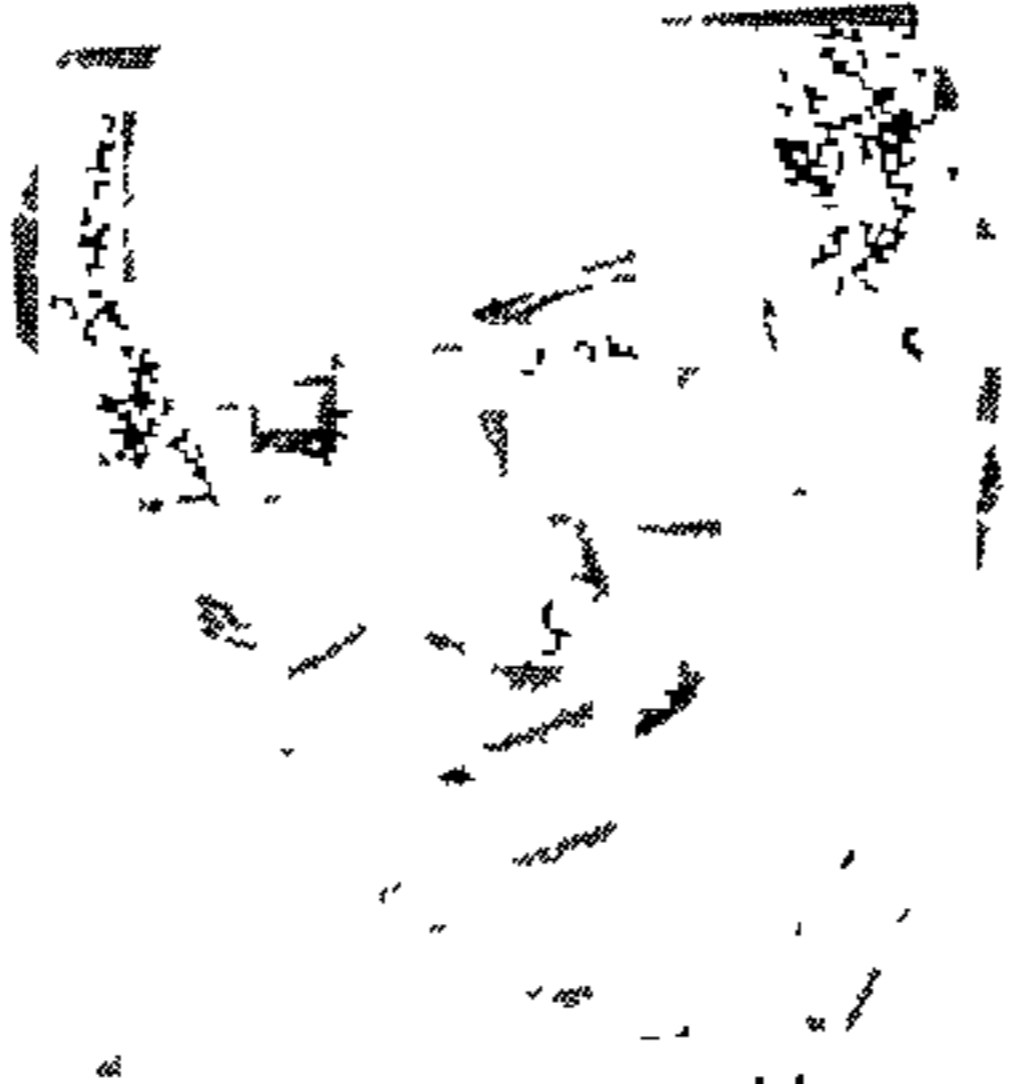
They already exceed the 18,3c a share achieved for the whole of last year although the number of shares in issue is up by 25% to 10,1m

The interim dividend has doubled to 5c (2,5c) a share with cover increased from four times to 5,2 times to fund future growth

Net income has soared by 238% to R2,5m and turnover by 134% to R14,3m

The rise in net income has been achieved in spite of a higher provision of R1,2m (R225 000) for doubtful debts and unearned finance charges

Chairman and MD Ivan Hammerschlag says this higher provision has been made only because of the growth in ledgers and not



Ivan Hammerschlag

as a result of any increase in bad debt

It is company policy to make a provision of 15% against the book "over and above any actual bad debts written off"

However, Furniture Fair's profit figures make no provision for taxation

The company has adopted the

partial method of accounting for deferred taxation and, with a constantly growing amount owing to it for sales on credit, does not expect tax to be payable in the foreseeable future

Hammerschlag says he is confident sales and profits will continue to grow. He plans further expansion and the stores are all exceeding their sales targets

"Trading has exceeded all our expectations. Our new Bellville store in particular is performing incredibly well

"It has averaged 150% of budget since its opening in October last year. Its contribution is now second only to our Mitchells Plain branch, which continues to be our top performing outlet," said Hammerschlag

"As the Bellville store traded for only three months of the reporting period, we can expect an even greater contribution from this source during the remainder of the financial year"

**ELLERINES  
strike is  
'near' end'**

A SETTLEMENT to end the seven-week wage strike at Ellerines stores could be reached today, both management and the Commercial Catering and Allied Workers Union indicated yesterday.

Ccawusa strike negotiator and leader of the union's negotiating team, Mr Jackie Masuku, could only say progress had been made and that a settlement could be reached today.

*Swetman*

*26/1/88*

*[Faint vertical text on the right edge of the page]*



CCAWUSA strike co-ordinator and chief negotiator, Mr Jackie Masuku, is carried shoulder high by Ellerines workers at a report-back meeting in Johannesburg yesterday.

# ELLERINES STRIKE OVER

THE wage strike which affected 208 Ellerines stores nationwide ended yesterday in its seventh week.

The Commercial Catering and Allied Workers Union (Ccaawusa) and Ellerines management reached an agreement in Johannesburg last night.

Ccaawusa accepted the company's offer of a R110

across-the-board increase plus a new minimum of R441 a month.

The increases will be paid retrospectively to July 1, when the dispute began.

Earlier, during the strike Ellerines conceded to the demand that sales targets be reduced from R3 400 to R2 750 a month.

Field sales representatives will now earn at least

R500 a month plus commission.

The parties also agreed that workers detained during the strike would have their jobs guaranteed for 13 weeks or until they were charged or released June 16 and May 1 would be recognised as paid holidays.

Workers agreed to resume work next Monday

*Handwritten signature and date: 2/7/88*



PICAPLI

# Capital injection needed

**Activities:** Has interests in domestic appliance manufacture and sales, air conditioning and sports equipment.

**Control:** Pickhold has 86%

**Chairman:** J A J Pickard, managing director P L Day

**Capital structure:** 10,4m ords of 50c each, 492 000 10% red cum prefs of R1 each, 40 000 5,5% cum prefs of R2 each, 15m 10% comp conv cum prefs of 50c each Market capitalisation R27m

**Share market:** Price 260c Yields 1,5% on dividend, 37,8% on earnings, PE ratio, 2,6, cover, 24,6 12-month high, 500c, low, 220c Trading volume last quarter, 226 000 shares

**Financial. Year to June 30**

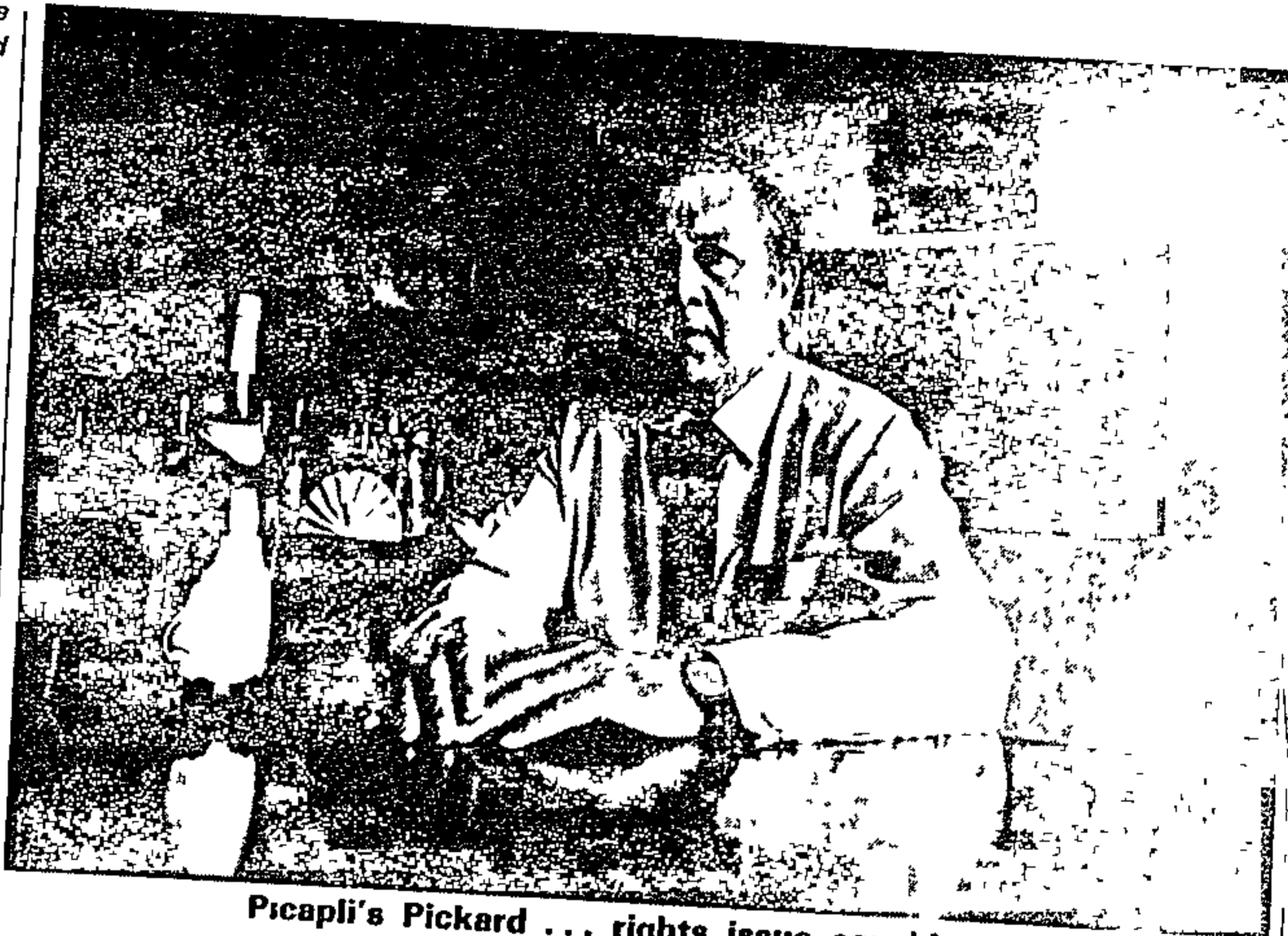
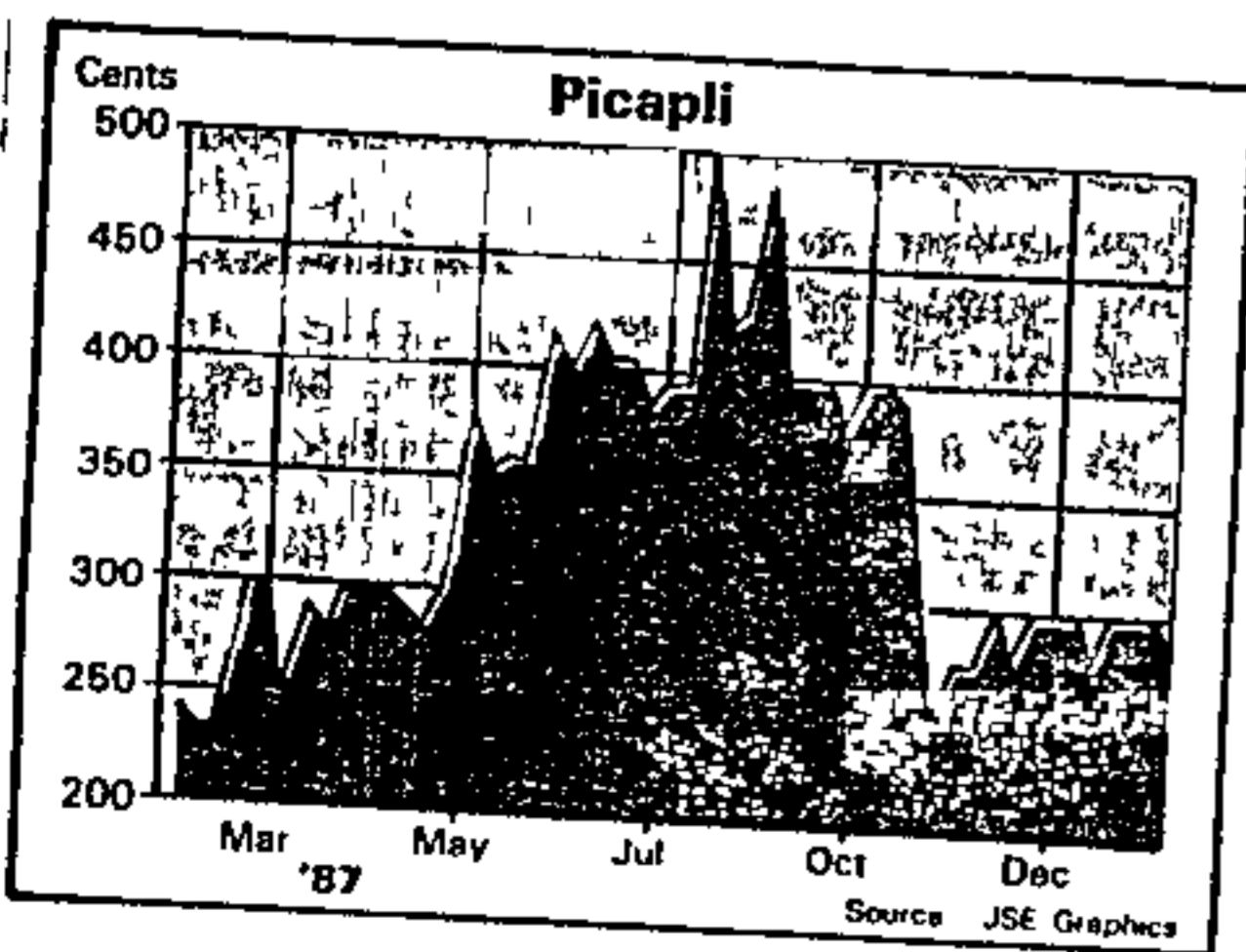
	'85	'86	'87
Debt			
Short-term (Rm)	43,5	39,9	50,7
Long-term (Rm)	1,7	1,8	10,6
Debt equity ratio	8,29	2,49	2,28
Shareholders interest	0,08	0,20	0,73
Int & leasing cover	0,80	1,63	2,53
Debt cover	—	0,13	0,22

**Performance**

	'85	'86	'87
Return on cap (%)	9,3	14,0	19,6
Turnover (Index)	—	100	150
Pre-int profit (Rm)	6,1	11,7	23,1
Taxed profit (Rm)	(1,7)	4,4	11,8
Earnings (c)	(17,5)	26,3	98,3
Dividends (c)	0	0	4
Net worth (c)	4,5	15,3	110,4

Small wonder chairman Jan Pickard says a rights issue is necessary to ensure a sound future financial structure — though Picard Appliances' (Picapli) debt:equity ratio has fallen, it was still a very large 2,28 at the end of June 1987 and debt increased in the previous year

But MD Peter Day confirms that the question of a rights issue is now being reconsidered, as the price at which the share could be placed would undervalue the group "Even if we do not take this route, we shall do something to raise funds to repay short-term debt," he says Borrowings rose from R41,7m to R61,3m in the year to June 1987, mainly to finance increased trading activities, including a sharp R17,6m rise in debtors and R13,2m in stocks



Picapli's Pickard ... rights issue considered

Even without a rights issue, earnings will be heavily diluted in the next two years by the conversion of 15m prefs The prefs may be converted at the end of September this year and are compulsorily convertible at the end of September 1989 Ordinary shares on issue will be more than doubled from the present 10,4m

Another problem is the tax rate, which rose from 6% to 17% last year Day expects the rate to be 45% in the present year

But he expects sharply increased earnings Pre-tax income from the manufacturing division climbed 140% on an increase in production of 61% last year and the sales of the trading division, which retails other products as well, climbed 48% KIC, with its local manufacture of refrigerators, is the object of regular offers from a number of companies and it was these offers, or the rumour that KIC would be floated off on its own, which sent the price up to R5 last August

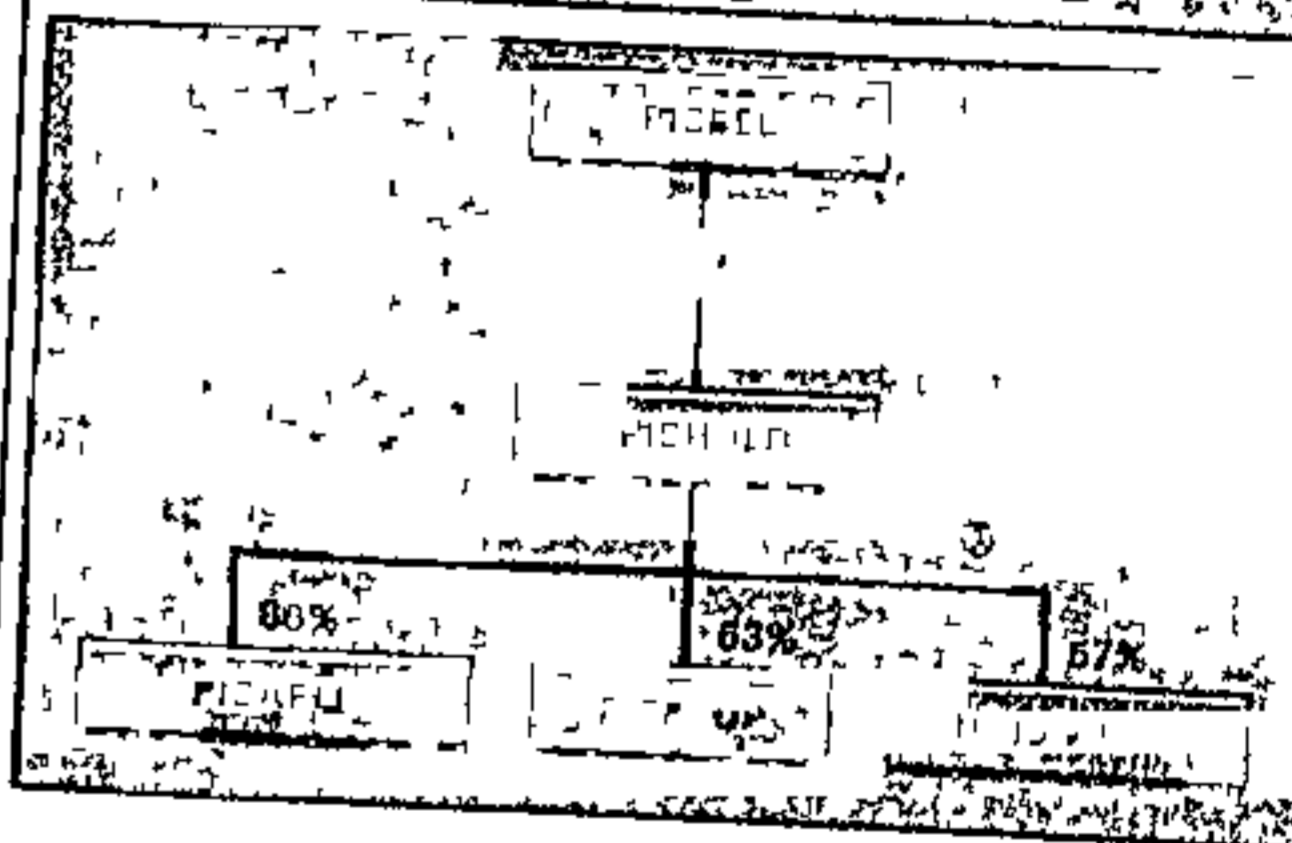
Day does not seem to think it likely that KIC will be sold in the near future, especially as Picapli's results at the interim, due to be released in a few weeks, are looking good The company calculates EPS for its own use on a fully diluted basis and Day expects that, on this calculation, there should be an increase in EPS, even on a full tax rate The group is playing safe, though, with its 25 times dividend cover

On our calculations, earnings will have to increase by 111% this year if all prefs are converted and EPS is not to fall Day says,

however, that the dividend should increase and cover be reduced to not less than three times

With the consumer upturn and KIC obviously having a good year, the company

## Organic picture



should do well, but it would seem wise for potential investors to await the decision about the rights issue Picapli will definitely be a better bet when the conversions are history and the balance sheet strengthened

Pat Kenney

to black unions.

Johannesburg to provide

of S.A.R. & H. Staff membership of the S.A. members to join on an

## Beares lifts interim dividend to 5c

*Stev 16/2/88*  
Furniture retailing group Beares increased net profit by 88 percent in the six months to December, compared with the 1986 half-year

The interim report shows net income for the period of R9,7 million, against R5,2 million previously, equivalent to earnings per share of 41,8c (22,2c)

As a result of the improved profits, the company has declared an interim dividend of 5c (2c)

The directors say the increase in

consumer demand was most marked in the last three months of 1987

"With the Government taking steps to ensure continued growth in the economy, we expect that customer demand will be maintained and that the present trend of improved profits will continue," they say

In the period under review, turnover was up 23 percent to R296 million, while pre-tax income increased 95 percent to R19,7 million (R10,1 million) —

Sapa *288* *188*

## Suppliers caught offguard by upturn

# Office furniture — it's a backlog battle

Star 4/3/88

188

By Stan Kennedy

After being blind to the signs of an economic upturn, suppliers of the major components in office furniture are now frantically driving their factories to meet market demand, says Mr Doug Troxler, managing director, Master-planners

He says delivery times of office furniture to corporate clients have been protracted from the usual eight weeks to 16 weeks because of the shortage of fabrics, chipboard and plastic laminates. Most stocks were depleted at the first sign of the upturn

"In the last downturn, the industry lost Kallenbach-Hendler. As individual operations they were successful but the merger proved to be disastrous. Combined, they had a manufacturing capacity of more than R30 million. Again, because of the downturn, we also lost a major supplier of veneers

"Then came the upswing, which was so rapid it was unnatural. Suddenly there was a big demand for office furniture from new businesses and those which were ex-

panding. But the retailers did not have the stocks to satisfy their needs."

"An example of the gravity of the situation was that a corporate client, on seeing the U-shaped table in our boardroom, bought it on the spot."

Despite the apparent greater demand, the industry has barely grown in the past two years. The departure from the scene of some companies has brought extra business to those remaining, but the market remains static at R180 million a year.

### PARTLY TO BLAME

"We, the retailers are also partly to blame for the long delivery times. Last year, office furniture component suppliers came to us and asked about orders for the coming year. At the time there was no real indication of an upturn and when it came, we underestimated its strength.

"Now our suppliers are caught without products. The companies which have left the industry have been replaced by others, but no one takes machinery and puts it into production during a downturn. It also takes time for them

to grow in capital strength. However, I see the situation returning to normal soon."

The future bodes well for the industry, he says. There are many offices due for commissioning soon and others are being built in cities and suburbs throughout South Africa.

Mr Troxler says there is a big market in sophisticated corporate bodies that have accepted that computers are vital for their competitive edge.

Some eight years ago, 30 to 40 percent of workstations were computerised, now it is nearer 70 percent.

"It is in this area that we have opportunities for expansion in computer workstations furniture. Some companies are refurbishing their existing installations, but many buildings are not suitable for computerisation. The owners either have to rebuild or, at great expense, re-engineer the building to make it compatible with computerisation. We have furniture and other products that will eliminate costly alterations," Mr Troxler says.

188/11/14/88

## Sitting pretty

The figures don't tell the true story, claim furniture manufacturers. The Federation of Furniture Manufacturers (FFM) insists the industry is much healthier than it appears from trade statistics which show turnover rose only 1,4% last year.

Executive director Winston Smith says there was considerable improvement in the second half of the year and this has continued into 1988. "We expect real growth of 4%-5% this year," he predicts.

Furniture traders had a better 1987, mainly because of appliance sales. Furniture Traders' Association (FTA) CE Frans Jordaan says a sample of 1 300 stores shows sales growth of 22,8%, or 6%-7% in real terms. Government figures are even better. They show sales turnover in the furniture and appliances sector in January-November 1987 was 24,4% better than the same period in 1986.

There are two major growth areas, at opposite ends of the market. Anglo Dutch office furniture MD Ivan Weltmann says there is real growth of 20% in the upmarket office furniture sector.

"There are substantial orders for new buildings. We and our major competitors are increasing capacity as we have almost full order books for the next 18 months."

Clifford Gundle, MD of Furntech, which sells mainly to the middle and lower income black and white markets, says his office furniture sales were also up 20% in units and 40% in value. He says kitchen furniture has moved more slowly but unit sales still went up 12%.

He maintains the black market is the more buoyant and is becoming more selective. "Many people spent their rent money on upgrading their homes and bought furniture and brown goods instead of paying rent."

But he warns if interest rates increase by more than 2% and if the repayment period for hire purchase is reduced from the present 24 months, this could have serious implications for the furniture industry. ■

Chinese youth, editors said yesterday

*CHE TRIPS 78/4/88*

## Pay increase for workers

JOHANNESBURG. — About 15 300 employees in the bedding and furniture manufacturing industry will receive an across-the-board wage increase of R25 a week from July, and a further R15 from January, in terms of an industrial council agreement completed last week between the National Union of Furniture and Allied Workers of SA and employers.

# Afcol improves final payout

## Finance Staff

The boom in durable spending on furniture has substantially benefited the results of the country's leading furniture manufacturer, SAB subsidiary Associated Furniture (Afcol)

In the year to end-March, Afcol increased its earnings by 44 percent to 114,8c a share while the total dividend was raised by 45 percent to 72,5c.

Attributable profits rose 47 percent to R35 million on an increase in operating profit by 66 percent to R43,1 million

The increase would have been greater but for a R11,3 million rise in the tax bill to R17,97 million, which more than offset a drop in interest paid from R8,8 million to R6,2 million

The balance sheet has been strengthened with the debt-equity ratio down to 0,28 (0,42), while net worth is up from 678c to 793c a share

The directors say the strong 31 percent growth in turnover to R510,2 million has been maintained despite setbacks caused by

work stoppages

"Effective utilisation of productive resources continued and this, together with the lower interest burden and the 30 percent increase in equity-accounted earnings, produced the good earnings

"The rate of growth in private consumption expenditure is expected to slacken somewhat in the coming year as a result of rising interest rates and likely action by the authorities to dampen credit demand.

"Provided this does not result in serious setbacks, attributable earnings are expected to show further improvement, but at a lower rate than that achieved in the past year."

*CMT Times 5/5/88 (20/18)*  
**Afcol pays 30%  
higher dividend**

**JOHANNESBURG.** — An increase of more than 30% in Afcol's final dividend to 40c (30,5c) has lifted the total for the year to end-March by 45% to 72,5c (50c), the company's annual results show.

The much improved payout has been made possible by earnings up 44% to 144,8c a share (100,4c). Attributable profit rose to R35m (R23,8m).

The directors say in comment with the results that the strong growth in turnover (up 31% from R388,5m to R510,2m) has been maintained.

They say: "The rate of growth in private consumption expenditure is expected to slacken somewhat in the coming year, as a result of rising interest rates and likely action by the authorities to dampen credit demand.

"Provided this does not result in serious setbacks ... attributable earnings are expected to show further improvement, but at a lower rate than that achieved in the past year." — Sapa

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# Furniture workers vote to strike

188

ABOUT 1 500 furniture workers from six plants have voted in favour of a legal strike this week, following the Industrial Council's failure to resolve their dispute with the Associated Furniture Company Limited.

According to the Paper, Printing Wood and Allied Workers Union the dispute began in April when about 340 workers were dismissed at Star Furnitures in plant in Industria West, Johannesburg.

The workers had downed tools after four of their colleagues were dismissed for allegedly assaulting a member of a rival union.

The union is demanding that Star furniture reinstate all dismissed workers except the four, whose case should be taken to arbitration.

Afcol representative George Kinmont said the union proposal was "unreasonable".

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# Steady growth in Interboard sales volumes

Star 1/6/88 (188)

## Finance Staff

Improved sales volumes by its furniture business saw Interboard increase both turnover and net income by 79 percent for the 12 months to end-February.

Turnover improved from R53,2 million to R95,4 million while net income was up from R8 million to R14,3 million.

Earnings a share before extraordinary items rose 32 percent to 9,98c (7,57c) and the final dividend is 3c (4c) to give a total for the year of 6c (4c). Earnings after extraordinary items were up somewhat less at 10,03c (8,74c).

Shareholders interest rose from R55,4 million to R132,9 million. Expressed as net asset value a share the rise is 100 percent from 43,5c to 87c — valuing assets at historical cost.

The directors indicate that the group is expecting continued growth in the coming year from increased volumes in the furniture and audio equipment division, increased capacity and a broader

range of products in the particle board division and the introduction of new manufacturing divisions.

The building materials manufacturing division, Buildcor, was listed separately on the main board of the JSE in November last year and Interboard holds 80 percent of the shares.

During the year, the flatboard interests were expanded by the acquisition of Interboard Swaziland which provided Interboard with a 60 percent increase in its particle board manufacturing capacity.

The directors note that some of the major manufacturing units have been operating for less than 12 months and contributed "minimal returns" to the year's results.

"Nevertheless, income expressed as a percentage of turnover remained at 15 percent which must augur well for next year."

Since the year end, the directors report that Interboard has formed a new division, Fasterec, which manufactures components for the home and pre-fabricated housing industries.

POLICE have opened three attempted murder and one murder docket following the death of a man and serious injuries to three others — all of whom were employed at a strike-hit company — when they were thrown off a moving train by unknown persons last Friday.

The dead man has been identified as Eldorado Park resident Johan Abrams, 56, who was found dead at the side of the railway tracks between Booyens and Crown stations.

The other three, presently recovering in the Johannesburg Hospital, are Japie Fuzel, Isha Singh and Dirga Hanirida. Their ages are unknown.

All four were employed at Transvaal

## Afcol workers in Reef train horror

DANIEL SIMON

Mattress & Furniture Company, one of six strike-hit subsidiaries of Afcol.

Asked if the incident was related to the stayaway or strike, Witwatersrand police spokesman Lt Pierre Louw said he could not comment as this would infringe the Emergency Regulations.

It could not be established whether the four were on strike. A Nactu union spokesman said he heard about the inci-

● To Page 2 →

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## Murder investigation after train horror

dent only yesterday and said details surrounding the incident were sketchy.

He acknowledged the four appeared to be members of the National Union of Furniture and Allied Workers, an affiliate of Nactu.

Afcol CE Jack Chaskelson said he would visit the subsidiary today to get first-hand knowledge of the circumstances leading to the four workers being thrown off the train.

● From Page 1

A Johannesburg Hospital employee refused Business Day access to the superintendent in charge.

Six Afcol plants entered their second week of strike action yesterday in sympathy with 340 Star Furniture workers who were dismissed more than a month ago.

troubled at Mercedes Benz of SA

# Train horror: Total now 8

DANIEL SIMON

A TOTAL of eight Afcol workers were thrown off moving trains on Thursday and Friday, and a ninth Afcol worker was found murdered on Saturday last week, a union source said yesterday.

The source, an official of the National Union of Furniture and Allied Workers' (Nufaw) said this brought to two the number of Afcol workers killed. Others were in hospital in a critical condition. He said some had been forced to jump after suffering multiple stabbings.

The ninth victim, known only as "July", was found in the Langlaagte

area and had apparently been abducted after leaving work on Friday night. Asked if Paper Printing Wood and Allied Workers' Union (Ppwaw) members were involved, spokesman Sydney Mafilika said "We dissociate ourselves from any violence." Witwatersrand police spokesman Lt Pierre Louw said police could only comment on the four cases which had been reported.

● To Page 2

## Eight workers thrown off moving trains

The Nufaw official said that, on Thursday, Highpoint Furniture employee Daniel Cerro, 30, and Transvaal Mattress & Furniture Co employee Isaac Mentor, were abducted in separate incidents, taken on to trains, beaten up and then thrown off.

"On Friday, Johan Leisering, 50, and William Rosenberg, 18, both employed by Parker Knoll in Langlaagte, were abducted at Croesus bus stop and forced on to a tram at Croesus station.

"The two were beaten up and stabbed before being told to jump off a moving tram as it left New Canada station. Le-

isering received five stab wounds and Rosenberg two. All these people were Nufaw union members."

Witwatersrand police said earlier this week that four other men, working for Transvaal Mattress & Furniture Co, were thrown off a moving train between Crown and Booyens railway stations last Friday. One, Johan Abrams, 56, was killed.

Three others in a critical condition in the Johannesburg Hospital are Jappie Fuzel, Ibhae Singh and Dirga Hanirida

● From Page 1

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## Furniture industry hit by credit squeeze

STW  
17/6/58 By Sven Lunsela (188)

The increase in interest rates and the introduction of higher deposits by the government in May, to contain the soaring rate of credit financing, is already having a marked effect on the furniture and motor industry

Last week the National Association of Automobile Manufacturer's attributed a slight decline in car sales from April to May partially on the credit squeeze by the authorities.

And yesterday the Furniture Traders Association (FTA) said some members had reported a sales growth in May of only 15 percent over the same month last year, "which means either a zero or negative growth in real terms," according to FTA executive director Frans Jordaan

The FTA represents more than 90 percent of the country's furniture retailers

"Feedback for June so far indicates a slight improvement but it is too early to quantify," said Mr Jordaan

"When the curbs were first introduced they did not seem too severe, but they have had a definite impact. Even before the introduction of the new measures there was already a slight leveling off," he added

He added, however, that most furniture retailers were still envisaging overall real growth of about five to six percent this year.

On the other hand Mr Jordaan said that labour problems and strikes in both the manufacturing and the retail sectors could inhibit growth

"The current unfavourable exchange rate could also lead to price increases in imported products and components," he said

readers should bear this in mind in assessing what is happening in the country.

of the Nationals held in Maritzburg (1987) this aim is not far out of reach.

"Skydiving is something

of the very few female competitive skydivers in South Africa. There are many female jumpers who attend

team, she said. "I'm not trying to compete against them to prove myself as a woman, but to fit in with them."

Star 15/6/88

# Second man thrown off train dies

A SECOND man has died after being thrown from a moving train last week.

Mr F Jappie died in hospital yesterday. He was among four men known to have been flung from trains in the Johannesburg area last week.

The other man killed was Mr Johannes Abraham of Eldorado Park.

Mr I Singh and Mr D Haniriden are still in hospital. Mr Singh is in a critical condition.

They were flung from a train between Booyens and Crown stations in Johannesburg on Friday.

Police say they intend to monitor the security situation on trains closely.

## SATURDAY STAR REPORTER

The SA Transport Services was also co-operating closely with police to prevent more incidents, said a Transport Services spokesman.

The Afcot furniture manufacturing company could not confirm wheth-

er nine of its workers were last week thrown from moving trains as their factory staff were on strike, a spokesman said on Thursday.

He was reacting to a report in a morning paper which quoted a National Union of Furniture and Allied Workers' (Nufaw) source as saying

nine workers, one of whom died, were flung off trains on Thursday, Friday and Saturday.

"We are unable to confirm this report due to the fact that there is a strike on in Afcot factories," said Mr George Kinmont, Afcot Group Human Resources Director.

ANCE TO WIN R120 000 IN OUR COMPETITION - SEE PAGE 19

YOUR COMPREHENSIVE A-Z P ASSOCIATION GUIDE IS INSIDE

own goals, Patrick had manager Mr Ken da what he describes as "an soccer "The first goal came land temporary expedition in The

# Death leads to close watch on trains

St 176188 Crime Reporter (188)

Police are closely monitoring passenger security after four men were flung from a moving train in Johannesburg last week, a Pretoria spokesman said yesterday

Sats is also co-operating closely with police to prevent any more incidents, a transport services spokesman said.

Four cases, one fatal, of people being flung from moving trains have been reported to police.

The Afcot furniture manufacturing company could not confirm whether nine of its workers were last week thrown from moving trains as their factory staff were on strike, a spokesman said yesterday.

He was reacting to a report in a morning news

paper which quoted a National Union of Furniture and Allied Workers (Nufaw) source as saying nine workers, one of whom died, were flung off trains on Thursday, Friday and Saturday.

"We are unable to confirm this report because there is a strike on in Afcot factories," said Mr George Kinmont, Afcot Group Human Resources sirector.

At the time of going to press, Nufaw could not be contacted for comment

● The man killed last week was Mr Johannes Abraham of Eldorado Park Those injured were Mr Jappie Fayzel, Mr Ibhae Singh and Mr Dirga Hamrida

They were flung from a train between Booyens and Crown stations in Johannesburg on Friday

# Two men thrown from train in wave of strike unrest

The Argus Correspondent

JOHANNESBURG. — Four men have been murdered and several others assaulted in attacks on workers defying a strike at Afcol plants in Johannesburg in the last few weeks.

Two Eldorado Park men, Mr Johan Abrams and Mr Fazel Jappie, died after apparently being thrown from moving trains and two others, Mr I Singh and Mr D Haniriden are in a serious condition in the Johannesburg Hospital after they were attacked on their way to work at the Transvaal Mattress and Furniture Company in Village Deep

The other two murdered men are Mr Ben Rampu, a shop steward for the Boilermakers Federation, who worked at the Edblo plant, and a casual worker, who has not yet been named, who worked at the Powercraft factory.

It is believed the four deaths and wave of assaults at the factories have been the result of some workers refusing to join a strike demanding the reinstatement of workers dismissed recently.

The sister of one of the dead men, who did not want to be named, said she was deeply shocked by her brother's death.

"Two weeks ago my nephew found a job at Transvaal Mattress. He told his father about it, and he also applied for work. They had only been working there a few days when this terrible thing happened.

## STOPPED AT CAFE

"They were walking from the bus stop to work when my brother stopped at a cafe to buy cigarettes. My nephew was waiting outside when other people on their way to work came rushing past. They told him to run because they were being attacked

"My nephew went into the shop to warn his father, and as they came out, they were confronted by this group. My nephew, who is only 16, managed to run away, but my brother could not run fast enough

"They caught him and apparently beat him up in the coa-

lyard before they took him back to the station. We are not sure exactly what happened, but the doctors told us he was thrown from a train."

The sister said her brother was 42 years old, was married and had six children, the youngest of whom was two years old.

"We can't believe that a thing like this can happen. It is really terrible," she said.

The human resources director for Afcol, Mr George Kinmont, said they were still investigating the situation

"We are in a difficult situation because we still don't have all the facts. We know that a number of people who are employed in the Afcol group have been injured and that some have been killed. There's no way I can suggest why that might have happened but it is true that the employees who were killed were non-strikers," he said.

The labour dispute at Afcol plants was sparked several months ago after a number of workers at Star Manufacturers were dismissed for alleged assault. Workers at the factory went on strike and were then dismissed.

This was followed by a wave of sympathy strikes at other plants. Negotiations are in progress between Afcol and the union concerned, the Paper, Printing, Wood and Allied Workers Union to resolve the issue.

A spokesman for the union said it would issue a full statement today in response to inferences that its members had been involved in the murders and assaults.

"In terms of policy, we are a non-violent union committed to negotiation and we would never encourage members to commit such acts. The union will take steps to investigate the matter fully," she said.

Police confirmed four men were thrown from trains, two of whom have died, and said incidents of intimidation had been reported. They declined to give details in order to protect those involved





## M & A planning to acquire Anglo Dutch?

price of 1 200c yesterday, while its holding company, Investors Club, has strengthened 100c to 1 200c, after the issue of a cautionary announcement on Tuesday

At the half year to December, M & A was ungeared and had a borrowing capacity of R7,5m, while the reduction of Investors Club's 72% stake in M & A to 51% could release about R7,2m at market prices

Investors Club can issue 600 000 M & A shares without losing control

← ● From Page 1

Analysts believe a possible share and cash deal could see the beginnings of a closer relationship between Afcol and M & A

M & A chairman Winky Ringo, who has made no secret of plans to boost growth through acquisitions, could not be reached for comment yesterday.

Afcol chairman Laurie van der Watt declined to comment

## M & A to acquire Anglo Dutch?

MATHIESON & ASHLEY (M & A) is understood to be negotiating the acquisition of a 50% stake in Afcol subsidiary, Anglo Dutch, which will effectively enable the two groups to corner the office furniture market

Last year, M & A acquired a 100% stake in office furniture group Dashing and market talk is that Dashing man-

23/6/88  
(198) KAY TURVEY (day)

agement will assume responsibility for Anglo Dutch, which has been troubled by industrial unrest.

M & A shares have risen 150c in the past two days, reaching a foreign bid

● To Page 2 →

*Cape Times 13/7/88. (1909) (12) 188*

# 1 200 Afcol workers to return as strike ends

JOHANNESBURG. — All 1 200 Afcol workers who have been on strike for over six weeks are due to return to work today.

The Paper, Printing, Wood and Allied Workers' Union (PPWAWU) said in a statement that although the settlement was reached last week "it could not be finalized last week owing to police disruption of the union report-back meeting".

The settlement involved the issue of the dismissal of 300 Star furniture workers on April 20 and four workers dismissed on April 14.

An agreed interim disciplinary procedure will operate for two months while negotiations on a final procedure continue.

The company has agreed to reply to the union next week on the workers' demand that the eight workers detained last Friday should receive full pay while being held under emergency regulations. — Sapa

CPA Toms 14/7/88

188

## Strikers held after man in balaclava aids police

JOHANNESBURG. — A balaclava-clad man helped police in arresting eight striking Afcol workers at the Klipspruit Dutch Reformed Church in Soweto last Friday, a Paper Printing and Allied Workers' Union (PPAWU) official alleged yesterday.

Mr Farouk Jardin said about 50 policemen had surrounded the church, where about 1 200 striking PPAWU members were meeting. The strikers were paraded before the disguised man, who was possibly a member of the National Union of Furniture and Allied Workers' (NUFAW). Two men were pointed out, but another six were arrested.

He said the union suspected the arrests were related to the recent series of abductions in which eight NUFAW members were thrown off moving trains. Three men died as a result of the incidents.

## Fifteen guilty of necklace killing

(188) PM 29/7/88

## Cooler markets

**Activities:** Furniture manufacturing

**Control:** SA Breweries has 66,2%

**Chairman:** L van der Watt

**Capital structure:** 24,2m ords of 50c each, 550 000 6% cum prefs of R1 each Market capitalisation R222m

**Share market:** Price 920c Yields 7,9% on dividend, 15,7% on earnings PE ratio, 6,4

cover, 2,0 12-month high, 1 800c, low, 800c

Trading volume last quarter, 351 000 shares

**Financial:** Year to March 31

	'85	'86	'87	'88
<b>Debt</b>				
Short-term (Rm)	0 8	0 9	3 4	0 5
Long-term (Rm)	41 1	57 2	65 4	54 3
Debt equity ratio	0 31	0 39	0 40	0 30
Shareholders interest	0,59	0,54	0,53	0,53
Int & leasing cover	2 2	1 5	3 2	7 0
Debt cover	0 7	0 3	0 5	0 8
<b>Performance</b>				
Return on cap (%)	10 6	5 3	8 4	12 3
Turnover (Rm)	295	309	389	510
Pre int profit (Rm)	24 6	14 5	25 9	43 1
Pre-int margin (%)	6 7	3 8	6 8	8 6
Taxed profit (Rm)	19 3	11 5	24 3	36 1
Earnings (c)	80 0	48 0	100 4	144 8
Dividends (c)	40	24	50	72 5
Net worth (c)	560	612	718	744

It is ironical that no sooner had Afcol emerged from a record year of sales and profits than government started to roll back the stimulative measures which led to the boom. Sales had already begun to grow in fiscal 1986-1987, helped by cash purchases by black buyers. That was followed in the past financial year by faster growth based on credit-financed purchases by whites.

By the time Laurie van der Watt came to write his chairman's review, government had bashed consumer confidence with credit curbs and higher interest rates. More seem likely to follow later this year and in 1989 unless consumer spending, which lifted the economy but also sucked in unacceptably



Afcol's Van der Watt ... slowing turnover growth

high levels of imports, cools fast

Van der Watt hopes the credit curbs will not lead to a repeat of the severe setbacks which affected the furniture industry in 1984 and led to plunging profits (though not turnover) through 1986. Almost certainly, this year's turnover growth will be way below the past year's 31%. Leading indicators, such as housing starts, point to a comparatively healthy demand for furniture, but they are not a reliable indicator of likely trends in replacement purchasing.

Last year most of Afcol's critical accounting ratios improved. The year-end debtors book rose more or less in line with the increase in turnover, while year-end stocks

dropped as a proportion of turnover. That implies either tighter asset management or a deliberate effort to control stocks ahead of slower sales growth. Total liabilities, too, dropped as a percentage of turnover as long-term debt was repaid, while amounts owing to trade creditors moved ahead faster than the year's turnover growth. This latter trend presents something of a distorted picture as sales were significantly higher in the financial year's final quarter.

Perhaps the best way of evaluating Afcol is by taking a long-term view. Since 1980 earnings have grown at an average compound rate of 12% — no better than inflation. At 920c, the share is little higher than

half its 12-month high. The market is understandably unwilling to accord it a growth rating.

Jim Jones

# New Eurefin listing

ster 2917185  
pitched at 200c

183

By Ann Crotty

Eurevest, the latest product to come from the Ronnie Price stable, looks set to get a listing via a one-to-one rights offer to existing Eurefin shareholders at an issue price of 200c. The deal should boost Eurefin's current cash holdings of R30 million to R40 million.

Yesterday, Eurefin closed at 400c after heavy trading. Ahead of the announcement of the deal, the group was sitting with cash of R30 million, equivalent to 400c a share, so the market appears to be putting no value on the additional assets that Eurefin is now selling, or is perhaps uncertain of how to rate its total assets.

It seems likely that the investment community will, at least initially, be somewhat taken aback at the price at which Eurefin management is pitching the issue price of Eurevest.

According to management, the 200c is in line with Eurovest's net asset value, which is said to include cash of about R6 million, equivalent to 75c a share.

Some time ago Eurefin management said the book value of Atlas-Utas, which is to be part of Eurovest, was in the region of

67c a share. (However, analysts believe its earning capacity should ensure a much higher market value.) If the 67c is accepted for Atlas-Utas, then the remaining assets are being valued at around 130c, of which 75c is represented by cash.

Apart from Atlas-Utas and the cash, Eurovest will comprise Durafoam and Utas Investments. Atlas-Utas is a distributor of automotive reconditioning machine tools and has long been part of the Eurefin group. Durafoam is a manufacturer and distributor of PVC plastic outdoor and leisure furniture and is a recent acquisition by Eurefin. Utas Investments holds a portfolio of selected marketable securities.

If the deal goes ahead as planned (management has said it is subject to certain conditions precedent), then Eurefin will with one hand be giving over R6 million to Eurovest, but with the other hand will be taking in some R15 million from the sale of assets on which the market seems unwilling or unable to put much value.

So Eurefin is now a cash shell with R40 million and, with the collapse of the Sage deal, there is talk once again of a possible deal with Brian Joffe.

COMPANIES

# Merger-set Homemakers makes 50% turnover jump

188 10/8/88 B/Dav

**HOMEMAKERS** Holdings achieved a 50% jump in turnover to R179,6m to post a 77% rise in operating profit to R20,4m in the six months to June

Confirmation that the furniture interests of Homemakers (consisting of World Furnishers and Bradlows Stores) are to be merged with Joshua Doore, plus the success of the merger of the W & A retail and consumer goods companies, are highlights of today's interim report

Earnings rose by a satisfactory 36% to 6c a share (4,4c a share) on the increased issued share capital. A 2c interim dividend has been declared

CE Hilton Nowitz says taxed profits of each division were ahead of budget. Traditionally, the greater proportion of profits are earned in the second half of the year and Homemakers directors expect this trend to continue. Given stable operating conditions, earnings growth for the full year should easily exceed the rate of inflation

An overall improvement in efficiency resulted in Homemakers' operating margin improving to 11,4%

LIZ ROUSE

from 9,7%. Nowitz says the outstanding performance came entirely from organic growth and reflects the energy and enthusiasm of management and staff

The companies, which pooled their resources to form Homemakers with effect from July last year, are working excellently together. The synergies that were the rationale for the merger are starting to flow between the four operating divisions: direct selling, furniture, textiles and home improvement, the latter having been acquired with effect from January

Nowitz says the long-term profile as the holding company, for clearly focused retailers and distributors of consumer goods, is now emerging. Management of the divisions is decentralised with the holding company board providing strategic guidance for autonomous teams

Gearing remains within the self-imposed ceiling of 60%. The balance sheet thus continues to provide a sound base for continued growth, which will be achieved both organically

and through carefully considered acquisitions that will entrench the operating divisions as leaders in their own marketplace sectors

Many potential acquisitions have been brought to Homemakers but only those which will enable the group to achieve a strategic stride in its development programme are considered. The board will remain selective in its attitude to acquisitions

Executive deputy chairman Melvyn Gutkin says Homemakers seek to improve the quality of earnings and develop those aspects of its business that have demonstrated an ability over the past five years to grow even in times of recession

Homemakers is now established as a strong company with the management teams, the financial resources and the commitment to achieve above-average earnings growth both in the long and short term

Homemakers shares are trading at around 90c, lower than the opening price. At this level the stock is underpriced on prospects and a traditionally higher final dividend will make yield attractive

6/02/88 10/8/88 (188)

# Furntech prospects good

**KITCHEN** and office furniture group Furntech's turnover and profits soared in the six months to June and prospects are buoyant for the rest of the year

Interim results show that a dynamic group has emerged from the B S Furniture group — salvaged by the Krok brothers and run by Clifford Gundle

Turnover leapt by 71% to R36,3m (R21,2m) while operating profit increased by 94% to R2,1m (R1,1m) Net profit increased by 66% to R1,8m (R1,07m) with earnings up 50% to 6,3c (4,2c) a share on a larger issued share capital

The dividend has been kept at 2c and dividend cover will remain at 3,2 in 1988 to enable the pursuit of a policy of above-average growth (internally and by acquisition) without straining the balance sheet, say directors.

Policy is to take maximum advantage of the opportunity to expand, on the basis of its R30m assessed loss which derives from the acquisition of Mr Cupboard Dividend cover will therefore be raised further until a cover of 4,5 times is achieved When the group becomes liable for tax a dividend cover of 2,5 times will be applied

Furntech directors say that the minimum tax on company levy (MTC) payable in September amounts to R131 682

**LIZ ROUSE**

and the effect on the company will be negligible Should MTC be levied again in 1989, shareholders are cautioned that this may necessitate a further revision to the dividend policy

Mr Cupboard, acquired in March, is expected to improve on the R1,1m pre-tax profit warranted in the circular to shareholders published in May The agreement stipulated that if Mr Cupboard exceeded this profit, an additional payment would be made on the basis of R3 for each R1 of pre-tax profit

Furntech has emerged with little debt (gearing is 34%), large tax losses which leave breathing space for about three years and highly profitable operations

The bulk of its income is earned in the second half of the year and directors say the growth will be maintained at current levels

Some analysts have put the year's earnings as high as 20c a share Net asset value has risen to 49,5c a share, yet the shares are languishing at 60c A much higher rating is warranted in spite of the conservative dividend policy as Furntech is one of the biggest success stories in the past year

# Gomma Gomma feels the pinch

16/8/88 (188) B/Day  
UNCERTAINTIES related to industrial relations and the socio-political sphere, as well as further restrictions by the authorities on consumer credit, could seriously affect demand for furniture, says Ralph Steele of Gomma Gomma Holdings in his chairman's report

In spite of this, government and private sector activity in the provision of housing is a positive factor for future demand

Steele says while efforts to turn the group around are being implemented, it would be imprudent to make specific

PATRICK MAFAFO

forecasts of profits for the 1988/89 financial year

Gomma Gomma failed to achieve prospectus forecasts in its first year on the JSE, recording a loss of R331 000 for the year

An industrial relations programme is being implemented, and in March the group signed a recognition agreement with the Cosatu-affiliated Paper, Printing, Wood and Allied Workers Union



RM 19/8/88

**Activities:** Makes domestic bedroom furniture at company-owned premises in Nancefield

**Control:** The directors own 5,6m shares and Ozz owns 3,5m

**Chairman:** R Woolf, managing director H L Hovsha

**Capital structure:** 17,5m ords of 1c Market capitalisation R5,25m

**Share market:** Price 30c Yields 11,7% on dividend, 23,0% on earnings, PE ratio, 4,3, cover, 2,0 12-month high, 65c, low, 26c Trading volume last quarter, 735 000 shares

**Financial. Year to February 28**

	'85*	'86*	'87*	'88
<b>Debt</b>				
Short-term (Rm)	—	—	0,4	1,5
Long-term (Rm)	—	—	1,0	2,9
Debt equity ratio	—	—	—	0,53
Shareholders interest	—	—	—	0,50
Int & leasing cover	—	—	—	5,0
Debt cover	—	—	—	0,4
<b>Performance</b>				
Return on cap (%)	—	—	—	14,5
Turnover (% increase)	9,7	36,9	60,2	29,5
Pre-int profit (Rm)	0,4	0,6	1,5	2,4
Taxed profit (Rm)	0,3	0,3	0,8	1,2
Earnings (c)	—	—	4,6	6,9
Dividends (c)	—	—	—	3,5
Net worth (c)	—	—	—	46

\*Pro forma prospectus figures

Ex-chairman Roy Woolf (replaced as chairman and CE by former MD Hymie Hovsha at the AGM) said the benefits should be realised during the second half of this year

Woolf said conditions in the furniture industry have improved since the second half of 1987, and the company is well placed to take advantage. Provided activity in the industry is maintained, he forecast improved results this year

The notes to the accounts say "appropriate long-term finance has been arranged" for the new plant, which Hovsha elaborates as long-term bank loans. Of the R4m raised by the May 1987 issue, half went straight into financing prior capex and half into working capital. In spite of this, the costs of expansion have converted 1987's cash balance of R665 000 into a net overdraft of R1,4m

There is no source and application of funds statement, as the company was advised one was not needed in the first year of listing — a view happily not shared by most new listings — but it does seem that expansion is taking a temporary toll of liquidity

Interestingly, net worth is 50% higher than the prospectus pro forma, the main reason being a R2,2m revaluation of the new property, which seems to have been a snip. Hovsha says it is still conservatively valued

The issue price was 50c and the share has shown little ability to climb back from its subsequent low of barely half that. Even a transfer from the DCM to the primary list in November did not help. The issue was underwritten by Ozz, which is showing a R700 000 deficit on its stake

The new factory should support a substantially bigger volume of business and intrinsically the share looks underpriced, but the generous yield pattern shows that the market still has to be convinced

Michael Coulson

VICTORIA LEWIS

188

## Room for expansion

Especially in current gloomy market conditions, investors expect companies to beat prelisting forecasts. For EPS to fall short even by 0,5c — especially after the forecast was repeated at half-time — damages the image. To say that the shortfall was the result of disruption by an earlier than expected move to new premises does not console investors, nor does the surprising 0,2c higher-than-forecast dividend. Stated policy was to distribute about 40% of earnings

The move increased production floor space from 4 000 m<sup>2</sup> to 15 000 m<sup>2</sup> and will treble production capacity. It's been followed by the installation of R6,5m new plant, all expected to be commissioned by this month

# Gomma's up and running again

28/8/88

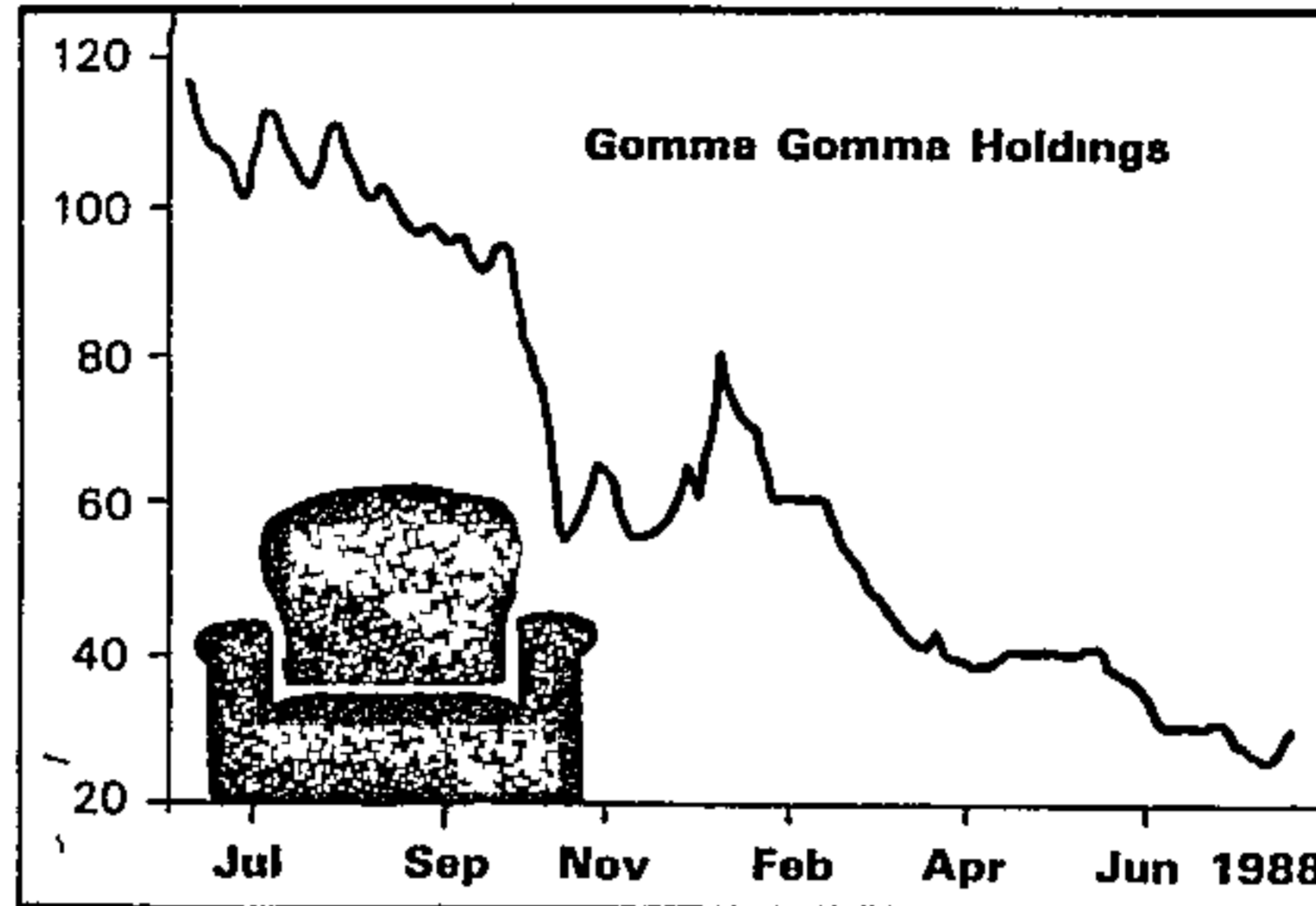
ST 188

**GOMMA** Gomma shares have had a run in the past two weeks, and not without reason

Listed in June last year Gomma is one of SA's largest manufacturers of lounge furniture. On flotation R5 million was raised, primarily to convert debt into equity. Shares were issued at 100c each.

Gomma has been established for half a century. It was started by the Steele brothers, of whom Ralph is the current executive chairman.

Prospectus forecasts were not met because of production problems, and instead of earning 14c a share Gomma recorded a loss of 24c in its maiden year as a public company.



**LIMITED**

The share price fell accordingly reaching a low of 20c on August 11. The current price is 30c. Although it may dip a little on profit taking in the next few days it looks to be offering value for money at this level.

I believe that if Gomma thought it could earn 14c last year but did not, then maybe it can earn it this year. Any share on a forward price-earnings ratio of two has got to have limited downside.

Mr Steele would not be drawn on an earnings forecast for the current year but looked content as he guided me around the 25 000 square metre factory - possibly the largest in the southern hemisphere.

Absolutely everything required to make upholstered and wooden arm lounge suites, coffee tables and La Z-Boy single chairs is made on the premises. Raw materials of fabric, foam, sponge and wood are converted into pieces of furniture at a rate of about 1 400 pieces a day.

**PROBLEM**

Mr Steele estimates that Gomma corners 20% of the lounge suite market, and that its product range spans the spectrum.

'We are not tied to one income bracket,' he says. 'In the past few years our efforts have been geared towards the growing black retail market. The advent of television

to black households has spurred the demand for comfortable easy chairs.'

The major problem facing Gomma is producing all it can sell. Every line is pre-sold.

Mr Steele feels bad about last year's industrial difficulties which left Gomma unable to deliver the goods.

Stocks of materials had been bought but strikes meant that nothing was made or sold. Gomma is addressing production problems on two fronts.

**WASTAGE**

The first is the appointment of a human resources manager to improve relations with the work force. The worst may be behind

Gomma now. Both sides have learned over the past year that not working and not earning are no good for them. Of the 675 weekly paid staff the lowest employee earns R3 10 an hour.

The second is aimed at more efficient use of the shop floor and the machinery.

Efficiency is important, says Mr Steele, and our wastage must be kept to a minimum.

A foreign consultant is due to visit Gomma next month to shed light on production methods used elsewhere.

Gomma's performance depends on its ability to deliver the goods. To some extent Mr Steele is willing to sacrifice export growth to keep up with SA demand. Exports have grown strongly in the past few years and could get bigger, capacity permitting.

**LEATHER**

The same goes for leather furniture. Higher demand in SA is merely part of the worldwide swing to leather goods. But Mr Steele says he has closed the order book this year because he is unable to meet demand.

We have outgrown the available space. The factory is working overtime every night, but if we have a dispute or a go-slow there could be problems. I don't want to let my customers down.

The customer base is every retailer in SA. Mr Steele cannot think of one with which he does not do business. Large orders from chain stores make for better efficiency.

La Z Boy reclining office chairs offer potential for Gomma. It has become the biggest selling office chair in America. Gomma is not concerned that further US trade sanctions would affect business.

We have bought the licence and all rights and manufacture our own jigs here.

**CONTROLS**

Mr Steele says that because the Government has introduced import controls on appliances, many retailers will seek to expand their furniture sales - to the benefit of Gomma.

There are 15.7 million Gomma shares in issue and the net asset value is conservatively estimated at 59c. Gearing is not alarming at 42%, representing borrowings of R4.5 million.

Gomma has recovery potential, and although no shares should be chased in this market Gomma at 30c looks okay.

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## DIVIDEND ANNOUNCEMENT

for the year ended 30 June 1988

Operating Divisions

Film Production Division Tomon International (Proprietary) Limited	Services Division Ster Kinckor Video, Computicket, Cinemark and Irene Film Laboratories	Sports Division Intersport (Proprietary) Limited
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<b>GROUP BALANCE SHEET</b>		1988	1987*
AT 30 JUNE 1988		R000 000	R000 000
Shareholders funds		67 302	57 691
Shareholders equity		6 700	3 441
Outside shareholders interest		74 002	61 128
Interest bearing debt			
Long term borrowings		4 460	4 511
Short term borrowings		27 457	101
		31 917	4 360
<b>Total capital employed</b>		105 919	67 498
Fixed assets and investments			
Operating assets		78 673	58 204
Investments and loans		14 085	8 271

ended 30 June 1988,

+69%	+65%	+45%
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1987*	R000 000
% Increase	155 605
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B/day 7/10/88  
FINANCE 1988

# Joshua Doore shows the way

LINDA ENSOR

THE annual report of Joshua Doore showed continued improvements in profitability, asset management and efficiencies

Chairman Leslie Mankowitz claimed it probably had one of the "cleanest and best-controlled" debtors books in SA

"Debtors increased from R69,08m to R95,11m and in spite of these substantial increases, the ratio of interest-bearing debt to shareholders' funds decreased from 45,6% to 44,7% "

Operating margin increased from 7,7% to 9,4%, while the return on average shareholders' funds increased sharply to 27% (20,4%) and the return on capital employed to 18,3% (16,9%).

## Debtors

Attributable profit increased by 63,7% to R9,7m (R5,9m)

Over the past two years, despite a doubling of the debtors book, bad debt as a percentage of the debtors book was reduced by 70%.

On prospects, Mankowitz said "It was hoped that the punitive measures applied recently against consumer demand would not have been necessary" The furniture industry had always been susceptible to "stop-go" measures and it was regrettable that this continues to be the case

MD David Sussman added that there would almost certainly be a decline in consumer spending, but with the acquisition of World and Bradlows, he was confident of acceptable real growth

# Ellerine counters adversity

21/10/88 LINDA ENSOR B/day  
**STRIKES** and credit restrictions had a drastic impact on Ellerine's turnover for the eight months to end-August but bottom-line growth was retrieved by dramatic improvements in the debtors' ledger.

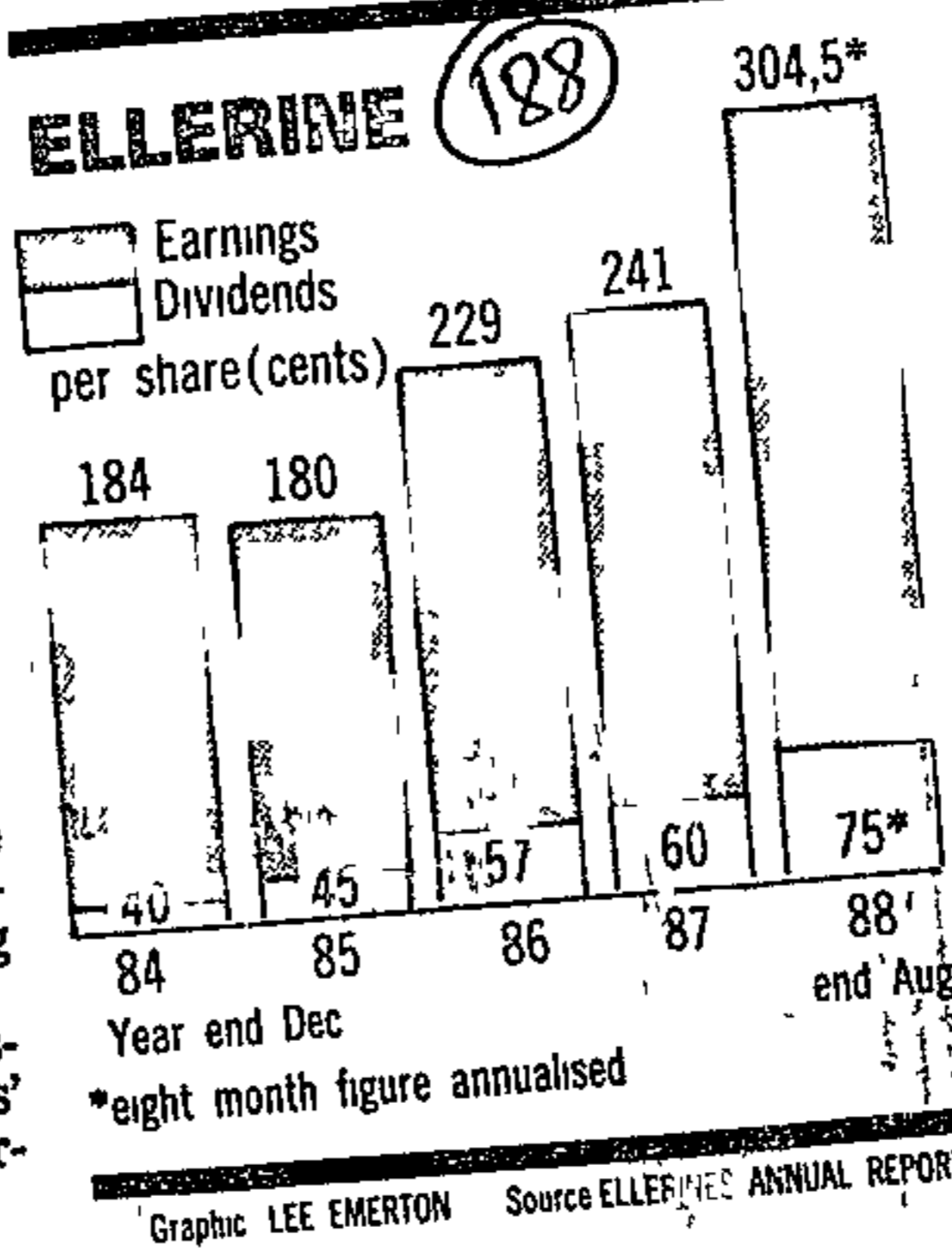
The financial year has been changed from end-December to coincide with that of Malbak.

Earnings a share of 203c rose a respectable 27,7% over the previous unaudited eight-month figure of 159c and a total dividend of 50c (39c) was declared.

Turnover crawled up by a mere 7,5% to R205,9m (R191,6m) but the sharp rise in margins from 10,3% to 12,6%, generated a 31,6% improvement in operating income to R26m (R19,8m).

The achievement attested to strict asset management, which saw the debtors' ledger decline by about R12m Chair-

● To Page 2



# Ellerine retrieves bottom-line growth

man and MD Eric Ellerine said this was partly due to the government-imposed increase in deposits required and the tightening up of credit terms, but also to internal management action. As a consequence cash flow improved vastly.

Ellerine believes in the current economic environment, sales "are not necessarily the be all and end all of everything".

Current assets fell to R236,1m (R245m at year-end) and current liabilities to R92,7m (R113,9m).

A 37,8% reduction in finance costs saw pre-tax income rise by 40%, though a rise in the tax rate from 37,8% to 43,2% meant attributable income increased by 27,8% to R14m (R10,9m).

The balance sheet is exceptionally strong with gearing a negligible 12%

Cash is available for the expansion plans under way to revamp and relocate stores and to open new ones. The 300th shop will be opened this year.

Ellerine says the market in consumer durables will not be as buoyant this year as government restrictions are beginning to be felt. However, he does not expect this to have a dramatic impact on the bottom line and further steady growth is expected this year.

Net asset value has risen to R19,64 (R18,06 at end-December). At R10, the share price is at a 96,4% discount to NAV and is trading on an annualised dividend yield of 7,5% and a p/e of 3,28 times compared with sector averages of 7,6% and 4,5.

● From Page 1

# Joshua looking at significant earnings' benefits from merger

Star 29/10/88  
200  
188:  
Acquisition of the World and Bradlows furniture retailing chains is expected to produce significant, on-going earnings' benefits as from 1989, shareholders of Joshua Doore are told in the formal acquisition documents posted to shareholders

The transaction will create one of the top

three furniture retailers in Southern Africa, with 178 stores throughout the region and a turnover in excess of R400 million per annum

Without the benefit of World and Bradlows, Joshua's management team turned the company from an operating loss of R30 000 in 1986 — the year prior to gaining con-

trol of Joshua — into R9,2 million profit in the year ended June 1987 and boosted this to R14,7 million in the year to June 1988

Earnings moved from a loss in 1986 to a profit of 8,6c per share in 1987 and increased to 13,8c in the year just ended

Formal acquisition documents posted to shareholders say "management expects the synergies made possible through the merger to produce significant, on-going earnings benefits as from 1989"

Joshua will issue 107 million new shares to Homemakers Holdings in payment for 100 percent of World and Bradlows

Homemakers will retain 87 million of the Joshua shares and in December will offer 20 million Joshua shares to Homemakers shareholders at 50c per Joshua share

This will inject R10 million cash into Homemakers for deployment in its other high-growth divisions, and leave it with a 49 percent

shareholding in the enlarged Joshua

The offer of Joshua shares to its shareholders conforms with the Homemakers policy of balancing its earnings between general household goods and furniture, and gives the Joshua management team a greater degree of independence

The documents state that W & A Investment Corporation and the executive management of Homemakers "holding between them some 65 percent of Homemakers, have undertaken to acquire all the shares in Joshua offered to them, and have stated their intention to hold them as long-term investments"

The balance of the offer will be underwritten by FSI Corporate Services, a wholly-owned subsidiary of FSI Corporation, "which in turn holds undertakings from W & A and the management of Joshua that they will acquire from FSI Corporate Services any shares in Joshua it acquires in terms of the underwriting agreement"— Sapa

Business Report

# Afcol earnings up sharply by 39%

JOHANNESBURG — Afcol's earnings rose sharply by 39% to 90,1c a share (64,9c) for the six months to end-September

The interim dividend is also up 39% to 45c (32,5c)

Profitability has clearly also improved as turnover rose a more modest 19% to R289,9m (R243,9m)

Operating profit climbed 31% to R24,8m (R18,9m), while dividend income and equity-accounted earnings were up 44% to R11,6m (R8,1m)

The directors comment about prospects that "the measures taken by the authorities to moderate consumer expenditure are expected to affect the demand for furniture in the next six months

"Trading conditions are expected, therefore, to be difficult

"Nevertheless, the group expects earnings for the full year to reflect a satisfactory improvement.

"The turnover increase of 19% is a most pleasing performance seen against the background of the level of national spending on consumer durables and the fact that six major Transvaal plants of Afcol operated under strike conditions for seven weeks during this period

"This increase, together with a 44% improvement in equity accounted earnings, resulted in attributable earnings rising by 40% over the comparable period last year

"In accordance with the group policy of paying a twice covered dividend, the board has declared an interim dividend of 45c (1987 32,5c)

Kallenbach-Hendler — the office furniture manufacturing subsidiary of Afcol — was merged with the office furniture manufacturing interests of Mathieson and Ashley Holdings with effect from July 1, 1988

"The 50% investment in the new merged company has been equity accounted from this date"

"Gearing at 42% of shareholders' funds is below budgeted levels and is expected to reduce further by the financial year-end — Sapa

# Improving Afcol lifts dividend 39 percent <sup>188</sup>

Earnings up 39 percent at 90,1c a share (64,9c) are reflected in Afcol's results for the six months to September.

The interim dividend is up 39 percent at 45c (32,5c).

Turnover shows a more modest 19 percent rise to R289,9 million (R243,9 million).

Operating profit climbed 31 percent to R24,8 million (R18,9 million)

Dividend income and equity-accounted earnings were up 44 percent to R11,6 million (R8,1 million)

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vaal Afcol plants operated under strike conditions for seven weeks during this period.

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## Group policy

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"The 50 percent investment in the new company has been equity-accounted from this date"

Gearing of 42 percent is below budgeted levels and is expected to reduce further by the financial year-end — Sapa.

## HCI interim earnings fall

<sup>5/2/88</sup> Finance Staff  
Hosken Consolidated Investments (HCI), which holds IGI and IGI Life as its two major investments, reported a R470 000 loss in

## Copper and platinum prices rally in US <sup>5/2/88</sup>

CHICAGO — Copper and platinum futures rallied again Tuesday on strong demand from speculators and industrial users For the second day in a row, spot November copper set a record of 148,50c a pound during trading while December and March posted

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AMM 2/12/88

FURNITURE MANUFACTURE

Carving out profits

There are no bargains at the hand-carved, top end of the furniture market — and there is no shortage of buyers, either

Furniture craftsmen say the market is booming. How much, is hard to say. The market is so fragmented that no one claims to know its overall size

However, four Johannesburg-based manufacturers say they cannot cope with demand. They have enough orders to keep working at full capacity until May 1989 — “and the orders keep pouring in”

Buyers are prepared to pay R15 000 ex-factory for a dining-room suite. Some will pay R4 000 each for fully-carved dining-room chairs and wait months for delivery. To achieve uniformity, the chairs are carved by one woodcarver, who can take a month to

complete a single item

There are several reasons why people buy fine, solid-wood furniture, and they aren't all related to the furniture's aesthetic and investment value

Gunther Hartmann, MD of Hartmann & Kepler which expects to turn over R6m this year, says another reason for the boom is that “people are afraid rampant inflation is around the corner,” and they buy while they can still afford it

Like yachts, good furniture has also become a way for emigrants to get extra money out of SA. Some furniture is exported, mainly to black African countries. Several embassies have their furniture made in SA

Vienna Woodcrafts' Harry Hamhammer suggests demand is increasing because well-made furniture is developing a rarity value. “There won't be many craftsmen able to make it, once the present generation dies out. Youngsters are not interested in becoming

wood craftsmen” he says. “Three of my men died or retired recently. I haven't been able to replace them.”

Prices are influenced by labour costs and inflation. The staple wood for most manufacturers is Yugoslavian beech, bought through Italian agents. While the price hasn't risen much in Italy, it has in SA because of the rand's decline against the Italian lira and US dollar — the currency in which seafreight is calculated.

Furniture may also be made in SA-grown solid woods like oak, but availability of these woods is often limited, say companies

Neoclassic Furniture joint-owner Denis Kalyvas predicts more labour-driven price increases next year. He says an across-the-board increase in July amounted to 28%.

“Another increase of 20% will come into effect in the first week in January. We can't absorb increases like that. We have to pass them on to our customers,” he says.



# Furniture to cost more

South Africa 15/12/88

CONSUMERS will be expected to dig deeper into their pockets for wooden and upholstered furniture early in the new year.

This prediction was made recently by Dr Winston Smith, director of the Federation of Furniture Manufacturers of South Africa

Dr Smith said the cost of timber, which represented a substantial proportion of raw material inputs, would be increased by between 10 percent and 23 percent sometime in the new year

He said this depended on the grade of the timber.

He added that minimum wages in the Transvaal would go up by R15 a week with effect from January 1. He said products such as foam, paints and finishes would be affected by the increase in the price of oil.

"In the face of these inevitable increases, the consumers must make use of the current favourable hire purchase terms. They must buy articles they need before the end of the year," Dr Smith said

# Furniture sales spree set to stall next year

188  
B/day  
19/12/88

FURNITURE manufacturers hit the R1bn sales mark this year but will be lucky to do it again in 1989, said Furniture Manufacturers Federation director Winston Smith.

Last year's R800m-industry has shown 10,8% real growth in the first three quarters of 1988, he said.

By the end of an "exceptional" 1988, the furniture industry — comprising 1 350 factories and 28 000 employees — would have climbed back to 1984 levels, he said.

In 1984, a clampdown on HP-conditions sent the industry into a decline, forcing 500 factories out of business.

But HP-conditions were tightened again in August, import surcharges were slapped on several factory inputs, and the furniture industry was in danger again, Smith said.

Signs of trouble had already started to show, as order cancellations and returns from retailers rose by 8% to 20% since October.

## ● CHASKELSON

Smith warned that this would have a serious impact on industry profits, which after tax in 1988 would average 6% of sales, the best in many years.

Afcol MD Jack Chaskelson said returns had become a "threat" to the industry. Afcol would "tackle the issue" next year in talks with major furniture retailers.

Some small manufacturers (who asked to remain unnamed) complained that returns and cancellations were just one part of the furniture chains' bully-

## CHRISTOPHER TUCHER

tactics

These also included confidential rebates which they demanded from suppliers and payment periods that sometimes extended over 180 days.

But Chaskelson said rebates and lengthy payment periods were inherent to the industry.

"There is nothing iniquitous about this. We have lived with it and will continue to live with it."

He said that 90% of the trade currently went through six or seven furniture chains — and that concentration would continue to grow.

"Only the large chains have the financial muscle to finance an HP-book in this period of high inflation."

Many of the large retailers did more than half their business on an HP-basis, especially with lower-income and black buyers.

Smith said that lower sales might lead to further concentration in the trade, and there would be little shift among manufacturers.

In order to remain at the R 1bn mark in 1989, manufacturers would produce fewer units and raise prices substantially, he said.

Most traders said Christmas in the furniture industry would be reasonable but not up to expectations held earlier in the year.

Rusfurn MD Jeff Austin said the trade was fully stocked for the Christmas season, which for many retailers represented over 20% of annual sales.

"Our stocks are slightly on the high side, but we think it prudent to be overstocked in light of cost increases in the new year," he said.

LINDA ENSOR

OFFICE furniture group Matheson & Ashley receives a high rating in a research report by Frankel, Kruger, Vinderne analyst Aloma Jonker who recommends the share should be accumulated

"The group has excellent growth potential with a forecast compound growth in earnings of approximately 35% for the next three years

"Management is committed to overseas expansion which could add rand hedge qualities to the group Cash flow is expected to be strong, which should facilitate the forecast growth," Jonker writes

The combined Dashing, Anglo Dutch and Offex operations of the group claim about a 25% share of the total office

# Analyst sees big future in furniture

furniture market which is estimated to be worth R400m

Earnings a share — calculated on a notional tax rate — are forecast to grow to 168c (134c) in 1989 (a growth of 25.4%), to 248c in 1990 (47.6%) and to 336c (35.5%) in 1991 This translates into a compound growth rate of about 35%

## Merger

Dividends are expected to rise to 67c (50c) in 1989 — a growth of 35% — to 99c (47.8%) in 1990 and to 134c (35.4%) in 1991 Turnover growth during 1989 is expected to be at least 126% as a result of the Anglo Dutch merger and the contribution from Offex

"Scope for organic growth exists in the upper and middle markets of the local furniture industry for Kallenbach-Hendler (which consists of the recently merged office furniture interests of M & A and Anglo Dutch) This can be ascribed to pent-up demand and an increasing awareness of the important contribution office environments can make to raising of productivity"

Offex, the newly formed division, has been performing extremely well and is expected to provide the major part of organic growth during 1989

Jonker says it is expected to contribute about 10% of turnover during the next financial year though the contribution to earnings in this period should be

small due to start-up costs A significant contribution to earnings could be expected in the 1990 financial year

"M & A subsidiary M & A (Pty) Ltd, could also be used as a vehicle for organic growth as the group is currently investigating possible agency arrangements with foreign suppliers of state-of-the-art office equipment"

## Expansion

Benefits from the offshore expansion should also start flowing through within the next 12 to 18 months

"The objective is to build up the overseas contribution to a level of 30% of M & A's earnings in the medium term"

188 B/day 27/12/88

# Furniture industry feels the pinch as sales drop sharply

Star 3/11/89

188

## Finance Staff

The credit restrictions and other measures imposed by the Government in August last year, together with increases in interest rates are hitting the furniture industry hard and sales have already dropped sharply, says Mr Frans Jordaan, executive director of the Furniture Traders Association

"Our monthly survey of about 1150 members countrywide reflects a sharp downturn in retail sales. In August when the import surcharge was announced, there was a mini-surge in business as consumers rushed to buy "old stock" TV's, audio and sound equipment before the new surcharge was imposed. Nevertheless, the growth in sales over

August 1987 was only 14,25 percent — barely ahead of the inflation rate

"In September the growth over September 1987 was 8,1 percent and in October it dropped to 1,42 percent over October '87. This is certainly negative growth and is cause for serious concern among furniture retailers," he says

## Ripple effect

"Unless there is some form of relaxation and a revitalisation of sales, we could be looking at a repetition of the 1984 situation," says Jordaan

"And if sales continue to decline the ripple effect will be felt by furniture manufacturers as well as appliance, radio,

sound and TV manufacturers and distributors," he adds

"We have been communicating with the Government and will continue to do so on an on-going basis"

On the positive side, says Jordaan, the industrial relations aspect of the industry seems to be running more smoothly, due largely to the fact that 1988 had been a year of massive education and training

"We distributed an enormous amount of information to the media on subjects like how to buy furniture and parallel to this, we embarked on a nationwide programme to train on-the-floor sales staff in product knowledge so that they can provide a better service

3/1/89

# ON THE MOVE

**RAY BOWERS** has been appointed LTA Building Projects executive chairman and LTA Comiat Homes chairman

**CHRIS BALTSUCOS** has been appointed to the Lion Match Company board

**KERRY MURPHY** has been appointed Supertrans MD

**HERC HEFER** has been elected to the Unitrans board

**WILLIE BRIGHT** has been appointed an executive director of the Sentrachem specialities division

**STEVE HOBBS** has been appointed Corporate Data Control financial director.

**PETER WHITFIELD** has been appointed to the Karbochem board

**STEVE CONISBEE** has been appointed Corporate Data Control technical director

**GERRIT GROND** has been appointed Sentrachem specialities division financial director

**GRANT FISCHER** has been appointed New Kleinfontein Properties MD

## M & A-Afman merger details

*3/1 Day 3/1/89*  
DETAILS of financial structuring of the merger between Mathieson & Ashley's (M & A) office furniture division and Afcol's Afman have been sent to shareholders

The effect on M & A at June 30 would have been to increase net asset value from 317c to 623c and earnings would have increased by 39% from 135c to 188c

The pro forma turnover figure would have been R73,9m (R39m), operating income R9,9m (R7,9m) and attributable income R5,3m (R3,8m)

As payment for the sale of its office furniture division to Kallenbach-Hendler — the name of the merged company, which has gross assets of about R36m — M & A received R10m in cash and a R12,5m loan account

The purchase price was broken down as follows net tangible assets, R7,5m, trademarks, R5m, and goodwill R10m

Kallenbach-Hendler also agreed to allot M & A 15 000 fully paid A ordinary shares, voting rights and some of Kallenbach-Hendler's enlarged issued share capital after the merger This allotment was set-

tled out of the loan account

The A shares are entitled to a non-cumulative preferential dividend equivalent to 13,4% of the pre-tax earnings of Kallenbach-Hendler to June 1991 After that they will rank as ordinary shares

M & A ended the 1988 year with a sound balance sheet

Gearing stood at 11% (49%) and the current ratio at 2,5 times (2,1) The pre-tax return on turnover shot up to 19,7% (12,7%)

On prospects for the coming year, chairman Winky Ringo says "The group's subsidiaries are well-placed for further growth and the R10m cash on hand has not been committed to existing divisions but has been invested in short-term monetary instruments

"These funds, along with the group's greatly enhanced ability to raise additional capital, enable the group to seek and enter into further significant business ventures I look forward to further real increases in earnings in the coming year"

**LINDA ENSOR**

(188)

# Barlows may do nice business with Curries

It now seems that Barlows is the party involved in negotiations with Curries and that the negotiations concern Curries' motor operations only and do not involve the group's property and other interests

A cautionary statement issued by the group some weeks ago led to market speculation that Curries was negotiating with either Saficon or Barlows. But now it seems that the field has narrowed to one — Barlows which has an established motor retail operation

Barlows would not comment and Curries' executive chairman Mackie Brodie would only state that he hoped to make an announcement by the end of this week. He indicated that it was uncertain at this stage whether that statement would announce a deal or announce the termination of negotiations.

## Caution advised

Mr Brodie seemed concerned that market talk might encourage buying of the share and lead to a higher share price and he advised caution in dealing in the share

Since the announcement the share has risen from R11,50 to R13 but only 300 shares were traded. This reflects the tight holding of the share

Curfin holds 52,48 percent of Curries and institutional investors the bulk of the remainder.

Major shareholders in Curfin are Gresham Trading, which has around 32 percent, and the Jaffe family which has had a long association with Curries

At R13 the share is on a price/earnings rating of 6,4 times and a dividend yield of 9,6 percent compared with the motor sector averages of 4 times and 5,2 respectively. McCarthy's, in the same sector, is on a P/E of 5,2 times and a dividend yield of 6,8 percent

## Motor operation

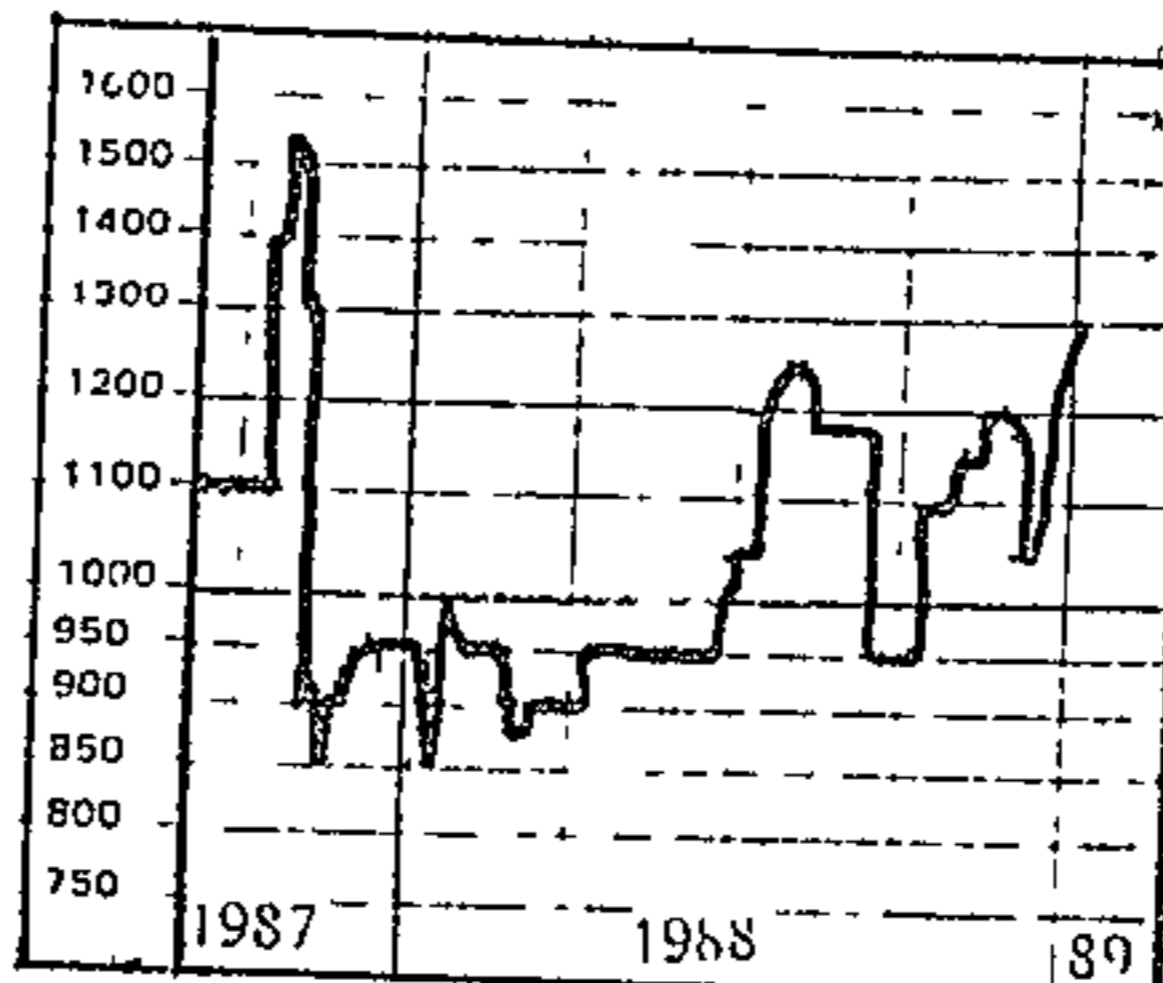
Market talk is that the deal involves only the group's motor operations which provides the bulk of the profits

The group also has finance and leasing operations and truck and car hire business. It seems that neither these nor the group's property portfolio, valued at around R18 million, will be bought by Barlows

One of the major assets in Curries' motor operation is its Delta franchise. The group has been involved with General Motors since the late 1940s

Diagonal Street

ANN CROTTY



Curries share price trend

However in 1985, the then chairman Abe Jaffe, noted that although the motor division had turned in an excellent performance and increased market share, it had to close a number of outlets. Jaffe blamed this on manufacturers who debased franchises by having too many dealers

Just after the close of financial 1987 Curries sold its furniture division for R6,5 million. At end-financial 1988 the group was sitting with cash of R8,9 million

## Record profits

In his annual review Mr Brodie stated in reference to the 1988 performance "It is no coincidence that in this financial year under review, the first year in which nearly all its trading energy and expertise was devoted solely and only to the motor business, that record profits were recorded"

If the motor operations are sold, Curries in effect becomes a cash shell with the R9 million existing cash and the proceeds from the sale of the motor operations. There is speculation that the property portfolio, valued at around R18 million, would be sold to Curfin

At present the group is estimated to have a net asset value of around R16 per share.

The property and R9 million cash, account for some R11,50 per share which means that the other interests, chiefly motor, are only being valued at around 450c. But this valuation presumably does not include good will.

# Rating system for furniture

**V** THE South African Bureau of Standards (SABS) is to introduce a quality rating system for furniture within the next two to three months, if the furniture industry approves it, furniture division manager Johan Botha says

All furniture — from chairs, tables and cupboards through to screens and partitions — will be graded according to durability and performance

The specifications, which the SABS is still drawing up, differ from construction specifications, which are to be scrapped soon, in that they are performance orientated

This means the SABS will no longer "interfere" in the design of furniture, says Botha

No commodity will be given the SABS quality mark if it has not qualified for

B/Day 16/1/89

SYLVIA DU PLESSIS

an A-D rating

(188)

The new system, which has been in the pipeline since June last year, will complement the quality management system which has been operating in most furniture factories for about six months

Botha says the quality management system is seen as a prerequisite for the introduction of a rating system and is intended to assure buyers that the end product is made in accordance with acceptable standards

Furniture Manufacturers' Federation director Winston Smith has welcomed the move saying it will benefit consumers in the long run

# Math Ash is on the acquisition trail

*B/Dam 19/11/89*  
CASH-FLUSH Mathieson & Ashley (Math Ash) is following up various acquisition opportunities after merging its office furniture division with Afcol's Anglo Dutch business at the end of the financial year to June 1988 *(188)*

MERVYN HARRIS

Details of the merger are given to shareholders in a circular accompanying the annual report. The merged group, Kallenbach-Hendler (K-H) — comprising Dashing, Woodmet, Offex and Anglo Dutch — has gross assets of R36m and turnover in excess of R36m.

The R10m cash payment received by Math Ash from the jointly controlled merged operations has been invested in short-term monetary instruments and must be worth about R11m at present. In addition, the 15 000 fully paid A ordinary shares acquired by Math Ash in K-H carry a non-cumulative preference dividend for the first three years of trading — 13,4% of pre-tax profits for the current year, 12,4% for 1990, and 6,4% for 1991.

The effect of the merger was to in-

crease Math Ash's net asset value at end June from 317c to 623c.

Math Ash chairman Winky Ringo says in the annual report that while the merged operations — the largest in southern Africa specialising in the manufacture and distribution of office furniture — will have certain synergetic benefits, each company will operate with independent management and compete against one another.

## Name change

Ringo is looking to further real increases in earnings after the group reported record results in the last financial year with Dashing-Woodmet again the main contributor to group profits.

Investors Club, which holds 72,9% of the ordinary share capital and 39,8% of the preference share capital of Math Ash, is to change its name to Vestacor as its current name no longer reflects the nature of its business.



# Figures suggest downward trend in furniture sales

188

30

DECEMBER sales figures released by the Furniture Traders Association (FTA) indicated a downward trend ahead for the industry, FTA executive director Frans Jordaan said yesterday. Figures submitted to the association by 1150 retail stores countrywide showed growth of about 8.48% over the previous December, but this represented an effective loss of growth of about 4% when inflation was taken into account.

The disappointing figures were the result of a number of factors, including increased interest and bond rates and

government restrictions on hire-purchase arrangements, he said. "I'm very unhappy with the figures. If sales continue to decline, the ripple effect will be felt by furniture manufacturers as well as appliance, radio, sound and TV manufacturers and distributors."

Unless there was some form of relief from credit restrictions, there could be a repetition of the slump in 1984. Furniture Manufacturers' Federation director Winston Smith said earlier it would be a tough year.

High interest rates and last month's petrol price increase would hit furniture sales this year, and manufacturers would be hard put to repeat last year's strong performance, he said.

While 1988 generally was a growth year for the industry, with sales showing 10.9% improvement by the end of September, 1989 would be a year of consolidation, with no major growth expected.

High interest rates meant increased instalments and less disposable income for customers. The petrol price

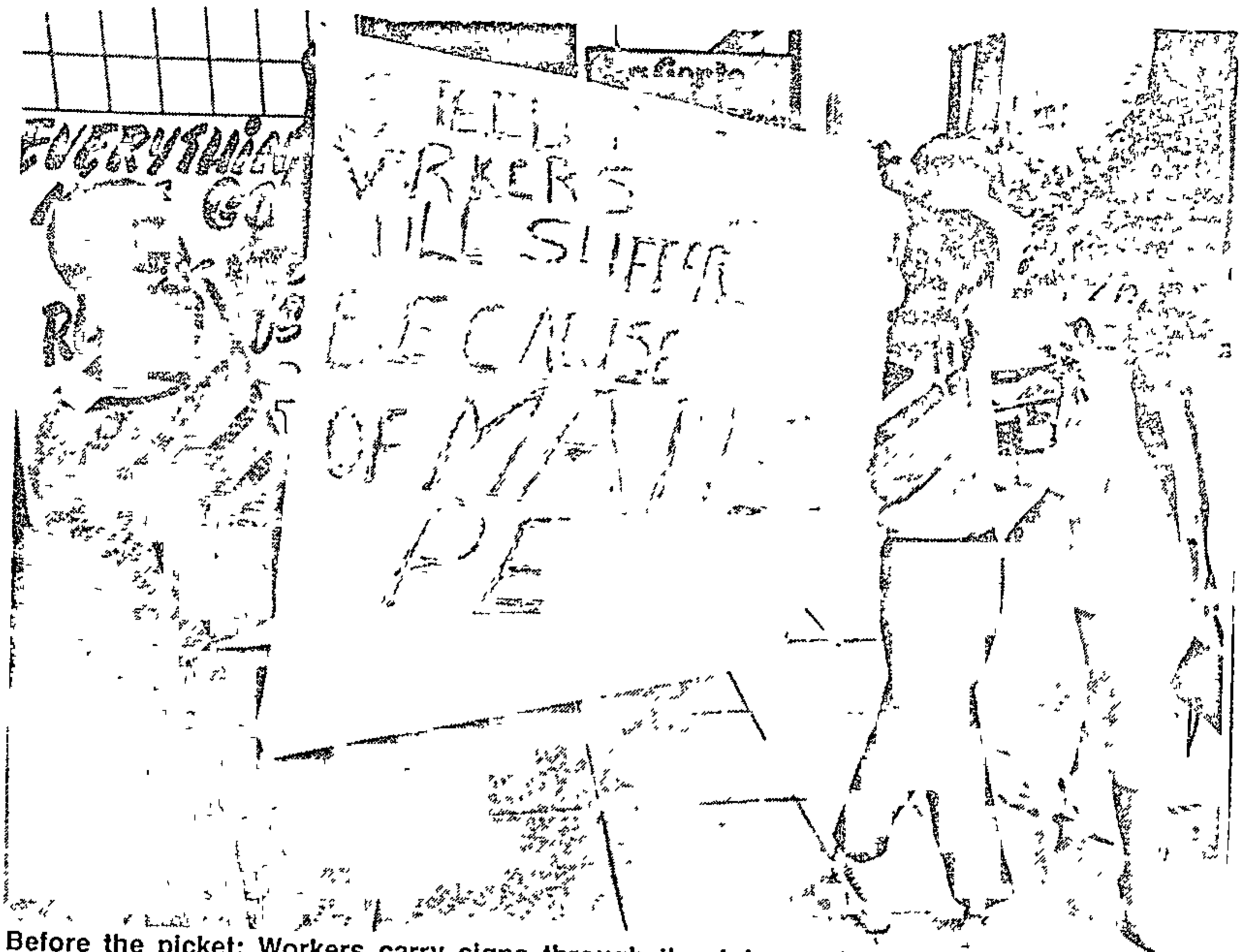
increase affected all industry inputs, particularly timber which comprised 20% of raw furniture deliveries, said Smith.

However, import surcharges could lead to a swing to locally manufactured furniture.

In addition, working class customers were likely to be in a better position to buy furniture because of wage increases over the past few months.

"What we lose in sales to the more affluent customers we will gain from the working class," he said.

SYLVIA DU PLESSIS



Before the picket: Workers carry signs through the Johannesburg city centre.

Picture: ANNA ZIEMINSKI, Afrapix

## Police swoop on First National picket

By EDDIE KOCH

POLICE yesterday broke up a picket in central Johannesburg by students and workers protesting against plans by a large furniture firm to retrench 400 workers so that it can move its plant to a "homeland".

About 60 students from the University of the Witwatersrand and workers from the Steele Brothers factory staged the lunch-time demonstration under banners proclaiming "these so-called independent states bring starvation to the workers".

A contingent of police swooped on the picket, held outside the head office of First National Bank because the bank has shares in Steele Brothers. A liaison officer for the Witwatersrand said the students and workers dispersed

on their own accord after police arrived on the scene.

A second lunch-time demonstration was staged by about 400 workers at the Steele Brothers plant, which manufactures a range of home and office furniture, in Industria yesterday. No police intervention was reported.

Rob Rees, national organiser for the Paper Printing Wood and Allied Workers' Union, said the retrenchment of 400 workers was the biggest in Johannesburg in recent years.

"The company is relocating a part of the Industria factory to GaRankuwa in Bophuthatswana, where it intends employing hundreds of new workers.

"They are clearly trying to get rid of any organised union presence in its factory. In one move the company is hoping not only to smash Ppwawu but to relocate to a bantustan where unions are illegal," said Rees.

Workers at Steele Brothers get a minimum wage of R156 for a 44-hour week while the minimum wage in Bophuthatswana for furniture workers is R35 for a 48-hour week.

Steele Brothers director Gerhard Strydom denied the relocation was designed to undermine Ppwawu. "A section of the factory is moving to GaRankuwa because it is out of date and cannot be updated. We have no alternative but to move. It is purely for business reasons."

Cap Temp 5/2/87  
Bolton nets

M&S Spitz

JOHANNESBURG

Bolton Footwear has acquired a controlling interest in M&S Spitz, holding company of the shoe chain A&D Spitz, for a cash consideration of just under R5m

Bolton group executive director Brian Puchert said that a consortium of Bolton Footwear, M&S Spitz management and investors have bought the Spitz family's 76,25% shareholding. Bolton will have an effective 37% holding, but management control

RUSFURN

# Seeking rural stability

188 10/2/89  
FMM L

■ Furniture sales have slowed, but financial income is just as important

The prime interest rate rose to 18% last year, so it is not surprising that furniture shares are lagging far behind most industrial sectors. After all, consumers usually slash purchases of durables and other big-ticket items when credit gets expensive. Furniture companies get caught with large stocks which they can't sell, and their profits slump.

That, at least, is the conventional wisdom after the 1984-1985 recession. Will the scenario be replayed? For some, perhaps. More optimistic is Geoff Austin, MD of Rusfurn, which runs 352 stores and is one of the most diversified groups listed in the furniture and household sector. It made big losses several years ago but was re-listed in June 1987 and last year reported an attributable profit of R43m.

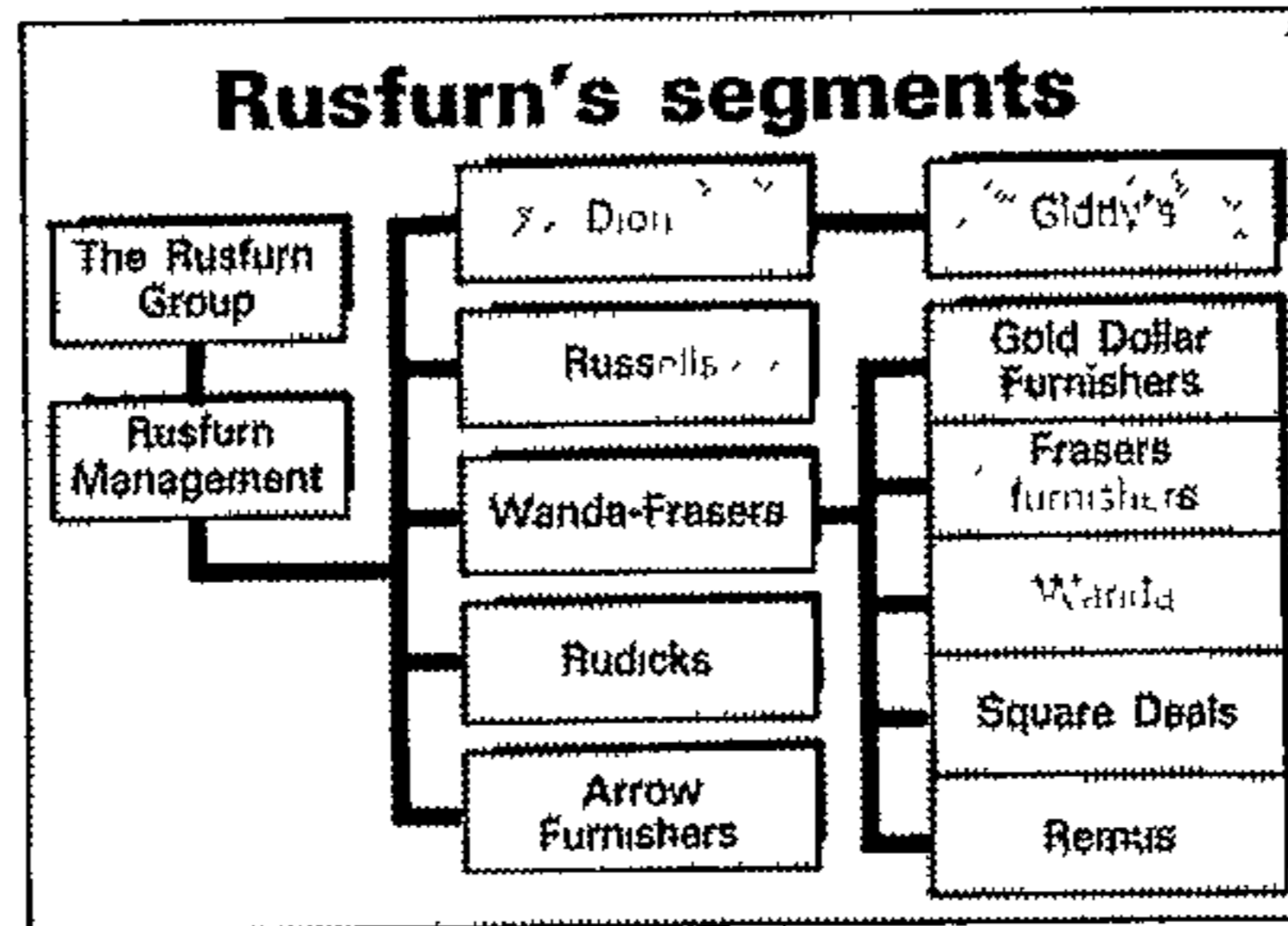
Reasons for optimism include a view that spending on durables will prove less brittle than many assume, and the effects of repositioning the

Rusfurn group. Just as important are the profits from financial activities rather than sales of consumer durables. It's often not realised that such groups are virtually banking operations. Austin estimates about 50% of earnings will come from financial activities in 1989.

That does not make the group immune to the kind of event that has buffeted the sector in the past. Also, durable sales growth has been slowing since August. But this market is not monolithic, some may cope better than others. Rusfurn focuses heavily on the lower to middle income group, an emphasis increased with the acquisition of the Frasers stores from fellow Tradegro subsidiary Metro.

Austin contends that much of the dampener on consumer spending from higher interest rates is felt through mortgage rates. Many of Rusfurn's customers either do not have mortgages, or their bond repayments are subsidised by employers such as the public sector and mining industry.

The group's chains have been repositioned to concentrate on what are seen as higher growth and more stable market sectors. The Russells chain, for example, has been cut from nearly



150 stores to 113, with many outlets transferred to Arrow, which trades mainly in the rural and smaller urban areas of the Cape and Natal Russells' customers have changed too whereas two years ago they were exclusively white, more than 20% are black and nearly 40% non-whites

Other than discounter Dion, the group has little emphasis on the top end of the market, which is seen as fickle and relatively small

The focus on rural areas has increased with the growth of Wanda-Frasers, enabling a stronger presence in mining communities. The division caters solely for blacks and primarily for rural customers. In the year to June 1988, Wanda-Frasers' 139 stores contributed R29,9m or 50,1% of Rusfurn's pre-interest profit of R59,8m

The plan is to move further into rural areas, which partly explains why the Wanda store in Bree Street, Johannesburg, is being closed. Where customers are mainly urban blacks, collection of debtors can be difficult — Austin notes that there are still a lot of no-go areas in Soweto, for example. "We are consciously moving out of black urban markets. That's why Frasers was so useful"

Management has become more aware that, in furniture distribution, collection of debts is even more important than sales. It is notable that the re-imposition of the State of Emergency in 1986 contributed to a resurgence of profits for these companies.

Rusfurn believes that though stock turn is important, its key variables are the collection rate, the terms on which sales are made and bad debts. It has cleaned up its debtors' book and bad debts have been reduced to a historically low level. Efforts have been made to persuade store managers of these priorities — with sales even restricted in some cases — and all incentive schemes are based on return on net assets

Financial management is part of the reason why management is less concerned this time about rising interest rates. As a large debtors' book (R440m at June 30) remains basic to much of the business, substantial debt is unavoidable. However, some 80% of total borrowings has been moved long-term, at either a fixed rate or a fixed discount to prime. The remaining short-term debt is mainly in bankers' acceptances

And debt has been curbed during a phase of ballooning sales. In 1984-1985, borrowings were about 180% of the current level, yet sales have trebled. Last year-end, debt equity was 0,66, and management forecasts it will be no higher by June 30

Despite the rise in prime to 18%, Austin says the spread between funding costs and the 31% Rusfurn charges its customers remains no less favourable than it was before rates started rising. He notes that any increase of at least 2% in prime has so far been accompanied by a corresponding rise in the



Rusfurn's Austin ... after 25% earnings growth

1991 tax allowances are forecast to rise in that period from R220m to R350m

Though existing stores may continue to be repositioned, expansion will largely be avoided. "The furniture market is over-traded," says Austin. "For three to four years there is tremendous potential for generating better returns out of our existing base"

The exception is the Dion chain, the one area where management is looking for sites for new stores. Apart from market considerations, Dion is different in that it is a net generator of cash — 88% of turnover is for cash — and earns interest income

About 4 000 m<sup>2</sup> is ideal for new

Dion outlets. But such stores need a turnover of R1m-R2m/month and a large catchment area. This — and other limitations — makes sites hard to find. Areas where potential sites have been lined up are Bloemfontein and Johannesburg's southern suburbs

Klerksdorp, which had been targeted, has been rejected since the CP gained power there. Pietersburg has been scratched for the same reason. With options for expansion thus becoming limited, Dion may have to move into Natal, the territory of Game, the unlisted discount chain in the Beares group

Meanwhile, Dion's profit recovery continues. Austin says its profits this year may be double the R8m of 1988 — and the 100%-held Dion still won't be paying tax

Sales performance will, of course, remain crucial for earnings growth throughout the group. But recent results have remained encouraging. Austin says that after management had been waiting nervously during November for the year-end, year-on-year growth was 21% in December, and budgets are expected to be exceeded for January

This leads management to expect that the group will surprise the stock market with its performance for the 1989 year. "We are confident we can outperform the market," he says. "Our target is earnings growth of 25%-plus. If we can do that in these conditions then in good years we can approach the 50% levels. Last year our average return on net assets was well above the industry averages, this year will be just as good if not better"

If prospects are as sound as Austin's optimism suggests, the stock market has yet to respond. At 82c, the share offers a historic yield of 9,1% compared with the sector average of 7,4% and 3,6% for the overall Industrial index. Reasons for investors' guarded response may include concern about the gearing. Probably more important is that credibility needs to be rebuilt

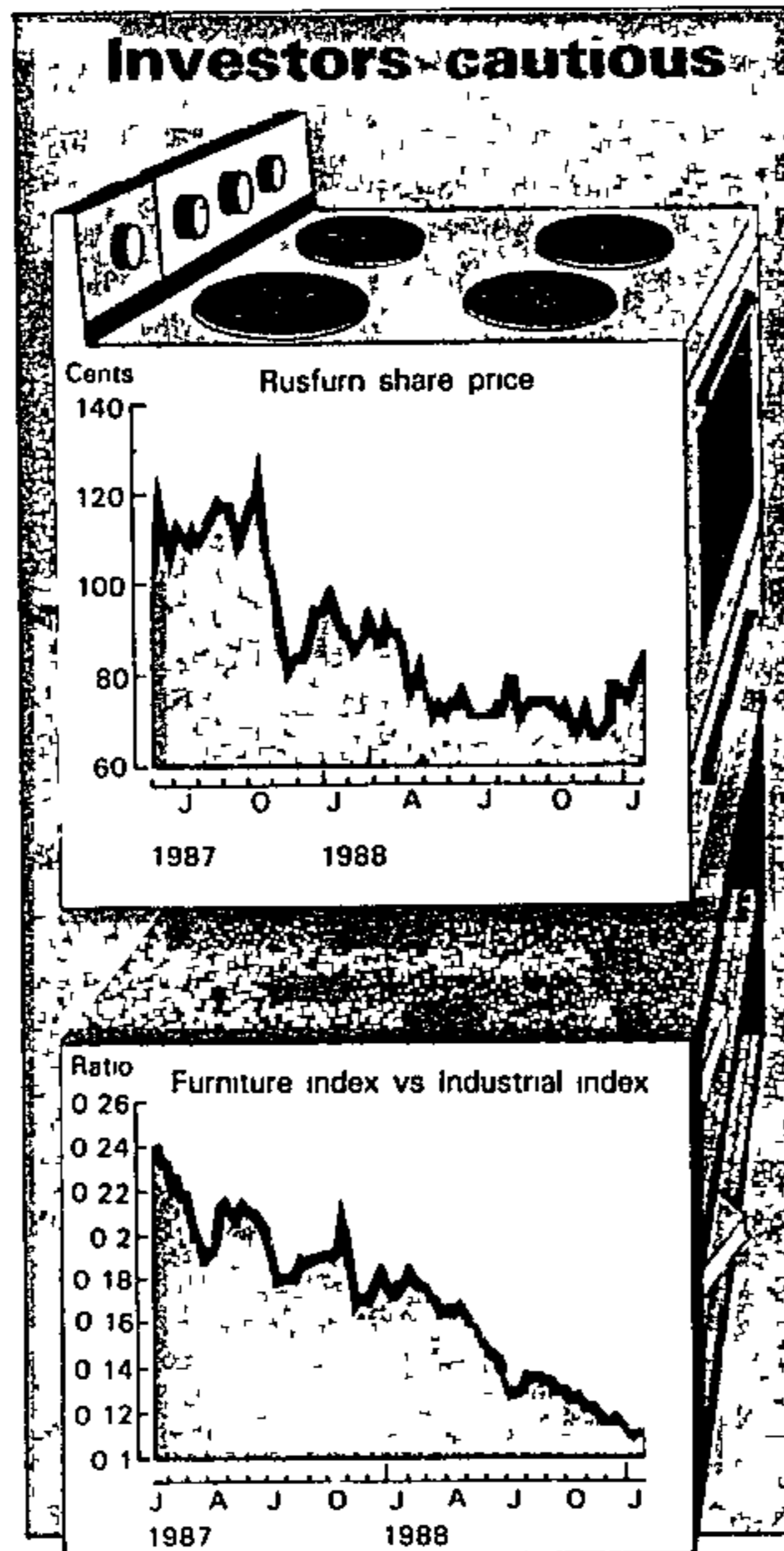
The one thing management thinks could overturn its bullish forecasts would be drastic government action to stifle consumer spending. Barring that, when figures are released for the end-December interim investors may begin the re-rating

Andrew McNulty

Usury Act maximum rate

"Prime of 25% would require a Usury Act rate of about 40%," says Austin. "It's difficult to see that the authorities would accept that. But if they don't allow it to increase with the prime rate then the policy would not be fully effective"

The group is unusual in that it not only paid no tax last year but continues to make no provision for normal or deferred tax, despite 1988 profits of R45m. The assumption is that there will be no tax liability from the furniture division in the foreseeable future — in any case, not for the next three years. Essentially, this is thanks to allowances related to the expanding debtors' book, projected at R500m this year and R770m in



## COMPANIES

# Furnfair maintains its record growth

ZILLA EFFRAT

FURNITURE Fair, the western Cape furniture retailer, has maintained its exceptional growth record with attributable profits rising 137% for the six months to December, after a 231% rise for the year ended June 1988

MD Ivan Hammerschlag expects a substantial increase in earnings for the remainder of the financial year

Because the number of shares in issue increased from 10,1-million to a weighted 17,5-million, earnings rose only by 37% to 34,22c (25,01c) The interim dividend of 8c (5c) a share is up 60%

Turnover, which increased 106% to R29,5m (R14,3m), is larger than the R26m achieved in the full financial year to June 1988

The income attributable to ordinary shareholders jumped to R6m (R2,5m) after an allowance of R85 000 had been made for preference dividends

Hammerschlag believes the trading environment will become more difficult as prices of locally manufactured goods increase and import surcharges take effect But he says the group will chase available market share through aggressive marketing and expansion in the

western Cape which still offers much scope for expanding the Furniture Fair and Montana chains

Two stores were opened this month and another is scheduled to begin trading in May These should make a significant contribution to the results during the second half of the financial year

Close to R1m will be spent over the next 18 months to upgrade its computer systems, says Hammerschlag

1/88

# Very little dust on Rusfurn

The ratings in the furniture sector currently reflect investor concern about the impact of spending curbs on semi-durables. The average P/E rating for the sector is 4,4 times and the dividend yield 7,3 percent.

The averages for the industrial holding sector are 8,3 times and 4,9 percent.

Rusfurn, the retail arm of the Tradegro group, at 85c is on a P/E of 3,3 times and a dividend yield of 8,8 percent

Also reflecting weak market sentiment is the fact that most shares in the furniture sector are significantly off their 12-month highs. But equally, the curbs have not completely stymied upward price movement and most counters are off the lows generally touched just after the curbs were announced.

Rusfurn's 12-month high was 95c (low of 65c).

Morkels' December quarter figures appear to have sent a few jitters through the market. They incorporated the reality of the impact of the spending curbs and although investors had discounted the bad news, the actual figures jangled a few nerves and the share price eased back.

Rusfurn is to release interim results next week and, despite all the adverse developments, indications from management are that the strong recovery reported in financial 1988 was sustained in the form of a solid performance in the six months to December.

Some analysts are talking about an increase in earnings of as much as 30 percent, despite the fact that the rate of increase in furniture sales in the period dropped from a high of 30 per-

Star 17/2/89  
Diagonal Street

ANN CROTTY



cent to an estimated 10 percent in the last three months.

Chief executive Geoff Austin appears almost relaxed about the drop and believes the group can produce good growth in earnings as long as the authorities do not change rules again and the real rate of increase in sales holds at 5 to 10 percent. (Mr Austin regards growth in excess of 10 percent as overheated)

Against this scenario, he feels Rusfurn can sustain annual growth of around 30 percent over the next three years.

It sounds like brave talk from a group that suffered severely when similar curbs were introduced in 1984. Only in financial 1988 did it finally get back on its feet.

Mr Austin is looking to get this relatively strong performance from increased efficiency and by gaining market share from competitors not as well prepared for the recession.

He is emphatic about one point: for Rusfurn there will be no repeat of the 1984 situation.

"In 1984/85 we were all caught by surprise — industry and consumers — because it was the first time restrictions had been introduced and everybody overreacted. We had ridden a growth curve for so long we did not know how to handle a downturn. Previous strategy concentrated on increasing store space in

order to produce rapid expansion"

The three tough years have not been wasted. Management has concentrated on building up a group where business and financial risk is well spread.

The result is that Rusfurn is no longer over-exposed to any one sector of the market and is cushioned from the impact of a downturn that might hit one section of the community more than another.

Its target markets, although predominantly black, are spread across most socio-economic and geographic segments. And although most of its sales are on HP, it now has in its stable, Dion's, where 85 percent of sales are for cash.

Arguably the most significant positive development in the group is its treatment of its debtors and its debtors' book. The chase for sales is no longer being done without reference to the quality of the debtors' book. Management controls here have been tightened up with the help of computerised systems.

In addition, with a debtors' book of R500 million, the importance of the "banking" side of operations is being driven home. More efficient money management is expected to contribute about 50 percent of earnings growth this year.

As Mr Austin suggests, with money such an expensive commodity, the sale of furniture is only half of management's job. Tight money management is needed to produce the goods for shareholders.

Against this backdrop, Rusfurn looks like a steal at its current price level.

# Sugar industry conditionally ready to throw doors open to newcomers

By Dave Canning

DURBAN — In a far-reaching move, the sugar industry yesterday announced it was prepared to throw cane production open to newcomers on condition the Government gave a go-ahead for a new ethanol plant near Richards Bay

Mr Tony Ardington, chairman of the Small Growers Financial Aid Fund, said the expansion, coupled with that earmarked for the Eastern Transvaal, could lead to additional production of 1,5 million tons of cane.

Addressing the Mansomin Irrigation Community, near Stanger, he said the industry had agreed, subject to the erection at Richards Bay of an ethanol plant which had access to the Natal fuel pool, to expand into new areas

"The most significant reform proposed is that of free production areas, the implication of which is that any person within 30 kilometres of an existing sugar mill can get a quota. This embraces nearly all prospective producers in KwaZulu"

The industry's announcement apparently came in response to pressure from the Government to lower the quota barriers imposed on would-be growers

In the past few weeks Government spokesmen have privately indicated

that relaxation of the quota controls was the price they expected before agreeing to allow the Richards Bay ethanol plant

In the past the controls have been justified on the basis of a worldwide sugar glut, which has kept international prices below production costs

In his speech yesterday, Mr Ardington said perhaps the industry could be blamed for holding up the quota barrier in the past decade

However it had gone through hard times, including drought, low prices and sanctions

This was not an industry easily able to pick up new responsibilities

He said expansion of the industry had been minimal over the past decade and many people in KwaZulu and elsewhere had been frustrated in their desire to secure quotas

Happily, matters now had improved. The drought had broken and the world price had nearly quadrupled

The latest developments would make the sugar industry unique among major industries in SA by becoming increasingly dependent on the enterprise of individuals in the least developed areas of the country as it entered new markets with new products from sugar



# Furniture on show

<sup>23.12/89</sup>  
SOUTH Africa's biggest ever exhibition of furniture, appliances, sound equipment, TVs, audio products and furniture manufacturing equipment will be held in March at Kempton Park near Johannesburg.

(188) Exhibitors will be most of the country's major furniture manufacturers who want to show their ranges to retailers.

Furniture retailers from all over South Africa will attend and overseas buyers are being alerted to the event.

But in addition, manufacturers in allied fields like fabrics and machinery will show their wares.

# Rusfurn group appears to be sitting rather pretty

LATEST figures from Rusfurn more than justify the recent strengthening in the share price. Strong prospects suggest that the price increase may have been a little underdone.

For the six months to December, the group had a 30 percent rise in earnings to 24c (18,42c) a share and a 40 percent improvement in the dividend to 3,5c (2,5c).

Management is confident this percentage increase will be maintained for the full year.

Referring to the impact of this week's increase in Bank rate, chief executive Geoff Austin says "While it will have a further dampening effect on consumer demand, the structure of our group is such that its effects are likely to be minimal on trading results to the June year-end."

Turnover rose 29,2 percent to R509 million (R394,9 million) and operating profit was up 30,3 percent to R50,8 million (R39 million). After deductions for interest payments and minorities, the group reported a 30 percent rise in earnings to R39,8 million (R30,5 million).

25/2/89 ANN CROTTY

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Because no liability exists for deferred tax, it is policy to make no provision for it. This seems to be becoming the industry trend.

Some R33,5 million was raised through the issue of preference shares in a subsidiary company, enabling the group to reduce gearing from 45,5 percent to 33 percent.

While management believes that the seasonality of the furniture and appliance market is likely to raise this slightly for the full year, it regards Rusfurn's gearing as satisfactory and well below the industry norm.

But analysts point out that this situation should be seen in the light of the group's treatment of deferred tax.

Stock increased 50 percent to R168,5 million (R113,1 million), although working capital was only up 21 percent.

Net asset value was up 16,4 percent to 136c (117c), which covers the current share price.

# Joshua Doore results reflect benefits of Homemakers deal 188

*SA 27/2/88*  
By Ann Crotty  
Results from the enlarged Joshua Doore Group (JD) highlight the benefits of the merger with the World and Bradlows operations of the Homemakers group last July

Figures for the six months to December show operating margins up to a stunning 14,9 percent

Ahead of the merger Joshua Doore had reported margins of 9,4 percent for the 12 months to June 1988. Before the Homemakers deal brought Bradlows and World together, Bradlows was looking at margins of seven percent and World at margins of just over seven percent.

In the six months to June 1988, Homemakers had margins of 11,3 percent. The pro forma figures for the enlarged JD for the 12 months to December reflect margins of 11,9 percent.

But the full benefits of the deal are

better demonstrated by the 14,9 percent margin recorded in the audited results for the period in which the deal was effective the six months to December.

The decision to move out of the World marketing concept and concentrate on JD's more lucrative operations suggests there may be scope for a further increase in margins.

In the 12 months to December group turnover was up 20 percent to R421,5 million (R351,7 million) and operating income was up 49 percent to R50,4 million (R33,7 million). Finance costs were up 83 percent to R8,8 million (R4,8 million). After an increase in the tax rate, earnings showed a 38 percent improvement to R30,9 million (86,8c a share).

If allowance is made for the extraordinary costs of R1,7 million, relating to the merger, earnings are down to R29,2 million (81,9c a share).

# Rusfurn sees 40% climb in interim dividends

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BRUCE ANDERSON

RUSFURN has announced a 30% increase in earnings a share and a 40% rise in interim dividends for the six months to December against a sobering backdrop of government restrictions on consumer spending last year

Government credit restrictions, announced in May and August last

year, damped down what could have been an even more exceptional year for Rusfurn

Commenting on the measures, Rusfurn MD Geoff Austin said "I have no doubt those restrictive measures worked for government. Without the restrictions we would have been showing growth of 50% or 60%

instead of 30%"

Turnover for the group rose by 29% to R509,1m (R394,9m) Attributable earnings rose 30% from R30,5m to R39,8m enabling the group to pay an interim dividend of 3,5c a share, up from 2,5c a share last year

Earnings a share rose from 18,4c last year to 24c this year

# Joshua Doore World division faces the axe

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SYLVIA DU PLESSIS

The JD Group — the new name for furniture retailer Joshua Doore — is to scrap its World division after an unacceptable contribution to group profits in the year to December

World would not be capable of making an adequate return in its present form, JD management concluded after a recent detailed review of its operations. 31 Dec 27 11 89

"The board has therefore decided to move out of the World marketing concept and to concentrate on consolidating the successful Price 'n Pride and Score Furnishers operations in the marketplace sector served by World," chairman David Sussman said in a statement released with the group's annual results

About 53 World stores are being reopened under the Price 'n Pride or Score Furnishers identity, while 11 others are being phased out and a number of employees will be retrenched

"The loss of jobs was naturally a matter of concern to management, but the rationalisation was deemed necessary to preserve the strength of the Joshua Doore Group as a whole, for the long-term benefit of customers, staff, suppliers and shareholders alike," Sussman said.

## Enhance

A further structural problem at World was its need to employ an increasing number of sales staff to increase turnover

According to Sussman, the average monthly sales of a salesperson in a Price 'n Pride store was R51 500, compared with R8 100 in World and R11 300 in Score

This year the group would be concentrating efforts on its four strong subsidiaries and this would enhance the return on assets employed

"As a result of the steps taken by management and the commitment of staff throughout the organisation, a satisfactory increase in earnings is expected for the year to December," Sussman said

In the year under review, internal efficiencies and tight cost control resulted in earnings a share of 86,8c (62,9c)

Of this total, 64c was earned in the second half of the year and a dividend of 14c a share was declared

Group subsidiaries Price 'n Pride, Bradlows and Joshua Doore all traded at record levels

S/Times 12/3/89

# Math Ash merger <sup>(188)</sup> pays off

THE benefits of last year's merger of the office furniture operations of Mathieson & Ashley and Afcol are flowing strongly to Math Ash's bottom line.

Helped by good performances from other divisions, Winky Ringo's high-flying group has produced sparkling first-half results

Earnings in the six months to December 31 jumped by 32% from 62c at the halfway stage last year to 82c a share. With the traditionally more profitable period ahead, the group is well on the road to exceeding market forecasts of annual earnings of 168c

## Prospects

Last year Math Ash turned in earnings of 135c a share, and this year they will probably come close to 200c

The interim dividend has been raised from 20c to 25c, and prospects must be bright for a handsome increase on last year's 50c total

The icing on top is that the office furniture companies have record order books worth more than R25-million, says chairman Ringo

The interim report says the strong improvement was achieved in spite of the "significant" cost of restructuring the two office furniture operations and the start-up expenses of the Offex subsidiary

Operating income increased by 16.4% from R3.4-million in the same time last year to nearly R4-million

But tax was not provided for some of the subsidiaries,

By Ian Smith

which have an estimated tax loss of R23-million. Attributable income shot up from R1.7-million to R2.3-million

## Notional

"Consideration will be given to applying a notional taxation charge as the earnings impact on those subsidiaries becomes more meaningful," says Math Ash

In the first half, about R6.5-million was committed to new plant and equipment

"The benefits of this are now in place," says Mr Ringo. "The office furniture business is well structured for growth and improved profitability. We are pleased with the future orders."

The Math Ash office equipment business, which has moved strongly into the fast-growing fax sector, has also rung up sales and earnings well ahead of last year's

"We expect continued growth from this division for the rest of the year," says Mr Ringo

The R10-million paid to Math Ash as part of the merger is still invested in short-term instruments "while suitable acquisition prospects continue to be evaluated"

The three office furniture companies, Math Ash's original Dashing, Afcol's old Anglo Dutch and new off-spring Offex continue to trade competitively, mainly because they serve different sectors of the market

Math Ash shares stand at 1400c — above their price immediately before the October 1987 market crash

# M & A-Afcol merger proves profitable

FAST moving office furniture and equipment group, Mathieson & Ashley (M & A) has posted an impressive earnings jump of 32% to 82c (62c) a share in the six months to December

8/Day 17/7/89  
The June 1988 merger between M & A and associated furniture companies (Afcol) proved profitable, but restructuring costs almost halved operating margins to 9,3% (18,1%) Operating income in-

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BRENT MELVILLE

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creased 16,4% to just under R4,0m (R3,4m) from turnover of R42,6m (R18,7m) — an increase of 128%

Attributable income rose 36% to R2,3m (R1,7m) and good performances in other divisions allowed the group to declare an interim dividend of 25c (20c) a share

With a record R25m already on order books, and the second half of the financial year traditionally the more profitable, the company is poised to exceed last year's earnings of 135c a share and could well reach 200c (135c), says chairman Winky Ringo. On an historical dividend yield of 3,6%, below the sector's average of 4,1%, and with a current share price of 1 400c, M & A is reflecting strong shareholder confidence

# 'Office-furniture makers go for more machinery'

MANUFACTURERS of office furniture were caught on the hop by the surge in demand last year and have invested this year in additional plant and machinery, Grant Andrews Holdings MD Mike Edwards said yesterday

"We can to a certain extent foresee demand by watching building development," Edwards said

"For example, the Bank City development in Harrison Street will create opportunities for our industry

"Usually the last thing companies think about when they move premises is new furniture. Then they require delivery within five or six weeks

"Total manufacturing turnaround time is eight to 10 weeks, so we therefore have to keep stock and raw materials on hand to anticipate orders"

The office furniture industry differs from the rest of the furniture sector because it is more resistant to changes in the economy and generally lags behind the business cycle by about 18 months

The major issues facing the furniture industry at the moment — credit curbs and import surcharges — are of little concern to the office-furniture sector

Credit restrictions do not affect the large corporations, banks and building societies that form the majority



● EDWARDS

## CHARLOTTE MATHEWS

of office-furniture clients, and import surcharges have a marginal effect as most furniture in SA is manufactured locally

Of the Grant Andrews range of up-market desks, chairs, filing cabinets, screens and boardroom furniture, only two items are imported — the German Klovver and Porsche chairs, which retail at around R3 000 and R6 000, respectively

About 7% of Grant Andrews' turnover is derived from exports to Zambia, Malawi, Zimbabwe, Botswana and Mozambique. In addition, it has an agreement to sell SA office-furniture technology through an English company to the US

## Influx

Edwards wants to see exports rise to 25%, but not beyond, because it will make the company vulnerable to the anti-SA lobby

He says the greatest changes in the office furniture market in the past few years have been generated by the influx of computers

"Desks now have to support computers, VDUs and ancillary equipment, and a particular style of design is needed to accommodate cables and screens

"The trend is also towards a mixture of room-in-room and open-plan offices because people working on computers require a high level of visual and acoustic privacy and are more suited to room-in-room

"However, those who do need to communicate frequently with others, need an open plan environment," he says



# Grant Andrews' <sup>8/24</sup> earnings rise by <sup>20/3/89</sup> 41% <sub>188</sub> <sub>33</sub>

## Finance Staff

Office furniture group Grant Andrews' results showed good growth in both sales and profits for the six months to end-December

Turnover increased by 45 percent to R23,52 million (R16,17 million), while income attributable to shareholders was very much in line rose by 41 percent to R1,85 million (R1,31 million)

Operating income improved by 34 percent to R3,4 million (R2,54 million) and the effective tax rate dropped from 45 percent to 41 percent This resulted

in earnings per share up 1,4c to 11,5c although the number of shares was increased by 23 percent

Commenting on the results directors said the growth reflected a good demand for the group's products as well as improved efficiencies, further development of the human resources and continued support from customer base

Directors anticipate that the performance of the first half will be repeated in the second half and anticipate full year earnings of not less than 23c per share

**DEMAND BOOSTS  
GRANT ANDREWS  
PROFITS BY 41%**CHARLOTTE MATHEWS <sup>(188)</sup>

GROWING demand for the group's products and higher manufacturing productivity boosted Grant Andrews' profits by 41% to R1,8m for the half year to December compared with the R1,3m shown in December 1987 *18/Jan 20/1/89*

The company, which makes a range of upmarket office furniture, also attributed its successful results to staff development, the completion of several substantial contracts and customer support.

Turnover rose 45% to R23,5m (R16m)

No interim dividend will be declared, but earnings a share are 11,5c (10,1c) on a 3,02-million increase in shares issued to 16,02-million (13-million).

FURNITURE SALES

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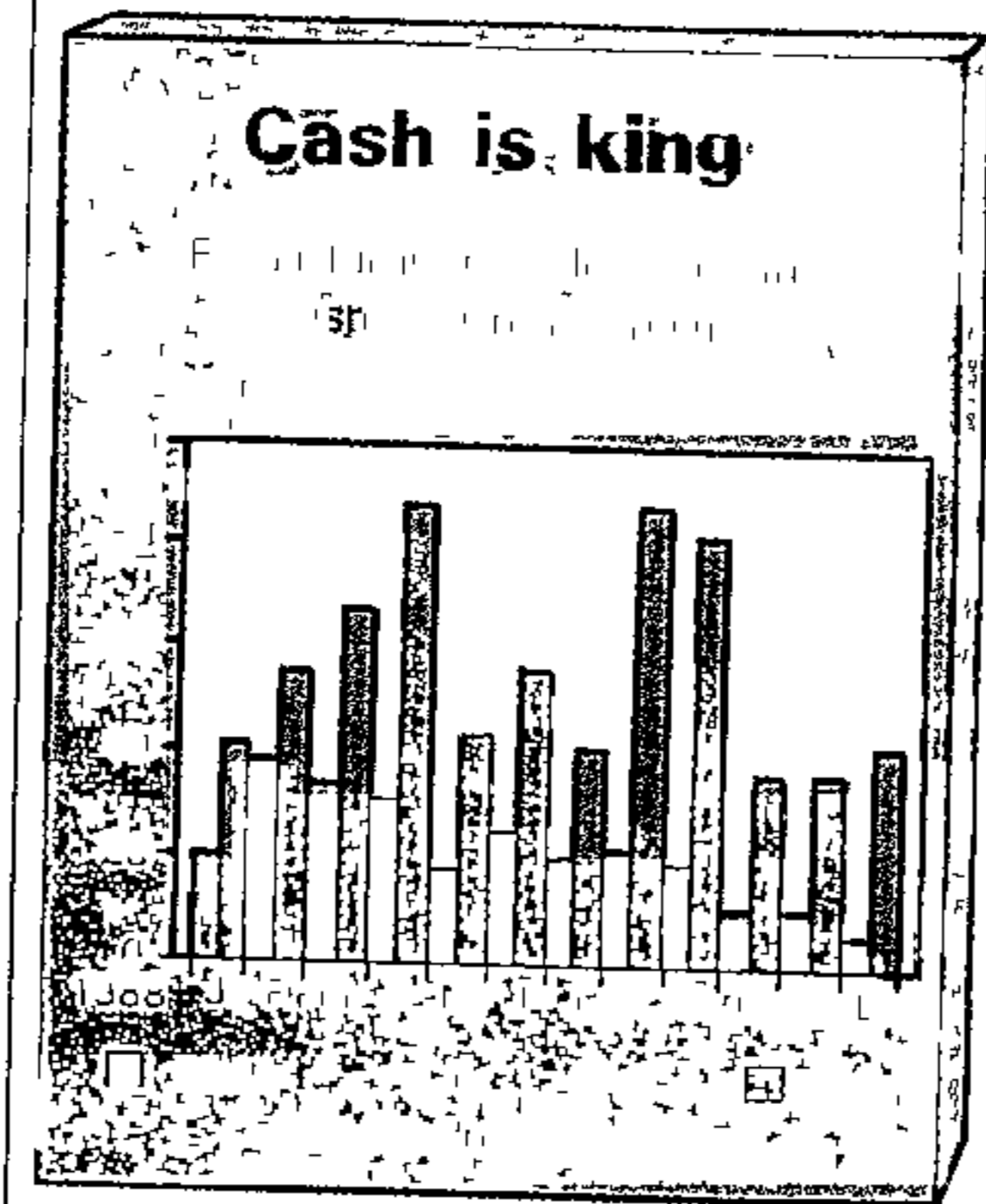
Stores cash in

Credit-based furniture retailers are still resentful about recent credit restrictions. Tougher HP terms introduced in 1988 have eaten into credit sales, and given a new lease of life to cash chains, like hypermarkets.

Morkels planning resources GM Derek Russell complains that in trying to control credit generally, government has hit the furniture sector particularly hard, even though its HP business accounts for only 1,8% of private consumption expenditure.

However, some of the effects of the squeeze may already be wearing off. According to Retail Liaison Committee figures, furniture sales in the traditionally weak trading month of January grew year-on-year by 21% in rand terms, after a growth of only 13,4% in the last quarter of 1988.

Part of the reason for this recovery is that restrictions have helped the trend towards



cash customers. Though in December consumer spending in credit chains — those for whom HP is more than 60% of their business — increased by 5,6%, cash chains enjoyed a 42% increase.

The growth would have been lower if it hadn't been for the relatively strong performance of black-orientated stores such as OK Bazaars, Wanda and Elleries. In September, sales increased by 26,3% in black credit chains but by 11,3% in "white" chains like Bradlows, Russells and Morkels. In October, white chain sales actually fell 3,9%, compared to a 25,3% rise at black chains.

Federation of Furniture Manufacturers executive director Winston Smith says credit restrictions should have little impact on the long-term growth of the industry, which boasts almost 100% local manufacture.

"Government has said another 500 000 dwelling units need to be built by the year 2000. They will mostly be small houses so we'll have to design furniture for them, but the demand is bound to grow."

He adds that there is generally no distinction in the types of furniture bought by different races. "Those in the same income bracket have the same kind of aspirations and a similar taste in furniture."

Furniture Traders' Association executive director Frans Jordaan says though the consumer has less disposable income, he isn't downgrading his purchases. "Rather, he is spending longer periods between purchases."

FMAIL 24/3/89

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# Basil Starke ends year with loss

CAPE TOWN 31/3/87

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By BRUCE WILLAN  
BASIL Starke Investments (BSI) and Basil Starke Group (BSG) have both turned in substantial losses for the year ended December 31, 1988

In spite of increased turnovers for both BSI and BSG the profits of the 1987 financial year have turned into massive losses for the 1988 financial year

Turnover for BSI increased to R136,8m compared with the previous nine months's R77,29m whereas BSG reported increased turnover of R134,7m compared with R77,1m

However the current loss before interest for BSI is R842 000 compared with a profit of R3,553m for the previous nine months BSG has reported similar figures

with the loss being R583 000 compared with a profit of R3,4m

The loss of BSI after tax, extraordinary items, and payment of preference share dividends amounts to a massive R4,3m compared with the previous year's profit of R3,2m

BSG reports a loss of R3,275m compared with a previous profit of R4,4m

The losses of both BSI and BSG are attributable to the civils division and Premier Wire

Adjustments to extraordinary items concerning the sale of subsidiaries to Premier Holdings reported in the 1987 financial year had to be made which compounded the losses

The adjustments were necessary because the stated profits made from

these sales had been over stated

Chairman Basil Starke said in a statement today that the office furniture division of Premier Wire accounted for a large portion of the loss in that company and was sold in December 1988

Added to this the loss of key personnel, and the fact that the civils division took on too many projects over a widely spread area, resulted in a loss in the division he said

However Starke says that the major problems have been identified and dealt with

He believes these steps will lead to a significant improvement in the performance of the company

No final dividend was declared by either BSI or BSG

By  
For

By KAV

longer

A THEORETICAL APPRAISAL

THE INFLATIONARY EFFECTS OF TRADE UNIONS

S A E P SEMINAR

## NEW SURCHARGE UPS DEMAND FOR OCAPP PRODUCTS

2/10/89 51/3/89  
CHARLOTTE MATHEWS 188

OCEAN Appliances posted a 38% rise in attributable earnings to R2m for the six months to December (against R1,6m for the same period in 1987), translating into earnings of 56,6c a share (41,1c).

Demand for the white goods manufacturer's products was stimulated by last year's import surcharges.

Turnover, for which no figure is given, rose 64% over last year and operating income rose 70% to R5,9m (R3,5m). Profits were pulled down by high interest payments and liability for the full tax rate.

An interim dividend of 6c (5c) a share was declared.

The expansion in trade led to increased stock levels and debtors, necessitating higher borrowings.

**ocean** 

In the current six months the directors warn profitability will be lower because of seasonal factors and the move to the Ezakheni factory in May.

Ocean Appliances is currently awaiting judgment from the Appeal Court in its dispute with the Commissioner of Inland Revenue over R2,4m assessed tax losses. In previous years these losses have been used to reduce the tax provision, so if it loses the appeal it will be faced with a substantial tax bill.

"Our good results are attributable to our 'bus stop' philosophy," said chairman Bob Matthews "We give the people what they want and back this with efficient after sales service countrywide.

"If current economic circumstances prevail, the favourable sales and profit trend will continue."

Star 13/4/89

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# Furniture sales badly hit by credit curbs

By Sven Lunsche

Furniture sales seem to have been the hardest hit by measures to curb consumer spending through credit restrictions

While general retail sales continued to show a modest improvement in the first quarter of the year, the Furniture Traders' Association (FTA) yesterday reported a decline in turnover in real terms in January and February

"Retail sales figures for January showed a 10,9 percent increase over sales in January 1988. Figures for February showed a year-on-year growth of only 8,35 percent, which was well below the annual inflation rate for both months," FTA executive director Frans Jordaan said

"December's figures showed an 8,5 percent actual increase which, when taking inflation into account is certainly negative growth," he said

The figures are based on a

monthly survey of about 1 500 retailers countrywide

Explaining why furniture sales in particular had been affected, the Econometrix research institute said in a recent bulletin that individuals, rather than the corporate sector, were facing a squeeze on spending power

"If one allows for a relatively optimistic two percent real growth in personal income over the next 12 months and uses the official assumption of 15 percent inflation, the increases in personal income tax (fiscal drag and fringe benefit tax) and indirect tax (higher GST) will place a significant squeeze on the spending power of individuals," Econometrix said

It estimated that discretionary spending power could decline by as much as 16 percent in real terms over the year, which could result in private individuals spending as much as 18 percent less in

real terms on durable goods than in the 1988/89 fiscal year

The corporate sector's propensity to consume durable goods (notably motor vehicles) was unlikely to be diminished to the same extent as that of private individuals, Econometrix said

The FTA said the squeeze on individual spending power had originated with the increase in interest and bond rates, in general, and tougher HP conditions in particular, with HP sales taking the greatest knock

"Unless there is some form of relaxation and a revitalisation of sales, we could be looking at a repetition of the 1984 situation," Mr Jordaan said

"And if sales continue to decline, the ripple effect will be felt by furniture manufacturers and by appliance, radio, sound and TV manufacturers and distributors," he said

April 1989





© RINGO

## Math Ash-Waltons merger nears finality

A MERGER between Waltons Stationery and Mathieson & Ashley is in the final stages of negotiation and details are expected to be announced this week.

Math Ash chairman Winky Ringo said the two groups were in the midst of negotiations.

There are synergistic benefits in a merger, with Waltons supplying stationery and office equipment and Math Ash providing office furniture and equipment.

 LIZ ROUSE  

Both groups have been looking for acquisitions. Speculation has been swirling around Waltons for some time and Math Ash has R10m cash as a result of merging Dashing Office Furniture with Afcol's Anglo Dutch.

Waltons shares were suspended at R14 on Friday, while Math Ash was suspended at 500c.

# Homemakers ready for tougher times

Star 14/4/89

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News from the Furniture Traders' Association (FTA) that January and February's retail sales were well below the rate of inflation suggests that companies in this sector are going to have to pull out all the stops if they are to survive the difficult years that seem to lie ahead.

If things are as tight as the pessimists predict, then certainly a few of the current players in the industry will not survive.

Among the guys who reckon they are here to stay and will come out of recessionary times looking even stronger is FSI's Homemakers group.

At 70c the share is currently on a P/E rating of 3,8 times and a dividend yield of 8,6 percent, compared with the average for the retail sector of 12,4 times and 4,8 percent respectively.

Significantly, the Homemakers' rating is even weaker than is currently being granted to the furniture sector where the average P/E is 4,5 times and dividend yield is 7 percent.

The relatively low rating for Homemakers reflects either market scepticism and/or confusion over exactly what the group comprises. Although this situation vis-a-vis the market attitude may be quite frustrating for management, it is not new.

As far back as October 1987, when the group was formed through the amalgamation of W&A's furniture interests and Housewares, Fabric Library and four unlisted operations in the home improvement market, investors seem to have had trouble valuing the share.

For this reason they appear to have used net asset value to dictate the share price, rather than earnings potential.

Almost 18 months down the track this attitude prevails.

Although the group has undergone some significant changes (its mission statement has been revised to cover the distribution of consumer products and it has acquired a 49 percent stake in Joshua Doore), its market rating continues to look weak in the face of management's bullish growth projections.

Chief executive Hilton Nowitz is at pains to point out that Homemakers is not a furniture group.

In financial 1988 furniture interests accounted for 52 percent of earnings (this is expected to drop to 44 percent in 1989), direct selling accounted for 28 percent, textiles for 17 percent and home improvements chipped in with four percent.

He says the non-furniture interests tend to perform well during recessionary times, in particular the direct-selling operations.

But Mr Nowitz is optimistic about the performance of the group's furni-

Diagonal  
Street

ANN CROTTY



ture interests in the face of tighter trading conditions. "We've budgeted for a small increase in furniture turnover this year, but we will see major savings from the rationalisation measures that have been introduced, including the sharp reduction in head office costs."

Recent developments at World reflect management's efforts to boost productivity.

The developments include a winding down of the relatively poorly performing World operation and this has sadly but inevitably resulted in some retrenchment.

Referring to the current retrenchment dispute with the trade unions, Mr Nowitz says: "No one wants retrenchments, but productivity is needed to survive in business. The issue must be resolved amicably."

On the issue of productivity, it is significant that salesmen at Price'n Pride achieved monthly turnover of R45 000, compared with R7 500 for the World salesmen.

The group has re-defined its target market in the furniture industry. Developments at World reflect its move away from the bottom end of the market to the middle- and upper-income segments in both the white and black markets where "better quality earnings" can be achieved.

Mr Nowitz is confident that the group's direct selling operations will fare well, pointing to the fact that when times get tougher in that industry, the workforce (which operates full-time and on a commission basis) will work harder.

The group is slowly and very carefully moving into the black market with the aid of part of the World infrastructure.

The same self-confident, aggressive attitude seems to underpin management's hopes for the group's textile and home-improvement operations.

As Mr Nowitz says, "We are aggressive and determined to get bottom-line performance. We have the management to produce it."

In the longer term, Mr Nowitz is looking for "solid, sustainable real growth of five to eight percent".

If Homemakers achieves this over the next few years, then access to the group will be a lot more expensive for investors.

It is difficult to see much downside at its current 70c.



# Credit curbs hamper Ellerine sales growth

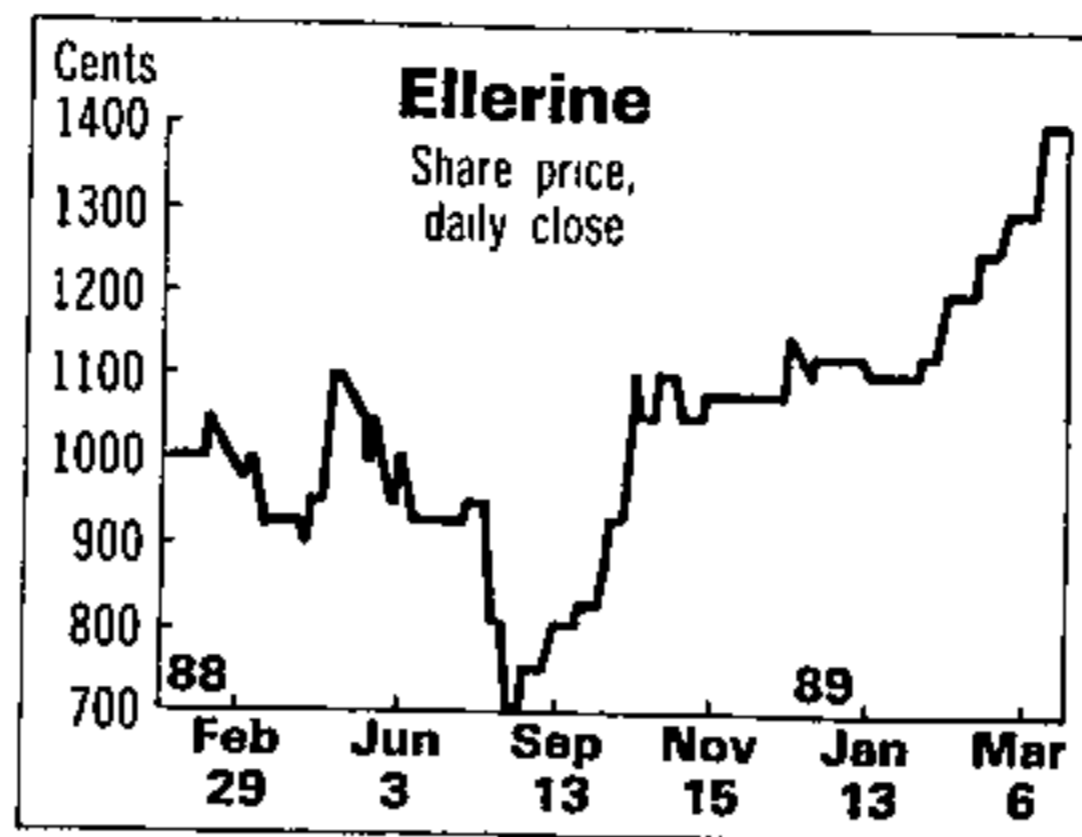
188  
B/Dam 14/4/89

SYLVIA DU PLESSIS

**STRINGENT** credit restrictions, imposed in August last year, have severely hampered furniture chain Ellerine's sales growth for the six months to end-February

Consequently, earnings a share fell 14% from 203c to 174c. Dividends did not suffer and increased to 58c (50c) as dividend cover was lowered from four times to three times. Chairman and MD Eric Ellerine says in view of the group's maturity, the lower cover is equitable, as asset management has been emphasised and cash flow improved.

Sales fell 11% from R206m for the eight months to August to R183m in the six months to end-February. The figures are not strictly comparable as the group's financial year has been shortened to conform with that of holding company Malbak, which acquired a 60,2% controlling interest in the group on July 1 1987.



taxed profit was down 14% to R12m

Ellerine describes gearing as "exceptionally healthy". While the balance sheet does not reveal borrowings, gearing was a low 12% at the end of August. Consumer spending is expected to contract, further inhibiting sales growth in real terms. However, Ellerine says continued management action in the control of working capital will allow the company to improve earnings slightly over the next six months.

"With the change in the financial year end to August, your board expects earnings will tend to equate over the two six month periods," he says. Ellerine's confidence is evident in the group's expansion plans. Eight additional stores are due to be opened around the country in the second half of the financial year.

Shares have doubled in price from a low of 700c in August to a current peak of R14 in spite of relatively poor prospects for the industry.

Ellerine attributes the fall in turnover, which includes the traditionally boom Christmas period, to declining sales of electronic goods and a definite fall-off in credit demand.

Margins narrowed from 12,6% to 11,3% as operating profit fell 21% to R20,6m. Healthy gearing resulted in financing costs falling by more than half to R560 000, but this failed to bolster the 19% slide in pre-tax profits to R20m and

Financial data and other information at the bottom of the page, including a table with columns for various metrics and rows of data.

## Furniture quality mark planned

By DM 19/10/69 CHARLOTTE MATHEWS (65)



● SMITH

THE introduction of a quality mark for furniture was being discussed by furniture makers, Furniture Manufacturers' Federation director Winston Smith said yesterday.

"The quality mark would offer the consumer a guarantee on the life of the product for, say, three years," Smith said.

"The federation would be the watchdog for the quality mark. A committee would be set up to ensure that standards were maintained and to provide an avenue for complaints.

Plans were quite far advanced.

Documentation had been sent out to members for comment and he expected the scheme to be finalised at the next executive meeting on July 4.

CHARLOTTE MATHEWS  
BY SAUNDERS

# Dashaus may be boosting cash operations

SPECULATION surrounding today's cautionary announcement from Dashaus suggests the furniture and clothing group is responding to government's credit squeeze by strengthening its cash operations

The group has four chains — retailers Dashaus, Mattress House, The Furniture Hyper and Lay Low Wholesalers. In addition, it acquired Las Vegas, a

well-established clothing wholesaler in the hawker market, last month

One analyst says the group's clothing interests are almost recession-proof as it is soundly based in the informal sector

The group follows a policy of keeping credit sales as low as possible, even in its furniture stores, a sector that tradi-

tionally relies heavily on credit transactions

In its last annual report the company said short-term credit sales represented only 20% of turnover

Dashaus showed a 20% rise in earnings at half-year to 4.7c a share. Final results were expected to be released within the next two weeks

Trade in the shares has been energetic

Volume of shares traded jumped from an average of 45 000 shares a month to 173 000 shares in March, alone and continued briskly in April

The share closed at 55c yesterday after reaching a low 30c in November last year

# Dashaus's listing ripe for picking?

*re 12 Aug 21/4/89*  
*188*  
CHARLOTTE MATHEWS

RUSFURN will purchase the furniture interests of the Dashaus group comprising 80%-90% of Dashaus's fixed assets, Rusfurn MD Geoff Austin announced yesterday

The deal, which is subject to certain conditions, follows the publication of a cautionary announcement by Dashaus on Wednesday advising shareholders to exert caution in dealing in their shares.

This means that Rusfurn will now run Dashaus, Mattress House and Furniture Hyper, about 22 stores altogether

"It fits in very well with our group For a long time we have been thinking of launching Dion furniture stores but have been inhibited by the leases Dashaus has had within three Dion stores Now we are regaining control of all that space," Austin said

Asked if he regarded this as a good time to expand in the furniture market, Austin said he did not consider this as an expansion but as the purchase of an existing market share

"It is not as if we are opening new stores Trading names will be retained but we plan to relocate the various units within Rusfurn

"The purchase will have a small positive impact on our earnings but this will not be material Full details will be released with a further announcement some time next week"

Dashaus could not be reached for comment yesterday but it would make sense for the company, having sold the major part of its trading side, to develop its clothing operation privately and sell the listing to a purchaser looking to go public

The market capitalisation of Dashaus on yesterday's share price of 53c is R13,25m on the 25-million ordinary shares in issue

Cape Times 26/4/87 (188)

# Durr calls for training

By BRUCE WILLAN

SA AS a developing country can only prosper if, amongst other things, the training and development of its human resources receives proper attention says Minister of the Budget and Works, Kent Durr

Speaking at the opening of the Furniture Industry Training Board's new training centre yesterday, Durr said that the State has always advocated a tripartite involvement of the employer, the employee and itself in the training and development

However he said that the system of training apprentices needed modernization To this end an investigation was carried out, culminating in several far-reaching recommendations

These recommendations included

in the White paper on the Training of Artisans were accepted by Government and subsequently provisions for the establishment of training boards for industries has been made in the Draft Manpower Training Amendment Bill, published in February 1988

The proposed new dispensation for training boards for industries will pave the way for a totally new era in the training field in SA said Durr

The powers which will be vested in the various training boards will, once the Bill is approved, enable the boards to accept full responsibility for the apprenticeship system of the industry concerned

The Bill will also make provision for the introduction of competency based modular training, to replace the obsolete time-based system of training

# M & A now wants new acquisition

188  
BIDAN  
27/4/89 CHARLOTTE MATHEWS

THE unsuccessful conclusion to the Waltons and Mathieson and Ashley (M & A) merger discussions last week left M & A holding R10m in short-term deposits and openly seeking further expansion

M & A chairman Winky Ringo said M & A could afford to make a R50m acquisition with its ungeared balance sheet if the acquisition had a poor asset base, but he was not interested in merely acquiring assets

"I'm looking for a business with quality of profits and cash flow, because without cash flow in inflationary times like these, you are dead"

He said there were various organic opportunities for M & A to expand, but they were not under pressure to make an acquisition

"We are researching an opportunity that would use up R15m-R20m of capital in an organic area of the business, and spending management time and effort on a project studying opportunities for export

"In the last seven years M & A has invested a lot of research and development in office furniture products, which we believe are comparable to anything in Europe"

Further developments in M & A included the launching of two new products in its range of fax and office equipment — a line splitter and a telephone management system

The line splitter, aimed at the small business and home fax user, recognised a telephone line signal and sent messages to the user's fax or telephone. It would sell for around R500

The telephone management system was intended to help businesses to budget when time rather than unit charges were introduced on telephone accounts. This package showed time usage on telephone calls, the areas called and offered direct lines to various branches of the user's company. The hardware and software would sell together for about R5 000

Asked if he saw the office furniture market as possibly stagnant or declining, Ringo said "Business is very brisk at the moment and as far as the future is concerned, 35 000 work stations will be equipped in SA over the next 18 months. There is a good 10-year growth ahead in the information technology support area of our market."



● RINGO

**Tafelberg Furniture**  
earnings up 35%

CHARLOTTE MATHEWS *K&S*

TAFELBERG Furniture Stores boosted earnings a share by 35% to 7,4c for the year to February against the previous annualised 5,5c, and declared a final dividend of 2c

This brings the total dividend for the year to 3,5c (2,6c) a share

Turnover rose 36% to R29m from R21,7m, against a 41% rise in operating profit to R1,9m (R1,3m) According to Chairman Eugene Theron, the biggest contribution to turnover was made by the Bellville branch of the company.

Tafelberg operates in the Cape, but intends to expand into the PWV area.

## Credit curbs hit furniture stores hard

SYLVIA DU PLESSIS

FURNITURE retailers will discuss Finance Minister Barend du Plessis's new credit curbs at a national council meeting in Cape Town next week.

Furniture Traders' Association executive director Frans Jordaan said yesterday "We're not happy we've been discriminated against again."

The FTA represents about 90% of retail outlets in this sector.

Retail sales figures for January showed a 10,9% increase over sales in January 1988. Figures for February showed year-on-year growth of only 8,35%, Jordaan said.

He added: "HP sales particularly are taking a knock."

The picture during the last few months of 1988 was the same.

"Since August we have made constant representations to government to ease the plight of the industry.

B/Dam 915707  
Banks

"We're extremely concerned the situation has been made worse, especially in terms of electric and non-electric appliances, TVs and videos, as these form the bulk of some retailers' sales.

"We take little comfort from the fact that HP provisions on radio and audio are unchanged. They were already hard hit," Jordaan said.

He added hardest hit were those who did not qualify for credit cards with budget facilities and those who did not qualify — or did not wish — to borrow money from banks.

Dion financial director Mannie Chaimowitz said the measures would "definitely have an effect on the sale of big tickets".

He added: "I support the conditions to some extent but things are getting a bit out of hand."

Chaimowitz said there had been a decline in video machine sales over the past few months.

A retail analyst said yesterday the tightened HP requirements would hit all furniture retailers.

He added this would force retailers to pay even more attention to the quality of their debtors' books.



## Afcol's growth slows as curbs begin to bite

The measures taken by the authorities to dampen growth in consumer credit purchases moderated demand for furniture in the second half of the financial year, and Afcol's turnover as a result slowed to 13 percent from the 22 percent recorded in the first half

The figures released for the financial year ended March, show that turnover for the year increased by 11 percent to R567,1 million (R510,2 million), while operating profit improved by 12 percent to R48,2 million (R43,1 million)

Attributable profit was accordingly 19 percent higher at R41,5 million

(R35,0 million) This translates into earnings per share of 170,0 cents (144,8 cents), an increase of 17 percent

In accordance with the group's policy of paying a twice covered dividend, an unchanged final dividend of 40,0 cents has been declared giving a total of 85,0 cents (72,5 cents)

Current forecasts of low growth in private consumption expenditure and of interest rates remaining high, means that turnover will be blunted in the coming year, the directors say. However, they have set a target of attempting to achieve earnings per share to approximate those of the present year — Sapa

# Afcol achieves 19% profit growth

*Monday 12/15/89*  
FURNITURE manufacturing group Afcol achieved a 19% growth in profits for the year to March, overtaking an 11% rise in turnover over the previous year, despite the furniture industry slowdown

Attributable profits of R41,6m (R35m) were translated into earnings of 170c a share (144,8c) A final dividend of 40c a share, the same as last year's, raised the total payment for the year 17% to 85c (72,5c) a share

Afcol controls 36 factories making furniture and allied materials, and has the most extensive furniture manufacturing interests in the southern hemisphere The group also has interests in associated companies such as Romatex, Resinkem and P G Bison

## Profits surged

In June 1988, Afcol merged its office furniture interests Kallenbach-Hendler (Pty) Ltd with Mathieson and Ashley The full benefits of this merger would be felt in the coming year, Afcol executive chairman Laurie van der Watt said yesterday

The group's bottom-line profits surged, largely as a result of a R4m increase in

### CHARLOTTE MATHEWS

income from associated companies to R14,8m (R10,6m)

Van der Watt warned in the interim announcement that the group's performance for the second half of the year — traditionally better than the first half — would be restrained by government action to curb consumer spending

"The quarter ending December 1988 was particularly afflicted by cancellations and returns at an abnormally high level," he said yesterday

Turnover in the second half grew only 13%, compared to 22% in the first six months of the year, after backing out the office interests

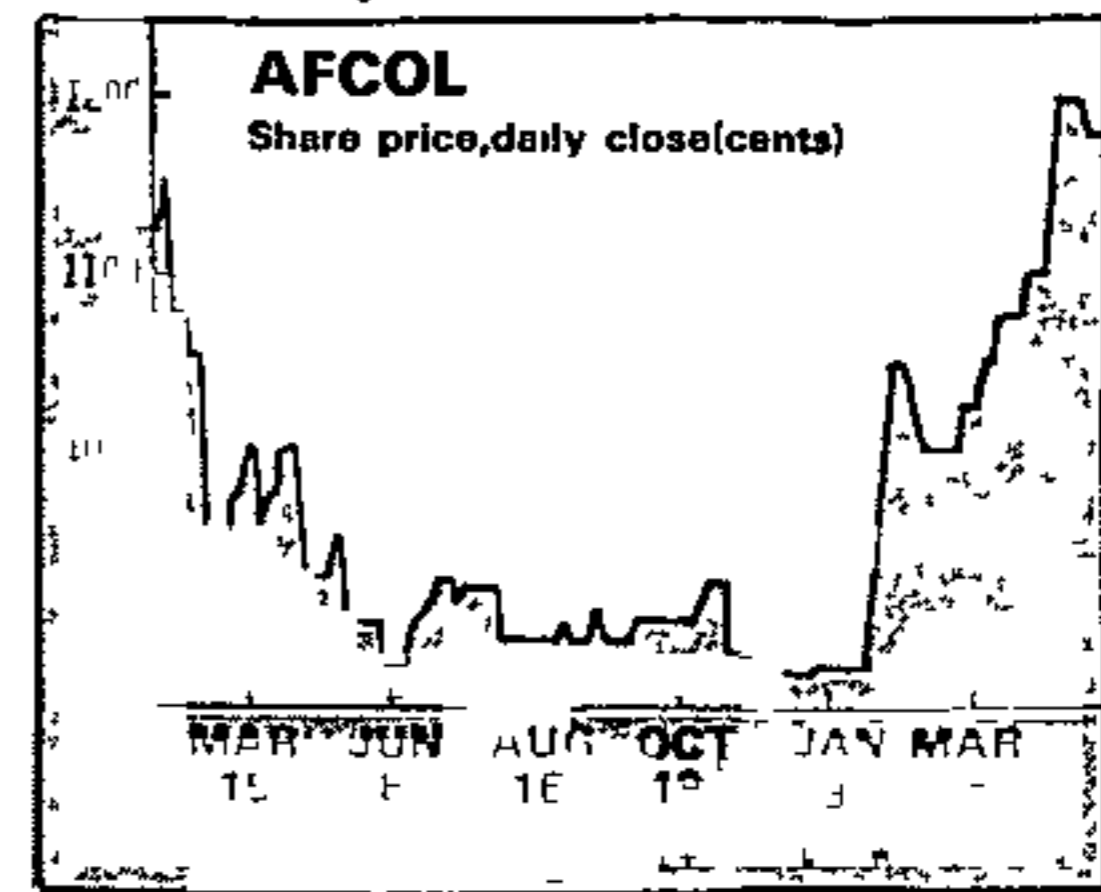
Interest payments doubled to R12,7m (R6,2m), about R4m of which was the result of the rate increase The remainder came from higher borrowings to finance capital expenditure of R27,7m

Gearing was a satisfactory 44%, and was expected to fall during the current year

Van der Watt said the group's future activities could be affected by low growth in private consumption expenditure

"Management have, however, set themselves the difficult target of attempting to achieve earnings which approximate those of the present year"

Since 1979 the group's dividends and earnings had shown an average compounded growth rate of around 20% a year

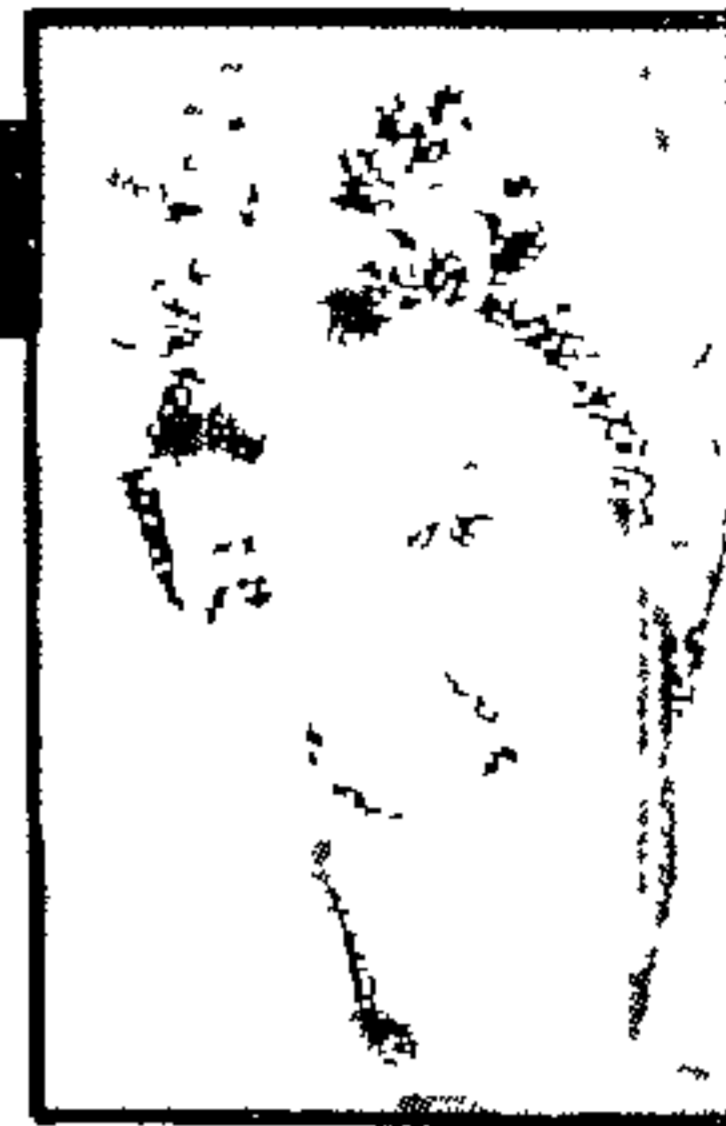


With share price movements, this had lifted shareholders' wealth since 1979 by an annual compounded growth rate of 40,9%

by **JULIE WALKER**

# Furnfair happy, but be careful

3/7 was 14/5/89. 188



FURNFAIR was listed on the JSE as a three-store furniture chain in August 1986 after a rights offer of 7,5-million shares at 40c

The share price rose to 250c before coming back to earth in the crash of October 1987. It is now 130c.

In July 1987 a rights offer was made of 2,6-million shares at 110c each. In under a year Furnfair raised R5,9-million from minorities out of total share capital of R4,8-million at June 30, 1988. Total shareholders' interests at that date were R10,44-million.

## MONTAYS

On January 27, 1988, Furngro — then unlisted — bought the assets of the liquidated Montays furniture group for R8,2-million. Furngro was then the private company of Ivan Hammerschlag and his brother Jeff who are also directors of Furnfair.

There were 12 Montays stores, and five were sold to Rusfurn because they were outside the Western Cape. Mr Ivan Hammerschlag says the proceeds went straight to the bank — "Montays owed R10,6-million to the bank then."

The remaining seven were sold to Furnfair on July 1, 1988, for 10,8-million shares at 150c each — a deal worth R16,2-million.

The 1988 Furnfair report refers to an additional R400 000 — "a price equivalent to the original acquisition and restructuring costs."

In little more than five months, 12 Montays stores worth R3,2-million became



IVAN HAMMERSCHLAG

seven stores worth R16,6-million.

Of the 10,8-million shares issued to Furngro, 4,2-million were placed with institutions at 150c each, realising R6,3-million.

One analyst believes the Hammerschlags "did not act in the best interests of Furnfair shareholders in settling on Furngro such a large amount of goodwill when Montays was on sold to Furnfair."

## GOODWILL

Mr Hammerschlag insists no goodwill was paid to sellers Furngro.

"Our auditors and attorneys certified that there was no goodwill. We took over liabilities when Furngro bought Montays from the liquidators. There was absolutely no profit to the vendors when Montays was sold to Furnfair."

Furngro was listed as a pyramid holding company on the JSE in November 1988 after a renounceable rights offer to Furnfair shareholders in the ratio 110 for 100

Furnfair at 130c a Furngro share. This raised about R27-million.

Mr Hammerschlag says preference shares were issued to the creditor banks. The proceeds of the Furngro rights offer were used to redeem the preference shares.

## TAXATION

In the year to June 1987 Furnfair earned 18,2c a share, and to June 1988 44,8c.

In the year to June 1987 the company adopted the partial method of accounting for deferred taxation. It calls for the provision of deferred tax on timing differences only where the tax is considered payable in the foreseeable future.

Rusfurn aside, every listed furniture retailer deducts deferred tax before stating profits. The analyst claims this is "chinese accounting" and reflects an inflated earnings figure.

The counter-argument suggests that by making a deduction for tax not due in the foreseeable future means that today's shareholders foot the bill for tomorrow's shareholders' tax liabilities.

Mr Hammerschlag says that times change, and other furniture retailers will follow the partial method. "We do not make provision for the rent we will have to pay in five years' time," he says.

He sees the tightening of credit controls announced by the Government last week as "bullish" for the company.

"We do not sell anything on terms longer than 18 months and our deposits were already higher than 15%. The new rulings will hurt other furniture retailers who sold over longer instalment periods and charged low de-

posits much sooner than it will hurt us."

The group achieved a 129% increase in turnover to R11,3-million in the first quarter of 1989 compared with R4,9-million for the first three months of 1988.

Mr Hammerschlag attributes the group's success to aggressive marketing.

The group's warehouse now handles distribution to a total of 15 Furniture Fair and Montana stores throughout the Cape Peninsula.

Mr Hammerschlag remains confident of the group's prospects for the remainder of the year. "We have a proven formula, we are in touch with our market and we are achieving the sales."

## POTENTIAL

Furngro shares should trade at 67% of the price of Furnfair shares. So Furngro looks overpriced at 155c with Furnfair at 130c.

The anomaly is reflected in the historic dividend yields of 6,5% and 10,8% respectively.

Mr Hammerschlag says "With our profit potential, Furnfair shares on a dividend yield of 11% are among the best-value counters available."

I would urge caution. Market sentiment is against furniture shares and other granters of credit in the wake of high interest rates and more stringent efforts by the Government to cool consumer demand.

The average price-earnings ratio of the furniture sector of the JSE is only 4,6 times, and the dividend yield 7,8%. I would consider the blue chips ahead of a relative newcomer.

# Morkels pushes earnings up 24% in tight market

SYLVIA DU PLESSIS

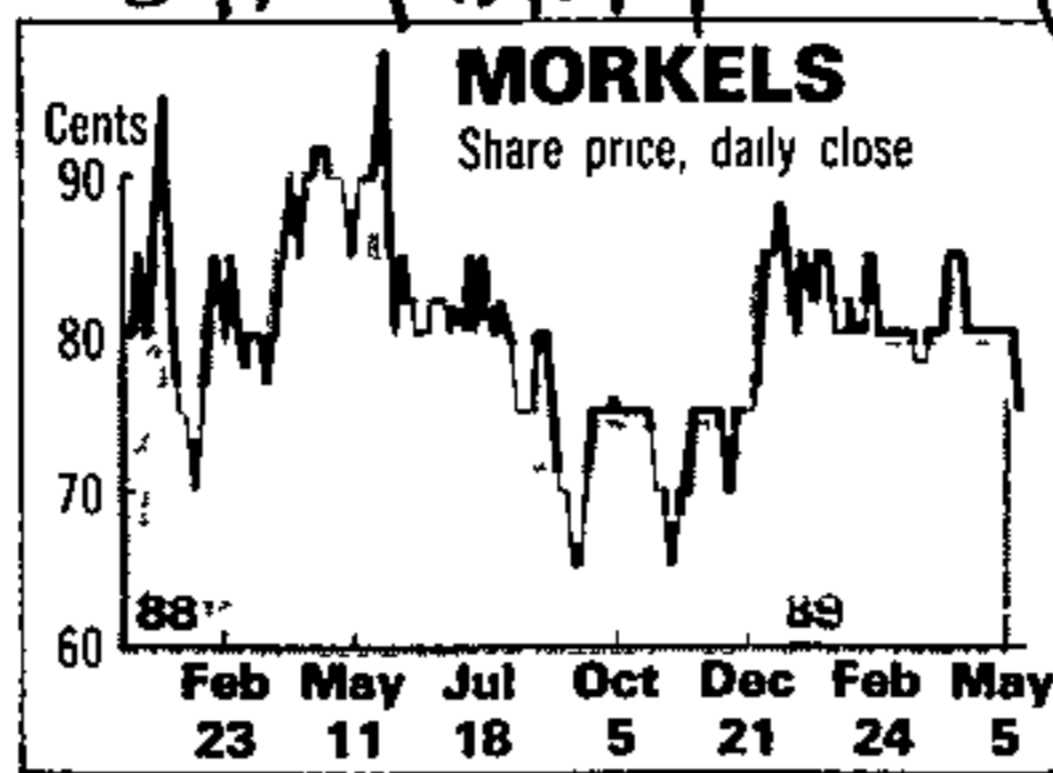
SPECIALIST furniture and sporting goods retailer Morkels has notched up a 24% increase in earnings a share to 23,5c (18,9c) for the year to end March, and has improved its gearing from 55% to 49%.

This was achieved against the backdrop of an overtraded furniture market hit by frequent government measures to discourage consumer spending.

The group, part of the Federale Volksbelegging fold, also upped its dividend distribution to 10c (8c) for the year by adding a final distribution of 7c a share to the maiden interim payment of 3c.

Creditable sales of R199,3m, up 27,3% from the previous financial period, were achieved in a 53-week trading year, while operating profit rose 28,9% to R22m.

Directors said furniture sales had translated into 26% growth on the R156,5m



earned in a 52-week trading period last year, five percentage points ahead of the 21% growth of the retail furniture sector.

Sporting goods chain Totalsports fared even better in the battle for market supremacy in its crowded retail sports sector, with turnover growth of 53% for the year compared with 26% in the retail sports sector, they said.

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While higher deposits and shorter terms for instalment credit more than compensated for excessive stock holdings, these led to a 53,8% increase in interest charges to R3,3m.

Attributable profit of R9,4m (R7,5m) reflected an increase of 24,9% from the high base of 86% a year earlier, after the group provided in full for deferred taxation.

Eight new Morkels stores were opened in the period, giving the chain 82 outlets. Four new Totalsports stores and the closure of one brought this chain's tally to 15.

MD Carl Jansen said Totalsports has now spread its reach beyond the Transvaal and Western Cape origins into Natal and the Free State.

He said although the group foresaw a further slowing down in the economy in the year ahead, prevailing tight management prescription and retailing skills would enable it to continue with its planned expansion.



## Morkels' earnings rise by

# 24 percent

By Sven Lunsche

Government action to curb consumer demand reduced the rate of sales growth, but furniture retail chain Morkels still managed to achieve a credible 24 percent growth in earnings in the year to end-March

Earnings per share rose from 18,9c to 23,5c while the total dividend was raised by 25 percent to 10c a share

Sales were up by 27,3 percent to almost R200 million and despite the pressure on merchandise margins forced by the slowdown in consumer spending and the need to adjust stock levels, the operating profit ratio grew from 11 to 11,4 percent, which translated to operating profits of R22,2 million

Furniture sales were up by 26 percent to R156,6 million, while turnover of Morkels' sporting goods and apparel chain Totalsports grew by 53 percent

Managing director, Carl Jansen, said the group's gearing ratio had improved from 55 to 49 percent, while net asset value per share, incorporating the three-yearly revaluation of the group's property holdings, improved to 123 percent from last year's 106c

He said that while the group foresaw a further slowing down in the economy in the year ahead, prevailing tight management prescription and retailing skills would enable the group to continue with its planned expansion

## Furniture dealers whistle in the dark

Own Correspondent

DURBAN — Despite gloom on the retail side of the furniture industry in the wake of the Government's further clamp on credit last week, all is not lost it seems

Smaller outlets are still experiencing good turnover, which, proprietors say, is because of the release of long pent up demand for replacement white goods.

A financing scheme backed by a major manufacturer enables hard-pressed buyers to avoid the restrictions affecting hire-purchase agreements.

The scheme is offered by retailers on certain television, audio and video equipment

It is funded by Barlows finance group Barbrook Investments

A loan to buy goods is made to the purchaser, who is required to make a 12 percent deposit and repay the balance over 24 months

That compares with the HP requirement of a deposit of between 20 and 30 percent and repayments over 12 to 18 months

Furnbea Group executive Mervyn Hackner says Beares furniture outlets are among those running the scheme

Minister of Finance Barend du Plessis dropped the credit bombshell re-

cently when announcing an effective one percent hike in interest rates

He raised minimum deposit levels on electrical appliances and other luxury items an average of five percent

Repayment periods on many categories of goods were further reduced

The tougher clamps came after belt-tightening only last August

So concerned is the Furniture Traders' Association about the new clamps that it is meeting to discuss them at a national council meeting next week

"We are not happy that we have been discriminated against yet once more," says Frans Jordaan, executive director of the association, which represents 90 percent of South Africa's retail outlets

Particularly galling, he says, is the fact that the association has been making representations to the Government to ease the situation for retailers

He believes a repeat of the 1984 recession is on the cards if relief is not imminent

Association retail sales figures for January 1989 show a 10,9 percent increase over sales in January 1988

Figures for February 1989 show a year-on-year growth of only 8,35 percent — well below the annual inflation rates for both months

## TV1 outdoes all its competitors

By Malcolm Fothergill

TV1 is attracting far more viewers than its rivals TV4 and M-Net and is a far cheaper way for advertisers to reach potential customers, says ad agency Grey Phillips Bunton Mundel & Blake

"One would have to search long and hard to generate a reason for including M-Net in 'prime time' — that is, 7pm to 8pm — if one has a mass-appeal product," says the agency in its monthly release *Grey Matter*

"It is very expensive relative to the audience it provides, and TV1 walks away with well over 80 percent on average of the audience"

In more detail, 59 percent of the country's white, coloured and Asian adults who watch television in the 6pm to 7pm time slot watch TV1, 31 percent watch M-Net, and 10 percent watch TV4. In the 7pm to 8pm slot, 85 percent

watch TV1 while only 15 percent watch M-Net

Looking into the cost implications for advertisers, the advertising agency lists what advertisers pay in rands for every one percent of the population reached by the various television stations

In the 6pm to 7pm time slot, TV1 costs R439 for every 1 percent of the population reached, M-Net costs R498 and TV4 costs R700

In the 7pm to 8pm time slot, TV1 costs R483 and M-Net costs R1 045

"So not only does TV1 outperform its rivals on an audience base, but indeed proves to be the cheapest option available

"Criticism for escalating TV rates has been levelled for an extended period at SABC — perhaps one should honestly query M-Net's rate structure and cost in the light of the above findings," *Grey Matter* concludes

# Furniture retailers endorse Ringo's plan

188 CHARLOTTE MATHEWS

THE MIDDLE sector of the office furniture market looks like a good investment as it tends to perform well in an economic downturn, furniture retailers said in response to Mathieson & Ashley chairman Winky Ringo's statement on Monday that he intended to invest R25m in this sector

Ringo said the middle sector of the office furniture market was worth about R200m a year and he hoped to capture about R60m of this within the next two years

Central Furnishers MD David Levin believed the middle sector was worth a lot more than R200m a year and was expanding

"Our market is buoyant in depressed times because people who cannot afford to buy upmarket buy downmarket. We do well in bad times"

Grant Andrews Holdings MD Mike Edwards said he would not personally invest R25m in a new venture in this market

"I would rather make acquisitions than try to start from scratch," he said

"I think the middle market is a growing market," said Furntech MD Clifford Gundle

"In periods of slower economic growth the middle market expands faster because the upper market customers tend to economise"

Randworths sales manager Ivor Shekyls said the middle sector of the market was expanding because of new office developments in areas like Sandton and Halfway

House, which required new furniture

BIDEN 7/17/91

# Prestige has overcome problems at Krost

REORGANISATION of the Krost operation has put the Prestige Group's manufacturing and trading divisions on a sound footing, and chairman Geoff Grylls says in the annual report that he looks forward to a successful year

The group, in which Unidev has an 80% shareholding was formed from the UK-disinvested Prestige and local Krost Housewares

Since being listed in November 1987 it has experienced considerable problems in the Krost operation, which was taken over with a R10m assessed tax loss

In spite of the quality of the Krost products, production equipment was poorly maintained and Prestige incurred substantial costs on repairs and servicing

186  
B10a 23/0787  
CHARLOTTE MATHEWS

"Where the wheels really came off from a financial point of view was in our kitchen cabinet division which we had to close down in December" said one director

"We had to contend with the furniture industry's 180-day terms of settlement, intense competition in this field and terribly high distribution costs. On a fairly substantial turnover we were losing money

"Without the R1.4m write-off from that division our results would have looked good"

The company's gearing is around 70%, largely as a result of a late delivery of raw

materials in December. This pushed up stock levels temporarily

The income statement will show a hefty interest bill arising from borrowing to finance the stock order

Directors were still interested in acquiring a company with a complementary product or infrastructure, they said, and would finance such an acquisition from existing resources

Grylls said "I view the future in a positive light. We now have a centralised management team, the disrupting factors caused by the merger have been overcome and the manufacturing and material problems have been addressed. Consequently we are optimistic for a successful year"



## New office furniture company

27/5/87 (188)  
The boom in new commercial development has improved prospects in an already buoyant office furniture market

And looking for a good slice of future business is the newly formed manufacturing company, Office Furniture Designs

The new company is a subsidiary of stock exchange-listed GA Holdings and will be under the directorship of former Grant Andrews Office Furniture man, Mr Gary Prinsloo

"While we are a GAH associate, we will be operating on a completely autonomous and competitive basis," says Mr Prinsloo

"There is so much building activity in Johannesburg and surrounding areas, and Midrand that the climate is ideal for the launch of the company"

BID am 26/5/89

Romano's R10 chance is paying off

DIVERSIFICATION is paying off for Romano Furniture which expects to show a satisfactory profit on the recently-acquired Luries Transport division for the year to June, in spite of a lower volume of orders on the furniture side of the business

The transport division was bought for a mere R10 last year

In an interview yesterday MD Mario de Chaud said Luries then consisted of one man and a truck

"The truck had broken down, it was in pieces somewhere, and we had to invest a lot of money in having it fixed, but it has been an excellent investment," he added

This division now consists of six trucks to service Romano deliveries and another six which deliver for OK Bazaars and Lubners and do domestic removals

Romano also makes brass and chrome furniture, garden furniture, security gates, burglar bars and light fittings

The light fittings and transport operations were acquired since the company was listed in July 1987



CHARLOTTE MATHEWS

Romano's interim results to December showed a 40% drop in net profit to R149 000, before the sale of land and buildings, compared to the previous year, although, as a result of the sales, profit rose by 17% to R289 000



Decline

188

Directors attributed poor results to the number of cancellations of orders in December and a rise in the cost of raw materials and labour

Financial director Jeff Blumberg said the company had now confirmed some raw material prices for several months to come

Faced with a decline in orders, however, the company is carrying high stock levels

Blumberg said heavy investment was made last year in plant for the lighting division, but it was running at only 60%-70% capacity

"We are hoping to see through this year and pick up in 1990," said De Chaud

Stk 12 1157

# Advert under fire for 'flouting' Govt HP rules

**CAROL MIDGLEY**

A CONTROVERSIAL advertising campaign by the furniture giant Joshua Doore has been withdrawn after complaints from the Government and furniture traders that it flouted the new hire purchase regulations.

The full-page advertisement which appeared in The Star and other newspapers countrywide this week offered a hi-fi stand for sale at R599,90 with a music centre thrown in free.

This meant the company was effectively offering the music centre on furniture HP terms — 12 percent deposit and 24 months' repayments — instead of on the new terms relating to hi-fi equipment 25 percent deposit and 12 months' repayments.

After the ad had appeared, the Newspaper Press Union was contacted by the Department of Commerce and Industry, the Furniture Traders Association and other media representatives who complained that it was in contravention of the spirit of current Government regulations.

## 'Good deal'

Managing director of Joshua Doore, Mr David Sussman, told Saturday Star "The new regulations bear no cognisance of the fact that retailers are now stuck with stock ordered prior to the new ruling.

"The foreign exchange for those orders has already left the country and I still had an obligation on 1 600 pieces of equipment. So I was left with a choice of either renegeing on the deal and losing credibility, or ending up with stock I couldn't sell.

"Nobody is suffering because of this offer. The consumer is getting an incredible deal — sets brought in now would cost them R200 more.

"We checked the legal implications of the advertisement and were told it was acceptable."

Said the executive director of the Furniture Traders Association, Mr Frans Jordaan. "Joshua Doore is a member of our association and we were extremely concerned about the ramifications of the advertisement.

"We seriously believe the Government would retaliate to this kind of marketing. We are happy the company agreed to withdraw the campaign."

## Thumbs down for clever hi-fi advert

JOSHUA Doore has developed an ingenious method to circumvent government's latest HP restrictions

The furniture group advertised a hi-fi stand for R599,90 with one hi-fi as a gift with every purchase

The scheme enables customers to buy the item with a 12% deposit and 24-month repayment period instead of 25% deposit and 12 months for audio equipment

Joshua MD David Sussman says the advert was not intended to undermine Department of Finance austerity measures but to sell merchandise bought before the new HP measures were announced

Sussman adds that, if Joshua Doore adheres to the new HP regulations, customers would pay an additional R200 "So we are, in fact, fighting inflation"

188 BRENT MELVILLE

*B/Dan 20/5/87*  
After pressure from government and retail competitors, the Furniture Traders' Association insisted the adverts must end

The association is concerned the apparent loophole in HP regulations will catch on with other furniture retailers and prompt more restrictions

FTA executive director Frans Jordaan says the Joshua advert was not in the spirit of the new HP limits

"Joshua Doore exposed a loophole and, while there is no legal recourse open to government, any continuation of this sort of abuse could necessitate further governmental legislation," he warns

CREDIT RESTRICTIONS

Unhappy uncle

mail 2/6/84 (188)

For Joshua Doore last week, glory was short and sweet. Its attempt to drive a bulldozer through an apparent loophole in the new HP credit restrictions lasted two days before the retail group fell foul of pressure.

When it was all over, MD David Sussman complained "They say we have a free and open economy. Where is it?"

With more than 1 000 hi-fi sets gathering dust in a warehouse, Sussman had the bright idea of giving them away. Any customer buying a simple wooden hi-fi stand for R599,90 would receive a free hi-fi. The motivation was that the plain wooden cabinet could be defined as furniture — on which customers are faced with less onerous credit terms.

Instead of the 25% deposit for hi-fi equip-

ment, with 12 months to pay, customers were looking at 12% with a 24-month payback period.

"Your uncle in the furniture business has found a way for you round the latest restrictive HP measures," read the Joshua Doore ad which ran in newspapers around the country last week.

Customers, however, were not the only ones to respond. Sussman received a call from Frans Jordaan, executive director of the Furniture Traders' Association (FTA). By the end of their conversation, Sussman had agreed to stop running the ad.

"I didn't think it was in the general interest of the retail trade," Jordaan says. "I told (Sussman) it was better not to run it. We came to terms. I didn't wield a big stick."

He says he contacted Sussman because the campaign was against the "spirit" of the HP restrictions. Sussman insists that was his only transgression. There was nothing illegal about the campaign.

He says government pressure on the FTA was behind the crackdown. Jordaan, however, says his call to Sussman came before government intervention. "I was pre-empting that pressure," Jordaan explains.

Government officials later made inquiries and Jordaan was happy to report the matter had been resolved.

Sussman says his campaign was an innocent attempt to sell a backlog of music centres and not to interfere with protection of

the rand and the BoP. "I did not intend to confront the government or undermine what it wants to do."

While government cools down the economy, Sussman sweats over the expense of holding costs on unsold hi-fis he ordered in April 1988, more than a year before the latest restrictions took hold. He insists he is fighting inflation.

"They suppress demand and it builds up and builds up and builds up," Sussman adds. "Then, with all that pent-up demand, they put on new restrictions. How am I supposed to plan for the future? In this business, long-term is a week."

# Furniture sales in doldrums

188 By Kaizer Nyatumba

The furniture industry, which depends heavily on hire purchase agreements for survival, has experienced a marked drop in sales since the Government introduced certain credit restrictions last year, according to the executive director of the Furniture Traders' Association of South Africa (FTA), Mr Frans Jordaan

Mr Jordaan said the industry was hopeful that some relief would be provided soon

Retail figures for April showed a 7,2 percent increase over the April 1988 sales, while figures for March showed a year-on-year growth of 11,4 percent — well below the annual inflation rate

Sales figures for the furniture

industry are based on a monthly survey of 1 150 members

Mr Jordaan said HP sales were poor because of the Government's insistence on high deposits and shorter repayment periods

Many of our retailers are being hard-hit by decreased sales and by the fact that finance charge rates are pegged. The prime overdraft rate climbed recently by 2 percent which means the margins are squeezed

"What makes the industry particularly sore is that furniture, appliances, TV and sound equipments have been singled out by the Government as a whipping boy and all sorts of strictures have been placed on deposits and repayment periods," he added

## DIAGONAL STREET

IN 15 years Hymie Hovsha and his management team have taken the furniture manufacturing business of Victoria Lewis from a 500m<sup>2</sup> "garage" in Booyens to state-of-the-art premises covering 16 000 m<sup>2</sup> at Nancefield south of Johannesburg.

In the early days, Mr Hovsha saw an opportunity for bedroom suites in the upper price bracket, but in 1979 began to expand to meet demand from the mass market.

During the last financial year production capacity was trebled and new lines brought on to the market, such as dining suites and occasional furniture. More than R7-million has been invested in modern imported machinery, and investment allowances should ensure that no cash-flow tax need be paid for the next two years.

Mr Hovsha says that although the group's borrowings and gearing are high, no more need be spent.

"We have planned for the medium to long term. We can increase production on the current equipment and run more shifts."

He says that orders for the first two months of the current financial year are ahead of last year's in spite of the Government's restrictions on the granting of credit to consumers.

"We sell to 22 furniture retailers and demand is still reasonable. Houses are being built which all need furnishing."

All those shops require an exclusive line, and Vic Lewis manufactures and stores components which are drawn and assembled to order. Local deliveries are made by the company's fleet and a freight contractor serves the rest of the country.

Mr Hovsha would not disclose turnover or production figures but drops the hint that more than 30 000 compo-

# Vic Lewis is sitting pretty with trebled

188  
S/Times 25/6/89

# production and new lines

nents are processed daily.

The new plant took eight months to commission, and key staff were sent to Europe for three months to learn all the ins and outs of the machines. The processes are computerised and the 300-strong workforce has been well trained in the technicalities.

So great is production capacity that new markets are being explored. Exports are a possible step, as is a new range of products for the do-it-yourself market.

"We prefer to think of the factory as a wood processing plant rather than as a furniture manufacturer."

The workforce is stable, and there have been good industrial relations over the last two years although there were a few disruptions around the time of listing.

Three quarters of the raw materials are sourced locally, the balance being imports

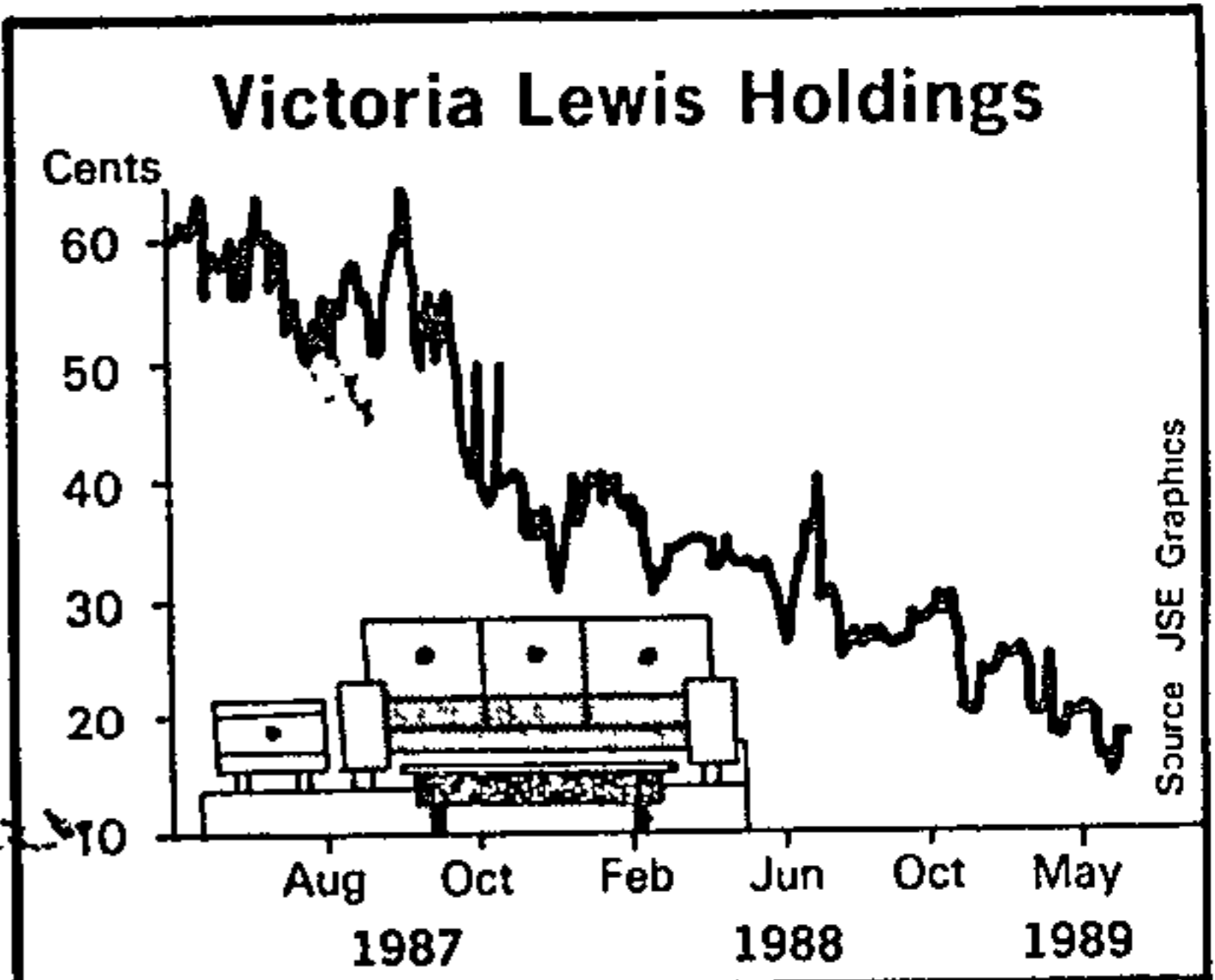
such as special laminates and foils.

Vic Lewis was listed on the JSE two years ago after a private placement of shares at 50c raised over R4-million. There are 17,5-million shares in issue of which management owns more than 50% and Ozz — whose chief executive Gary Zulberg is a director of Vic Lewis — owns 27%.

Mr Hovsha says ways are being examined to bring the gearing of the company "into perspective". With the shares at only 20c, a rights offer would not raise much cash without a large dilution in the number of issued shares.

The shares were 40c a year ago, and picked up from 15c at the start of this month ahead of results due this week.

Mr Hovsha would not be drawn on the figures, other than to say that turnover will be up by around 70% on last



year's even though the company moved from smaller premises in Nancefield and commissioned new plant.

He says earnings for the year to March 1989 are "not bad at all" — at the interim they were 4.2c a share compared with 3.5c previously although the interim dividend was passed.

If earnings are about the same as last year's near 7c for the year the current share

price would be barely three times forward earnings. The second half-year includes Christmas — a boom time for furniture sales.

Last year's dividend was 3.5c, and the historic yield is almost 20%. But a final dividend seems unlikely in light of the high borrowings.

Obviously confident for the future, Mr Hovsha says the shares are a steal at the current price. I won't argue with him.

## Interest in NCI

IN spite of the pasting venture capital companies are taking, Mike Clarke of New Company Investments (NCI) believes there is a great future for them in South Africa.

He has just returned from the European Venture Capital conference. He learned that other countries went through the same teething problems prevalent in SA.

When venture capital is first promoted, it attracts a lot of con men. It takes time to shake them out of the market.

Mr Clarke says four companies expressed interest in investing in joint projects with NCI on the strength of the world firms in NCI's portfolio.

# Violence flares as furniture store strikers hold pickets

188  
w mail  
30/6-6/7/89  
[initials]

**Weekly Mail Reporter**

THE week-old Joshua Doore strike turned violent this week when strikers at various branches were shot at, interrogated, locked in a strongroom, arrested, assaulted and intimidated with firearms

And the Commercial Catering and Allied Workers Union of South Africa reports that between June 21 and June 23, 43 picketers were arrested in the PWV area

One of those arrested, Peter Kolobe, is currently being held at Pretoria Central Prison in terms of the Emergency regulations

On Wednesday at Score Furnishers in Germiston a fracas between workers and management led to the store manager opening fire on striking workers, the representative said Education officer of Ccawusa, Salim Vally, said the manager fired two shots — one over picketing workers' heads and another at the store's roof

Joshua Doore MD David Sussman, said the shots were fired by a security guard who was defending himself against an unknown person who had threatened him with a knife

At the Klerksdorp Score Furnishers workers alleged that two days ago the regional manager and the store manager were seen pointing firearms at picketers

Vally said Joshua Doore's management was guilty of breaking an agreement that they would not call in the police before consulting the union At the Price 'n Pride in Benoni workers alleged plainclothes police were sitting at the manager's desk "calling in workers to question them" At the same store police "pushed strikers and destroyed their pickets"

At a Bradlows Store in Randfontein union members were locked in the strongroom by the manager Police in plainclothes were also present

Sussman said it was strictly against company policy to call the police without consulting Ccawusa and it was against company policy for members of staff to carry weapons

Police had advised the company that by allowing picketers outside stores the Emergency regulations were being contravened, he added

●Colonel Haynes of the South African Police Public Relations division in Pretoria said. "We could not make meaningful enquiries in the limited time at our disposal, with particular regard to the fact that it is not easy to ascertain from the information furnished in your message, in which police stations areas some of the many alleged incidents are supposed to have occurred

"However, if any person has legal cause for complaint, such person has every right to lodge a complaint through any one of the existing channels We give the assurance that such complaints will be fully investigated. The fact that people go to the press with complaints of alleged criminal behaviour, instead of apparently lodging their complaints with the police, tends to raise the suspicion that it is done for propaganda purposes rather than a desire to seek justice "

●Ccawusa this week continued to ballot its members at OK Bazaars stores around the country over the possibility of national strike action

A dispute over the results of the ballot led OK management to file a supreme court application on Tuesday to prevent the impending strike by about 9 000 workers from taking place. The application was held over until yesterday afternoon so that mediations and further balloting could continue



COMPANIES

# Gomma fails to bounce back from losses <sup>12/Day</sup> 31/1/89 (188)

**DISRUPTIONS** in production knocked Gomma's results for the year to March down to a retained loss of R4,2m compared with a R331 000 loss for the previous year

Although turnover fell only 5%, to R34,7m (R34,9m), showing the company managed to retain its markets, operating income dropped to a R1,6m loss against a profit of R79 000 in 1988  
Losses of 18,5c (2,3c) a share made it im-

**CHARLOTTE MATHEWS**

possible to declare a dividend and the directors warn no future dividends are likely to be declared until the company is profitable and the capital structure has been sufficiently strengthened

Gomma carries R3,7m (R953 000) in short-term loans and an overdraft of R4,7m (R2,8m) on its balance sheet

Interest payments during the year were R1,3m (R403 000)

Lounge furniture manufacturer GommaGomma has traded successfully for 15



years but, since listing in 1987, the company has returned disappointing results

In April the Steele family sold 75% of its controlling shareholding to Decagon In-

vestments, a consortium with a range of interests from cement to property

Directors said the loss in the year to March was caused by labour problems and relocation of the woodmill to Ga-Rankuwa They added these problems were being addressed

Directors expect the new factory to be in full production by September and look forward to a small profit in the nine months to the new December year

# Catalogue sales on the wane

Day 317187  
CHARLOTTE MATHEWS 188

MOST of the furniture companies in rural areas that do outdoor canvassing are pulling out of this market because they regard it as costly and high risk

Wanda Frasers is the only company that intends to stay in catalogue selling CE Derek Vercruyssen says the company intends to take advantage of the gap created by the withdrawal of its competitors

Outdoor canvassing is done by sending a sales team out to remote areas with catalogues. When customers have no way of getting into towns, some companies send collectors to collect HP instalments

"Outdoor selling is a very expensive way of doing business because of the bad debts you carry and the infrastructure required," said Savills Transvaal executive director Casper Kruger "We discontinued outdoor selling three months ago"

Ellerines group marketing manager David Lazarus said the company had largely withdrawn from outdoor canvassing, and was concentrating on getting people into shopping in town

"With improved transport networks and increased exposure to the media customers are now coming into the towns"

Tip Top Furnishers also found it was more effective to have the customer coming into the shop "Once the customer is in the store we can meet him and he can see the merchandise and make up his mind," deputy MD Jack Kaplan said

"We can do the credit rating on the spot and we only have to collect the money from defaulters because the customer has shown he can come in and pay. We now have about 35% of our business in indoor selling whereas we were previously 100% directed towards outdoor selling"

## Retailers fight legality of strike

THE two-week Joshua Doore strike, involving 2 000 workers, is to be challenged in the industrial court on Monday.

Joshua Doore is seeking an urgent interdict against the Commercial Catering and Allied Workers' Union declaring the strike illegal and unfair.

Ccawusa members began striking on June 21 in protest at the retrenchment of 500 employees at Reef branches of World and Score Furnishers, subsidiaries of the Joshua Doore group.

Joshua Doore is claiming that the union failed to conduct a strike ballot in a fair and lawful manner. Information on the ballot form which implied that retrenchments were continuing at all Joshua Doore branches, distorted the facts, the company alleges. The company also disputes union claims that 500 workers were retrenched.

Managing director of Joshua Doore David Sussman said: "The union by its own admission accepted the ballot was unprocedural by agreeing to a second ballot. But then they went on strike."

Ccawusa education officer Salm Vally denied the union had agreed to a second ballot. Ccawusa plans to oppose the firm's court application.

188

Wm

7-13/7/87

Victoria Lewis  
passes dividend  
as profits drop

B/Dam 10/7/89 NEIL YORKE SMITH (188)

FURNITURE manufacturing group Victoria Lewis has recorded reduced earnings for the 13 months to March

Taxed profits fell to R1,1m (R1,2m) on turnover which had increased by 76%. With earnings a share down to 6,2c (6,9c), the dividend has been passed

Reduced earnings reflect a higher tax bill as well as substantially increased finance costs, which at more than R2m (R321 000) are almost seven times the previous year's figure. MD Hymie Hovsha says the company has moved to the full tax rate and has undergone a substantial capex expansion programme

Hovsha attributes the increase in interest-bearing debt to R18,9m (R2,8m) to higher stock levels, expenditure on sophisticated plant and machinery and the group's premises move, which saw usable space grow from 4 000m<sup>2</sup> to 16 000m<sup>2</sup>. Production capacity has trebled. In addition, says Hovsha, costly training programmes were necessary to ensure the new equipment would operate at full potential

The group is studying ways to reduce debt levels. Hovsha says a rights offer is one of the methods being considered, but adds at the current low share price this is hardly desirable. Long-term financing has been arranged with the group's creditors and Hovsha is confident of the group's ability to service debt

The group is confident about the current financial year, he says. High interest rates and a cooling economy are likely to affect earnings detrimentally, but the benefits of expansion and improved production facilities will enhance performance. A reduction in gearing levels will significantly reduce the interest bill

## Furniture trade hit by credit restrictions

GOVERNMENT restrictions on credit which were imposed last August had a detrimental effect on retail trade

The furniture trade continues to be especially hard-hit. Figures released by the Furniture Traders' Association (FTA) indicated that retail sales figures for April this year showed a 7,2% increase over sales in April last year, and figures for March 1989 showed a year-on-year growth of only 11,49%, well below the annual inflation rates for both months.

The FTA said that because of higher deposits and shorter repayment periods, hire purchase sales continued to do poorly. FTA executive director Frans Jordaan said increased bond instalments meant that the man-in-the-street's buying power was also diminished, and many retailers were thus hard-hit by decreased sales.

### Luxury items

A Pretoria Chamber of Commerce spokesman said there had been a definite decrease in hire purchase sales and an increase in repair work carried out by businesses, as consumers preferred to have repairs done to washing machines, video recorders and other equipment, instead of buying new items.

Pretoria Afrikaanse Sakekamer chairman Japie Jacobs also said that the demand for items bought on hire purchase had decreased, especially in the case of luxury items. There was also a decrease in the demand for bank credit facilities. — Sapa

1881

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# Supreme takes over Sam Steele for nearly R40m

Charlotte Mathews

CASH-STRAPPED furniture company Sam Steele Holdings has been taken over by financial and industrial holding company Supreme Bond Trust in a deal worth about R40m

Supreme Bond Trust is the holding company of Supreme Industrial Holdings, previously Mewa Holdings

Sam Steele's main manufacturing division is Steel and Barnett, a veneered board, bedroom furniture and kitchen cabinet factory outside Johannesburg. The retail division is the Protea Furnishers chain with 75 stores around the country.

For the year to August 1988 Sam Steele posted an attributable profit of R2,3m against R1,4m for the previous year, but the total dividend for the year was 2c a share compared to 1987's 4c. Gearing was 152%, the highest for five years.

Supreme Bond Trust has acquired for R38m claims of R45m by banks against Sam Steele. In addition, the 49% stake of Joe Berardo's Johannesburg Mining and Finance Corporation in Sam Steele has been bought for R1,47m, representing an offer of 20c a share. This will give Supreme an 88% holding in Sam Steele.

## Resume

An offer of 20c a share will also be made to the remaining shareholders, which, if taken up, would cost another R1,5m.

Subject to shareholder approval, Sam Steele will issue to Supreme 50-million shares at 20c each, by capitalising R10m of the claims of R45m.

Sam Steele shares were suspended at 35c last week and trading will resume today.

Supreme financial director Roque Hafner said last night the existing board members of Sam Steele would remain and they would be joined by Supreme chairman Edward Ronbeck, Herman Erdmann and himself.

"In due course the main board will be reconstituted," he added.

"Supreme is always looking for acquisitions. We saw the opportunity and having the available cash resources we decided to buy the company to turn it around as a viable venture. We already have manufacturing interests and this acquisition will give us a retail interest."

Supreme Industrial Holdings has interests in stainless steel products through Mewa Manufacturing, and in cold rooms, refrigeration units and insulated panels through Insulated Structures.

B1 Day 20/7/89

# Afcol share price in uptrend

STEPHEN RICHTER

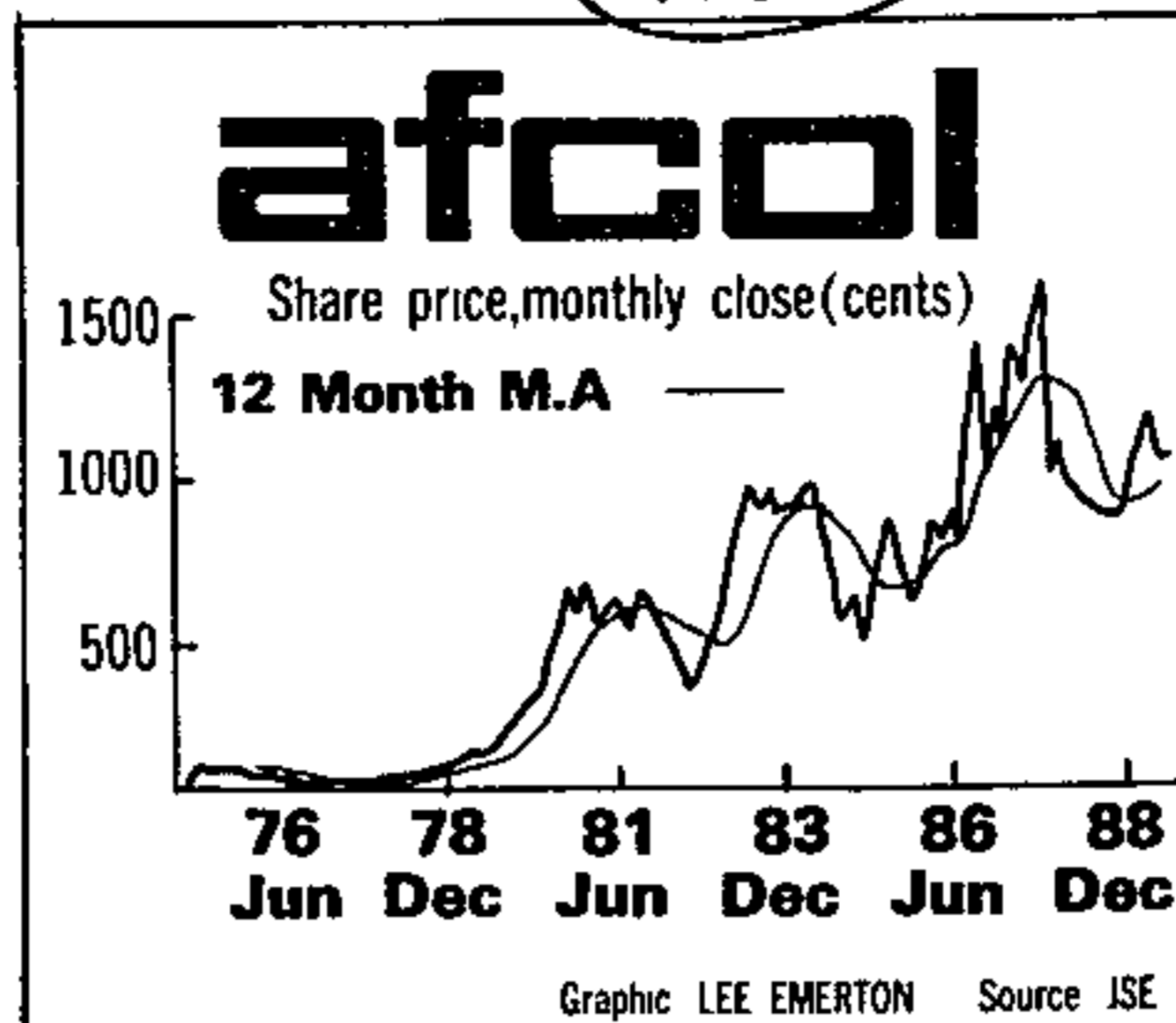
ON THE face of it, shares of Associated Furniture Companies (Afcol) should be getting the cold shoulder from investors due to tougher economic conditions. But the accompanying graph seems to indicate the share price is in an uptrend.

The sharp interest-rate rise during the past year has had a definite impact on consumer spending for durables such as furniture. As long as interest rates remain high, near-term earnings prospects for furniture manufacturers such as Afcol are not encouraging.

But contrary to popular belief, the current trend for Afcol on the JSE is bullish — confirmed by the action of the 12-month moving average line which began to move higher at the start of this year.

This indicator would only be in danger of turning bearish if Afcol's price declined below R1 000c and remained there for a few months. But after reaching a peak of R1 200c in May, there appears to be sufficient buying interest for Afcol to prevent this happening.

Considering the cyclical nature of the industry, Afcol has an impressive track record. Since 1979, Afcol has generated compound annual earnings and dividend growth of roughly 20%



During that time, the group never suffered a loss, while earnings and dividends during the past two years reached record levels.

The group boasts an impressive number of recognised products such as Sealy and Edblo mattresses as well as Greaves & Thomas and Bassett furniture which should help maintain Afcol's market share. But in view of the tough conditions ahead, management will have to contend with some potential problem areas.

In the latest annual financial statement, covering the year ended March 31 1989, long-term liabilities jumped to R92,5m from only R54,3m

at the close of the previous financial year. With interest rates on a steady increase during this period, it was not surprising to see that interest payments more than doubled to R12,7m during the latest year from R6,2m in financial 1988.

Afcol executive chairman Laurie van der Watt says gearing is at a satisfactory level and expects it to decline during the current year. But it seems important that debt levels are reduced to relieve pressure on the bottom line.

Afcol also suffered from a strike which affected production during the financial year. If a similar event occurred, it could have serious implications for Afcol.

A puzzling aspect of group policy is its willingness to maintain a relatively thin dividend cover policy of two times earnings. This policy has been honoured in the past, but in view of the cyclical nature of Afcol's business, management may be a bit too generous with its payout.

However Van der Watt says "shareholders would prefer to know that dividend cover is to remain steady, recognising that the furniture industry by its very nature is cyclical".

With Afcol trading substantially below its 1987 high of R1 800c, the share has lagged behind the general bullish trend of the industrial market. But given the bullish direction of the 12-month moving average line, Afcol should be considered a recovery candidate.

## Furntech's Gundle resigns from top job

*B1 Out 25/7/89* ZILLA EFRAT (188)  
FURNTECH MD Clifford Gundle has resigned from the group to pursue other business interests

He will retain his directorship in a non-executive capacity and will continue as a consultant to the group

After a short sabbatical, Gundle intends to join a diversified international group and develop SA's exports

As this group has facilities in many countries, Gundle will be involved in a great deal of international travel

Furntech's two major operating divisions will retain their respective management teams, while Krok Brothers Holdings will assume direct control of Furntech

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# Anglo Dutch gets R15m plant boost

5 Times 23/11/89  
HIGH-powered backing has paid off for office-furniture manufacturer Anglo Dutch.

The company, which has been turned around since it came under the wing of Kalenbach Hendler — the year-old joint venture of SA Breweries and high-flying Mathieson & Ashley — will benefit from a R15-million investment in manufacturing equipment, computer-aided design (CAD) facilities and large new premises.

The benefits of the new equipment are already flowing through, says M&A chairman Winky Ringo.

## Doubled

The construction of a 13 500 square metre factory at Aeroton will bring two plants at Tulisa Park in Alberton under one roof.

Production of 1 000 desk units a month should be doubled, says Anglo Dutch managing director Alan Green

188  
By Ian Smith

The board is also considering buying another site next to the new factory for a head office and showroom complex, says Mr Ringo. A decision should be made in the next six weeks.

The plant is eight kilometres from Johannesburg

## Integrated

Mr Green says the R4.5-million spent on equipment and CAD is part of a strategy to harness advanced technology to increase productivity. It will enable the company to increase its penetration of the SA market and play its part in export plans.

High-speed automated post-forming equipment is the first of its type to be installed outside West Germany.

Anglo Dutch has commissioned a factory manufacturing resource planning (MRP)

and a CAD system at each of its five branches.

"We will have integrated these systems by the time we move into the new factory next year," says Mr Green. "It will make push-button ordering possible from any of our offices."

"Once a layout has been completed and accepted by the customer, CAD will automatically interface with the production planning system to determine raw-material availability and capacity loading."

"It will then produce a firm delivery date, a quotation and it will reproduce the layout. The benefits in cost savings, improved accuracy and reduced turnaround are enormous."

Anglo Dutch has benefited from management brought in after the partnership with SAB's Afcot office-furniture interests. Production backlogs have been eliminated, delivery times shaved and orders have increased.

## In the firing line

**Activities:** Retailing furniture, household appliances and sports equipment

**Control:** Federale Volksbeleggings has 75% of the equity

**Chairman:** N J Organ, managing director  
C H M Jansen

**Capital structure:** 40,1m ords of 4c each  
Market capitalisation R30m

**Share market:** Price 75c Yields 13,3% on dividend, 31,3% on earnings, PE ratio, 3,2, cover, 2,9 12-month high, 88c, low, 65c  
Trading volume last quarter, 546 000 shares

**Financial:** Year to March 31

	'86	'87	'88	'89
<b>Debt:</b>				
Short-term (Rm)	2,2	26,1	23,4	24,0
Debt equity ratio	0,06	0,69	0,55	0,49
Shareholders interest	0,5*	8,38	0,33	0,34
Int & leasing cover	1,0	1,4	6,7	4,8
Debt cover	0,9	0,3	0,75	0,73
<b>Performance</b>				
Return on cap (%)	7,6	9,4	13,4	15,1
Turnover (Rm)	84	115	157	199
Pre-int profit (Rm)	5,1	9,3	17,2	22,2
Pre-int margin (%)	4,6	8,0	11,0	11,1
Taxed profit (Rm)	0,6	2,6	7,5	9,4
Earnings (c)	12,6	6,4	18,9	23,5
Dividends (c)	—	—	8	10
Net worth (c)	94	95	106	123

It seems almost ironic that a company which provides one of the most informative sets of accounts should be rated on a highly pessimistic yield. Ironic, but understandable — Morkels is right in the firing line of government's progressively austere economic measures.

Chairman Neville Organ makes no bones about the fact that the past year's trading and profit growth was achieved largely in the earlier part of the period. Profits were already beginning to look less rosy by the second quarter and by the early part of the current year had been hit by a further bout of credit restrictions. Turnover grew by

27,3% last year against the previous 35,8% and a far lower growth rate or even a decline is likely this year.

Sales of audio and video equipment fell though the Morkels chain itself increased its share of the national furniture market to 3,35% from the previous year's 3,21%. Despite this, there are plans to extend the chain with new Morkels and Totalsports expansions. By year's end, the group as a whole had regulated stock imbalances which arose when austerity measures clipped consumer demand. In addition, the debtors' book had been tightened and the proportion of cash sales increased. Expansion should represent no problems and does not seem out of line even if trading conditions tighten.

Taking the edge off the tighter market will depend largely on the group's ability to increase market share. Morkels had 3,335% last year, while Totalsports lifted its share to 1,14% from 1%. The latter chain's market share growth prospects seem the brighter of the two, though any profit increase would be from a comparatively low base.

This year's earnings are almost certain to fall, though Organ does not make that forecast. And presumably this will lead to a dividend cut as dividends remain covered 2,3 times. The share has little going for it at present and the relatively pessimistic short-term ratings seem fully justified. *Jim Jones*

Star  
19/8/89  
188

## Inside Out

ANNE  
CROTTY



# Over the moon and into the frying pan

THE biggest talking point of the week seemed to be the Tradegro/Frasers/Rusfurn cautionary announcements

The Rusfurn shares started to run on Tuesday (there was a board meeting on Monday) and so the guys at the top obviously reckoned that it was time for a few cautionaries

There's a lot of speculation about what could be going on. At this stage the odds are on some sort of management buyout or a leveraged buyout but it's impossible to get a useful comment from any of the parties involved.

And as Myles very quickly points out, there are a lot of good reasons why it may not be an MBO/LBO, chiefly that it would be very difficult to see Tradegro agreeing to sell off what is probably its biggest contributor to bottomline profit. It is really in Tradegro's nature to be a buyer of assets not a seller.

In addition there's the very big matter of funding. Myles reckons that you could be looking at a couple of million rands — Tradegro will probably want a bit more than net asset value. This wouldn't be totally unreasonable as the Sanlam guys did carry Rusfurn through some pretty tough years and have invested a lot of management hours in the group

But against all this is the fact that Rusfurn has been linked to MBO talk for a number of years. Myles can remember speculation back in 1986 and it sort of never died out completely. And on the very unscientific basis that where there's so much smoke there's usually some fire who knows?

Anyway Myles's money (metaphorically speaking of course) is on some sort of significant change in the control situation at Rusfurn

Another option is a possible restructuring of Frasers (which holds about 20 percent of Rusfurn) with a view to delisting Frasers and using the cash shell to list Rusfurn subsidiary Dions

Anyway it's likely to be a week at least before the details are finalised

Myles couldn't get much gen

on what was behind the Teljoy cautionary but the market is obviously expecting something reasonably big and favourable — the share has moved ahead quite strongly and it is difficult to get hold of stock. There may be something on the go with Fedvolks which recently acquired a 26 percent stake.

The much awaited announcement from Elgro/Biveck is expected early next week. No change of control — the deal is expected to be valued at around R100 million

Myles' nerves seemed a bit frayed during the week I attributed it to his recent brush with death but it was apparently something far more serious. His mum's feeling a bit poorly ... thinks it's the Taiwan-A flue.

Well it seems that there's nothing like a bit of flu to bring out the Luddite in her, especially when it sort of coincides with the 20th anniversary of the first moonwalk and uh small step for man, giant leap for mankind if I hear that again .. billions spent getting to another environment that we can mess up and people down here still dying of flu

Myles did point out that we'd probably never have been able to develop the non-stick frying pan without the space programme. Billions spent and all I get is a non-stick frying pan!

On more mundane matters it seems that the other party involved in the Didata deal could be ISM which may be looking to take control at over 260c.

Also on the electronics front there's talk that Ohio and CIG are involved in discussions

Myles heard some talk that First National Bank was planning to sell its inhouse video operation to CNA-Gallo .. more funds for more carpets?

Market Motors, a Western Cape Toyota dealership is rumoured to be involved in negotiations with Barlows. The share was a little firmer this week despite union problems at the Toyota plant.

But the Barlows guys were emphatic: No substance whatsoever to those rumours.

# THE WEEK ON THE JSE

By Julie Walker

**RUSFURN** bucked poor sentiment about furniture retailers to gain 25c to 115c on talk of a management buyout at 120c a share

Rusfurn issued a warning on Thursday. The buyout was suggested a year ago at 100c, but was denied by management. Rusfurn recently took over the furniture outlets of Dashaus. In the same group, Tradegro, Frascon and Frasers issued warnings which might relate to a restructuring should Rusfurn depart. Tradegro added 20c to 185c and Frascon 20c to 225c, but was offered at 300c. Frasers put on 15c to 675c.

Homemakers picked up 10c to 80c after the acquisition of Edworks businesses.

Interboard regained investors' favour with a rise of 15c to 80c. The shares dropped to 48c last month on negative publicity.

Teljoy added a quarter to hit a high of 300c on big volume after a warning notice.

Punch Line recovered 50c to 140c after weakening on bad results. Danech group shares also rallied. Danech went from 27c to 40c, Dicor from 14c to 20c and Dan-Glo from 15c to 20c.

## CLAWED

Untraded since June, National Trading jumped 65c to 275c on good results.

Food shares provided sustenance. Cadswep added 100c to R15, Fedfood peaked at 970c, I&J put on 100c to 2 450c, Kanhym firmed 25c to 380c, Premier Group climbed 100c to R49 and Tiger Oats clawed its way to a high of 2 540c after touching R26.

Haggie hardened 250c to R26 after results which pleased the market.

Motor shares took off. Combined Motor Holdings firmed 15c to 140c, Market Motors put on 10c to 130c, McCarthy picked up 75c to 1 450c and Vaaltrucar 5c to 60c.

Multisource made a 67c redemption of capital and the share price adjusted accordingly. It came down from 175c to 105c.

Every share in the property trust sector was stronger.

But, for many punters, gold remained in treacherous territory and the mood on the JSE was one of profit-taking at the end of the week.

Gold shares ran up to silly levels, given the fundamentals. The rand took a hiding on Friday, falling to 272c as the dollar climbed. Gold failed to live up to SA hopes, and doubts must have crept

## Rusfurn rises on buyout hints

S/Time 13/12/89



into the minds of investors who had pushed golds too high.

Kloof shed 50c to 3 585c, Harties eased 175c to 2 775c and Joel 35c to 925c, closing at 950c. Randfontein was up R7 at R233.

Anglo American, Gold Fields of SA and Johnnies were all down, but Gencor edged up to R95. De Beers firmed 50c to 6 090c ahead of results due in a few days.

## DOUBLED

First company on the Venture Capital Market Tecfin was listed after an offer of shares at 25c each. The shares traded between 28c and 35c, where they closed.

On the Development Capital Market Supertrans doubled to 50c. There must be something going on because the share does not deserve such a rating on historic considerations.

Long-bond yields came down as foreigners reassessed the relative merits of SA gilts. Foreign investors can earn a high rate of interest if they buy SA gilts.

# Morkels feels the bite of recent credit curbs

SYLVIA DU PLESSIS

MORKELS' latest quarterly results, released yesterday, are the clearest measure to date of the impact of recent government curbs on the retail furniture industry

The "two-year guarantee store", one of few listed companies to report quarterly to shareholders, has improved turnover by 16%, ahead of market growth in both its furniture and Totalsports chains in the three months to June

But operating profit has dropped 18% to R3,9m, and while the gearing ratio has been trimmed to 37,8% from March's 48,5%, high interest rates have seen a 56% rise in interest charges to R1m (R654 000)

This eroded taxed profit by 30% to R1,4m After making full provision for taxation — a policy the group plans to review — earnings a share fell to 3,6c from the 5,2c recorded in the corresponding period last year Net asset value is still up, rising to 126,9c from March's 123,5c

MD Carl Jansen said yesterday operating profit had been hard hit by increased

pressure on merchandise margins as the group fought to maintain and grow furniture and sports goods sector market share Other negative factors were high infla-

and results for the half-year to September were unlikely to reflect improvement

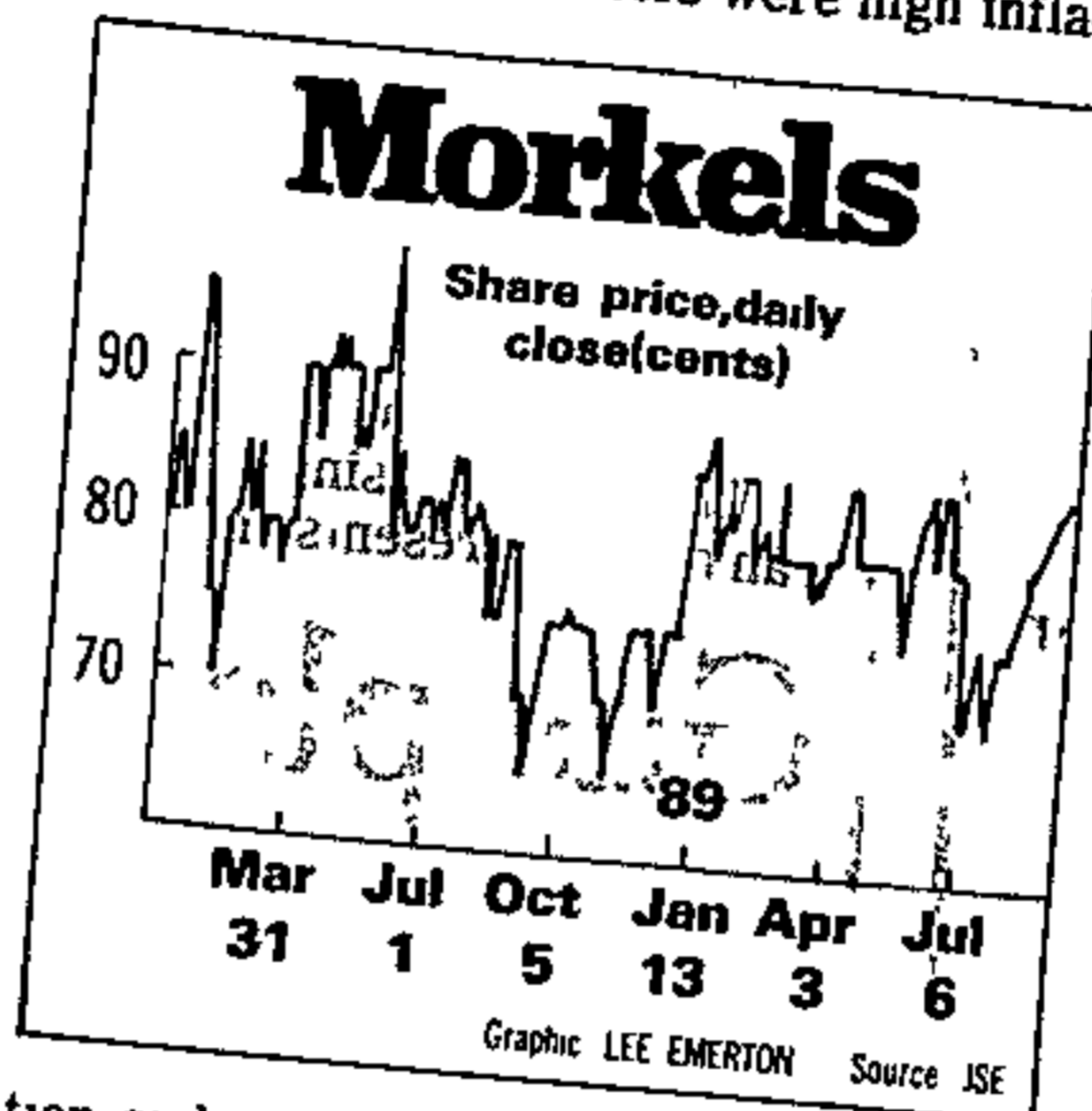
However, the group's plans for the latter half of the year were expected to deliver earnings approximating those of March this year

Enhanced productivity was the "key" to the future To this end, Morkels planned a new store design to enhance turnover generation and Totalsports was expanding its store base, particularly in Natal

He said the group's grip on furniture turnover growth and market share was underscored by the high level of awareness generated by its "two-year guarantee" TV advertising campaign

The latest six-monthly review of the advertisement's effectiveness revealed that 49% of black housewives and 62% of white housewives recalled having seen a Morkels advertisement recently

"This is well ahead of awareness of major competitors with significantly higher advertising budgets," Jansen said



tion and increases in administered costs such as the petrol price hike Jansen said he did not expect trading conditions to improve in the short term.

ROMANO Furniture has failed to recover in the year to June from the growing pains it has experienced since listing in 1987.

# Romano still having growing pains

By Dawn 12/9/89

SYLVIA DU PLESSIS

The group, which manufactures tubular and garden furniture, Security gates and light fittings, has incurred a bottom-line loss despite predicting satisfactory earnings growth at the halfway stage.

Turnover growth of 28% achieved in the first half of the year slowed to an increase of only 9% — R10.5m — in the second half, and a net operating loss of R156 000 has been recorded.

Directors have attributed the drop in sales to measures introduced to curb consumer spending, especially that of furniture items.

This slowdown, with the concomitant hike in the rate of interest costs, saw taxation of R246 000 whittle net pre-tax loss of R530 000 to a net taxed loss of R284 000 before extraordinary items.

An extraordinary item of R68 000 translated into a final loss of R216 000, compared with the R507 000 pro forma profit recorded in the previous year.

Loss attributable to shareholders of R229 000 is down substantially from 1988's R494 000 profit. Losses a share before the extraordinary item total a dismal 2.3c (eps 4c), and after this item 1.8c (eps 4c).

Net asset value a share is down 2.7c to 23.3c, and in view of the poor results, no dividend has been declared in respect of the current financial year. The company's bonus share scheme will be re-

sumed once its profitability has been restored. Commenting on prospects, directors said they did not expect any relaxation in fiscal measures which were "necessary to induce the demand and restore the confidence of the consumer".

"Consequently, we intend to focus on reducing overheads and streamlining production planning as far as possible so as to improve our operating margins and thus return to a position of profitability," they said.

"We thus anticipate an overall improvement and forecast a modest profit for the year ending June 30, 1990."

Romano's shares closed untraded at 11c yesterday on a bid for 10c, which was also the yearly low recorded on August 23.

GOVERNMENT'S clampdown on consumer spending has slashed Picardi Appliances' (Picapl) earnings and dividends in half for the year to June

The Cape Town-based investment holding company has posted a drop in unappropriated earnings to R3,4m from R9,9m

This was produced on undisclosed turnover which increased 114% compared with the 169% hike reported in the previous financial year

A heftier interest bill of R26,5m (R11,8m) trimmed income before taxation to R10,7m — less than half 1988's R22,6m.

### Decline

A final dividend of 7,5c (15c) a share has been declared on bottom-line attributable earnings of R4,8m (R11,5m)

Chairman Jan Pickard said import surcharges, restrictive measures on HP financing and higher interest rates were to blame for the sharp decline in the group's performance over the past year

"These measures, amongst others, impacted negatively on group stockholding due to the six months lag time on imported goods," he said

"In order to reduce stockholding in the second half of the year, margin reductions

# Earnings slashed for Picardi Appliances

By Sylvia Du Plessis 12/9/89

188

SYLVIA DU PLESSIS

were introduced to generate the required volume reduction"

This had a negative impact on profitability, he said

However, demand for the group's refrigeration products — white goods — continued to climb, with the manufacturing division operating at full capacity

Commenting on prospects, Pickard said



● PICKARD

it was expected that consumer demand for semi-durables would remain depressed in the current financial year

Increased management focus on working capital and expense control, supported by the group's management information systems, would provide a solid foundation for improvement in the future

Monday 13/9/89

## High interest bill hits Prestige at at halfway-mark

SYLVIA DU PLESSIS

PRESTIGE'S current financial year would be one of consolidation following moves to make the group trimmer and leaner, MD Angus Snowden said yesterday

The Undev-controlled manufacturer and distributor of consumer durables has posted a sad set of results in the six months to June

While it has reported a 56% hike in operating profit to R1,4m (R927 000), a higher interest bill has whittled attributable profit to R519 000 from the previous six months' R543 000

No provision has been made for taxation as the trading company has an assessed loss

Earnings a share have been maintained at 1,8c, but net asset value per share has risen to 59,8c from 53,4c

### Reorganisation

Snowden said finance costs were higher at R926 000 (R384 000), but the closure of the kitchen unit division, coupled with improved asset management, had reduced short term borrowings by 30%

Major reorganisation of the Krost operation, which manufactures galvanised products and pots and pans for the budget end of the market, had put Prestige's manufacturing and trading divisions on "a sound footing"

Management had implemented tight internal controls to cut costs and labour was being better utilised. In addition, stock had been reduced, debtor turnaround time improved and the group was now "trimmer and leaner"

"And historically, Prestige's business is seasonal and turnover in the second half of the financial year represents a major portion of the annual turnover," Snowden said

He added that the group would relocate its Transvaal-based manufacturing operations from Heriotdale to Ekandustria in Kwandabele, a decentralisation area, in December

The move was expected to have a favourable effect on its 1990 performance



## Acquisition a boost for Sam Steele

NEIL YORKE SMITH (188)

SUPREME Industrial Holdings (Supreme) announced yesterday it had acquired furniture manufacturer Victoria Lewis and merged Vic Lewis's manufacturing interests with those of Sam Steel company Steel and Barnett

Supreme is the listed subsidiary of Supreme Bond, which acquired Sam Steele in a R39m deal in July

Vic Lewis is to issue 60-million new shares to Supreme at 33c each. In return it will receive the assets of Mewa Manufacturing and Insulated structures. These are virtually debt free and will substantially reduce the gearing of Vic Lewis, according to Supreme chairman Edward Ronbeck. *810-4 149189*

Ronbeck said the deal would substantially reduce Sam Steele's borrowings and interest burden

He said Sam Steele was to concentrate on furniture retailing. Through Protea Stores the company has 78 retail outlets selling mainly to the lower end of the market

Ronbeck added Sam Steele would be operating from a much firmer base as gearing had been substantially reduced. He said Sam Steele could further reduce gearing by selling the Steel and Barnett property at Steeledale. This currently has a book value of R9,6m

Ronbeck said the deal would increase Supreme's NAV by 25c

# Supreme buys Viclewis

Stan  
14/19/87 Finance Staff

188  
Supreme Bond, which acquired Sam Steele Holdings in a R39 million deal in July, has acted quickly to reshape the group for recovery.

In a series of transactions announced yesterday, Supreme's listed subsidiary Supreme Industrial Holdings has taken over another listed furniture manufacturer, Victoria Lewis Holdings, and has merged Sam Steele's furniture manufacturing interests in Steel and Barnett Limited with those of Victoria Lewis

Supreme's chairman, Edward Ronbeck, says the deal substantially reduces Sam Steele's borrowings and its heavy interest burden.

The Victoria Lewis acquisition, which is still subject to shareholder approval, involves Supreme Industrial Holdings and its subsidiaries, Mewa Manufacturing and Insulated Structures, in an assets-for-shares swop with Viclewis. The assets of Mewa Manufacturing and Insu-

lated Structures are virtually debt free and will therefore reduce Viclewis's gearing substantially

Supreme Industrial Holdings has also bought out Victoria Lewis shareholders, Ozz Ltd and Mr Roy Woolf, who held approximately 42 percent of the shares collectively. The deal was struck at 33 cents a share and will give Supreme Industrial Holdings an effective 87 percent share-for-shares swop is approved. Minority shareholders in Viclewis will also be offered 33 cents a share

Mr Ronbeck, who has joined the board of Viclewis as chairman, says that as a result of the deal, Supreme Industrial Holdings' net asset value has increased by approximately 25 cents a share

"Supreme Industrial Holdings now has a spread of activities that encompasses furniture manufacturing as well as refrigeration through Insulated Structures, and stainless steel fabrication through Mewa," he says

## 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.

3/Dec  
15/1/89  
Intricate (188)

Reacting to analyst scepticism 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.

# Rusfurn punted as the buyer in Furngro deal

Sten 22/9/89

188

By Ann Crotty  
Speculation is that Rusfurn is the party behind Finansbank's acquisition of control of Furniture Fair Group (Furngro) in a deal that was effected through the JSE yesterday at 180c a share

Some 17 million shares changed hands in a transaction valued at R30,6 million — one of the largest single deals seen on the JSE in recent times

An offer of 180c a share has been extended to Furngro's minorities

The transaction marks one of the few occasions in which the market was used to effect a change of control in a listed company  
Frankel Kruger did the buying leg and Davis, Borkum, Hare the selling side  
Furngro's major asset is its 66,8 percent stake in Furniture Fair (Furnfair)

has been extended to Furnfair minorities

Furngro's controlling shareholders, the Hammerschlags, who head the management team, will be staying on, at least until December and have signed a three-year restraint of trade agreement

Although no announcement was forthcoming from Finansbank yesterday, an analyst speculated that the team currently putting together the Rusfurn leveraged management buyout (MBO) might be behind Finansbank and that the plan was to slot Furnfair into Rusfurn when the Rusfurn MBO was effected

If the Rusfurn management team is behind the deal, it would seem to indicate it is confident of success in its bid to buy control of Rusfurn from Tradegro (An announcement on this front is expected within the next week or so)

Whatever the operational sense that a tie-up between Rusfurn and Furngro would make,

it is significant that according to the 1988 annual report, one of Furngro's major investments is R13,5 million worth of Rusfurn redeemable cumulative preference shares (of which R2 million worth are class A and R11,5 million worth are class B)

Reason for this investment is to balance out dividends payable on Furngro's own preference capital

This means that for an outlay of about R37 million — if all the minorities accept that offer — Rusfurn is picking up a major player in the Western Cape furniture market and getting control of R13,5 million of its own prefs

On the operational side, Furngro's operations — the bulk of which are credit-based — would fit in with Rusfurn's Wanda-Frasers division

Wanda-Frasers is a major player in the black retail market and, like Furngro, most of its sales are on credit  
During the 12 months to end-

June, Wanda-Frasers played a large part in Rusfurn's strong performance, reflecting the fact that this end of the market is not very sensitive to the Government's efforts to curb consumer spending

The heavy finance charge built into credit sales also makes this end of the market attractive since it means significantly higher margins

On the negative side there's the exposure to bad debt and the need to get funding for the debtors' book  
Rusfurn is estimated to have a debtors' book of about R500 million

An additional attraction of Furnfair is that despite its credit sales, it has a positive cash flow

If Rusfurn is behind yesterday's deal, the management team is faced with the task of raising an extra R37 million — on top of the estimated R220 million — to move out of the Tradegro stable

Ret Mack  
M. H. D. + by 0

# Good news in the sky for GA Hold

188  
St Times 24/9/84

**GRANT Andrews Holdings managing director Mike Edwards welcomes the sight of construction cranes on the skyline as much as a highveld farmer welcomes storm clouds.**

He knows that new office towers and corporate headquarters will fill the order books of the companies in the office manufacturing, distribution and retailing group

Results for the year to June 30 prove that it has been a good year for the industry,

**By Ian Smith**

and all the signs point to a better current year

"We got off to a good start with record sales in August," says Mr Edwards

Grant Andrews, listed shortly after the 1987 crash, improved its attributable income by 31% from R2,9-million to nearly R3,9-million. Turnover rose by 44% to R47,7-million. Tax charges increased after assessed losses were virtually wiped out

Earnings have increased

from 20,3c a share to 24,6c, and the dividend has been increased to 8,5c from last year's annualised 8,2c

Last year's budgeting was close to the final results and he is confident of similar expansion this year

Production constraints which limited market penetration last year have eased with new factories coming into operation, and the group is looking at one more acquisition

"It would enable us to dedicate one factory to manufacture for export markets, which are promising," says Mr Edwards

One of the manufacturing companies has been given the SABS 0157 listing and other companies will move towards this target this year

"The quality-assurance programme has had a dramatic effect on quality and productivity," says Mr Edwards

The group's attention to basics is paying off in the profit on sales measure, which moved up from 14,6% to 14,8% in the past year

Grant Andrews Office Furniture Contracts began the current year with a record R4-million order book. The Office Furniture Hypermarket, which started from scratch, has done well and branches in Witbank and Durban will give it a national presence

The three major manufacturers in the office furniture market will be bidding fiercely for contracts from First National's Bank City project in Johannesburg. Mr Edwards is confident Grant Andrews will get its share

"There are many other big new projects there — look at the cranes on the horizon. We see no sign of any downturn"

## Grant Andrews showing sturdy profit growth

SYLVIA DU PLESSIS <sup>188</sup>

Office furniture group Grant Andrews Holdings posted a sturdy set of results for the year to June following a repeat of the growth in both sales and profits it achieved at the interim stage. *Business Day 25/9/89*

In line with directors' forecasts, earnings were up to 24,6c a share from 20,3c, and the dividend had improved to 8,5c from the previous year's annualised 8,2c

This had been produced on sales which rose by 44% to R47,7m (R33,1m) and operating income which increased to R6,9m from R4,8m

After an interest bill of R358 000 (R261 000) pre-tax income was higher at R6,5m (R4,5m)

Tax charges, which surged from R1,6m to R2,5m, resulted in taxed in-



MD Mike Edwards and chairman Grant Andrews

come of R4m (R3m) and attributable income higher at R3,8m (R2,9m)

Chairman Grant Andrews and MD Mike Edwards said in a statement that over the past five years results had indicated an average increase in turnover of 33%.

They added that the 44% increase in sales in the period under review was encouraging, particularly in view of the current economic situation

"Our growth was generated entirely within the company. Major contributions were made by excellent performances from our retail outlets, which allowed manufacturing operations to work at high efficiency," they said

This growth trend was expected to continue in 1990, with budgets for all group companies showing marked expansion. *Business Day 25/9/89*

They said an acquisition was being considered which would provide the "necessary capacities" to cater for the export turnover.

The introduction of the SABS 0157 quality assurance system into all the group's manufacturing facilities, to be completed by June next year, would have a "dramatic" impact on productivity levels, they said.

Companies in the group include Grant Andrews Office Furniture, The Office Furniture Hypermarket, Seating and Contract Seating.

# Rusfurn top brass buy Tradegro stake

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SYLVIA DU PLESSIS

RUSFURN senior management, in two deals totalling R264m, has led a R232m buyout of the Tradegro group's interest in the furniture firm and has acquired investment holding company Furngro for R32m.

The 386-store group includes Russells, Giddy's, Dion and Wanda-Frasers.

The buyout, effective from July 1 and bringing to an end 54 days of intense negotiation, has stripped R66,8m out of Tradegro's pre-tax profit of R179m, posted in the 1989 year to June.

The price paid for Tradegro's 98,2-million shares — representing a 60% stake in Rusfurn — and Frasers' 33,8-million shares (20%) was 140c a share in cash. Rusfurn's pre-suspension price was 130c.

The deal was concluded through holding company Rusfurn Investments (Pty) and a consortium comprising Finansbank, stockbrokers Frankel Kruger and the Trust-Bank, which has provided the bridging finance.

Rusfurn CE Geoff Austin and his management will immediately acquire 10% of the Rusfurn equity for R23m. The balance is being placed among institutional investors at 140c a share, which is also being offered to minorities.

A performance-linked share participation scheme will enable management to increase its stake by 15% over three years on existing share capital, subject to Rusfurn declaring a minimum dividend of 16c a share at the year-end, and an inflation

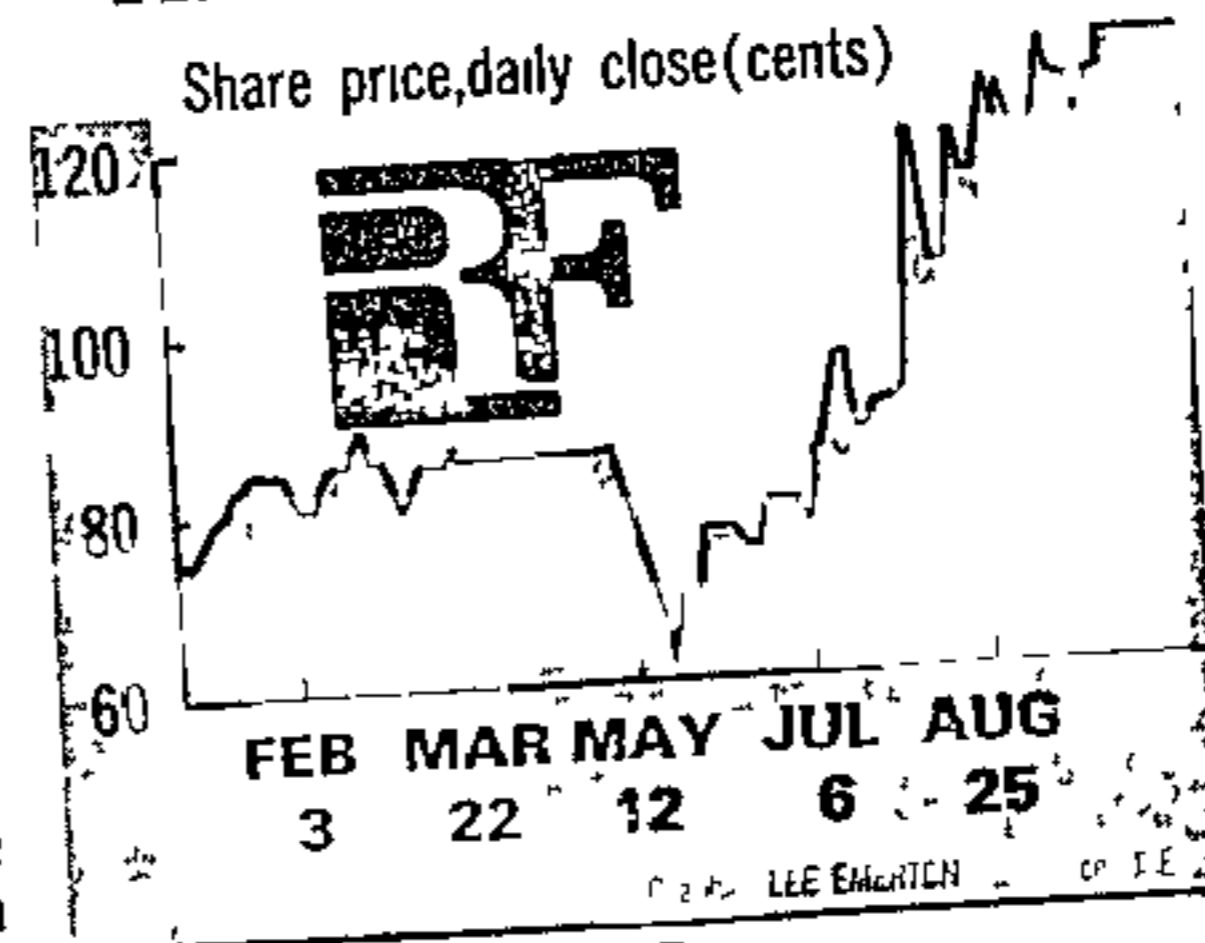
plus 5% growth in dividends for the following two years.

The deal has been structured to keep control in management's hands: no single shareholder may own more than a 10%-12% stake at the outset.

The independent Rusfurn has also acquired from Finansbank, Furngro, the pyramid holding company of Furnfair, by buying 17,8-million shares at 180c each. This deal is being satisfied by the issue of redeemable preference shares.

The group has asked for the lifting of the suspension, which stood at 130c prior to the announcement, with effect from today.

## THE RUSFURN GROUP



# Rusfurn management team buys control from Tradegro

9/16/89

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By Ann Croft

In a move that seems set to have major ramifications for the investment community, a consortium led by Rusfurn management has bought control of Rusfurn from Tradegro for R232 million — equivalent to 140c a share.

The 140c a share represents a prospective P/E rating of 2,5 times on the 55c-a-share earnings forecast for the 12 months to June 1990. A dividend of 16c is also forecast.

The senior management team, led by chief executive Geoff Austin, is putting in R23 million to acquire 10 percent of Rusfurn, which controls Arrow, Dion, Giddy's, Rudicks, Russells and Wanda-Frasers.

The balance of the R232 million will be put in by various institutions, pension funds and minorities.

Initially, no single shareholder will have more than a 10-12 percent interest, meaning control will not rest in the hands of any one party.

This represents a significant change from the previous control situation where Tradegro had 60 percent and Tradegro subsidiary,

Frasers, held 20 percent.

A split from its parent had been on the cards for some time. It reflects the conflict between Rusfurn's growth ambitions and Tradegro's reluctance to see its exposure to household durables increase any further — particularly in view of the attendant pressure it puts on Tradegro's balance sheet.

The deal will change the earnings profile of Tradegro. In financial 1989, Rusfurn contributed 36 percent of pre-tax profit — this percentage contribution is much higher at earnings level because Rusfurn currently pays no tax. It expects to enjoy a complete tax holiday for another four years.

In the 1989 year Rusfurn earned 36,3c a share. It is difficult to see how Tradegro will earn much more than 20c on the 140c a share it will receive from the sale of Rusfurn.

The opportunity lost by not participating in the forecast 55c a share earnings in financial 1990 will be even harder for Tradegro shareholders to bear.

The significance of the deal is not only its size, but the fact that

it has resulted in a breakaway from a major retail conglomerate — Tradegro — which in turn is part of the Sanlam group.

Rusfurn is a major player in furniture and household durables — a sector that is currently far from being a firm favourite with institutional investors. The large debtors' book — well over R500 million — must also have been of some concern to the investment community.

That the management buyout (MBO) succeeded in the face of these potential hurdles (including fairly tight time constraints) suggests that Rusfurn was able to present an attractive investment package to potential institutional investors.

It also highlights the quality of the professional advice management received from brokers Frankel Kruger Vunderne and merchant bankers Finansbank.

Mr Austin says, "We found Finansbank to be immensely resourceful and imaginative in its support, while Sidney Frankel was of invaluable help in putting the deal together."

Towards the end, TrustBank

came in with bridging finance, enabling the management team to offer Tradegro an unconditional and guaranteed deal.

The deal includes the acquisition of Furngro from Finansbank (which acquired it just ten days ago) for R40 million. Furngro is expected to contribute 5c to the 55c earnings forecast for financial 1990.

Furngro will be paid for by the issue of preference shares in a Rusfurn subsidiary, thereby maximizing the tax efficiency of the payment.

Three major selling points for the management team were that Rusfurn's interests are widely spread in terms of market segment and geographic location, some 40 percent of sales are cash, and management is putting in R23 million.

This last point should certainly focus the minds of the executive team and lead to tighter management of assets.

To the extent that it does, the MBO will have succeeded in unlocking good earnings growth from a changed ownership profile and will set others a fine example.

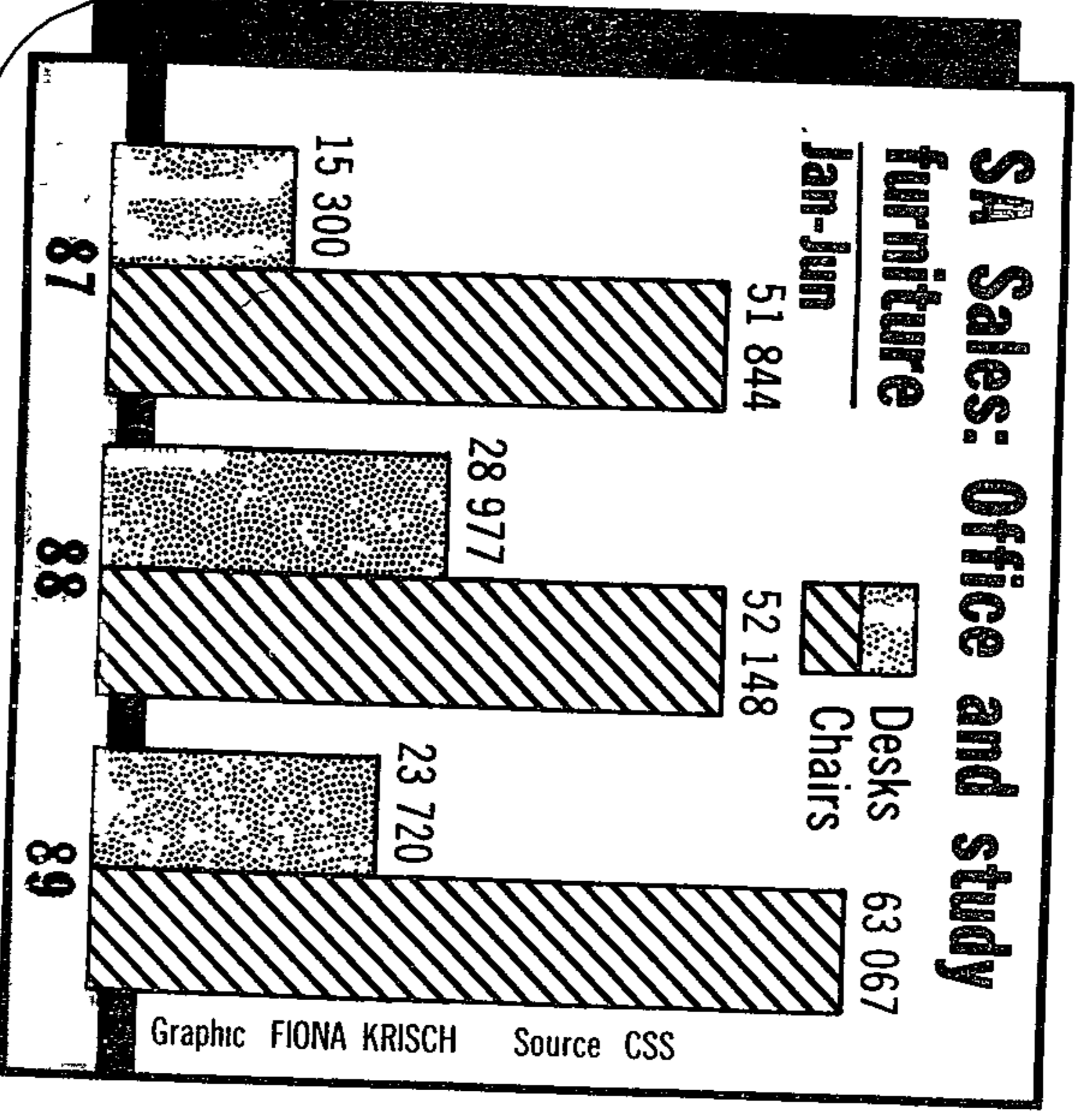


# Business Day

## SURVEY

Computers revolutionised offices almost overnight, but employers and furniture manufacturers are only now catching up and planning appropriate environments for both their employees and their hi-tech equipment. LYNN CARLISLE examines the impact of new technology on traditional planning and looks at some of the factors which affect the design of office furniture.

### Office furniture



# Boom times forecast as industry goes hi-tech

THE SA office furniture industry, with annual turnover of between R400m-R600m, is likely to grow more rapidly than the general economy, according to industry leaders.

Spurred by high import charges, sanctions and a low rand, manufacturers are becoming more innovative and independent of imported input, says Cecil Nurse, Business Furniture MD Les Fuller.

Strong future growth is likely because office furniture is linked to hi-tech information technology where developments have proved an ongoing boon worldwide.

Some go so far as regarding office furniture as part of the information technology industry, with furniture designs ultimately dictated by hi-tech equipment developments.

Company are also becoming more space utilisation conscious, which has led to designs, including filing systems, that are more space effective. Increased awareness of the importance of corporate image has led to furniture standardisation by major institutions. Also, the number of white collar jobs is increasing at a faster rate than the general growth of the economy. These factors have speeded up the replacement cycle of the market, says Rubenstein. This has caused an upsurge in sales this year and in 1988 (see graph).

Fuller says although the local market is going through a stimulating period, maintaining a strong future will require certain conditions. The future of local office furniture manufacture is in the hands of too few suppliers of raw materials, which can affect prices. There is only one steel supplier, two chipboard manufacturers, two major timber suppliers and two manufacturers of epoxy resins. SA is an advanced Third World market, whereas all the overseas manufacturers are supplying sophisticated First World markets. This, together with sanctions, import surcharges and the devaluation of the rand, means importing and even manufacturing here under licence is prohibitive.

As a result, local industry has had to become more innovative and design furniture that meets the requirements of local climatic conditions and usage. "In my view," says Fuller, "we have no need to import technology in our industry. We have the local expertise and capability and if we maintain a high level of customer service and availability, together with productivity in all sectors, we have a strong future."

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# Exciting year for Furnfair

CHARLOTTE MATHEWS

THE year to June was the most momentous in the history of Furniture Fair (Furnfair), chairman Ronnie Stein said in the group's annual report released yesterday.

This year could be even more momentous as a result of yesterday's announcement that Rusfurn had bought the controlling interest in the company.

This said that the acquisition was part of Rusfurn's "objective of the acquisition of companies with a strong market share in clearly defined market niches".

## Conversion <sup>to 10/89</sup>

Rusfurn financial director Mervyn Gerszt said in an interview yesterday the future of Furnfair was "exciting" and some reorganisation was planned.

"In the western Cape we now own Arrow, Furniture Fair, Harmony, Montays, Giddys, Russells and Dion. There are significant synergistic benefits between the companies and we plan to more than double the size of the Furniture Fair chain."

He said the reorganisation could include the conversion of the metropolitan area Arrow stores into the Furniture Fair

group because the directors felt Arrow was better placed as a rural chain.

In the Furnfair/Furngro annual report, Stein pointed out that in the course of a year the company had grown from a small retail chain to one of the country's largest independent retailers of furniture and household appliances.

"At the end of the financial year to June 1988, the group had a total of five stores under its control. Twelve months later, this figure had risen nearly fivefold to a total of 24," Stein said.

In the course of the past year the group acquired the seven stores in the Montana chain and the seven Harmony stores.

He said four new stores opened under the Furniture Fair and Montana banners and the first outlet in a chain of specialist video and television shops was opened.

Stein pointed out that turnover rose by 174% to R72m (R26,2m) and attributable profits by 186% to R13m (R4,5m).

He said the bottom line performance was remarkable, especially in view of the year's adverse trading conditions.

# Rusfurn 'on way to super profits'

B/Day 6/10/89

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MERVYN HARRIS

AT A time when the furniture industry is shrouded in doom and gloom, with most companies expected to report mediocre results, Rusfurn CE and new owner Geoff Austin is confident the group will buck the trend and produce "super" profits.

A consortium led by Rusfurn management, with Austin at the helm, this week concluded a deal to buy control of the R1bn-a-year group from Tradegro for R232m

## Dividends

Various institutions will end up with up to 10% of the shares, while nine senior directors of Rusfurn have put in R23m of their own money, everything they own, to acquire their 10% stake

A further incentive to produce the forecast of a 50% growth in earnings and dividends for the year to June 1990 is that, by producing such "super" profits, management will be eligible for additional new shares which will enlarge its stake to 21% at the end of three years

This was one of the inno-

vative schemes resulting from the deal which was concluded after 54 days of negotiations. That was the deadline given by Tradegro to Austin to put in an offer for control of the group

The R232m he had to raise in such a short time was a lot of money for a sector that is currently unfashionable. But for a man who sees himself as a strategist, it is not surprising that the deal was clinched

When Austin took charge of Rusfurn in February 1986, the group was running at a R26m loss for the year to June 1986. It was listed on the JSE in June 1987

In the past financial year to June 1989, the group reported net earnings of R60m, a turnaround of R82m in three years

The spark which triggered the management buy-out was the conflict between Rusfurn's growth ambitions and Tradegro's reluctance to increase its exposure to consumer durables. The conflict came to a head in June when Rusfurn agreed to buy Furngro, but Tradegro did not want to approve the deal. On August 7, Tradegro gave

Austin the opportunity to come up with an offer by September 30

Austin, 44, immediately called in Sidney Frankel of stockbrokers Frankel, Kruger, Vindrine, Hennie van der Merwe of merchant bankers Finansbank, and TrustBank

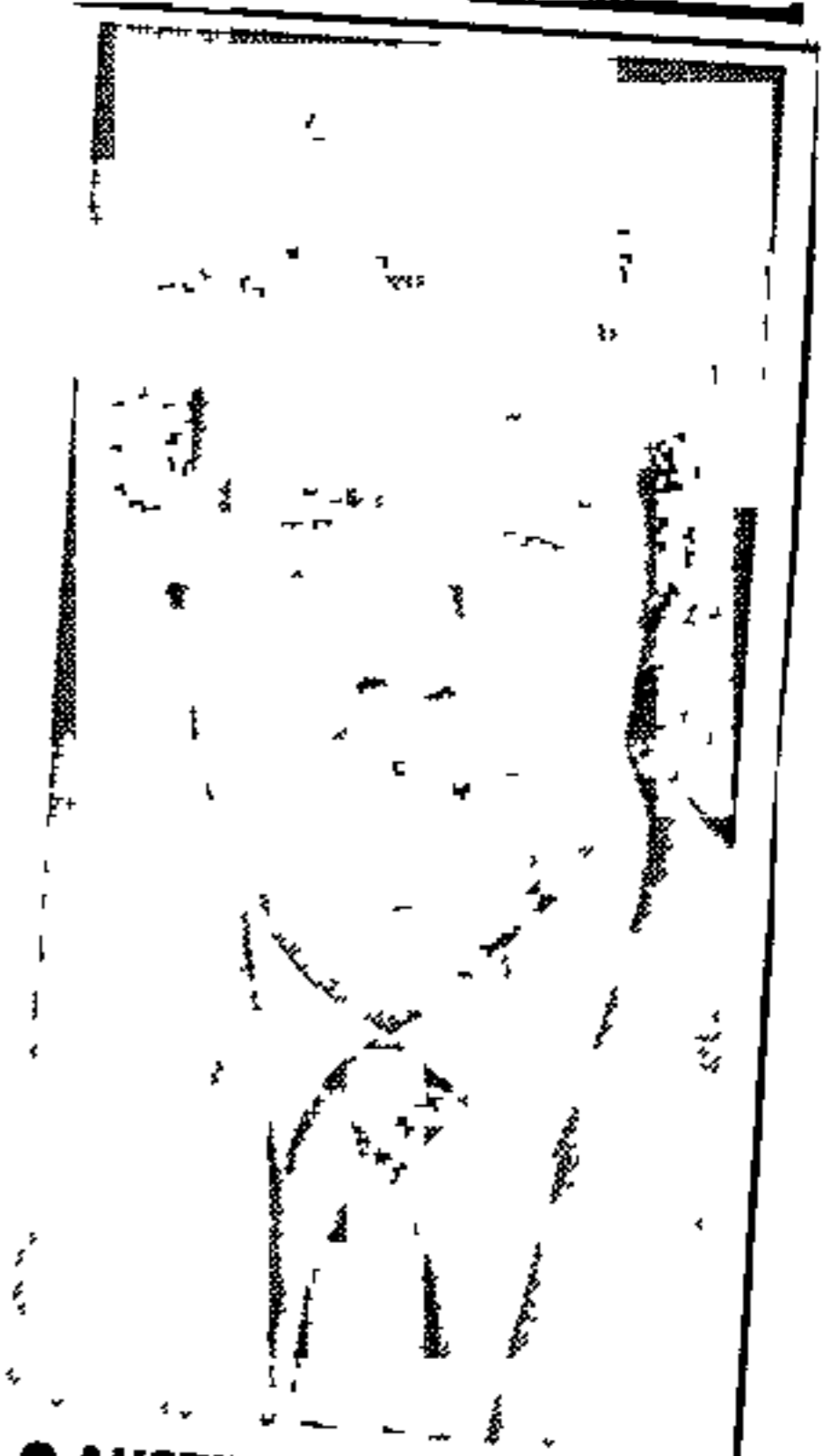
Over the next few weeks, Austin gave at least 30 detailed presentations to various institutions on Rusfurn's plans and prospects

From an initial attitude of scepticism — "Oh no, not furniture" — virtually every institution expressed interest in coming in on the deal at the end of each presentation. As a result, Rusfurn shares were placed at 140c each, higher than they have ever been

## Impending

However, Austin first had to surmount a Catch 22 situation, for a key element in the 50% profit projection for the current financial year was the Furngro acquisition

But until an agreement was signed with Furngro, nothing of the impending deal could be mentioned. This was because Furngro itself has many institutional shareholders and did not



● AUSTIN at the helm

want them to know of the discussions in case the deal did not come off

This hurdle was overcome when Finansbank stepped in and offered to buy Furngro with no guarantee that Rusfurn would take Furngro off its hands if the deal with management failed to materialise

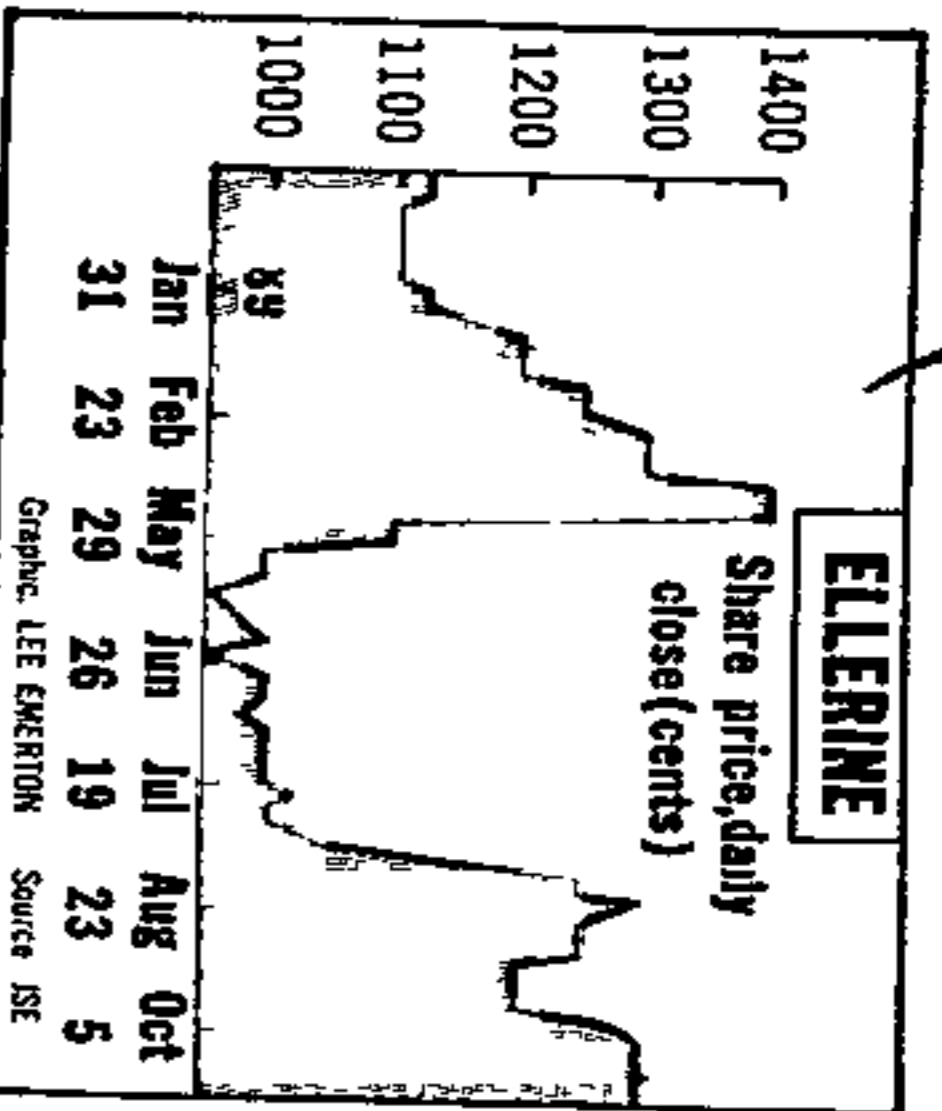
It was a courageous decision by Finansbank which enabled Austin to inform potential investors about the proposed Furngro deal. This fact tipped the scale for many institutions to come in on the deal

With only 10 days remaining before the deadline, TrustBank then stepped forward to underwrite the entire offer so that Austin could go to Tradegro with an unconditional offer for Rusfurn

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## COMPANIES

# Under-rated Ellerrine glitters after clean-up



**HIGHER** productivity, higher control over working capital and an improved debtors book boosted furniture retailer Ellerrine's operating margins for the year to August to 15,6% from 10,8%.

Although the 15,7% increase in sales to R389,5m (R336,7m) just kept pace with inflation, operating profit jumped 66% to R60,7m against R36,5m in the previous year. Earnings showed an even better gain of 79,8% to 512,9c (286,3c) a share and a dividend of 166c (89c) a share was declared.

Ellerrine is 60,2% held by Mahabak. Nevertheless the share plummeted from R14 in March to R11 in April when

## CHARLOTTE MATHEWS

interim results to February showed a fall in earnings to 174c from 203c a share.

In the last six months the group has concentrated on improving the quality of its debtors book. This has stimulated cash flow and reduced debt liabilities.

One of the most remarkable features of Ellerrine's income statement is the fall in financing costs to R540 000 from R2,3m last year when other businesses have shown the effects of higher interest rates.

This gives the group an interest cover of 112 times against 15,7 times for the 1988 financial year. No gearing figure was

available. On the balance sheet current liabilities have dropped to R76,6m (R92,7m).

According to the directors, "cash collections, following the difficulties experienced by the group during the 1987 and 1988 fiscal periods, were excellent and resulted in a recovery of the increased level of provisions emanating from the weaker debtors book during those periods."

In September a cautionary notice was released by Ellerrine and Barnett's together warning that negotiations were taking place between the two companies but these were terminated a few days later. Director Eric Ellerrine has admitted the

group is very interested in making an acquisition in the retailing sector although not necessarily in furniture.

"The group is in a healthy state at the moment. We have done a complete clean up in the company," he said.

At yesterday's price of R13 the share is very undervalued in relation to its net asset value of R23,02 on the latest balance sheet. At R13 it has a historical dividend yield of 7,1% and a p e of 4 compared to the furniture sector averages of 6,8% and 3,4 times respectively. On the latest dividend the share has a dividend yield of 12,8% and an earnings yield of 39,5%.

# M&A keeps moving

S/Times 15/10/89.

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MATHIESON & Ashley, Winky Ringo's fast moving office furniture and equipment company and Vestacor, its pyramid, are to sub-divide their shares, one-into-four.

The shares have been one of the best performers on the JSE, rocketing from R6 to R16 in the past two years. Theoretically, once they are four times more numerous, the shares should fall to just above 400c odd. The move is to improve marketability, says Mr Ringo.

"The share price is R16 now. Not long ago it was R4. Perhaps some long-time holders would like to take some profits on part of their holdings. A number of institutions have been trying to pick up reasonable lines of stock in vain. We hope this will make the shares that much more obtainable."

Outstanding results recently, plus speculation that a deal is near with the Krok brothers' listed furniture maker, Furntech or its subsidiary, Cecil Nurse have made the shares popular.

Mr Ringo admits there are storm clouds over the economy and the office furniture industry. New office construction appears to have peaked and blood has been shed copiously in the computer business, which is fairly closely related to office furniture.

Mr Ringo also acknowledges aggressive competitors eager to repeat M&A

## By David Carte

and Dashing's lucrative exploits — but he is still sublimely confident.

"Our sales were about R100-million last year in a total market of R650-million. That means we are dominant players. We are also right at the top of the market."

## Modern

"We have invested in first class people, computer-aided design and modern technology in our factories to put ourselves out of reach of competitors. While there are some aggressive and highly competent newcomers, a number of big players, such as Kallenbach, Hendlers, GKN and Duncan Baine, have either disappeared or been absorbed into other companies."

"The economy has been

cooling since the third quarter of last year and yet our order book has never been better. First National, Old Mutual and other institutions have thousands of square metres of new office space.

"Ango Dutch has forward orders of R14-million, Dashing R8-million and Offex R3-million. We have been so busy repairing Anglo Dutch that we have neglected Mathieson & Ashley, our office products arm. We want M&A to contribute half of group sales from things such as stationery, communications equipment, fax machines, optical character readers etc."

"Depending on whether we pull off certain acquisitions, I think we can continue to grow earnings healthily in spite of everything. Dashing grew consistently, regardless of economic cycles, for 20 years. We are not despondent about a cooler economy. We



WINKY RINGO .. still confident

think it could bring opportunities.

"We used to import a lot of high-tech furniture. No longer. The only imports are bits and pieces, plus some designs on which we pay royalties. But self-designed products account for the bulk of sales today and we are in a position to export quite profitably."

In the results published two weeks ago (earnings up 102%) M&A achieved pre-interest margins of 16%. Stock and debtors came down in relation to turnover, reflecting tighter asset management. Thanks to Anglo Dutch, tax was negligible. Mr Ringo says there will be little tax again this year but the rate will go back to 35%.

At the year end, there was R10-million of cash in the bank. Stocks and debtors have been squeezed further and now there is R14-million of cash, earning 18%.

If there are storms ahead, Math Ash and its pyramid seem to be built on rock.

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# Rusfurn buy-in changes the face of corporate finance

MERCHANT banking in SA took on a totally new guise with the breakthrough R232m financing of the management buy-in (MBI) of Rusfurn, which retails consumer durables. At one stage, Finansbank and Trust Bank were 100% at risk on R259m of shares. If the MBI had not been consummated, both banks would have ended up owning retailers.

And nine members of the Rusfurn executive team that manages Rusfurn, Wanda Frasers, Arrow and Rudicks had to raise R23m to complete their part of the deal. Says Rusfurn MD Geoff Austin "I hooked everything including my wife, my dogs and my unborn children."

Finansbank's Willy Ross says the Rusfurn deal was not a management buyout (MBO). "It was a management buy-in (MBI), the first in SA. The difference is that in an MBI management buys into the equity without there being a change in the underlying structure."

Another difference is that an MBO normally means that management gets effective control in the Rusfurn MBI management ended up with 10% of the equity, with an option to acquire another 15% — that, fully di-

luted, would mean 21%. The saga started when Austin was given a 54-day option to buy Rusfurn, effectively 80% held by Tradegro. Tradegro was not too happy with what was happening at Rusfurn, if only for reasons that it had not foreseen when Tradegro was restructured in 1985.

## Option

There had been the issue of a large amount of convertible debentures which carried covenants regarding debt levels. Rusfurn had grown too fast its gearing remained within acceptable levels, but its level of absolute debt was too high and there was a good chance that the debt covenants would be infringed. And, anyhow, Tradegro regarded its exposure to consumer durables as high enough.

The idea of Rusfurn making an acquisition was enough to ensure that Austin was granted the option. Tradegro had prevented it from acquiring Furgro — pyramid of Ivan Hammerschlag's successful Furniture Fair chain in the Cape which also includes Montana and Harmony.

Furgro was described by Ross as a "magic" opportunity. "It's generally accepted," says Ross, "that the consumer durables market is over-traded, and that it's not possible to

## BARRY SERGEANT

grow organically."

Says Austin "The only way to grow is by acquisition. Austin determined to take the option, approached Finansbank. The answer, which was not immediately apparent, was the MBI. Sidney Frankel of stockbrokers Frankel Kruger Vinderrine was called in. Here two crucial points arose. To get the transaction under way, Finansbank would have to buy the 85% available stake in Furgro from the Hammerschlag family — for what turned out to be R35m. Finansbank was also potentially at risk on R15m of minorities' shares.

It would mean that Finansbank was 100% at risk on the shares unless the whole MBI went through. "We had enough confidence in the underlying asset," says Ross. "But we knew there was no chance of a back-to-back. There was simply no way that Tradegro would sanction an acquisition."

In the event, Finansbank was assisted by Mony Kaplan, CEO of its Cape of Good Hope subsidiary, to do a due diligence investigation into Furgro. The investigation team gave the green light and Finansbank went ahead with the dawn raid, paying the Hammerschlag family R35m. Trade-

gro knew nothing about this. Finansbank was now in a position where if it could not consummate the MBI it would end up owning a furniture retailer. The next step was simple but it involved a lot of money. The banking consortium, Finansbank and Trust Bank, paid Tradegro R185m for its 80% stake in Rusfurn. The minority will be paid R47m, taking the value of the deal to R232m.

Tradegro was presented with a fait accompli when the guarantees were put up. Now Finansbank and Trust Bank at a cost of R185m, owned 80% of Rusfurn, Finansbank owned 85% of Furgro.

Says Austin "The event marked a totally new dimension in SA merchant banking and banking, with two banks prepared to go 100% at risk on shares. This was no warehousing transaction."

Says Ross "Institutions which we envisaged as ending up holding 90% of Rusfurn, had to be taken through the rounds. We knew from the beginning that this would be extremely difficult. The consumer durables market particularly, furniture, is seen as highly cyclical, and a risky long-term investment. The management of Rusfurn had committed themselves to buy some-

how, a 10% direct stake in Rusfurn at a cost of R23m.

Says Austin "We mortgaged everything, which is probably one of the main reasons the institutions believed in the deal." While Finansbank dwelt on the merits of the entrepreneurial flair of Austin and his executive team, the institutions saw the opportunity of buying a portfolio investment, rather than the riskier strategic investment that Tradegro had held.

## Boom

Says Austin "The retail sector has had a low rating for some time and the offer price to the institutions for stakes in Rusfurn was very reasonable. I think they perceived that there was very little downside potential — that they would be buying into Rusfurn at the bottom."

Moreover, says Austin, Rusfurn should not be paying tax for the next three years. But if there is a boom in say, 1991, Rusfurn will again have the opportunity of seeing the debtor's tax allowance (Section 23 of the Income Tax Act) growing faster than profits. As it is for the moment, 42% of Rusfurn's sales are in cash — much higher than other counters in the sector.

And Austin is on the lookout for more acquisitions. "We've made four in the past three years. We're looking for anything outside food which fits in with our strengths — managing credit and chain stores." He hopes there will be a change in investor perception about the sector. "If Finansbank could pull off this deal for us, they could pull it off for anyone."

In the event, the institutions agreed. Finansbank and Trust Bank were off the hook and the MBI was complete. Austin prefers to describe it as a management-led management buyout.

Nine Rusfurn executives paid R23m for their 10% stake in Rusfurn and institutions took up the rest. The books balanced out. Right now, nine Rusfurn executives are looking to pay R23m of debt they raised to buy their stake in Rusfurn. It's a strong incentive for them to engage in world-class retailing.

Henne van der Merwe, now GM at Nedcor MD at Finansbank during the saga says the deal bought out the kind of entrepreneurship that SA desperately needs. "The Rusfurn MBI had set a precedent that has changed the face in this country of corporate finance, the most dynamic side of merchant banking."

# It's going to be a

**THERE'S never been a better time to buy furniture, appliances, TV and sound equipment than right now.**

It's Furniture Month '89 — from October 16 to November 18 — and more than 1 800 furniture retailers around the country are working hard to make it a bumper event for consumers.

Furniture Month is an annual event organised by the Furniture Traders' Association in co-operation with the Federation of Furniture Manufacturers, the Domestic Appliance Manufacturers' Association of South Africa and the Radio and TV Manufacturers' Association. It is a month during which they want to tell consumers about the long-term benefits of investing in the wonderful variety of household goods available.

Right now, the stores are full of exciting products — comparable to the best in the world — and there are some wonderful pre-Christmas bargains to be had.

This year, the annual Jackpot Competition will be bigger and better.

More than R80 000 worth of prizes are being offered. The first prize is R20 000 worth of furniture, appliances, sound and TV equipment of the winner's choice.

But there's also a serious side to Furniture Month. One of the main aims of the event is to make South

Africans more aware of furniture, appliances, TV and sound equipment and how to buy intelligently to suit their needs.

There are products right across the price range — each serving a different purpose.

## Options

The FTA is disseminating a wealth of information about what each offers.

Another aim of Furniture Month is to help consumers buy the goods they want.

During the past year, certain credit restrictions have been imposed, mak-

# really fun

# Furniture

# Month!

## There's R80 000 worth of prizes to be won

ing some kinds of buying — for example, hire purchase in respect of certain commodities — more difficult.

During Furniture Month, the payment options are explained to consumers so they can choose the one that suits their budgets.

## Advantages

Furniture Month is also to let consumers know about the advantages of buying from an FTA member store.

Over the years, the furniture retailing industry has worked hard to build up a reputation for fair trading and sound business practices.

FTA stores adhere strictly to a Code of Conduct, which affords a great deal of protection to consumers.

During the past 12 months, hundreds of furniture sales-people have undergone an intensive product training course aimed at giving the cus-

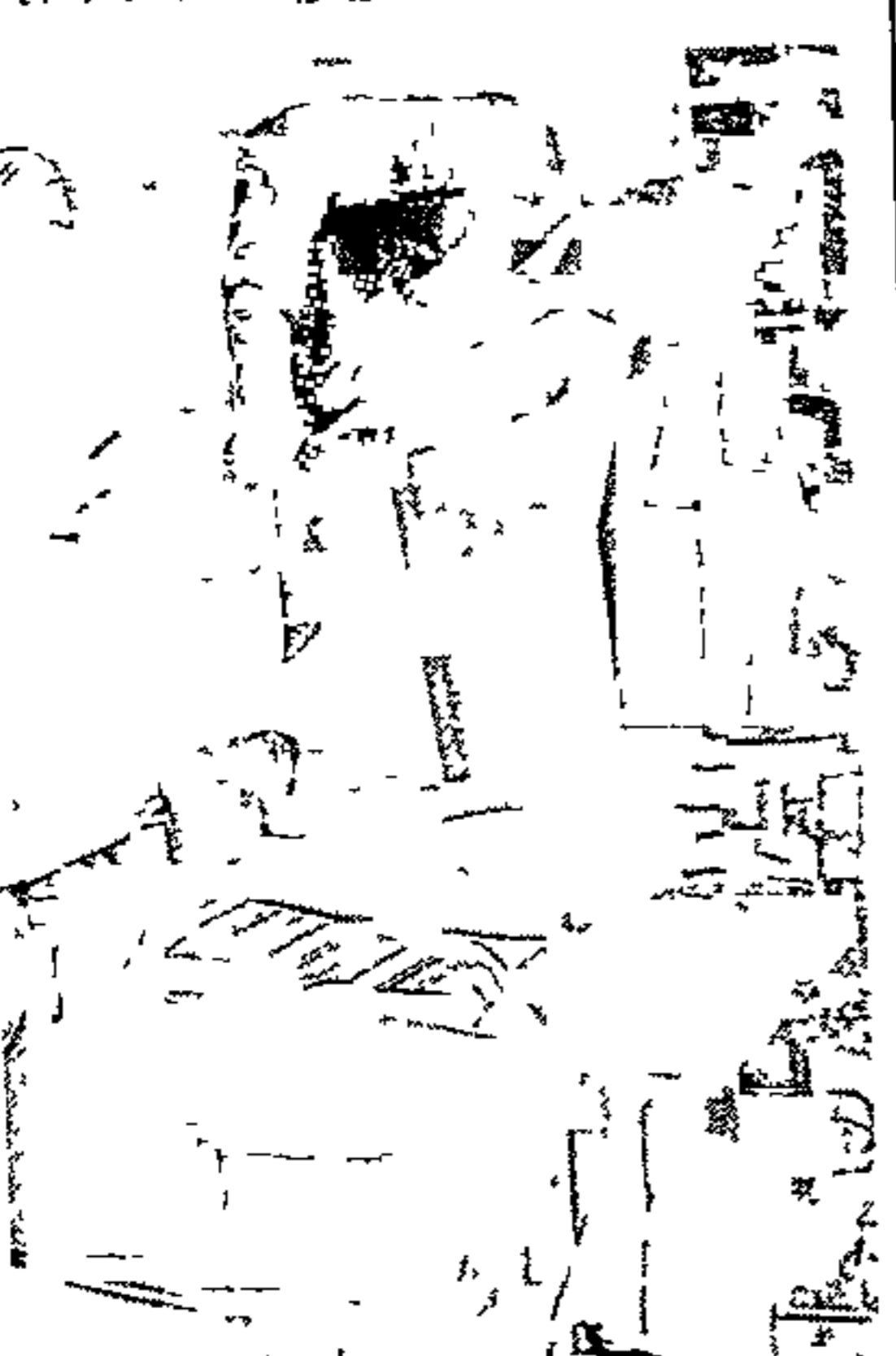
tomers better and more informed service.

Dozens more will complete the course by the end of the year.

## Exciting

So, visit your favourite furniture store to see what's on offer.

It's good to keep in touch with what's new and exciting — and don't forget to fill in a jackpot competition form while you're there — you could be one of the winners!



Dave Rees, FTA chairman, and executive director Frans Jordaan look forward to a bumper Furniture Month.

*5 Times Supplement 22/10/89*

188 ~~200~~ ~~200~~

24/11/89

**Activities:** *Retails furniture and household appliances*

**Control:** *Malbak holds 60,9%*

**Chairman and managing director:** *E Ellerine*

**Capital structure:** *7,2m ords of 50c Market capitalisation R90,7m*

**Share market:** *Price 1 260c Yields 13,2% on dividend, 40,7% on earnings, PE ratio, 2,5, cover, 3,1 12-month high, 1 400c, low, 950c Trading volume last quarter, 204 000 shares*

**Financial:** *Year to August 31*

	‡'87	*'88	'89
<b>Debt.</b>			
Short-term (Rm)	48,4	23,5	nil
Long-term (Rm)	nil	nil	nil
Debt equity ratio	0,39	0,17	—
Shareholders interest	0,44	0,49	0,57
Int & leasing cover	9,94	19,8	—
Debt cover	0,49	0,78	—
<b>Performance*</b>			
	‡'87	*'88	'89
Return on cap (%)	10,6	14,0†	21,0
Turnover (Rm)	192	206	390
Pre-int profit (Rm)	30,2	25,4	58,9
Pre-int margin (%)	9,3	12,3	15,1
Taxed profit (Rm)	16,6	14,0	35,4
Earnings (c)	241,1	203	513
Dividends (c)	60	89	166
Net worth (c)	1 807	1 966	2 304

\* 8-month trading period to August 31

† Annualised

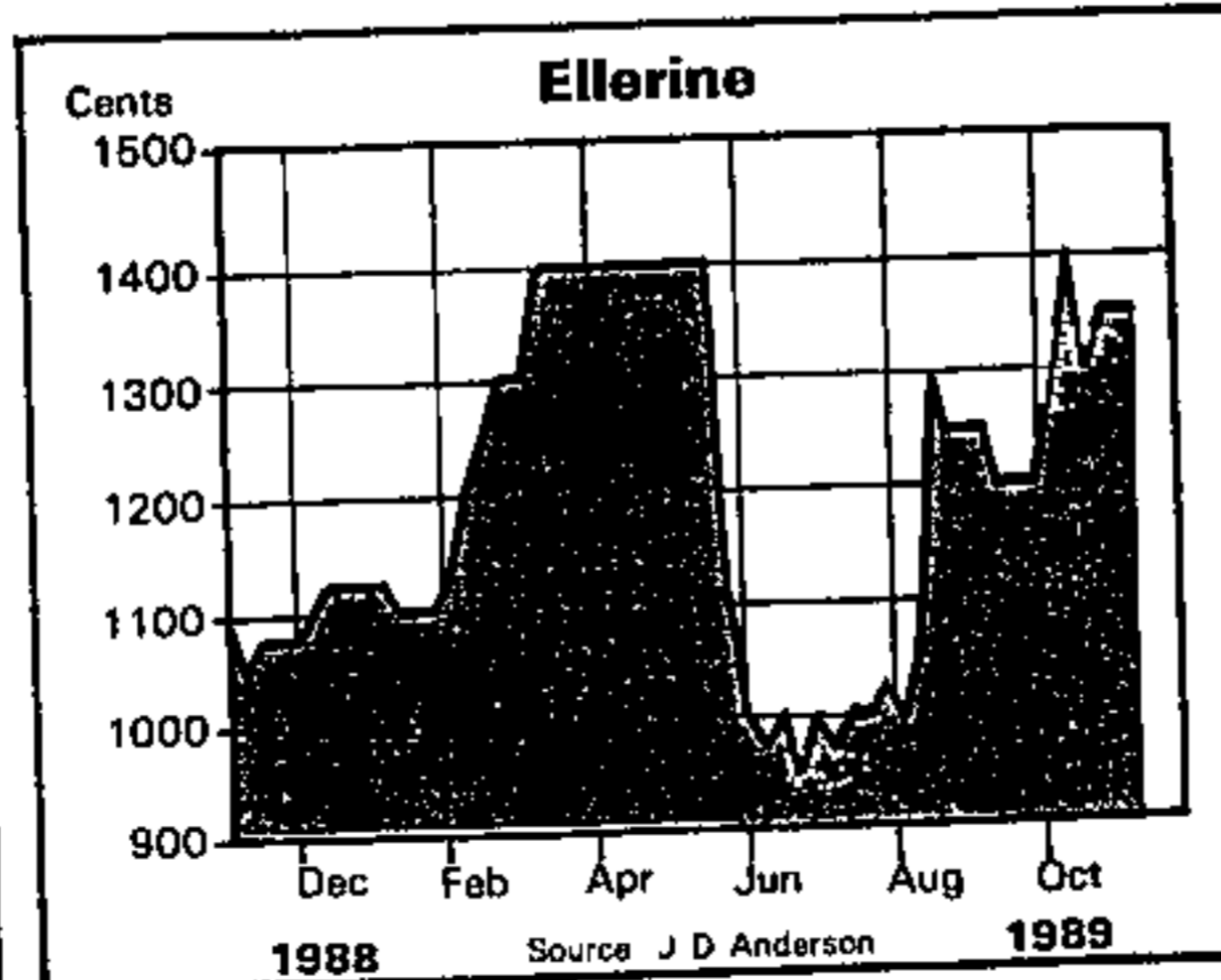
‡ 12 months to December 31

but the balance sheet is now debt-free and the new financial year has begun with the security of credit well under control

Last year the chain managed to increase its market share to 18% from 16%, due to "strong focus in its traditional market, which is the middle- to lower-income groups," says chairman Eric Ellerine. The past year's trading performance owes much to management's success in anticipating market movements. Tighter controls of working capital, credit granting and asset management were emphasised well before government's austerity measures bit.

In addition to stricter controls, the directors increased deposit requirements and exercised better judgment over credit granted to buyers of audio and electronic goods. Ellerine says "The sale of these goods previously accounted for a disproportionate share of the bad debts we had to write off."

Despite the difficult trading conditions, the group fared reasonably well. Operating margins rose to 15% (11%) and the directors expect a further improvement this year. They believe industrial action is unlikely and



ELLERINE

(188) mail

### Free of debt

Government's restrictive credit curbs failed to dampen Ellerine's profit performance this past financial year. Turnover rose by only 16%, and trading conditions remain difficult,

(188) mail 24/11/89.

"even if action takes place, predictions won't have to be modified." The labour union — Catering and Allied Workers' Union — has threatened action on December 18 if negotiations over layoffs procedures are not sorted out. At present negotiations are deadlocked.

Jacques Magholo



# Furntech to sell WTI, become cash shell

FURNTECH is to become a cash shell after poor operating results for the interim period to June 30. It is to dispose of its sole operating subsidiary Western Transvaal Industries (WTI) to Macsteel Commercial Holdings for a price that will only be known after audited figures to December 31 are released.

The purchase price will be the audited tangible net asset value of WTI at December 31.

It will include an amount attributable to the increased value of plant and equipment at that date and is payable in cash in the interim period for the six months

**BARRY SERGEANT**

to end-June, Furntech reported a loss of 9,7c a share (+6,3c)

Turnover increased 13,1% to R41,1m as an operating profit of R2,1m was turned into a loss of R2,2m

The interims include an extraordinary item of R919 000 that saw last year's interim profit of R1,8m turned into a loss of R3,8m

On the Furntech balance sheet, shareholders' equity fell from R15,3m at end-December to R11,5m at end-June. The ratio of interest-bearing debt increased from

34% at last interims to 86%. The net asset value was 39,3c at the latest interims, against 49,5c a year ago, and 52,2c on December 31. *Bidan 24/11/87*

Meanwhile, PW Corporate Services last night announced "agreement had been reached with Macsteel for the disposal by Furntech of the entire share capital and all shareholders' claims in Western Transvaal Industries (WTI)"

WTI is named as Furntech's "sole operating subsidiary" and "accordingly, the disposal of WTI will result in Furntech becoming a cash shell"

# In for a penny, in for a pound, at Rusfurn

2/12/89

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**RUSFURN chairman Geoff Austin believes that he who laughs last laughs longest and loudest**

At the moment, Tradegro and holding company Sanlam seem to be smirking all the way to the bank

Tradegro sold its 59% stake in the listed Rusfurn at 140c a share, netting a neat R137-million. It reduced its own gearing to only 9%

Tradegro company Frasers sold its 20% holding in Rusfurn on the same terms

## CONSORTIUM

The buyer was a consortium made up of Rusfurn's executives, a stockbroker and a bank. The 140c offer to minority shareholders has taken Rusfurn's share price close to that level

The deal was struck at net asset value — a price agreed on by both parties. The irony is that Rusfurn shares had never been traded anywhere near that figure. They were priced at only 60c in May, having traded at under 90c for most of 1989

What Tradegro did not know was that Rusfurn's earnings for the year to June 1990 would later be forecast at 55c a share, and the dividend at 16c

Rusfurn's team needs to make it for two reasons — the commitment to investors and the credibility of management

It was not that Mr Austin kept the forecast a secret — there were five Tradegro directors on Rusfurn's board. It was based on what manage-

ment thought it could do with a group freed of parental ties. Sanlam has a broad furniture portfolio which includes Ellerne, Morkels and Tedalex. It could have reasoned that a conflict of interest would have arisen when Rusfurn proposed to buy Cape retailer Furniture Fair

It could not be denied that Furnfair was right for Rusfurn, but it might not have been so for Sanlam. The takeover proposal was approved unanimously by Rusfurn's board, but was frowned on from higher up the body corporate

Well, it came to pass that it might be best if the ownership of Rusfurn changed. Mr Austin and his colleagues raised R23-trillion — 10% — and financial institutions came up with the rest

## PREDATOR

Mr Austin is particularly proud to note that Rusfurn's operational managers asked for a piece of the action — 43 of them were allocated another 10% on the same terms of 140c a share

This was a smart move because a further 7% is held by management in the share option scheme, and 27% is enough to veto any proposed takeover of the group which is without a controlling shareholder

A predator might well appear if Rusfurn fulfils Mr Austin's objectives of 50% compound annual growth and a slot in Business Times' Top Five companies by 1992. How does growth of 50% a year compare with Tradegro's return in three years? It

bought in at R85-million in February 1986, and got out in October 1989 for R185-million. That represents capital appreciation at about 30% a year. There were also dividends

If Rusfurn's share price sustains a fixed earnings multiple, the capital appreciation could be even better than Tradegro got

## PINCH

Mr Austin outlines why he believes Rusfurn can make 55c this year when other furniture retailers are feeling the pinch

Rusfurn had record sales in November, and on a year-to-year calculation its sales to November 1989 grew by 23%. More importantly, 56% of group profits comes from the lower-income bracket, 28% from middle-income and 16% from higher-income customers

This weighting outside the badly squeezed middle income should see Rusfurn right in lean times. Mr Austin says there has been a big sales effort aimed at the rural population, which tends to pay up

The average 24-month account is usually paid in 36 months on the plateland

Middle-income chain Rus-sells, which comprised 75% of Rusfurn three years ago, now represents only 21% of turnover and 20% of profit. High-turnover, low-margin Dion is respectively 37% and 15%, and Wanda-Frasers the opposite at 15% and 34%

The four names in Furnfair will account for 12% of sales and 18% of profit. Rusfurn's

other recent acquisition Dasha is comparatively small. Its Mattress House is doing well, but Furniture Hyper will be replaced by Dion Furniture, filling what Mr Austin describes as a gap in mass-marketing by Rusfurn. The rest of the group comprises Rudicks, Arrow-Furugo and Giddy's

Rising interest rates do not have as bad an effect on credit instalments as is generally thought — the major effect is psychological. The average size of individual sales throughout Rusfurn is R700, and the current maximum rate of interest is 33%

Even if the usury rate rose to 38%, the repayment on a R700 purchase would climb, roughly, from R43 to R45 a month. "Consumers can still afford it," says Mr Austin

## WINNER

He is aware that he has paid a full price for Rusfurn, and says the share price could ease after the standby offer to the minority is out of the way

But he is in for a penny, in for a pound. In the long term

he believes Rusfurn will be a winner. Should Rusfurn grow in line with his expectations, it will earn 95c in 1992

If the market rerates Rusfurn shares to a price of only four times earnings — the sector average — it could approach 200c within a year

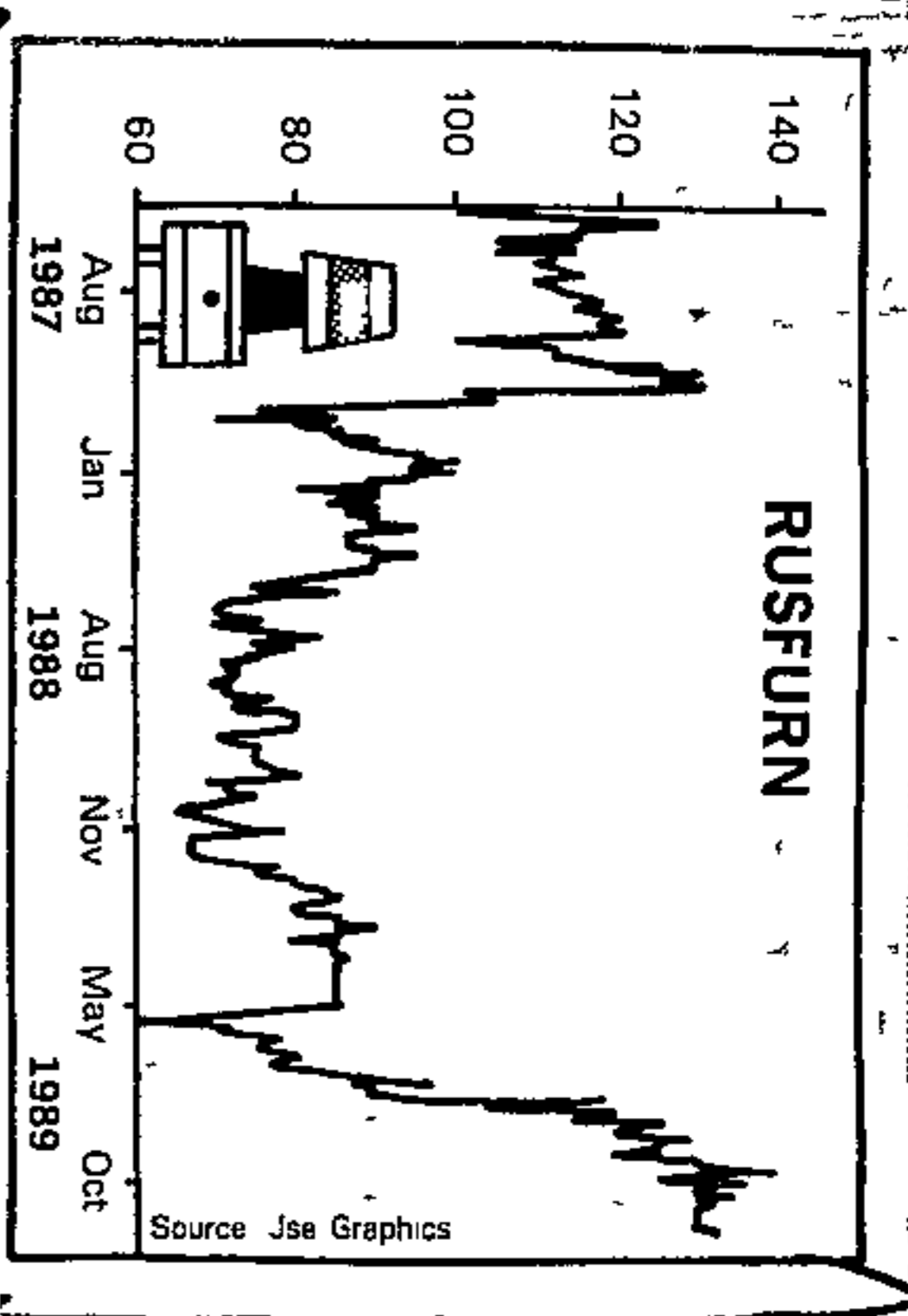
The sector average is distorted by the differences in provision for deferred taxation adopted by the various companies, and could be lower if all adopted the most conservative method

## RELAXED

Rusfurn adopted the partial method of provision on the grounds that it will not pay tax in the foreseeable future and that today's shareholders should get today's profits

A good time to buy Rusfurn could be after the standby offer is finished early next year. This could coincide with a Budget announcement relaxing credit restrictions on certain goods, which would spruce up sentiment on the sector

Mr Austin is looking forward to a good belly laugh



**COMPANIES**

**Norvic Manufacturing set to be the first listing of 1990**

B10 on 2/1/89

SHOPFITTING group Norvic Manufacturing is all set to become the first new listing of 1990

According to reports the group has applied to join the development capital market of the JSE in January

The group, based in Rosebank with a factory in Alberton, is to raise just over R1m by the private placement of 2,1-

million shares at 50c a share. In total 16,1-million shares will be authorised. Norvic is believed to be negotiating the acquisition of the Pinetown-based PC Henderson group. Part of the funds raised by the listing are expected to be used to finance the acquisition. The group, established in 1947, has

important contracts with some of SA's major retailing groups. These include Checkers, Metro Cash & Carry and Cashbuild. For the 12 months to July 1989 Norvic generated net after tax earnings of R817 000 from turnover of R13m. This would translate into per share earnings of 5c, and a dividend of about

2,6c. For the current financial year, the group is projecting net after tax earnings of R713 000 from turnover of R12m. This is expected to generate per share earnings of 7c and a 2,2c dividend. Projections for the following year are earnings of R877 000 on turnover of R15m.

# Rusfurn to go it alone

Tradegro's former CEO Mervyn King first gave Rusfurn identity by refloating it. Then CEO Geoff Austin, ably assisted by his motivated management team, made things happen.

Surprisingly, directors hold only two million out of the 166 million issued shares

They were working hard for Sanlam and when Donald Masson, who knows little about furniture, replaced Mervyn King, it was only a matter of time before management wanted to break free of Sanlam's yoke and take a bigger slice of the pie.

The recent buy-out announcement to shareholders gives them the chance. They couldn't have chosen a more perilous time to paddle their own canoe. But when times are tough that's when the tough get going. Management is seeking to restructure the group, buying Sanlam's (98 million) and Frasers (34 million) shareholding — 132 million out of the 166 million shares at R1,40 net asset value.

Unnamed financial institutions have promised to take up Rusfurn shares at the same price. An analysis of 1989's annual report is important to check this price.

All operating divisions contributed positively. Almost 42 percent of sales were for cash. There is little doubt that Dion's 13 stores with sales of almost R400 million and bottom line of R16 million could be separately listed shortly, thereby raising around R200 million for Rusfurn with shareholders benefiting from the rights issues.

This could reduce rising debt which, with the pref shares in a subsidiary, increased to R166,8 million (1988: R127,5 million) by end June 1989

Dashaus, bought during the year for R7,25 million cash, has problems with Rusfurn finalising material warranty claims.

It is debatable whether Rusfurn should provide for deferred tax. It hasn't (and I agree), and at June 30, 1989 this liability, although very remote, was R49,5 million which if provided would reduce net asset value by 30 cents. In effect, this is the goodwill that Sanlam is receiving by selling at R1,40 a share.

Sales were R934,05 million (1988: R729,57 million). Operating profits were R87,69 million (R61,33 million). Interest increased to R30,86 million (R14,34 million) leaving a bottom line of R66,83 million (R46,98 million). No deferred tax has been provided as the Section 24 Suspensive Debtors Tax allowance gives relief.

After deducting minority shareholders' profit R6,7 million (R3,84 million) attributable earnings were R60,13 million (R43,14 million) giving earnings per share of 36,3 cents (26 cents). Dividends were upped to 10,5 cents (7,5 cents). Below the line goodwill R4,35 million (R1,13 million) was written off

Major divisional support came from Wanda-Frasers' 148 stores with sales of

Bottom Line  
MICHAEL MENOF



R185,3 million and pre-interest profits R36 million. Russells's 124 stores had sales of R233,3 million and profits R26,3 million while Dions 13 stores had the biggest sales of R359,1 million with profits of R15,7 million.

Cash driven Dion and lower end of the market Wanda-Frasers chain serving the black market produced almost 60 percent of sales and bottom line. These two chains could be the saving grace as the disposable incomes of the middle income sectors served by Russells and Arrow battle against the sagging economy.

Retained income is seldom sufficient to fund growth. Phasing out of the GST debtors allowance and the increase in GST hurt cash flows and gearing.

Pref shares of R50,5 million were raised during the year through a subsidiary and treated as debt. The ratio of debt to equity was 42 percent (37 percent).

Significant events during the year included buying Dashaus's 21 stores, opening one Dion store, a clearance store in Botswana and placing one of the largest Unix-based hardware orders in SA. Dion plans two new stores in 1990 with no incremental head office costs.

The balance sheet is healthy with shareholders funds R230,11 million (R191,74 million) by June 1989. Outside shareholders' interest of R67,44 million includes the R58,5 million preference shares. Working capital improved to R383,82 million (R297,22 million) but includes R519,85 million (R441,53 million) instalment debtors.

If the buy-out succeeds no single shareholders will hold a controlling stake. The buy-out will position the group for enhanced growth in the future, ensure greater marketability of the shares and enable executives to acquire significant shareholdings.

With current earnings of 36,3 cents, shareholders are looking at a P/E of four times. Forget about the deferred tax guff. It will never arise. All shareholders need to do is evaluate management and where they can take the group.

My bet is that Mervyn King will again be chairman with capable CEO Geoff Austin responsible for overall control.

Rusfurn's management, especially Jannie Els, Derrick Vercruyssen, Ian Sturrock and Mervyn Gerszt, have shown they know how to run a successful furniture group and with Geoff Austin confidently predicting further growth in 1990, shareholders could be in for an interesting ride with the economy the only hurdle.

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states 18/1/2/89



MANUFACTURING - FURNITURE

1990

OCT. - DEC.

# Adverse conditions work against Amrel

There is little chance that specialist retailer Amrel will manage to increase earnings in the current year, given the depressed state of the economy.

The tapering off of retail activity is, however, expected to be partly offset by store openings, refurbishment and computerisation, and a relaxation of hire purchase restrictions.

In the annual report, chairman Meyer Kahn says that, notwithstanding the short-term uncertainty, long-term prospects for retailers in a new South Africa are most exciting.

He believes the retail sector could be one of the fastest-growing industries in the 1990s as income is redistributed and all people have equal opportunities for creating wealth and disposable income.

The Amrel chain trades in four main product areas — furniture, footwear, clothing and selected consumer services.

There are 956 retail stores and 361 service depots.

Furniture stores include Crown Furnishers, Geen & Richards, Lubners-Melodys and Tip Top-Triangle.

Footwear outlets include Cuthberts and Select-a-Shoe, while the clothing division comprises the Scotts chain.

Service outlets include Early Bird, Multiserv-King Cobble and Prontaprint franchise outlets.

In the year gone by, the furniture division accounted for 62 percent of group turnover, the footwear and apparel division contributed 32 percent and the services arm accounted for the remaining five percent.

In the year to March, group turnover climbed 12 percent from R759,7 million to R849,1 million.

Mr Kahn says the modest increase reflects responsible, conservative trading in a weakening market artificially boosted by pressured credit extension.

Operating profit fell nine percent from R53,6 million to

SE 2/10/90

**Diagonal Street**  
188  
LYNNE PEACH

R48,8 million.

This was offset by a significant decline in financing costs from R16,1 million to R8,4 million.

Pre-tax profit increased by eight percent from R37,5 million to R40,4 million.

An increase the effective tax rate from 46,1 percent to 47,5 percent resulted in taxed profit rising five percent from R20,2 million to R21,2 million.

After allowing for equity-accounted retained earnings, attributable profit rose two percent from R22,2 million to R22,6 million.

Earnings a share rose from 241c to 245c. The dividend for the year was 82c, compared with the previous year's 81c.

Mr Kahn says that if the partial method of accounting for deferred tax had been adopted, instead of the comprehensive method used by the group, earnings would have increased to 413c a share.

The balance sheet shows gearing down from 109 percent to 71 percent.

Net worth increased nine percent from R12,82 a share to R14,01.

Amrel, priced at 900c, is trading on a P/E ratio of 3,7 and a dividend yield of 9,1 percent.

Although the rating is attractive from a long-term point of view, the medium-term upside potential of the price is limited by poor conditions in the retail industry.

COMMENT: Amrel's share price has gained steadily since it bottomed at 695c about 10 months ago.

Further rises can be expected if the price breaks the 930c level.

The outlook will turn unfavourable if the price falls below 890c.

# Everything going right for Ellerine's

3/10/90 (188)

By Ann Crotty

An annual stockturn of 14 to 15 times, tens of millions in cash at its disposal and a reducing bad-debt experience are the features that make Ellerine's the envy of the furniture industry

In the absence of a repeat of the 1987 industrial relations problems, features like these should underpin strong earnings performances in the years ahead

Analysts are looking to earnings growth of 20 percent for financial '91.

The 49 percent hike in earnings to 669c (447c) a share for the 12 months to August surprised even the group's most bullish supporters

At a time when most industrial companies are being hit by heavy finance charges, Ellerine's — which has a debtors' book of R450 million — reported a three-fold increase in interest income

And it is not a case of using creditor finance MD Eric Ellerine says that since 1962 the group has paid cash (30 days) for its stocks. This reflects the fact that the crucial issue is management of the debtors' book

Turnover rose 24 percent to R483,2 million (R389,4 million). Much of the increase can be accounted for by inflation and new store openings, leaving little in the way of real volume growth from the 1989 store base.

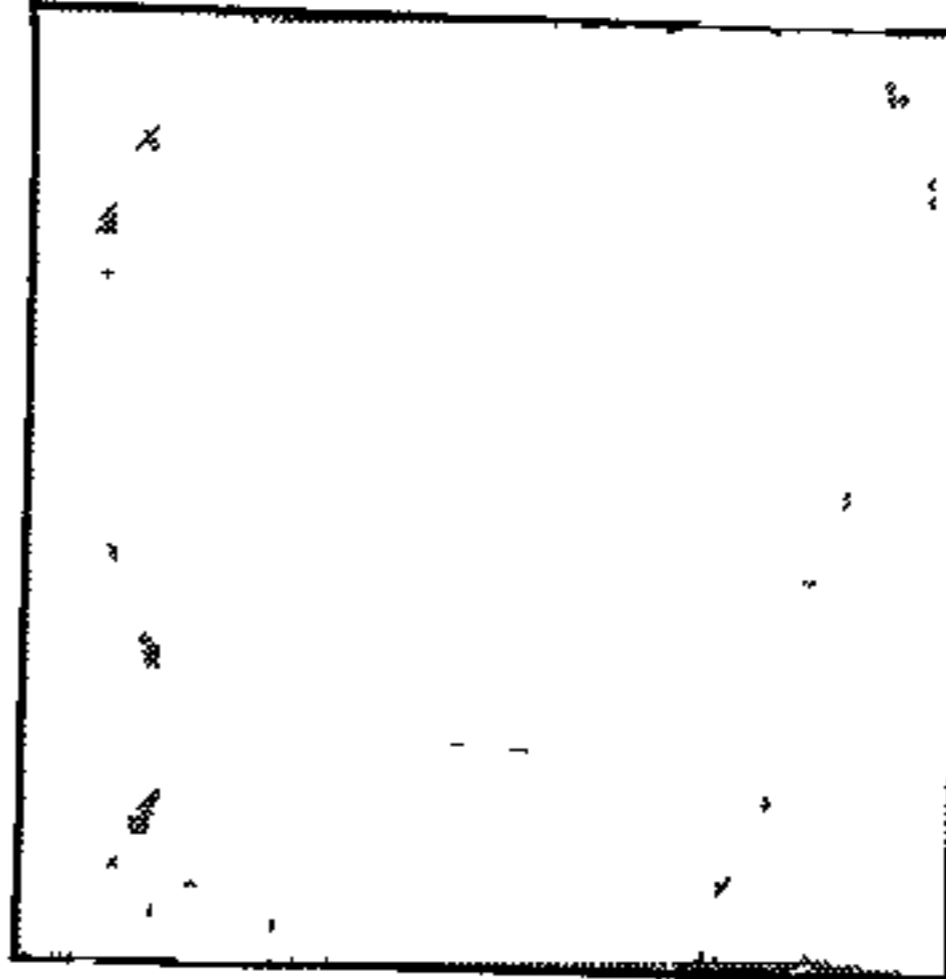
## Asset management

The really big improvement came at operating profit level where there was a 48 percent advance to R87,1 million (R58,9 million).

Mr Ellerine says this increase reflects the group's tight asset management, which mainly refers to improvements in the debtors' book

"What we've achieved on this front is nothing short of miraculous. We tightened up to such a degree that everything else fell into place"

Given the high level of interest rates, analysts expected a deterioration in debt collection (This would have been in line with developments across the economy, including banks and building



Eric Ellerine

societies).

But this was not the case at Ellerine's

Mr Ellerine says the debtors' ledger improved dramatically, with the average rate of collection increasing and the bad-debt experience reducing

Despite this comfortable position, management has maintained its bad-debt provision at a conservative 33 percent.

Less conservative management could have used part of this provision to boost profit performance without undermining quality of earnings.

Management is unable to give a break-down of the operating profit in terms of income from financing and income from trading.

Given the size of the debtors' book and the fact that the industry can charge 32 percent on finance provided to its customers (compared with an estimated 16 percent cost of funds), its profit on providing finance must be considerable

Interest received rose to R5,1 million (R1,7 million). Mr Ellerine says the group is the only organisation in the furniture industry that is cash flush. He says it is "tens of millions of rands"

However, store expansion (15 new stores will be opened by the end of this month) and financing the expected R120 million growth in the debtors' book in financial '91 will see a reduction in the cash base

Pre-tax profit was up 51 percent to R90,8 million (R60 million). The tax rate was 48 percent

Taxed profit was 54 percent ahead at R47,7 million (R30,9 million).

# Ellerines continues its remarkable growth

MARCIA KLEIN

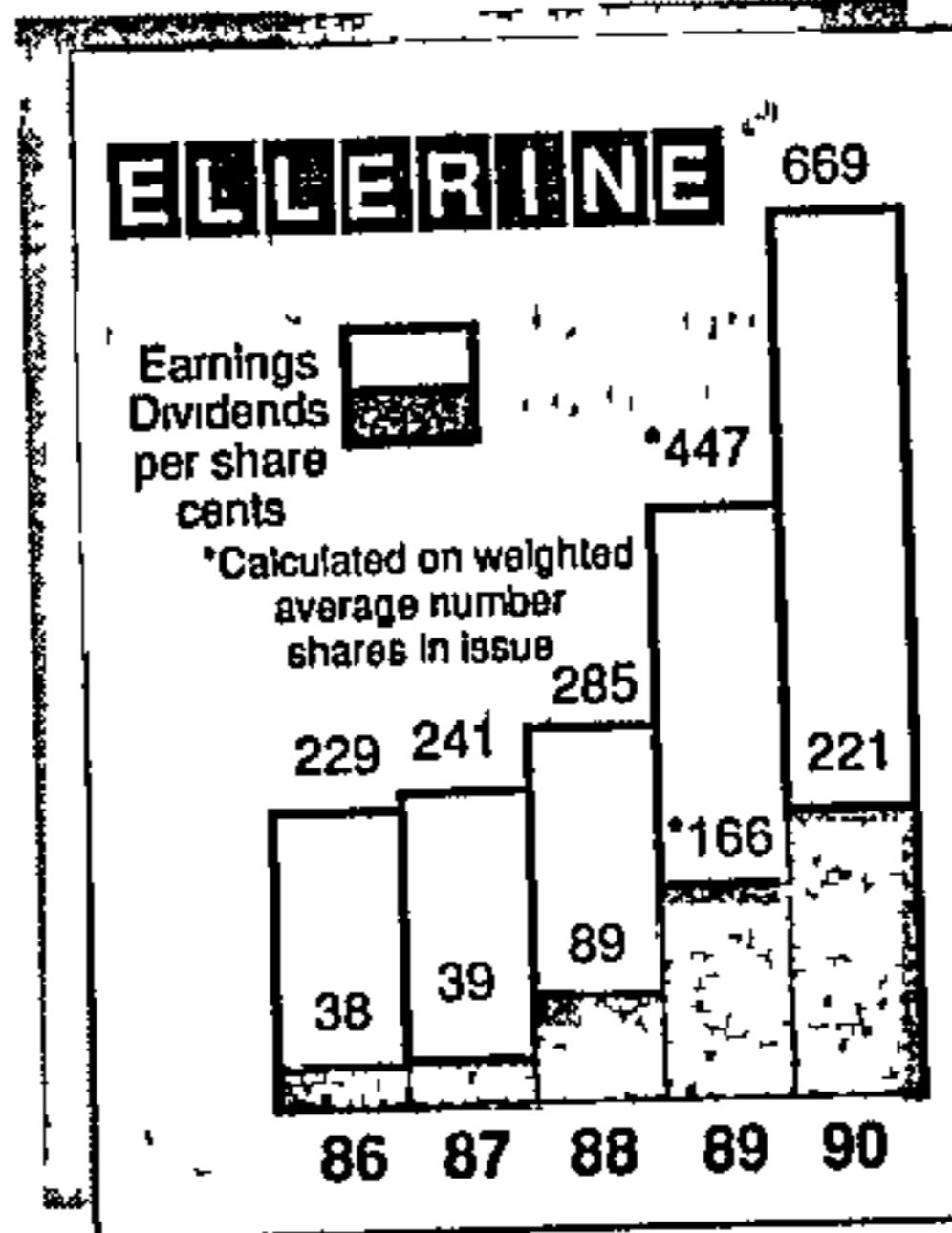
FURNITURE retailer Ellerine Holdings has continued its remarkable growth trend by reporting a 50% increase in earnings to 669c a share for the August year-end.

In presenting results yesterday, group chairman Eric Ellerine said they were welcome "considering the economy and the high base from which Ellerines' improvement comes"

The group — which sells furniture to the black consumer market, mainly on hire purchase — declared a full year dividend of 221c a share, 33% up on August last year

Earnings a share and dividend growth have been calculated on a weighted number of shares in issue, and dividend cover has been reduced from four to three times in view of the group's strong capital base

Commenting on the results, Ellerine said the group had consolidated its position as market leader because of its tight asset management, the improved debtor's ledger and aggressive marketing



A 24% increase in sales to R483,2m (R389,5m) and a 48% rise in operating profit to R87,1m (R58,9m) saw margins improved to 18% (15%).

Ellerine said a 195% increase in interest received to R5,1m, and a 145% increase in financing costs to R1,3m, confirmed the group's liquidity, making Ellerines the only cash-flush organisation in furniture

While pre-tax profit increased by 51% to R90,9m, a 48% higher tax bill

left after-tax profits 54% higher at R47,7m Ellerine said the group had an unusual practice of absorbing full taxation on its accounts

He said the group — which does not warehouse — was particularly proud of stock turnover, at 14 to 15 times a year

On prospects, Ellerine said although the group expected business conditions to remain difficult, strict credit controls and conservative policies as well as the absence of gearing and the strong balance sheet would pay off more than ever

While 14 new stores were opened in financial 1990, 15 new stores would be opened in October, bringing the total number of outlets to 324 — way ahead of forecasts

Despite going for organic growth, the group would not rule out the possibility of acquisitions, he said

Prospects looked exceptionally bright The group's chosen niche could become massive as the black consumer community grew.

Ellerines' shares are currently trading at 2 850c, with an earnings and dividend yield of 23,5% and 7,8% respectively

Graphic: LEE EMERTON SOURCE: ELLERINES



# Plans for a base overseas

GRANT ANDREWS HOLDINGS, one of SA's largest office furniture manufacturers, tested the overseas market for four years, received a positive response and is entering the export trade

Said chairman Grant Andrews: "The opening up of Eastern Europe has put a different light on things *St Times 4/10/90*

"Considering that the people in these countries have the necessary skills and are closer to Europe than we are, the effect for SA is a little negative. It's going to make it a much more competitive market. Our plans are definitely, in the shorter term, to establish a base overseas — probably in the UK.

"What we'd like to do eventually is to send components to the UK where value will be added to them. They will then be on-sold to Europe" (188)

At present, the office furniture company exports complete products. Mr Andrews is adamant that he does not want to concentrate on exports to the detriment of local needs.

"We have set up a separate division for export and are committed to it. We've proved that we can be competitive. This division has a separate cost centre and is focused and dedicated.

"I believe that, in the long run, SA will do well — if the quality of our goods is consistently excellent."

# Furniture sector getting better rating in the market

Sts 5/10/90 (188)

By Ann Crotty  
Without exception the results released by companies in the furniture sector in recent months have been excellent

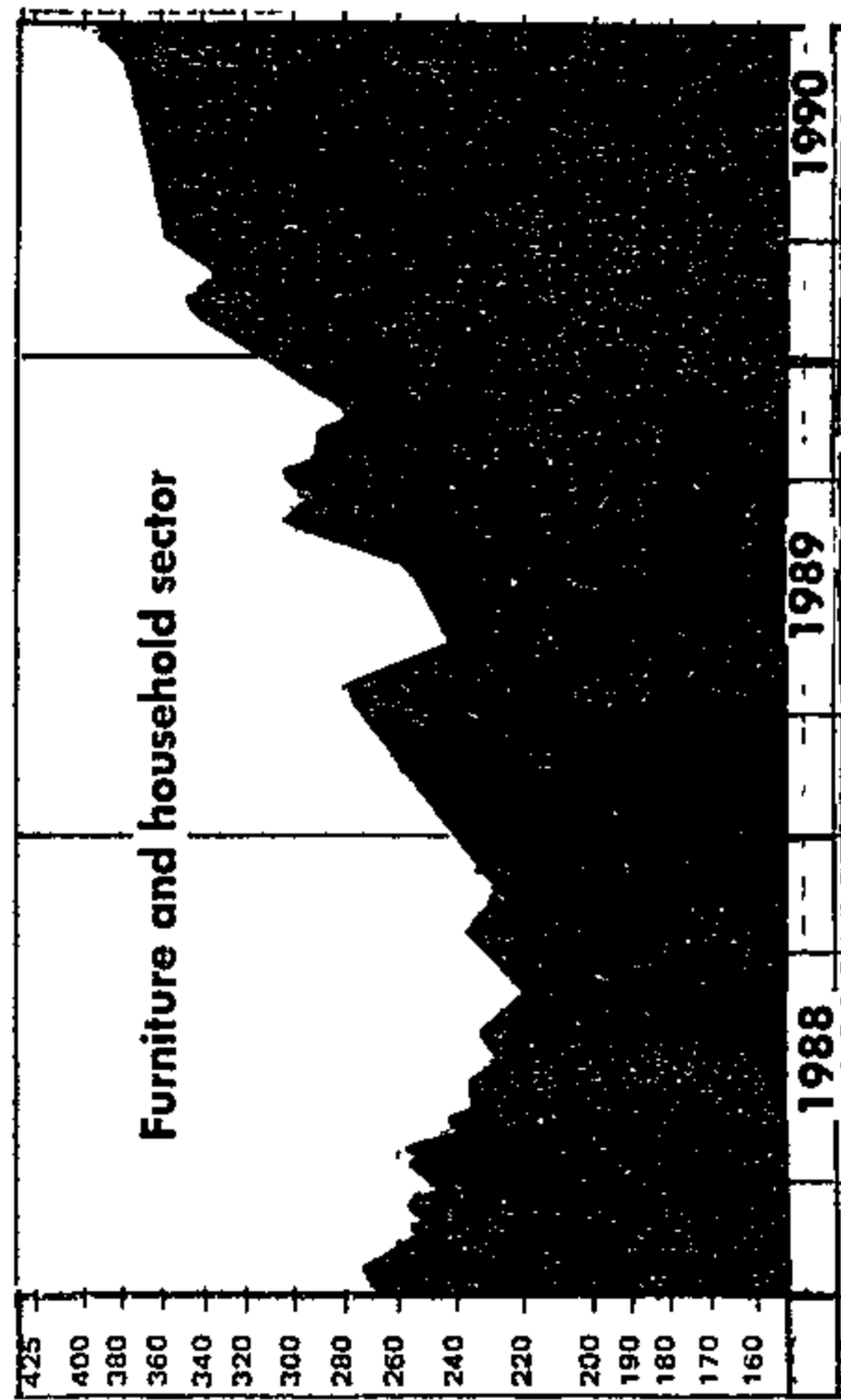
While there have been sterling performances reported by certain companies in other sectors, no sector has produced as consistently strong a performance

Their strength is all the more impressive against a general background of recession-fut profit figures

Its average price/earnings rating is 4,5 times and the average dividend yield is 7,7 percent This compares with averages of 7,4 times and 5,7 percent for the industrial holding sector and, 12,5 times and 4,5 percent for the retail sector

The sector has put in a fairly rough showing over the years Back in the Seventies its relatively high volatility discouraged investors In the Eighties, bad trading conditions and tough times on the finance front made sure investors gave it a wide berth

At the release of Ellerme's annual results this week (eps were up 50 percent), chief executive Mr Eric Ellerme referred to the investment community's apparent lack of faith in the furniture sector and the consequent relatively low rating



Significantly, Ellerme's share price has moved from around R16 at the beginning of this year to a current level of R28,50 But, despite this rapid advance the share (on the basis of the financial '90 figures) is still only on a p/e of 4,2 times and a dividend yield of 7,7 percent

If Ellerme's enjoyed the average p/e for the retail sector (12,5 times), its share price would be around R84

Other results from the furniture sector include Rusfurn which in August, announced a 54 percent hike in earnings for the 12 months to end-June; Protea Furnishers reported a significant improvement for the six months to

end-June; the most recent quarterly figures from Morkels reflect a sharp turnaround in that company's fortunes, Amrel's two percent improvement for the year to end-March wasn't designed to delight investors but there are strong signs of good things ahead

The other major listed player in the industry, JD Group reported a 33 percent hike in earnings for the 6 months to end-June

These performances haven't gone entirely unnoticed. The furniture index has been on a reasonably steady upward trend since July 1989 and has been one of the better performing industrial indices for most of this year.

Despite this advance — in view of the current ratings — there seems to be scope for further improvement

Some of the institutional investors agree and are expecting to see a cautious continued improvement in the index. In particular the companies that are exposed to the black market will enjoy good support from investors.

The improved investor attitude of recent times seems to reflect a major change in emphasis by the furniture companies After the sharp knocks taken in the mid-Eighties they have learnt that the over-riding concern is not the sales figure but management of the debtors' book

Frankel Kruger analyst, Jacques Magliolo points out that over recent years there has been a growing realisation of the importance that the finance side has on a furniture company's profits.

Given that the industry can charge up to 32 percent on the funding it provides to its credit customers (compared with the approximately 17 percent the company pays for that money) the profit on its financing activities is considerable.

But, as Mr Magliolo points out, managing the debtors' book also involves ensuring its quality and keeping bad debts to a minimum.

**QUICK REVERSAL**

FIM 5/10/90

**Taking everything** Mathieson & Ashley has said about itself over the past year at face value, the downturn in the office furniture sector must have been spectacular to have resulted in the 27% earnings slide the group reported for the year to end-June

Starting with the last annual report, chairman Winky Ringo said then he believed an increase in earnings in excess of the inflation rate could be expected for 1990. True to the form investors have come to expect from this group, the first-half results showed a 68% gain in operating profit on a 52% turnover increase.

While EPS growth was diluted by higher interest and minority charges, the 27% improvement at the attributable level was sufficiently encouraging for the board to state that it was now confident that an annual report forecast would be realised. On paper, there was every reason for such confidence, an increase of only 10% would have been required in second-half earnings to produce 15% growth for the full year.

But that was on March 28.

Working through the year-end figures, it appears that second-half operating profit plunged 63% on a 23% sales improvement. The effect on EPS was cushioned by a small interest credit in place of the R1,7m, charged against income for the same period



**M&A's Ringo**  
*optimistic forecasts*

FIM 5/10/90

188

last year, and a minorities charge that was little more than one-third of the R3,8m for the second half of the 1989 financial year.

But, accepting that truth is often stranger than fiction, it still seems incredible that such a reversal can take place over a period of only three months — assuming that everything was still on track at end-March when the interim results were announced.

To be fair to the group, however, one should not overlook its recent profit history. From 1986, when it returned to profit, until 1989, earnings doubled each year. After taking into account the 1990 setback, the four-year compound growth rate still works out at 56%.

But the market has clearly been in no mood to be charitable. Since March the share price has been slashed from a high of 650c to the present 340c, where the dividend yield on an unchanged 20c payout is 5,9% — way above the industrial market average of 4,1%.

Reaction has been less severe in so far as pyramid Vestacor is concerned. Here, the price has declined by only 31% (compared

**M&A STUMBLES**

Year to June 30	1989	1990
Turnover (Rm)	99,4	134,8
Operating income (Rm)	14,7	10,7
Attributable (Rm)	7,8	5,8
Earnings (c)	68,3	50,2
Dividends (c)	20	20

with the virtual halving of the M&A price), leaving the dividend yield of 4,4% more or less in line with the market.

The obvious conclusion is that either the response has been overdone in M&A or that Vestacor still has further to fall. The answer will depend on whether, as management hopes, the 1990 debacle proves to be nothing more than a blip in an otherwise strong growth path.

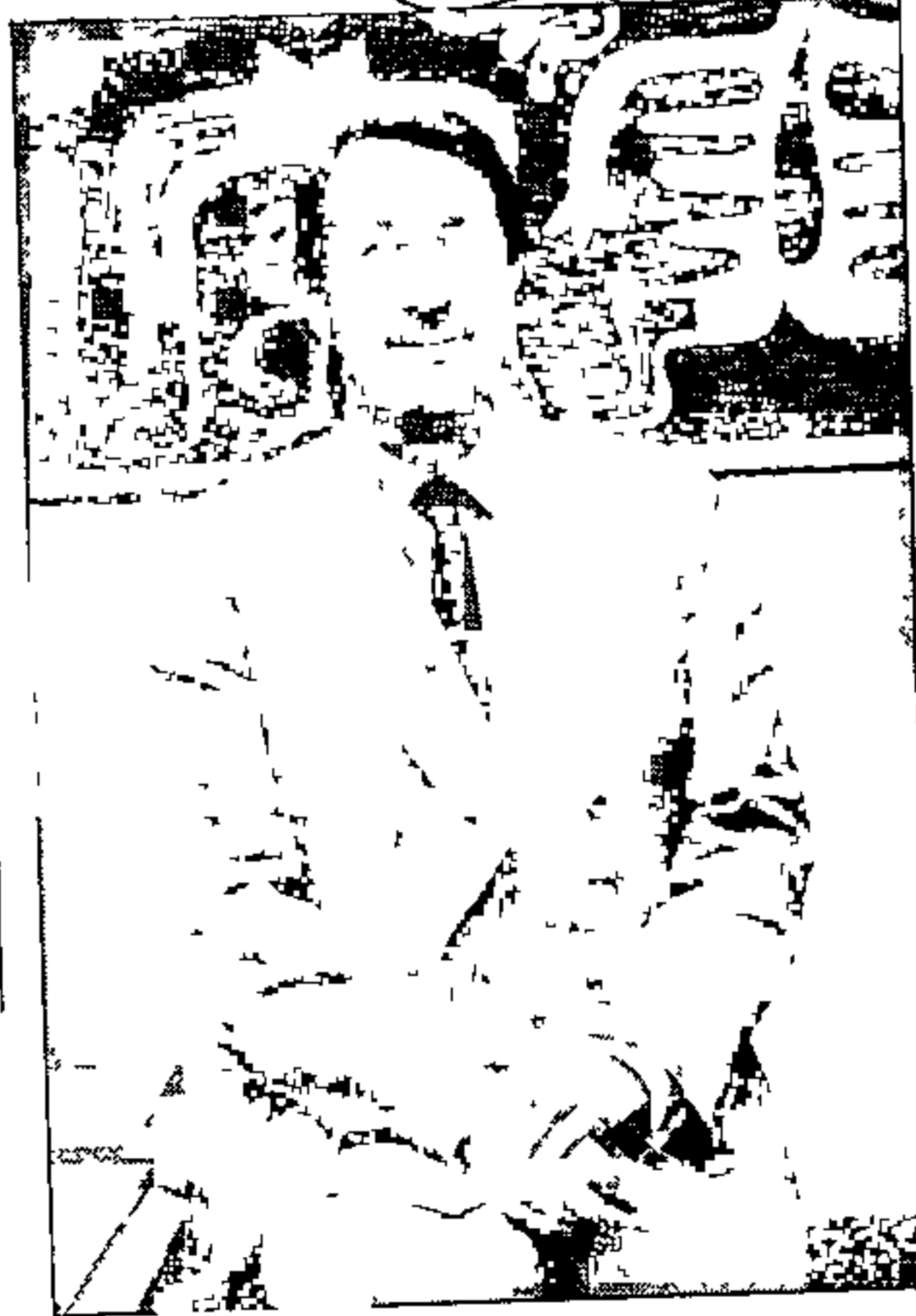
Brian Thompson

almost to be operating in a different economy

"Sensational" and "remarkable" are the words an excited Eric Ellerine used to describe his group's results for the 1990 financial year and there are few who would disagree. And, he says, next year should see further real growth

Sales were 24% up on financial 1989 — and this in a market plagued by boycotts, stayaways and tight monetary policy. Strong sales growth has been a feature of most companies in the furniture industry recently — it's said that growth in disposable income of informal economic players is supporting the sector. Chairman Ellerine says the group consolidated its position as the major player in the black retail furniture market. It now claims a 16% market share

The operating margin increased from 15,1% to 18%, resulting in a 48% jump in operating profit. Management ascribes the margin improvement to the containment of costs, benefits of high finance charges while holding cash balances and improvements in productivity



Ellerines' Ellerine debtors book improving

Ongoing training, the introduction of a share incentive scheme for senior management and the shift of sales from outside selling to conventional furniture retailing resulted in an increase in average sales per employee during the year. Five years ago, 65% of turnover was generated by sales staff in the field. This has now fallen to about a third, with accompanying productivity improvements and a marketing strategy geared towards people coming into the stores.

Stockturn improved, as did the quality of the R449m debtors book. Ellerine says the rate of collections has risen and the incidence of bad debts fallen.

The group is sitting on substantial but unspecified cash and earned R5,1m interest

ELLERINES FIM 5/10/90

**SITTING PRETTY** (188)

While many large companies lament that their markets are in recession, some of the major players in the furniture sector seem

FIM 5/10/90

**STEAMING AHEAD**

Year to Aug 31	1989	1990
Turnover (Rm)	389,5	483,2
Operating profit (Rm)	58,9	87,1
Attributable (Rm)	19,1	31,8
Earnings (c)	447	669
Dividends (c)	166	221

last year. This was far more than interest paid and boosted the bottom line. Ellerine says the cash pile will diminish this year — new store development and refurbishments, as well as expenditure on computer equipment and fixtures and fittings will absorb funds, but the possibility of an acquisition cannot be ruled out.

Despite a continuation of difficult trading conditions, Ellerine is budgeting this year for an 18% turnover rise to R570m from existing stores, for a further improvement in the debtor collection rate and a R120m increase in the gross debtors book. September was an "exceptionally good" month and, it is hoped, sets the trend for a strong Christmas period.

Ellerine is confident the strict controls and conservative policies which have been the group's trademark — the ungeared and strong balance sheet, conservative dividend policy and comprehensive accounting for taxation — will elevate the group above other furniture companies during difficult times.

The share is trading at 285c, on a 4,3 earnings multiple and 7,8% dividend yield and offers better value than a lot of shares on the industrial board.

Pam Baskind

# Pichold subsidiaries report a rough year

MARCIA KLEIN

PICHOLD subsidiaries Picardi Appliances (Picapli), Union Wine and Picardi Properties (Picprop) have been hit hard during financial 1990

Subsidiaries of MD Jan Pickard's diversified group reported various degrees of decline for the year to end-June, while holding company Pichold had yet to report

Pickard said the group was in debt to the tune of R114m in June, and would have a rights issue as soon as it returned to profitability. If not, it would de-list and hold a rights issue to raise cash. He said the group was clean to begin a new year in which it hoped to return to profitability.

Picapli — Pichold's household and appliance subsidiary — reported the biggest loss — 52c a share (22,2c previously)

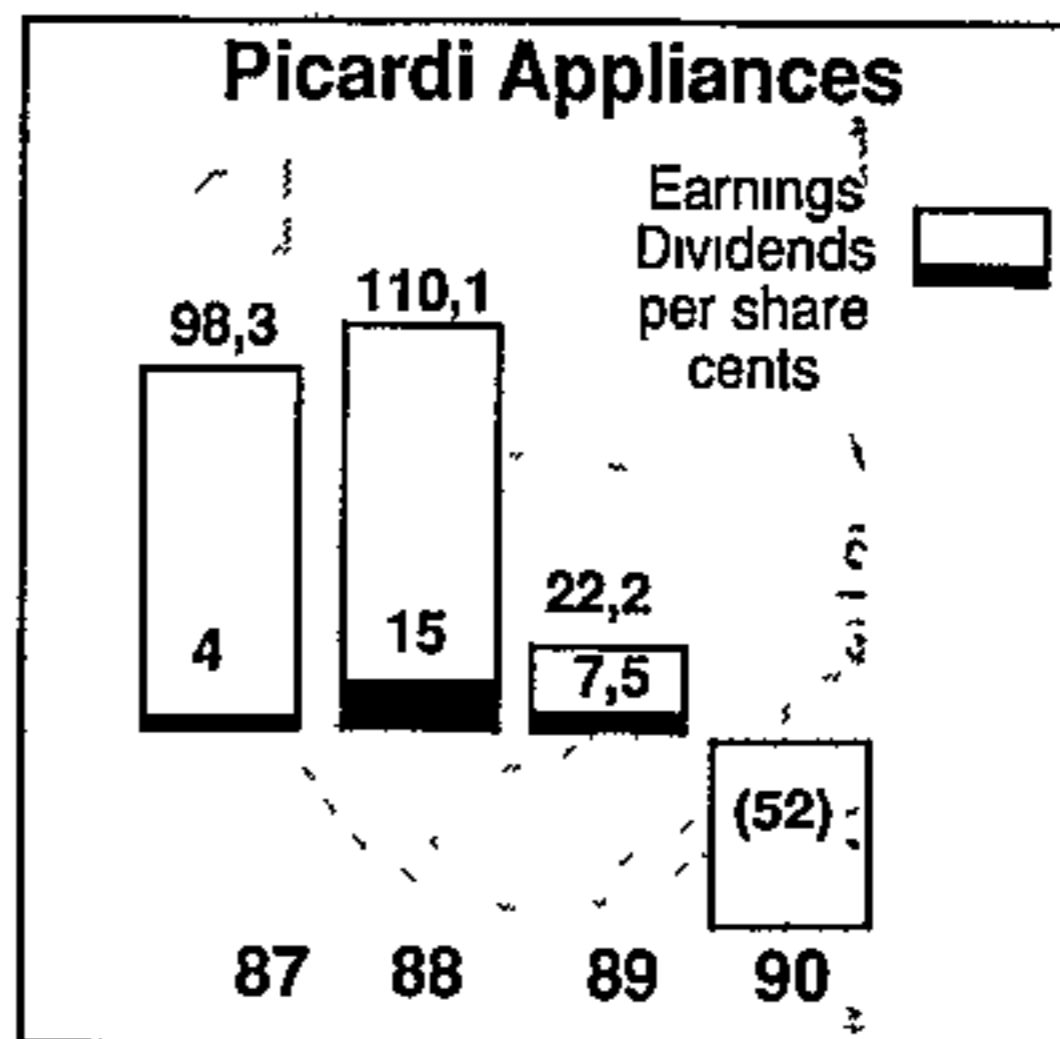
In view of the retained loss of R13,7m (retained income of R3,4m), no dividend was declared. A 28% decrease in sales and reduced margins resulted in a pre-tax loss of R13,16m (income of R10,7m).

Pickard said yesterday the downward trend in profitability since the boom experienced two years ago was because the group was overgeared when the economy turned down.

The group restructured during financial 1990 and withdrew from the portable radio and TV markets because of a decline in demand for consumer durables. This resulted in a R50m reduction in interest-bearing debt and "an improved balance sheet at the expense of profitability"

The Union Wine subsidiary — which was bought out by Kangra holdings on September 24 — posted a loss of 15,1c (earnings of 13,9c) a share, with a retained loss of R1,6m. A 10% increase in sales did not help pre-tax income, which fell from R3m to a loss of R3,3m.

The board of directors said that increased costs had a negative effect on



Graphic LEE EMERTON Source PICAPLI

profitability, and the lack of an established spirit brand was responsible for the group being unable to finance itself.

CHARLOTTE MATHEWS reports that the cost of funding and an increased tax bill wiped out the advantages of Picprop's turnover improvement to R35,7m in the year to June from R24m in 1989.

Earnings fell to 17,1c (25,6c) a share after interest payments came close to doubling to R1,9m (R1m) and the tax bill rose to 24% (10%).

Pickard said the higher turnover and the higher tax bill arose from the acquisition of a knitting plant, Beatrix, during the year.

Picprop disposed of its investments and operating assets except for a property-owning company for R17,7m with effect from June 29, 7m and paid a special dividend of 70c a share.

It has acquired the SA General Investment and Trust Company (Sagin) which has 30% of Cape Investment Bank Group. Picprop will be renamed and transferred to the banks and financial sector.

# Bet on anything, but not equities

80-5 6/10/90  
TRADERS were putting money on dice, Saddam Hussein, horses and rugby players but were not prepared to expose themselves to any position on equities. A very quiet time is being had by all ... leading to more talk of retrenchments among broking firms.

Inside  
Out

ANN  
CROTTY



Also some talk of mergers on the broking front — Myles hears that two Afrikaans firms may be getting together in the not-to-distant future.

Although the boards were quiet, there was enough action on the corporate front to keep most of the market watchers entertained.

But things still look fairly glum in terms of profit prospects and SAA's news about the effects of the oil price hike is strong reminder that the overall impact of the Middle East crisis is going to be very severe.

Without doubt Ellerines results stole the limelight this week (perhaps just slightly overshadowed by the publication of the ANC's economic strategy).

Ellerines' performance is unlikely to be repeated by many of its associates in the Malbak stable.

As with most of the players in the furniture sector the really serious money made in this business is from the financing. Myles reckons that during financial '90 Ellerines probably made more money from its banking activities than Bankorp did. Thus, he feels will be of great comfort to the head guys at Sankorp/Sanlam.

Talking of Bankorp — the Spareco saga drags on much to the discomfort, no doubt, of its unpaid salaried workers. But there is some glimmer of hope.

The first offer to appear before the Spareco liquidators came from Vaaltrucar. But unless something very unusual happens, it's likely to be a week or so at least before something firm develops.

The usual procedure is that after the first week or so in liquidation a few offers dribble through to the liquidators. Then, all of these are considered ...

and Spareco goes to the best bidder.

Apparently some of the former owners of outlets that were bought to create Spareco, have expressed an interest in buying back their operations — presumably they'll be able to buy-back at a fairly hefty discount to what they sold out for just a few years ago.

It was kind of nice that the FSI guys were able to push out all their results in one go. Even all together they didn't generate much excitement — just lots and lots of finance charges.

Myles hears that Fedfood's cautionary is about the disposal of its SA/Namibian fishing interests — to an unlisted SA company that is getting some financial backing from an overseas party. He also hears that the cautionary could relate to the sale of the frozen food division. Myles is putting his money on the fish story. Some details should be out next week.

Sad to see that Robin Beeks has departed from Autopage — he was MD for a number of years. Seems he left quite some time ago but the Fintech guys obviously didn't think there was enough significance to make a formal announcement ... just kinda mentioned it in passing when the Autopage results were released this week ... strange.

Myles hears that Minetek will be taken over quite soon.

And apropos just about nothing, Myles says he spotted Warren Clewlow, Robbie Williams and a couple of other heavies from the Tiger/Barlows stable coming off yesterday's KLM flight.

Thought it was remarkable how un-jetlagged you can look when you don't have to travel in the back of the plane with the crowds.

# R13m loss is reported by Pichold

LESLEY LAMBERT 188

CAPE TOWN — Picardi Holdings (Pichold), whose subsidiaries Picardi Appliances, Union Wine and Picardi Properties reported dismal results last week, has posted a R13,4m loss in attributable earnings for the year to end-June.

It made a R10,3m profit last year ~~R10,48/10/90~~. The dividend has been passed.

Turnover declined marginally to R526,3m (R544m), but operating income fell 53% to R25,2m, largely as a result of the worsening economic climate, chairman Jan Pickard said.

High finance costs on the group's interest bearing debt resulted in an interest bill of R40,1m (R34,9m), which wiped out the operating profit and plunged the group into a pre-tax loss of R14,9m (R18,4m profit).

A substantially lower tax bill of R960 000 (R5,3m) resulted in an after-tax loss of R15,8m.

This decline was reduced by income from associated companies and the outside shareholders' interest to an attributable loss of R13,4m.

Loss in earnings a share was of 221,6c compared with last year's earnings of 170,8c a share.

The group implemented a radical restructuring programme during the year under review.

This led to a R90m reduction in group interest bearing debt to R120m and current cash resources of R40m.

Picardi Investments (Picbel), which has cash resources of R7,5m and a 68,7% stake in Pichold, posted a loss of 185,8c a share, compared with the previous earnings of 154,8c. It has declared a dividend of 15c (50c).

# Furnsteel gets export spin-off

188

*St Times 14/10/90*  
THE political changes in Eastern Europe brought an EC export spin-off for office furniture manufacturer Furnsteel of Ezahkemi, Ladysmith

"Two distribution firms which had been representing state corporations in six of those countries began to be uncertain of continuing links, and for one reason and another looked to SA for manufacturing facilities," says marketing director Ray Ives

"The result is that we have between R1m and R1.5m in inquiries from Britain and the Benelux countries

"Our operation is a high-volume one based on government and contract orders, and our aim is to have on-going exports contribute substantially to that volume"

Off a low base of 2.5% of turnover in its first year last year, the export effort is expected to contribute as much as 15% very quickly

A surprise it brought is that it is not the company's Huski chair range which is most marketable overseas, but its filing cabinets and cupboards Mr Ives comments that such products are so standard across the world that it is "ridiculous to confine yourself to national boundaries" Furnsteel can be competitive thanks to SA's export incentives and the fact that freighting a container to Europe is no more expensive than a similar load from Ladysmith to Cape Town

## FIRA-ed up for the UK

A SOUTH AFRICAN manufacturer of office furniture is "FIRA-ed up" to export to the UK

FIRA is the Furniture Industry Research Association in Britain, a respected industrial standards body heavily involved in setting EC standards for furniture

"When we decided to broaden our market by exporting, an immediate objective was to get the FIRA test certificate," says executive director of Kaydee Jeremy Bunn

The company's component and assembly plants are alongside the N3 in Glen Anil, north of Durban, while it has a distribution warehouse in Heriotdale, Johannesburg

### 188 Largest

*St Times 14/10/90*  
"Kaydee is already the largest unlisted manufacturer of office furniture in South Africa, with a turnover above R40-million"

FIRA business director Tony Spillard told Business Times by telephone from the UK: "We hope that this will be some sort of forerunner case, as we are keen to work more closely with the SABS."

FIRA has also worked with three other South African furniture companies

However, only 25 European companies out of 950 members worldwide are holders of the body's highest quality award and are able to apply an SABS-type mark to products.



## 700 on short time 'does not augur well'

188

MARCIA KLEIN

THE furniture manufacturing industry has seen 624 liquidations and closures involving about 7 500 workers in five years since 1984, says a report issued by the Furniture Manufacturers' Association (FMA). BID am 15/10/90

While about 6 000 of the jobs had been re-created as the industry recovered from the imposition of stringent hire purchase restrictions, at least 700 workers were on short time at the end of June 1990, which "does not augur well for the state of the industry during the rest of this year", says FMA executive director Winston Smith.

Sales figures — based on participating manufacturers representing 50% of total industry sales — indicate a real growth of 7,8% in the first half of 1990.

### Restrictions

In 1990 there was positive growth in each of the first six months, with April and June showing a drop against the trend and May being particularly busy compared with the previous year.

Although a slackening of hire purchase restrictions early in 1990 led to improved growth figures in the first quarter, continuing high interest rates have tempered consumer expenditure, with a resultant slowing down in the growth rate for the industry, Smith says.

Total real sales of R249,5m in 1986 "edged up gradually" to R280,5m in 1989, adds Smith.

The Star  
Finance

Star 17/10/90

188

## Furniture sector showing upturn

**By Jabulani Sikhakhane**  
Retail sales in the furniture and household appliances market continue to show an upward trend and in August increased 33,5 percent (at current prices) over the August 1989 figure, according to the Furniture Traders Association (FTA)

But FTA executive director, Frans Jordaan warns that although there is cautious optimism that sales will continue rising the August, the figures were measured off a very low base. Sales were particularly low for the comparative month in 1989.

Mr Jordaan notes that while sales slumped due to unrest in some black townships during July, they picked up again in August.

Economists said yesterday that although the furniture retail sector has been boosted by the removal of import surcharges in some of the furniture related products and the easing of the credit restrictions, sales were still showing positive growth.

In contrast some furni-

ture manufacturers were finding the going tough with purely furniture sales recording the lowest growth of around 22,1 percent in August over August 1989)

Dr Azar Jamine of Econometrix says the discrepancy between the retail and manufacturing sectors is evident across the whole industry. It indicates that retailers are destocking to threadbare levels.

However, Dr Jamine says this discrepancy should be cause for optimism. He says if demand does not turn down, retailers will have to start re-stocking again.

Overall, Mr Jordaan says that after a couple of difficult years, he is hoping for a better year in 1990. He notes that, traditionally, sales climb from September through to December.

FTA will also embark on a promotional and sales drive campaign from this week until mid-November which should have a beneficial effect on the retail furniture business.

## COMPASS

# Rusfurn will outperform the rate of inflation (188)

MARCIA KLEIN

CORPORATE business performance generally is deteriorating, but well managed companies dealing directly with consumers "are proving very resilient and in some cases showing excellent results," Rusfurn chairman Geoff Austin says in his annual report

High interest rates, a tendency towards destocking and a reluctance to expand and invest on the part of the corporate sector are some of the reasons, he says

"Ominous signs of increased demand-pull inflation are emerging," he says, and the impact on the consumer must be felt in the future *By 23/10/90*

However, Austin says Rusfurn has sufficient momentum to achieve its medium-term targets by which time measures to relax the restrictive stance of authorities on the economy should be implemented.

### Advantage

The group posted a 54.5% increase in earnings to 56c a share and a 79% rise in operating profit to R158m at the June year-end.

Austin says Rusfurn is well positioned to take advantage of rising living standards which should follow a policy of redistribution of income and equal opportunity as "household durables are a manifestation of position and status in lower income communities"

However, the group intends not only to increase sales but also to maintain the quality of the debtors book

He is confident the group will produce growth in earnings and dividends "in excess of anticipated inflation" in financial 1991

MD Ian Sturrock says the group has shown a compound annual growth in earnings of 63% a share since 1987, and its improved performance has continued into July and August.

Nov 23/10/90

# Financing boosts Rusfurn's profit

188

By Ann Crotty

Concern about the debtors' book and the level of gearing appear to be the main factors holding back Rusfurn's rating on the JSE

The concern is not specific to Rusfurn — it dogs the whole of the furniture industry and is reason why this sector of the JSE is on an average price/earnings rating of 4,5 times and dividend yield of 7,4 percent (Even the mature Elerines, which has very healthy cash balances, is tainted by this view.)

As the furniture sector is considered as something of a mix between the retail sector and the banking sector, it should be enjoying a rating in line with these two

That the furniture sector is on a sharp discount to both of these reflects the fact that a credit sale by a furniture company is not considered as secure as a bank loan. It also reflects some concern over the extent of borrowings needed to fund the credit facilities provided by furniture retailers.

## Confusion

In its latest annual report Rusfurn's management addresses these concerns and in its Trading and Financing section stresses. "Rusfurn is both a retailer and a provider of consumer finance, and this causes confusion regarding the Group's rating in the market place and amongst the suppliers of finance"

Feeling at Rusfurn is that the market will only be able to appropriately

evaluate issues such as gearing once it accepts the nature of Rusfurn's business.

Until then, gearing of around 161 percent (including preference shares as debt) is going to continue to scare investors

What is also scaring investors is the debtors book of R772,5 million (this is a net figure following a provision of R172,8 million on debtors of R908,3 million — equivalent to 19 percent)

The debtors book (which in financial '90 was swollen by the acquisition of Furngro) is expected to increase by about 19 percent during financial '91

There are two causes of concern on this front. One is the quality of the debtors and the other is the possibility of the phasing in of a tax on debtors' allowances

Referring to the former, MD Mr Ian Sturrock remarks in his review that despite the deterioration in the trading environment "the quality of the debtors' book has remained at an extremely acceptable level with collection rates having been well maintained in all chains"

Adding. "There has been no relaxation in the credit approval policies of the group, in fact terms of trade to debtors are being reduced towards achieving the objective of reducing gearing over the next few years"

This means that both the group's borrowings and the length of its debtors book (currently around 200 days) will be reduced. But as financial director Mr Mervyn

Gerszt points out, the benefits of this will only be seen in financial '92

On the issue of tax, Rusfurn pays tax only in relation to its operations in the national states. According to the '90 annual report, the group continues to enjoy the benefits of Section 24 allowances and are expecting to do so for the next three years. So no provision for deferred tax is made

The market's concern about gearing and the debtors' book should be balanced by consideration of the massive profit earned on the group's financing activities

## Attractive

According to the annual report these activities generated about 50 percent of pre-interest profit and are an attractive growth area and not merely a necessary but unwelcome part of trading.

"Provided that trading and financing margins are sufficient to cover the servicing costs of the financial instruments used in both good times and bad, gearing should be seen as a necessary consequence of growth"

The attraction of this side of the business is highlighted by Frankel Kruger analyst Jacques Magholo who points out that most of Rusfurn's debtors' book is fixed at the maximum usury rate of 32 and 33 percent while debtors funded at an average cost of 15 percent.

With interest rates forecast to decline in '91, financing margins will widen and more than offset any decline in retail margins

# Saving SA millions in foreign exchange

WOODCREATIONS supplies its own veneer for the manufacture of moulded wooden composite products for the furniture industry as well as a top-selling wooden packaging product, thereby saving the country millions of rands in foreign exchange

In the process, the company has increased its turnover at an annual compound average of 45% in the past five years, expanded from factory space of 2 000m<sup>2</sup> to 10 000m<sup>2</sup> and from 60 employees to 380

Its main line of business is wooden chair components for the office furniture industry, as well as design-award winning executive seating, such as the Woodline range

With the launch of its own factory to supply pine veneer, removing dependence on other suppliers, the company has contributed to a reduction in the furniture industry's dependence on imports

Millions of rands of savings in foreign exchange have also been achieved by Woodcreations customers through another line — the Clip-Lok packaging system — developed to utilise spare plywood, maximising

factory activity and diversifying to hedge against fluctuations in the furniture industry.

This is a patent-protected wooden stackable packaging product which can be easily assembled, disassembled and re-used and can be made in any size

Exports of Clip-Lok components to Germany and the United Kingdom are worth R250 000 a month and are poised for growth

Joint MD Rob Taylor says "Considerable opportunity by the founders of this company, Niels Rosenfeldt and Mario Garofoli, an innovative approach, team work and good employee relations, as well as support from the Industrial Development Corporation, have enabled the company to grow from a backyard shop to what it is today"

The company is now divided into four divisions — Clip-Lok, furniture, plywood & veneer, and components

These are all specialists in their own markets, run as separate businesses with their own mission statements, business plans, financial budgets and management.

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WOODCREATIONS

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24 1

By Ann Crotty

Protea Furnishers (Profurn), the 86-store furniture retailer, which was formerly Sam Steele Holdings, has reported earnings per share of 6c for the six months to June

In line with company policy no interim dividend has been declared

Profurn was acquired by Supreme Holdings in July '89. New management was installed in September and the company's year-end was changed from end-August to end-December

The figures for the 12 months to August include R7,1 million of extraordinary losses, presumably relating to the operational restructuring under the new owners and the start-up costs of new operations

Turnover in the review period was R53,6 million and operating profit R7,9 million, reflecting margins of 14,7 percent

Interest payments were R3,5 million. Tax was minimal because of assessed losses, leaving attributable profit of R4,2 million

(In the 12 months to August '89 the previous owners reported a loss of R26,4 million on a turn-

## Promising performance from Protea Furnishers

over of R70,9 million)

The directors say if there is no deterioration in trading conditions, earnings of 18c a share are expected for the 12 months to December.

Chairman Ed Ronbeck notes "The six-month results include the successful development into two new chains, Supreme Furnishers — a furniture retailer operating in the independent neighbouring states — and, TV Life — a specialist television retailer selling into the local market."

He adds "We see particular growth opportunities in the furniture and television markets and we are strongly positioned to take full advantage of these to further assist our organic growth"

80-5/9/90

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8

## COMPANIES

MARCIA KLEIN

FURNITURE-listed Protea Furnishers (Profurn) has continued to show a dramatic turnaround since its acquisition by Supreme Industrial Holdings in July last year

The 86-store furniture retailer posted attributable profits of R4,2m for the six months to end-June

While figures cannot be compared with last year due to a changed year-end, earnings under the company's former name of Sam Steele Holdings at the August 1989 year-end showed a loss of R27,4m

Turnover for the six months was R53,6m com-

# Profurn continues its dramatic turnaround

pared with R70,9m for the full year to August 1989, and earnings of 6c a share compared with a loss of 130c for the full year to end August 1989 and 4,7c for the four months to December 1989. No interim dividend was declared in line with company policy

Operating margins of 14,7% were highly satisfactory compared with a negative 8,4% at August 1989, and 13,5% in the four months to December 1989

A current ratio at 3,3 times compares favourably

with 2,4 at the August 1989 year-end

Profurn achieved its six-month figures in a traditionally weak trading period for the furniture industry, said chairman Ed Ronbeck. This indicated its potential for the full year

Other factors contributing to the results were a well-balanced management team, strict cash flow and expense controls. Earnings of 18c a share are expected at the December 1990 year-end if conditions do not deteriorate

Monday 13/9/90

## Furniture sales rise 'to ease'

188

MARCIA KLEIN

JULY furniture sales figures showing a year-on-year increase of 24,5% are unlikely to be maintained for the rest of the year, with overall sales expected to grow 4% in real terms in 1990, says Furniture Traders' Association (FTA) executive director Frans Jordaan.

Recent figures released by the FTA show that overall sales figures for the last few months exhibited unrealistic increases due to pent up demand. These are expected to level off.

The easing of credit restrictions has seen an increase in overall sales of furniture, appliances, audio equipment and TVs of up to 30% over the last few months.

This has been evident at the lower end of the market, where consumers did not have access to overdrafts and credit cards while the restrictions were in place.

While statistics were not provided for June, overall sales in April and May reflected an increased growth of 29% and 30% respectively over the same periods last year.

However, the effect of unrest in the townships has seen overall sales to black consumers increase by 16,7% in July.

Jordaan says since March the FTA has been predicting an upswing followed by a levelling-off period, which is now apparent.

Sales of furniture in particular have come down substantially, he says, with a 16,5% growth in July compared with the same time last year. This compares with a 22,3% growth in June over June 1989.



# Supreme slips *Day 6/9/90* more deeply into the red

188 MARCIA KLEIN

FURNITURE-listed Supreme Manufacturing Holdings (Suprman) went further into the red during the six months to June with a net loss of R1,07m against a net loss of R801 000 during the corresponding period last year.

Suprman, Supreme Industrial Holdings' (Supreme's) manufacturing arm, posted a 0,9c a share loss following "traditionally poor trading conditions in the first six months" at furniture manufacturer Victoria Lewis.

Director Roque Hafner said subsidiary Mewa — which fabricated stainless steel — had also been badly affected by the state of the construction industry.

The state of the economy, labour-related problems, and major investments in plant and machinery were also contributing factors

Hafner said the group expected a turnaround during the second half

However, forecast earnings of 5,4c a share were not expected to be achieved

Suprman's poor results were countered by Supreme subsidiary Protea Furnishers' (Profurn's) dramatic turnaround, which boosted parent company Supreme Holdings' earnings 26% to R1,7m during the six months to June.

Earnings a share were 10c (8,3c) Chairman Edward Ronbeck was confident forecast earnings of 25,4c for the December year-end would be achieved. No dividends were declared for Supreme or Suprman in line with company policy

## COMPANIES

### 8/02/94 10/9/90 Credit standards not compromised, Rusfurn tells critics

MARCIA KLEIN

a once-off impact on Rusfurn's gearing and debt to equity ratio, at 94%, was expected to be down by half in 1993

Trading and financing activities would be reported on separately

A ratio of 39% cash to 61% credit was reported at year-end, while last year cash contributed 42% The indus-

try's rate was 15% cash to 85% credit. Analysts expressed concern at the provision for bad debt, though it increased by 84% to R172,7m The debtor's book showed an increase of 46% to R735m in net debtors

Rusfurn provided for 19% of debtors provisions — after actual bad debts had been expensed — which Austin said was "a big cushion in the event of things going sour"

Gerszt said the group — criticised by an analyst for no tax provision — would phase in tax gradually, dependent on the group's tax horizon He said it was accepted accounting practice not to provide for deferred tax

Turnover growth — higher than the industry average — was 38% to R1,287bn, but the company noted a 25% increase once adjusted for acquisitions

Austin said the group lived up to a commitment made last year and would have had better results if not for a poor February and March.

RUSFURN directors believe in aggressively promoting business during recessionary periods in response to the "psychology of recession", but not at the expense of credit standards, CE Geoff Austin said last week.

He was commenting on the sceptical response from some analysts to the furniture group's end-June financial statements, which reflected a 54.5% increase in attributable profits to R92,9m (R60,1m), and a 54.5% increase in earnings to 56c (36,3c) a share. Analysts criticised the group for

high gearing, the credit to cash ratio and provisions for debtors and tax

Austin, responding to these claims, said on many of these aspects the group was in a healthy position compared with the industry and financial director Mervyn Gerszt said there was no gearing norm in the furniture industry

Gerszt said the Furnagro acquisition and writing off of goodwill would have

## Colfin takes major stake in Furntech

8/10/91 18/7/91  
MARIETTE DU PLESSIS

FINANCIAL services group Colfin has acquired a controlling 28,5% interest in Furntech from Krok Bros Holdings (KBH) for about R3,3m, an announcement published today says

Furntech — constituted as a cash shell in March — is expected to have cash holdings of about R10,5m, with Colfin's acquisition representing 52% of KBH's holding in Furntech

Colfin MD Jeff Wiggill said the total cash purchase price, equivalent to 38,9c a share, translated into a premium of 2c a share over the estimated R10,8m net asset value of Furntech as at September 30 1990 (18)

It was anticipated that a share price of 38,9c would form the base of an offer to Furntech's minority shareholders, Wiggill said

Commenting on Furntech's prospects, Wiggill said negotiations were in progress for Furntech to acquire a suitable investment which would directly relate to Colfin's existing activities in the financial services and training area

He would not comment on the nature of the acquisition, but said negotiations should end before the end of the week.

The announcement advised shareholders to exercise caution in dealing in Colfin shares because of the negotiations

# J D Group 'committed to more improvement'

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MARCIA KLEIN

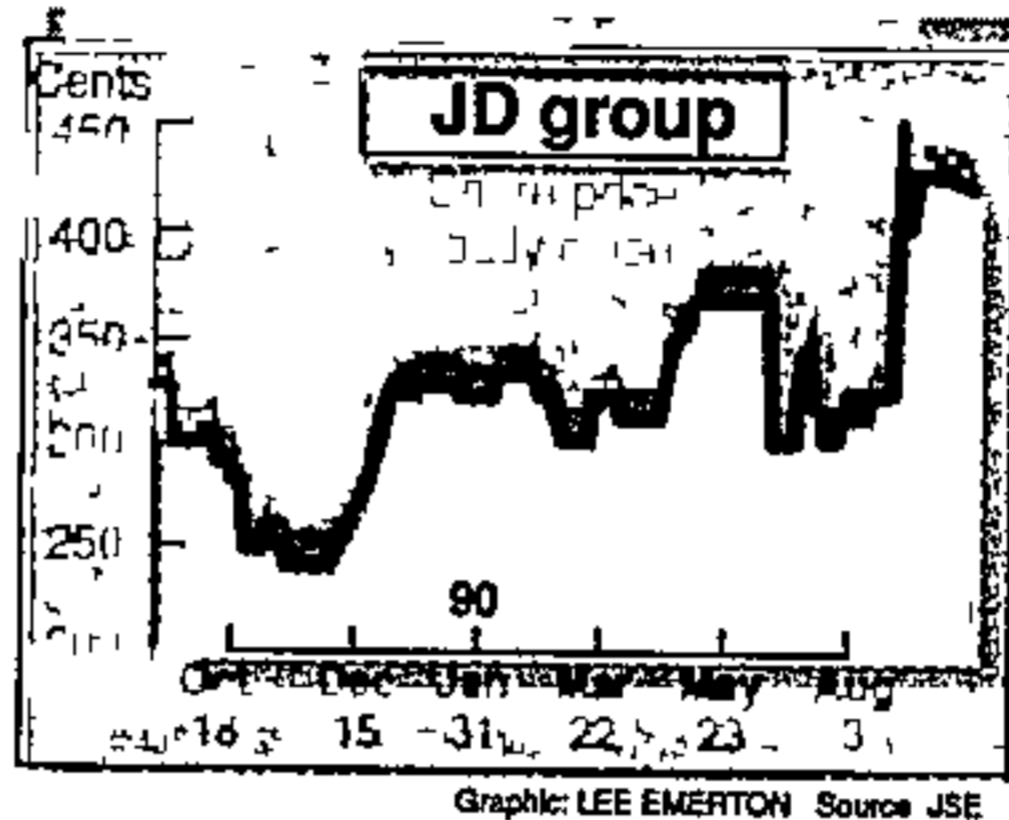
FURNITURE retailer J D Group was committed to continued improvement "without becoming complacent following past successes", chairman and MD David Sussman said yesterday

Sussman said July through to August had been "very satisfactory months"

"The group continued to show very real growth in the first 10 weeks into the second half", he said, with the best trading months still to come

In the interim period to end-June the group posted a 32,8% rise in earnings to 35,7c a share and a 32,8% increase in bottom-line income to R12,7m. A dividend of 8c was declared, 33,3% higher than for the corresponding period last year

Analysts said results for the first six months were solid, and commented on the quality of the debtors book, which increased by R80m to R464m, while long-term borrowings rose by only R19,8m



Sussman is confident the group should be in a position to show the same growth in the second half provided there is no deterioration in the political environment

He expressed satisfaction with collections across all four chains, with bad debt incidence well within budgeted forecasts. Cash sales in the group were close to 20%, with some chains in excess of that

He said all four chains were doing well and the group was outperforming last year on all fronts, including stockturns, collections and sales

The group would be ahead of forecasts at year-end and should continue to achieve more than 20% year-on-year growth

With regard to the restructuring of holding company FSI, Sussman said FSI's holding in J D Group would be more directly held by W & A

"The group is comfortable in its relationship in the FSI stable, and if anything the restructuring of FSI should strengthen the group"

J D Group's share closed at 420c yesterday after being re-rated recently at 425c in reaction to the group's interim results. The share traded at a yearly high of 450c at the beginning of this month and a low of 240c in December. It was trading at 320c one month ago

Sussman said it was up to the market to decide on the rating of J D Group's share, but at the end of the day the share price would be governed by the group's track record

He said the group must show the investing public it could perform well in good times and bad

# Romano still trying to get out of the red

*Blom 21/7/93*  
FURNITURE manufacturer Romano is still in the red despite considerable consolidation and streamlining over the last year

The group has posted an attributable loss of R994 000 for the June year-end, down by a substantial R765 000 from a loss of R229 000 in June 1989

The resulting loss in earnings was 7,4c a share (a loss of 1,8c) and no dividend was declared "in view of the results"

However, group marketing director Alfonso de Chaud says Romano intends to continue consoli-

MARCIA KLEIN

dating and concentrating on the core business in the next year, and real growth can be expected in financial 1992

He attributes the loss to the group having gone off in different directions without concentrating on the core business

Unprofitable operations which were closed down in the last year include garden furniture, security gate and pool fencing as well as the group's transport company Romano also relocated its lighting division and

epoxy coating plant  
"In doing so the group incurred a loss for the year", De Chaud said

He added the group had problems controlling the rate of growth since its move from the DCM to the main board two years ago

De Chaud says the group has pinpointed a market niche — lower to middle income groups, especially the growing black consumer market — on which to focus

In the long term, De Chaud says the group intends getting involved in the export market

FURNTech FIM 21/9/90

## **SHELLING OUT**

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Furtech's minority shareholders should be glad to hear their cash shell investment is soon to be replenished with some new assets. They are being offered a partial way out through a cash offer for 52% of their shares by Furtech's new holding company, Colfin. The rest they can retain in an existing company which is still to be revealed but which is to be reverse listed into Furtech.

Colfin has bought 52% of controlling shareholder Krok Brothers' shares in Furtech giving it a 28,5% total shareholding in the cash shell. Though Colfin does not have effective control, it will have management control. DCM listed Cenmag has acquired the remaining 48% of Krok's shares. Question is: are Colfin and Cenmag in this together? If they are, why are minorities only being offered an out for 52% of their shares?

*Furtech became a cash shell when brothers Solly and Abe Krok along with other Furtech directors decided to sell the last of the company's trading divisions in April, divesting it of all subsidiaries. Consequently, Furtech shares have been suspended since early this year.*

The price to be offered to minorities will be established once the final price for Furtech has been agreed on. At the moment it is estimated minorities will be offered 39c a share.

Shareholders in what was previously a

FIM 21/9/90

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furniture, kitchen and cupboard company will have to decide whether they want to remain invested in what will now become a Colfin group company. Colfin GM Fernando Patrizi will not reveal the name of the company which is to be reverse listed into Furtech because the agreement has not yet been finalised. But he does say the acquisition is of an established service-related company the size of Colfin. Colfin has total assets of around R14m.

To meet JSE requirements, the company should have capital of at least R1m, a current profit level of at least R1m before tax and satisfactory profit history for the previous three years, at least 300 shareholders, and 30% of the first million shares held by the public.

"The acquisition will strengthen Colfin's balance sheet and produce a steady cash flow," Patrizi reckons. "Unlike most of our other business, it is asset-based."

*Colfin is largely involved in corporate and project finance. It has investments in education and training company Punch Line Columbia Training, payroll system manufacturer Accsys, Trolley & Bin and Lord Tie. It is particularly involved in structuring rights issues and listings and notably refloating listed cash shells.*

Patrizi expects an improvement in earnings for both Furtech and Colfin as a result of the acquisition as well as better net asset value for Colfin. Colfin looks as if it could do with a boost. It is the lowest rated share on the banking board on a p e of 2 and dividend yield of 15,8% despite fairly favourable results.

Heather Formby

# Analysts expect good showing from Ellerines

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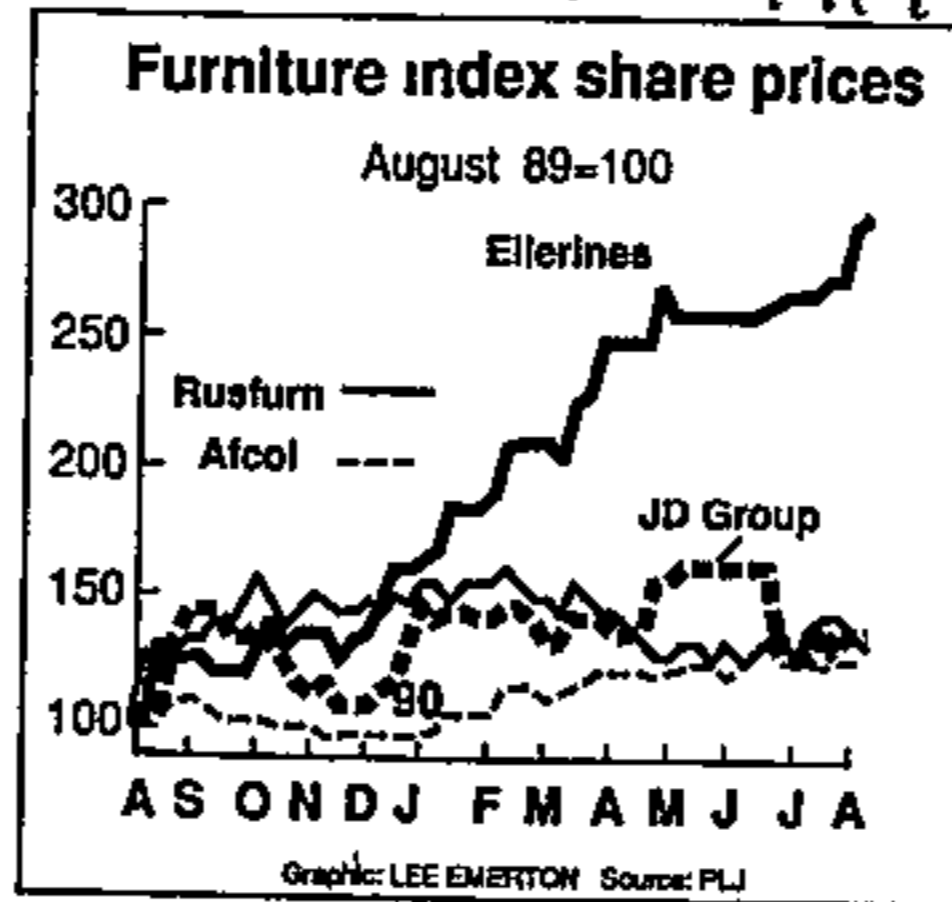
**MARCIA KLEIN**  
**FURNITURE** retailer Ellerines will report sturdy results for the year to end-August when it reports next Tuesday, analysts say

Mathison & Hollidge analyst Aloma Jonker says the

60% Malbak-owned group should show a 32,6% increase in earnings a share to 680c (513c in August 1989)

She forecast that the group should report "quality earnings" with a 25% increase in turnover to R486,8m (R389,5m) and a 32% increase in attributable earnings to R46,9m (R35,4m)

Jonker says the group has the lowest risk profile in the sector, and is the only furniture company with a



positive cash flow for dividend payouts

Interim results saw an 88% increase in earnings at 327c (174c) a share, and a dividend of 109c (58c) was declared, while attributable earnings rose 95% to R23,5m

Simpson McKie analyst John Biccard expects Ellerines "to do better than the industry" where sales have risen by 25% over Ellerines' reporting period

Another analyst expects

earnings to be 25% to 30% up on last year, as Ellerines "has excellent gearing and management of the debtors' book"

Kaplan & Stewart investment analyst Robin Pegler says the group has continued to increase its financial efficiencies, has a strong balance sheet and is careful with advanced credit

He says the group should easily manage to report earnings of 550c a share, but he has "deliberately pitched his results on the low side in view of the current recession".

Ellerines' share closed yesterday at 2 950c after a high of 3 225c last month, and a low of 1 200c in October last year.

Since December 1989, Ellerines' share price has increased by 68,5% compared with the sector's 24% average increase.

## COMPANIES

# Group's results reflect decline in conditions

8/10am 28/9/90

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MARCIA KLEIN

RESULTS for office furniture and equipment group Mathieson & Ashley (Math Ash) for the June year-end reflect a sharp decline in business conditions since the December interim period.

Earnings fell 27% to 50,2c a share, compared with 68,3c for the June 1989 year-end (adjusted on a share split of 4/1). However, a final dividend of 12c (13,7c) brought the full year total to 20c — which is unchanged from last year and still covered 2,5 times on reduced earnings.

Chairman Winky Ringo says the marked deterioration in the second half — earnings increased by 20% to 20c a share at the interim stage — was due to fierce competition for market share. However, the group's strong liquidity has "stood it in good stead".

He says while the office



● RINGO

furniture business — the group has a 50% share in Kallenbach-Hendler — performed satisfactorily, the office equipment subsidiary, Mathieson & Ashley, was disappointing.

Despite a decline in attributable earnings to R5,75m (R7,82m), turnover rose by 36% to R135m (R99m) and the interest bill fell from R2,3m to R975 000.

The group is cash flush, with cash balances of R5,5m in June.

It will be soundly placed, therefore, for the next 12 months — which Ringo expects to be tough — as well as for strategic opportunities which will become available in 1991 "as the shakeout in the industry progresses".

He is confident the group, with a strong technical and financial base, will resume its historic annual compound growth rate of 42% in earnings of the past three years in due course.

Shares closed yesterday at 375c and are trading at a net asset value of 214c a share, up on 183c a share in June 1989. The share price reached a yearly high of 650c in March.

Holding company Vestacor posted earnings of 52,8c (74,5c) and a final dividend of 13,5c (15,3c) was declared.



RETAILING FM 28/9/90

**DION'S NEXT STEPS**

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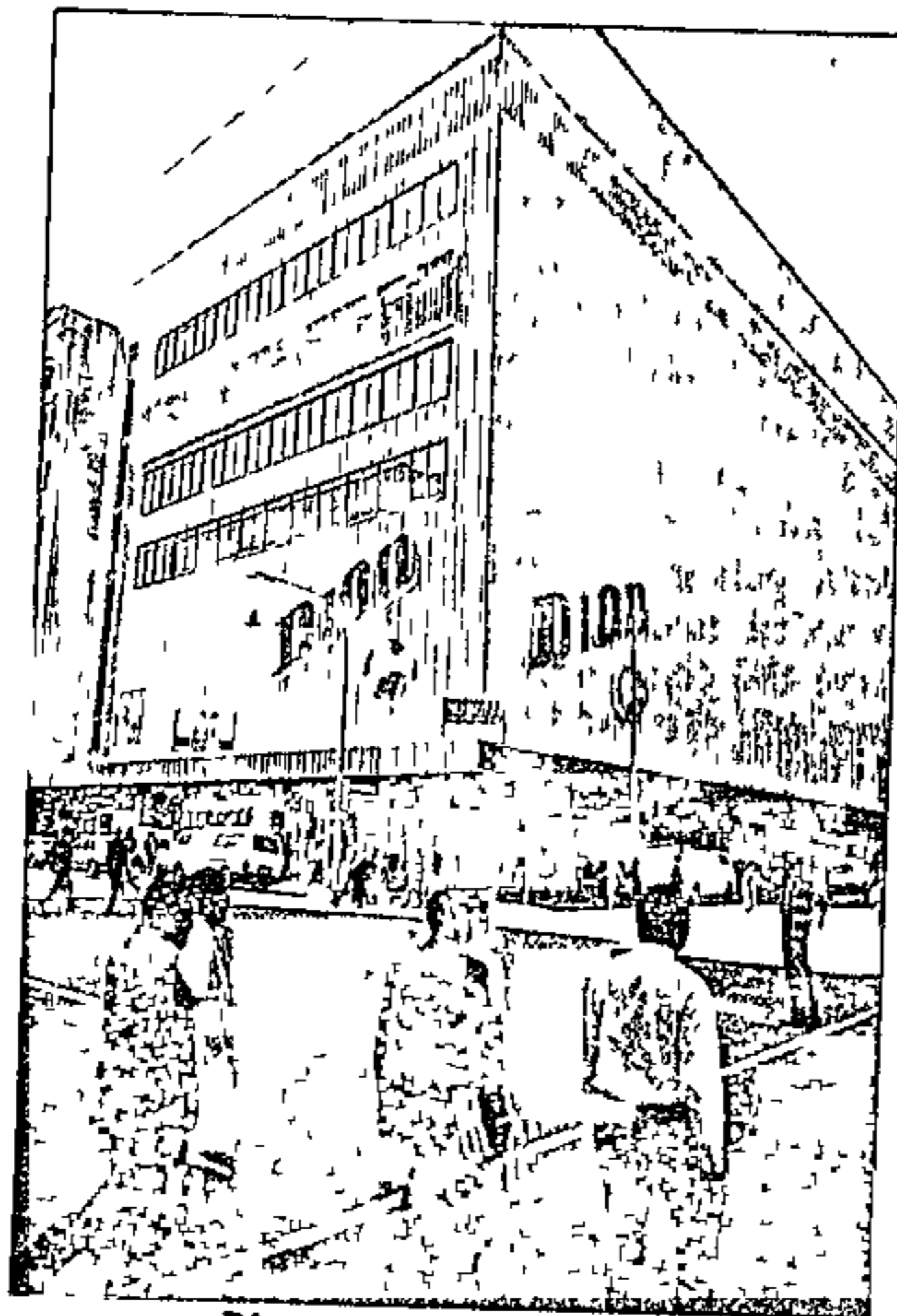
Dion started 20 years ago and now has 15 huge stores around the country. Each covers 4 500 m<sup>2</sup> — three times as big as a standard Checkers — and sells everything from computers to crockery.

But Dion has taken this format nearly as far as it can go. The discount chain will open two more stores, in Port Elizabeth in November and in Bloemfontein in August, and they may be the last of the traditional Dions.

Mass merchandiser Dion, the first retailer to bring microwave ovens to SA, has decided its future lies in specialisation. The first of the second-generation Dion stores, a Dion Furniture store, opened last month at Menlyn Park, Pretoria. It is only 450 m<sup>2</sup> because that was the space available, Dion will aim for 850 m<sup>2</sup> in the next stores.

Five new furniture stores are planned. The next Dion Furniture will open at Westgate, Roodepoort, in January, with another in Bloemfontein in August.

Dion's holding company, the Rusfurn group, is looking even further ahead, to the third generation — hi-tech stores. These stores, which are not yet named, will be modelled on the UK's Dixon's chain, which



Dion moving into the platteland

specialises in audio and video equipment and cameras but in recent years has moved into personal computer equipment. The stores will be a maximum of 1 500 m<sup>2</sup>, and average 1 000 m<sup>2</sup>, but the final blueprint won't be ready until the end of next month.

The nearest equivalent to the Dion hi-tech stores are Stans and Stax but these operate only in the main metropolitan centres. Dion plans to operate in smaller towns.

Rusfurn chairman Geoff Austin says "These will be in high-traffic areas, whereas the main Dion stores tend to be away from other shops in their own shopping centres. The hi-tech stores won't be competing with our Russells chain (which focuses on furniture, consumer electronics and appliances and sells largely on hire-purchase) because they will be mostly cash (and credit card) stores focused at the upper-income market."

Dion CLO Janne Els says now that there are Dion stores in all major cities, outside Natal, there isn't room for any more. "Towns like Nelspruit, Witbank, Rustenburg and Pietersburg couldn't support a full-sized Dion store, but could support a Dion hi-tech store," Austin says there is already a high awareness of Dion in these areas.

Market analysts are sceptical, but will withhold judgment until the blueprint is out. "I'm not sure if these platteland towns can support an upmarket appliance store," says one, "but I can only assume Dion has already done its homework, and I haven't yet."

Dion, as the cash generator in the group, has been targeted for expansion ahead of Rusfurn's traditional furniture chains, of which Russells and Wanda-Frasers are the biggest. The expansion, which calls for up to 20 new stores over the next three years, is expected to cost R30m. Dion accounts for R500m of Rusfurn's R1,3bn turnover and the credit chains the remainder.

Dion has hire-purchase facilities, but they account for only 16% of sales. Dion requires higher deposits and shorter repayment periods than traditional hire-purchase. Its debtors' book averages only five months.

Els admits there could be a problem with the merchandise mix. "Store traffic is generated by major appliances, but the margin on a fridge could be only 11%. The stores would be viable only with a strong presence from high-margin items such as gifts. If majors took up 60%-70% of the space, the stores would never pay."

The white and brown goods market isn't looking healthy now, but Els is confident that expansion is still appropriate. "Things are tighter, let's have no illusions, but we're achieving budgets. And certain areas are expanding considerably — our business equipment sales (which includes personal computers under the Archon brand) are growing by 40% a year."

Dion is selling 200 personal computers a month and, in spite of the recession, a lot of people are still spending. Last month, on the first Saturday that the Dion Furniture in the Boksburg store traded, it sold R62 500 worth of stock.

Stephen L. Cranston

# Earnings decline by 27% at Mathieson & Ashley

By Magnus Heystek

Mathieson & Ashley, the office furniture and equipment group, reported a 27 percent drop in earnings for the year to June

Earnings per share were 50,2c (68,3c previously)

The final dividend of 12c (13,7c) makes an unchanged total of 20c

Even on reduced earnings, this is still covered 2,5 times, which is line with company policy

Group turnover rose 36 percent to R135 million (R99 million), but margins came under pressure as the squeeze took hold

The group remains highly liquid, with inter-

est charges for the year actually falling from R2,3 million to R975 000

Trading slumped appreciably in the second half (the first half of the 1990 calendar year) This led to increased competition and under-utilised production capacity

Executive chairman Winky Ringo says the performance of the office furniture business — housed in 50 percent-owned subsidiary Kallenbach-Hendler — was satisfactory

However, he describes the performance of Mathieson & Ashley as disappointing

The group has grown by acquisition and organ-

ically since the present management took over, with on average one acquisition a year

Apart from its takeover of Cape-based Brown and Neethling for R10,5 million in cash last year, Kallenbach-Hendler is currently building a new factory scheduled to go into production early next year

About half the expected total cost of R12,9 million has already been spent

As the shakeout in the office furniture industry continues, Mr Ringo believes further strategic opportunities will arise But he warns that the current financial year will be tough

Star 28/9/90 (188)

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# Ellerines' risk profile lowest in sector <sup>(188)</sup> analyst

FURNITURE retailer Ellerines has the lowest risk profile in the sector as a result of its positive cash flows and conservative accounting policies, according to Mathison & Hollidge analyst Aloma Jonker. The 60% Malbak-owned group showed an 88% in-

**MARCIA KLEIN**

crease in mid-year earnings, off a low base

Analysts expect an earnings growth exceeding 30% for the full year ending August 1990, and a real growth in earnings for the next three years

<sup>5/10ay</sup> Chairman Eric Ellerine <sup>2/8/90</sup> said yesterday he believed Ellerines was the only furniture-listed group able to pay dividends from internal cash flow before capital spending

Jonker has forecast a turnover growth of 25% to R486,8m (R389,5m) for the

year to end-August 1990, with a 32% growth in attributable earnings to R46,9m (R35,4m). She expects earnings a share to rise to 680c (513c), and dividends of 219c (166c)

Ellerine refused to comment because of impending annual results

# Math Ash subsidiary

## nets R15m Blom 7/18/90 contracts

MARCIA KLEIN 188

OFFICE furniture contracts totalling R15m at end-July have been awarded to Brown & Neethling (B & N), indicating a promising start to its new financial year.

Cape Town-based B & N, bought by printing and publishing-listed Mathieson & Ashley Holdings (Math Ash) for R10,5m in October 1989 as "a strategic acquisition", has a further R20m worth of major orders under negotiation.

One of the major contracts in progress — worth an undisclosed amount — involves a new building at Old Mutual's head office in the Western Cape, accommodating 1 500 staff.

The contract for third-generation Delta desks and seating is the second awarded to B & N at Old Mutual's head office in Pinelands. It also won a contract for a new building completed in 1989, housing about 800 staff.

Math Ash chairman Winky Ringo said B & N had been a key supplier to Old Mutual for the last two years.

Ringo said yesterday he was pleased with B & N's performance, adding the Old Mutual order would help offset quieter conditions in the economy.

By the beginning of July, B & N had 30% of its annual budget in sales on hand, "going completely against the stream of the industry".

Ringo added that poor market conditions and high interest rates were having a negative impact on margins and profitability. He estimated that the market value of the office furniture industry, which was worth up to R1bn a year ago, was down 40% this year, and a rationalisation of the industry would be essential.

# Rusfurn seems set to meet forecasts for year

B 10221 8/6/90

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MARCIA KLEIN

RUSFURN seems set to meet its forecasts for the year to end-June and with only two weeks to the presentation of its annual results, CE Geoff Austin said yesterday he was "sleeping very easily at night at the moment".

Attributable earnings were forecast at R92m (R60m for the 1989 year), earnings at 55c (36,3c) a share and the total dividend at 16c (10,5c).

Austin said the group was very confident of meeting its forecast up to January this year, but political factors caused a poor February month, and Rusfurn fell 10% short of budget.

Although March was much better in terms of trading, bottom line results were affected by problems in February, he said.

The furniture industry bounced back over the last few months with the easing of credit restrictions, and May and June

proved to be very good months for the whole industry, with increases in sales up to 30% per month.

Austin says the three previous months had pulled the group back, resulting in the "promise we keep" advert published in May — indicating results would be as predicted.

Although July has been much tougher, with a noticeable tightening in the market, Austin says the group still made budget.

He anticipates a rough year over the next twelve months.

With a realistic prospect of interest rates softening, he foresees a 5% real growth.

Austin says he is guardedly optimistic about the future, but is sleeping well about the past.

# Morkels turnover up sharply

Finance Staff <sup>Star 13/8/90</sup>  
Morkels has reported a 27 percent improvement in turnover for the quarter to June to R61,740 million (R48,648 million)

Chairman Rian Pauw and MD Carl Jansen say the jump from the 2,6 percent growth in turnover for the 1989 financial year heralds a return to real growth standards

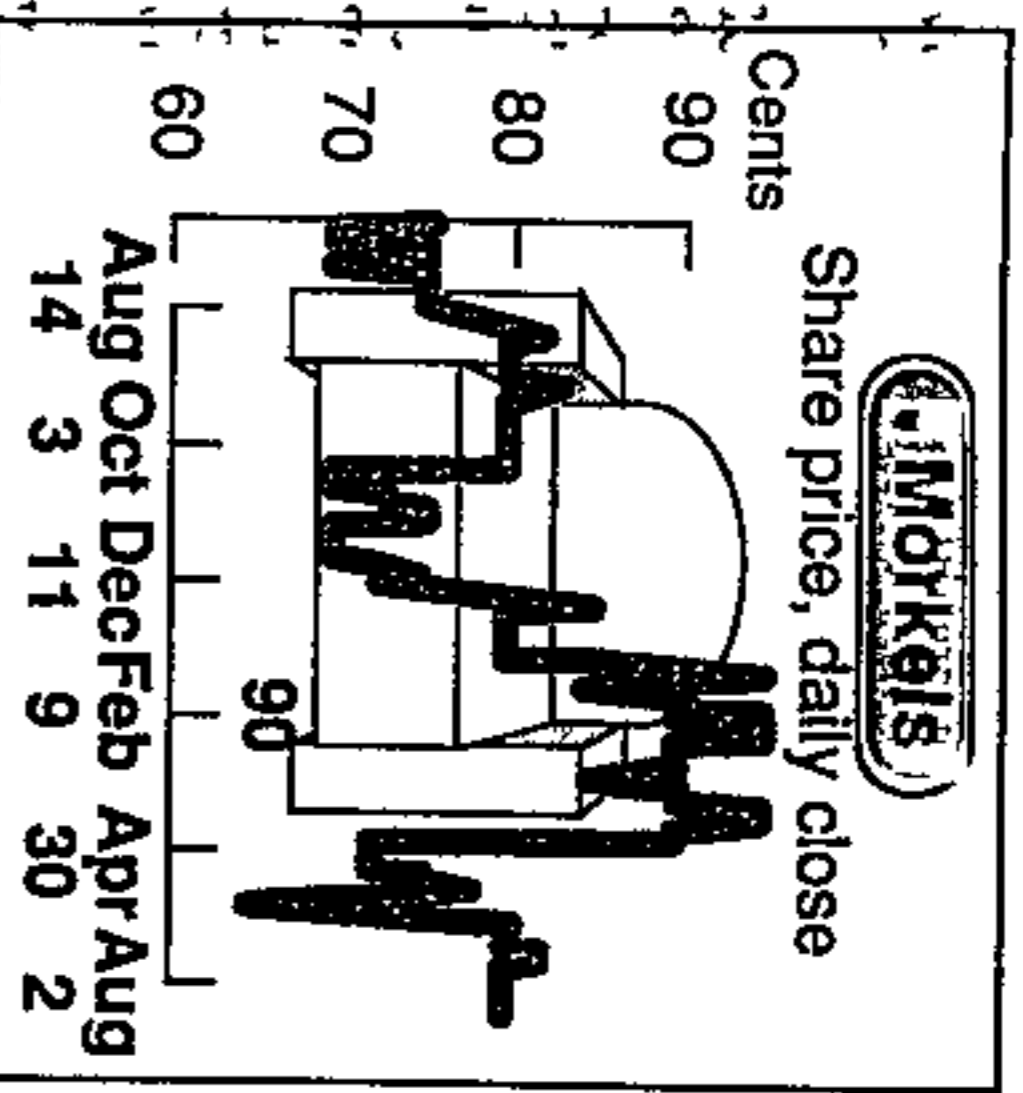
The furniture chain had sales of R54,6 million, an advance of 24,1 percent in a market that grew 29 percent.

<sup>188</sup>  
Taxed profit of R1,813 million, 25 percent better than the R1,448 million a year earlier, is in line with the objective announced by Morkels in its annual report of generating R8,750 million in attributable profits in the 1991 financial year

But the directors say "It would be negligent to ignore the potentially damaging outcome of mounting political instability and prolonged labour unrest which currently threatens already fragile consumer confidence"

## COMPANIES

# Quarterly results point to a reversal in fortunes for Morkels



Graphic: LEE EMERTON Source: JSE

LATEST quarterly results from Morkels indicate that directors of the newly independent group are on track to meet their forecast of a major reversal this year of the 35% drop in attributable profits posted at March year-end.

But while management was confident its objectives remained within reach, it would be "negligent" to ignore the potentially damaging outcome of political instability and prolonged labour unrest, MD Carl Jansen warned.

The group, in the Fedvolks fold until

### SYLVIA DU PLESSIS

West German company Daun et Cie bought its 75% stake from April 1, has posted a 25% hike in taxed profit to R1,8m for the three months to end-June. Earnings are 4.5c (3.6c) a share.

Jansen said growth at the bottom-line was level with directors' objectives of generating R8,75m in attributable profits in financial 1991, which would translate into a 42% improvement over 1990's R6,1m.

Turnover during the period under re-

view surged 27% to R61,7m against a slow 2,6% rise at year-end, while operating profit grew 24% to R4,9m (R3,9m).

The Morkels furniture chain realised sales of R54,6m, a 24,1% advance in a market which grew 29%, while sports goods and apparel chain Totalsports posted a 53,9% rise in sales to R7,2m, against a market base of 22,2%.

Jansen said resurgent demand for lower margin earning electrical products contributed an abnormally high proportion of group sales after restric-

tive credit curbs were lifted in March. But the "mini-boom" was probably due to the release of pent-up consumer demand and was unlikely to continue.

"This trading pattern curtailed operating profit growth to 24% above the previous year. Against this, no fewer than 74 out of the 82 furniture stores achieved better than sales budgets," he said.

Several new stores would be opened in the next few months, he added. The shares closed unchanged at 80c on Friday.

# Appliance sales take an upturn

Star 14/5/72 (185)

**Duma Gqubule**

Retail sales in the electric appliances and furniture sector have continued to show steady growth since the lifting of credit restrictions in March, says the Furniture Traders' Association (FTA)

National sales figures released by the FTA for the year to June show an increase of 18,5 percent in sales, compared with the previous 12 months.

"Growth for the month of June still represents a great deal of pent-up demand that occurred after the credit restrictions in terms of higher HP deposits and longer repayment periods were eased," says Frans Jordaan, executive director of the FTA.

"While there is a feeling of cautious optimism in the industry, June sales have shown that there has been strong growth, specifically in the volumes of appliances, audio and TV equipment.

"Pre-March credit restrictions were particularly stringent for these products.

"There has, however, been some slowdown in furniture sales, which is a cause for concern. We understand that there has already been some retrenchment on the furniture manufacturing side," says Mr Jordaan

"Credit restrictions imposed between August 1988 and March 1990 caused many inequities in the industry and has had the effect of creating pent-up demand.

"They distort growth trends and it is the earnest hope of the industry that the Government does not impose similar restrictions again," says Mr Jordaan.



# Rusfurn intent on proving itself

"Quality earnings" has become the buzz term of the furniture industry. The emphasis reflects the investment community's concern that companies may be tempted to boost turnover levels by writing business with insufficient regard to the credit risk.

It is a reaction to events that crippled the industry back in 1984 when, despite the weakness of the economy, furniture companies continued to chase turnover. The subsequent massive bad debt experience wiped out profits across the industry. It was only towards the end of the Eighties that companies showed signs of recovery.

A lesson has obviously been learnt — the temptation to go for turnover growth is now tempered by realisation of the importance of a sound debtors' book.

Rusfurn is currently languishing at around 120c where it is on a price/earnings rating of a mere 2.4 times compared with the furniture and household sector average of 4.7 times.

Reason for its underperformance appears to be the market's concern that the Rusfurn management team will be tempted to chase turnover and short-term earnings growth in order to meet eps targets set for financial '90, '91 and '92. The targets are part of the management buyout scheme that will see nine of Rusfurn's top executives increasing their joint stake in Rusfurn from a current 10 percent to 25 percent at the end of financial '92.

The view of the sceptics is that Rusfurn will go for business in the short-term and hope that interest rates will fall so that profit will be enhanced by the better turn on interest charges. In addition lower interest rates should stimulate demand and make the balance sheet look less vulnerable.

But this strategy ignores the fact that in a deteriorating economy there is a strong tendency for bad debts to increase.

The Rusfurn management team is obviously aware of the market's worries. Financial director Mr Mervyn Gerszt notes that while management's stake increases to 25 percent over the three years, it is only in years 4-7 that the debt relating to the purchase of the initial stake will be paid off through dividend flow.

On the issue of chasing turnover at the expense of the quality of the debtors' book Mr Gerszt accepts that there is tremendous pressure to go for turnover: "Once the industry's high fixed costs are covered the impact on the bottom line, of further increases in turnover, are dramatic."

He adds: "However it's easy to sell but you've got to collect the book and if your debtors are bad it will hit cash flow within a matter of a few months as suppliers start demanding payment."

For analysts, the only way of identifying this trend in the medium-term would be a debtors' book that is increasing at a faster rate than turnover.

## Provision for bad debt

Mr Gerszt feels comfortable with the group's provision for bad debt which is currently at an all time high of 19 percent. By contrast debtors' provisions at Ellerine (the star of the furniture retail sector) are 30 percent.

Mr Gerszt points out that Ellerine has built up this level over its 40 years in business adding that the same sort of level is Rusfurn's long-term target.

Another area of concern is debt level. The interim balance sheet at end-December showed gearing at 90 percent and is expected to surge well over 100 percent by end-June. This compares with Morkel's 34 percent, Ellerines at almost nil (again a function of maturity) and Amrel at well over 200 percent if its off-balance sheet financing is included.

Reason for the sharp increase in the six months to end-June relate chiefly to the acquisition of Furngro. Debt was used to fund the acquisition, goodwill was written off the balance sheet and Furngro brought its own fairly hefty debt burden to Rusfurn.

Mr Gerszt believes that the market's concern about the group's gearing is overdone and does not take into consideration the fact that Rusfurn is not only a retailer but is also a banker.

In an attempt to address this concern management is planning to break the group's business into two components — the banking leg and the trading leg. Separate profit and balance sheet figures will be presented for each of these legs.

For financial '90 (when eps will probably just pip the 55c target) the pre-interest profit split between the two legs is expected to be about 53 percent financing and 47 percent trading. This is up from the approximate 50:50 split last year and reflects the combined impact of the high Ladofca rates on interest charges and the squeeze on trading margins caused by the competitive market conditions.

But until the market is convinced that Rusfurn is producing quality earnings that are sustainable in the long-term, the share's rating seem set to languish below the sector average.

Star 17/8/90  
Diagonal Street

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ANN CROTTY



# Uncertain outlook for furniture sector

Although furniture sales are still holding up — figures for the year to June show sales 25,6 percent up on the previous year — there has been some slowdown in sales, which is causing concern, says the Furniture Traders' Association.

While many furniture retailers are doing well, there are mixed feelings about prospects for the next 12 months.

Morkels' quarterly results, published last week, show an improvement on last year's lacklustre performance when earnings dropped 35 percent.

Turnover rose 27 percent to R61,7 million and operating profit was up 24 percent to R4,9 million.

Financial director Terry Wilson says: "Barring unforeseen circumstances on the political front, we are on track to meet our targets."

Management has set itself the target of achieving a 40 percent increase in earnings for the current year.

Good results are also expected from other furniture retailers.

Analysts expect companies like Rusfurn, whose results will be published this week, and Ellerines, which publishes at the end of September, to report substantial increases in earnings.

However, Frankel, Kruger Vinderine industrial analyst Jacques Magliolo says: "Investors should not be fooled because the results are distorted by the mini-boom that followed the easing of HP restrictions in March this year. This had the effect of releasing pent-up consumer demand."

Mr Magliolo believes the outlook for the furniture sector is not good.

"Furniture sales are expected to start declining this quarter until the third quarter next year.

"Personal consumption expenditure is expected to decline by an average 10,2 percent for durables and 1,6 percent for semi-durables this

Diagonal Street

188  
DUMA GQUBULE

year. That will affect next year's results.

"Companies that survive the coming period are those that have made provision for the expected downturn. We are looking at companies with strong cash flows and which have made increased provision for bad debt."

Mr Magliolo says there is a new trend in the industry, with companies financing their own debtors.

These companies, which sometimes have their own finance houses, charge their debtors interest rates of 32 percent (the maximum allowed by the Usury Act) on funds raised by issuing preference shares at 15 percent or acquiring Bankers Acceptances at 18 percent.

So, whether a company has a fall-off in demand or not, it continues to have constant income from its debtors.

"Those companies that have provided for the downswing could outperform the industrial index in the next upswing," he says.

Rusfurn financial director Mervyn Gerzst, whose company should report sharp increases in turnover and earnings this week, says: "It would be totally unrealistic to expect a similar performance in the coming year. Anyone expecting a boom is in for a shock."

Ellerines director Sydney Ellerine believes his company will continue to perform in the period ahead.

He says: "Everyone is talking about tough trading conditions, but we seem to be doing well."

"We do not go through booms and downturns. We are a consistent group. We will continue doing what we have been doing all along."

# No armchair ride for Morkels group

The year gone by was a bad one for Morkels, with earnings dropping 35 percent to below the 1988 level.

With figures indicating the economy could be headed for a deep recession, the outlook for this year remains sombre.

In the annual report, Morkels management predicts bottom-line growth of 42 percent for financial 1991.

Although the increase appears over the top, it only brings earnings to 21,8c a share, which is less than the 1989 level of 23,5c.

Whether or not the prediction is met will largely depend on the extent of the slowdown, what happens to interest rates and how successful the authorities are in curtailing inflation.

Morkels retails furniture, appliances, audio and video products through its stores and sporting goods and fashion sport apparel through its Totalsports outlets.

In financial 1990, the contribution to group turnover by the furniture division fell from 93 percent to 89 percent, while that from sporting goods improved from eight percent to 11 percent.

Totalsports is expected to further improve its contribution to group results this year.

Chairman GR Pauw says the sales growth target for Morkels is 21 percent and for Totalsports 32 percent.

In the year to March, group turnover edged up three percent from R199,3 million to R204,6 million.

Cost pressures resulted in operating profit falling 25 percent from R22,2 million to R16,6 million.

Mr Pauw says the Morkels chain was particularly affected by the restrictive legislation on electrical products, which account for 60 percent of sales,

Stev 23/8/90  
Diagonal Street  
1988  
LYNNE PEACH

and by high interest rates, which reduced the disposable income of the middle-income target market.

With the interest bill rising 28 percent from R3,3 million to R4,2 million, pre-tax profit declined 35 percent from R18,9 million to R12,3 million.

A similar effective tax rate of 50 percent resulted in attributable income dropping 35 percent from R9,4 million to R6,1 million.

Earnings per share fell from 23,5c to 15,3c. The dividend for the year was 7c a share — 30 percent lower than the previous year's 10c.

The balance sheet shows a 16 percent rise in bank loans from R24,0 million to R27,8 million, which pushed gearing up from 50 percent to 53 percent.

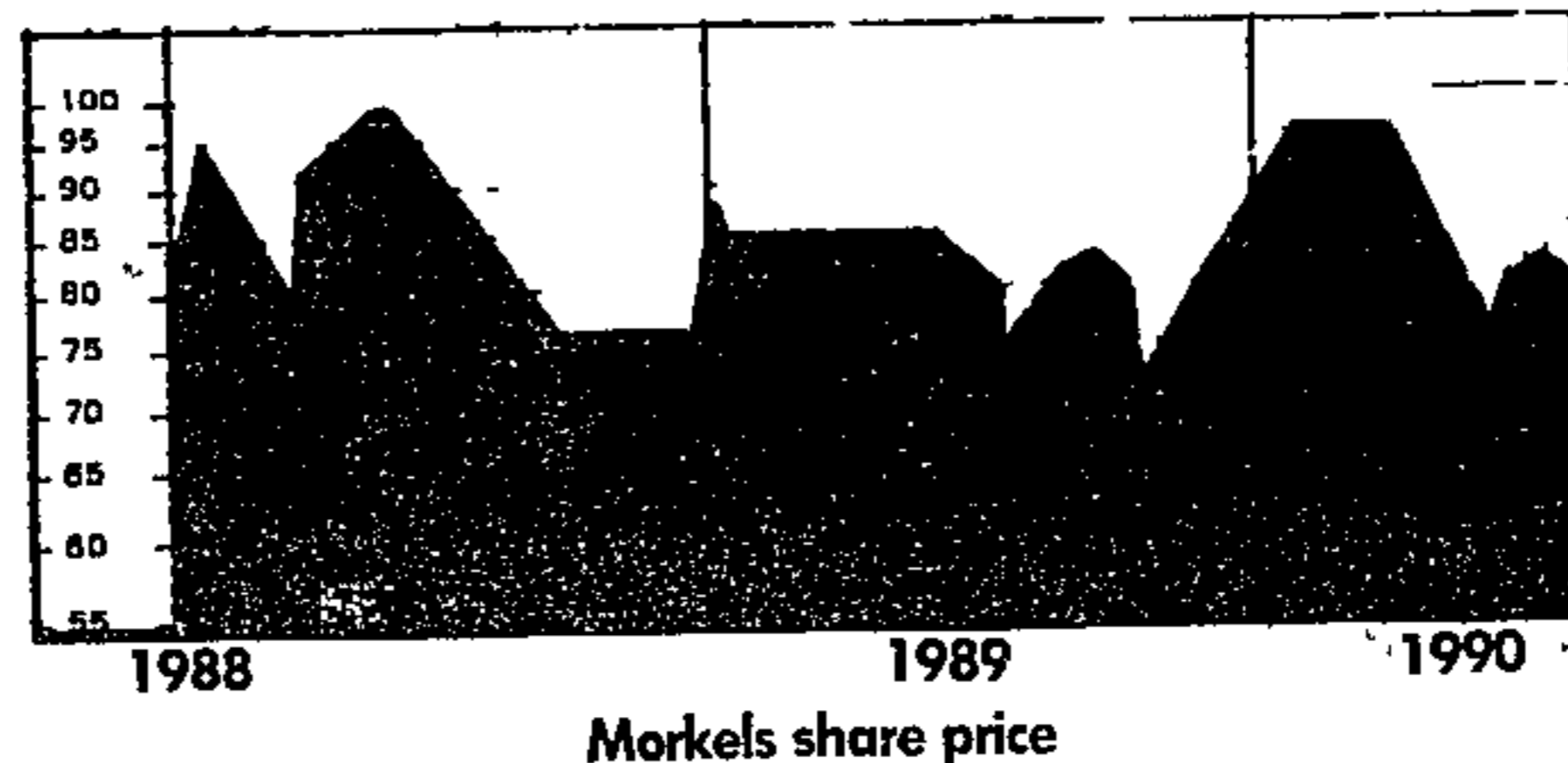
Management's objective is to reduce gearing to 50 percent by the end of the current financial year.

Net asset value appreciated seven percent from 123c a share a year ago to 132c. A six percent rise to 140c a share is projected for the current year.

Morkels, priced at 80c, is trading on a P/E ratio of 4,9 and provides a dividend yield of 8,8 percent.

In view of the attractive rating and expectations that profit growth will be resumed, the thinly traded share appears to offer value at its current price level.

COMMENT. For more than two years Morkels has been at 75c to 85c. The current price of 80c has been the most popular level and a breakout to new ground will be necessary to establish the direction of the long-term trend.



J D GROUP

# Debtors squeezed

188 FIM 24/8/90

**Activities:** Furniture retailing  
**Control:** Homemakers 49%.  
**Chairman and MD:** David Sussman  
**Capital structure:** 35,7m ords Market capitalisation R114,2m  
**Share market:** Price 320c Yields: 5,3% on dividend, 32,1% on earnings, p e ratio, 3,1, cover, 6,0 12-month high, 365c, low, 230c  
 Trading volume last quarter, 400 397 shares  
 Year to Dec 31 †'87 †'88 '89

ST debt (Rm)	—	—	0,4
LT debt (Rm)	—	—	79,2
Debt equity ratio	—	—	0,54
Shareholders' interest	—	—	0,36
Int & leasing cover	—	—	2,94
Return on cap (%)	—	—	16,3
Turnover (Rm)	351,8	421,6	471,7
Pre-int profit (Rm)	33,8	50,4	66,5
Pre-int margin (%)	9,6	11,9	14,1
Earnings (c)	62,8	86,8	102,8
Dividends (c)	—	—	17
Net worth (c)	311,6	374,0	412,9

† Pro forma



**JD Group's Sussman ... financing from within**

Times are getting hard for furniture retailers and that has pushed the J D Group (formerly Joshua Doore) into placing greater emphasis on improving the quality of its debtors book. According to chairman David Sussman, the group has reduced the length of its hire purchase book and has also increased collection rates.

The new emphasis is, perhaps, not altogether surprising given the debt burden weighing down J D's ultimate controlling shareholder, FSI. "The key to our business is quality turnover rather than turnover for the sake of it," Sussman says. As usual for the group, the annual report was issued almost five months after the financial year's end, which tends to devalue the worth of the year's figures in projecting the future. However, in 1989, turnover increased a fairly modest 12% on the previous year (based on pro-forma 1988 figures because of the year-end change to December).

Cash flow should have been boosted by more than would appear from the turnover rise as all of the group's four chains have increased deposits taken from customers to

an average of 20%. They have also lifted the proportions of cash sales in the total sales mix and cut the length of their HP books.

"We have very short lines of communication," Sussman says. "So it's not difficult to assess and reassess the situation and put new strategies into operation at short notice."

Though earnings increased 18% to 102,6c (still using pro-forma figures), Sussman is reluctant to make any projections based on 1989 annual figures because interims are due out August 27. He does say, however, that the group is planning to open six new stores in the remaining part of this year two each of Bradlows, Price & Pride and Joshua Doore. And, in the medium term, further new Bradlows premier stores will be opened. Sussman says all new developments are financed from within the business.

In 1989, borrowings looked as if they could pose a problem. Finance costs rose over 200% mainly as a result of borrowings for the restructuring of World Furnishers which the group bought in 1988. However "on-going monitoring of gross margins and expenses produced a further increase in operating margin and enabled us to absorb the expected increase," Sussman tells shareholders. He expects finance costs will continue to increase in 1990 but at a slower rate. And he is also comfortable with interest and leasing cover of 2,94, down from 4,52 in 1988.

Sussman believes J D's obsession with keeping overheads low, pushing for high deposits and increasing collection rates has put the group on a sound footing. "Even in recessionary times the group continues to show

good growth in quality turnover," he says. At 5,3% on dividends, the group is the lowest yielding stock in the furniture sector. Its share took a knock in July but has since remained fairly stable. The tighter controls over debtors should help offset any trading difficulties as consumers tighten their belts. Next week's interim figures will be the first indication of just how great a help it has been.

Heather Formby

ANBEECO FIM 24/8/90

## Ticking over

**Activities:** Imports, markets and distributes watches and audio equipment  
**Control:** Directors 64%  
**Executive Chairman:** A N Brookstone  
**Capital structure:** 14,9m ords Market capitalisation: R9,7m

**Share market:** Price 65c Yields 12,3% on dividend, 34,9% on earnings, p e ratio, 2,9, cover, 2,8 12-month high, 70c; low, 50c  
 Trading volume last quarter, 231 000 shares  
 Year to Apr 30 †'86 †'87 †'88 \*'90

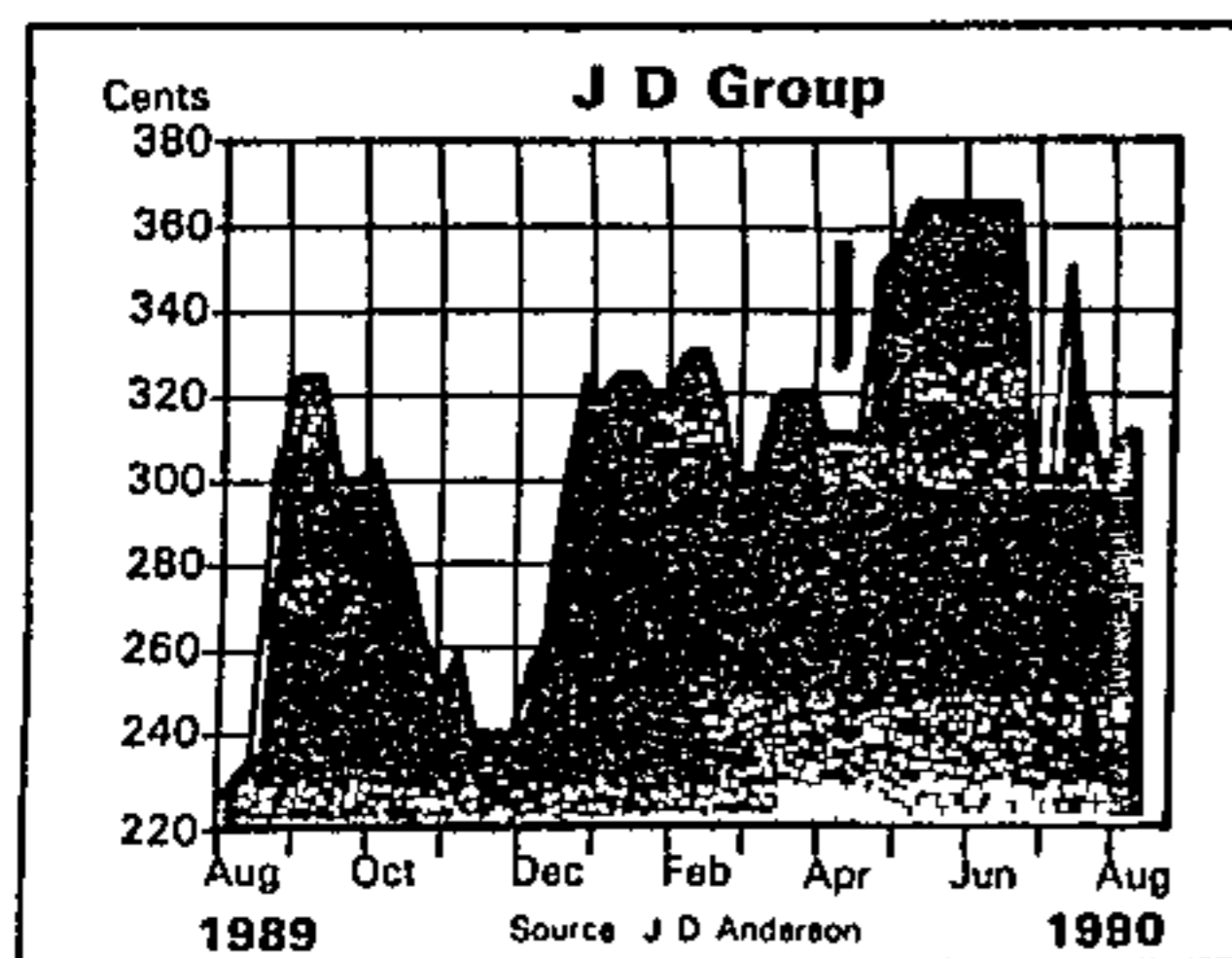
ST debt (Rm)	5,3	1,9	0,1	0,3
LT debt (Rm)	—	0,2	0,3	0,7
Debt equity ratio	2,66	0,21	—	—
Shareholders' interest	0,17	0,39	0,50	0,49
Int & leasing cover	2,2	13,8	10,0	13,6
Return on cap (%)	16,2	26,1	33,1	29,8
Turnover (Rm)	29,1	62,4	72,8	95,5
Pre-int profit (Rm)	2,0	7,0	9,8	10,5
Pre-int margin (%)	6,7	13,4	13,5	10,9
Earnings (c)	6,0	20,1	20,3	22,7
Dividends (c)	—	7	8,0	8,0
Net worth (c)	22	54	73	88

\* 16 months period † Year to Dec 31

Anbeeco managed to fend off the problems of high interest rates, restrictive credit controls and pressure on consumer spending faced by the audio equipment industry in its 1990 financial period. That is because it is cash-flush, sells mass market watches and because its latest 16-month reporting period includes an exceptionally buoyant January to April 1990 period. If, as expected, trading continues at the same pace for the rest of this year, real growth is a certainty.

Turnover for the 1989 calendar year was virtually the same as in 1988 and profits dipped. But a dramatic turnabout in the first four months of 1990 saved Anbeeco from reporting lower earnings. So while turnover rose by 0,3% and taxed profit fell by 9,2% in calendar 1989, the sales surge of the first four months of 1990 lifted turnover by 38% on the corresponding period of 1989 and taxed profit by 147%.

Anbeeco's subsidiary division, which distributes Kenwood and Cortina audio equip-



# Rusfurn delivers the goods

Rusfurn's first-year target has been met — only just. But in view of the unexpected severity of the fall in consumer activity in the second half of financial 1990, the attainment of 56c earnings per share was a sterling achievement.

The highlights of the figures for the year to June are: a 38 percent increase in turnover; earnings up 54 percent; dividends up 52 percent.

One area of concern might be the build-up of debt and the heavier interest burden.

Turnover was up 37,8 percent to R1,3 billion (R934 million), but stripping out the impact of the Furngro acquisition (effective from July '89) to compare like-with-like shows a turnover increase of 25 percent.

The increase benefited margins, up from 9,4 percent to 12,3 percent to produce a 79 percent surge in operating profit to R158,3 million (R88,5 million).

Interest payments shot up 88 percent to R39,3 million (R20,8 million).

The sharpness of the increase is attributable to the Furngro acquisition, not only because it was funded by debt, but also because it brought a fairly hefty debt burden to Rusfurn.

In addition, Rusfurn had to take on more debt to fund the

Diagonal  
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188  
ANN CROTTY



substantial increase in its debtors' book.

After R1,7 million tax (R777 000), taxed profit showed a 75,6 percent advance to R117,4 million (R66,8 million).

Some R21 million (R6,7 million) was attributable to outside shareholders, including preference shareholders.

During the year there was a significant increase in the number of preference shares in issue.

This reflects the fact that the prefs (held by a subsidiary company) present a cheaper form of funding for the group — particularly in view of its tax position.

There are just under R150 million of prefs in the balance sheet, with most of them at 60 to 70 percent of the prime rate.

Attributable profit was up 54,5 percent to R92,8 million (R60 million), equivalent to 56c (36,3c) a share.

A final dividend of 10,5c (7c) a share was declared, bringing the total to 16c (10,5c).

The balance sheet shows out-

side shareholders' interest up at R162 million (R67,4 million). Again, the extent of the increase reflects the rise in use of preference shares.

Long-term liabilities more than doubled to R237,6 million (R108,3 million).

Accounts receivable (which reflects the debtors' book) was 48,5 percent larger at R772,5 million (R519,8 million).

Financial director Mervyn Gerszt says the size of the increase (compared to the increase in turnover) was distorted by the Furngro acquisition.

This is because the income statement includes only one year's sales from Furngro, but the acquisition brought a two-year debtors' book belonging to Rusfurn.

With the preference shares treated as minority interests (and so neither debt nor equity), gearing is 96 percent from 47 percent.

But if the prefs are treated as debt, the gearing figure is close to 150 percent.

For financial '91 the directors are looking for real earnings growth, "given reasonably stable political and economic conditions".

The management share scheme requires dividends to grow at five percent in real terms and to be covered 3,5 times by earnings.

# Winky's Math Ash feels recession lash

S Times 26/8/90

188

By IAN SMITH

WITH the recession really biting in the office furniture industry, highly rated Matheson & Ashley is set for a downturn in its earnings growth of recent years.

Results for the year to June 30 are due in about three weeks — and they will not be good, says chairman Winky Ringo. But the cash-flush group should be able to maintain dividends.

The share traded recently at 450c — down from the year's high of 650c in March — and the market appears to have discounted a slowdown.

Mr Ringo says "I hope we will not disappoint too much, and when one looks at average returns over the past five years we don't look so bad."

The April to June quarter is normally the best trading time, but it has been particularly bad this year. Mr Ringo is, however, confident the tough conditions will result in only a

temporary setback. "All our attention is directed at continuing to outperform the inflation rate in the next five years."

Math Ash is not alone in feeling the effects of recession. Another listed company in the field, Grant Andrews Holdings, reported a 21% drop in attributable income in its first half-year, and managing director Mike Edwards says the year's earnings will be down.

Mr Ringo says "Merchant bankers have shown me figures from five other companies in the field, and they are all heavily over-gearred. I don't see how some of them can survive."

The group's acquisition this year, Cape-based Brown & Neethling, has settled well into the fold and another one or two acquisi-

tions are likely. "There is nothing imminent, but I hope to strike a favourable deal," says Mr Ringo.

Math Ash has some big orders, but they are not a good mix. Normally the big project business would be matched by off-the-shelf sales to smaller companies. But this time the recession has damaged routine business severely.

"There is no such thing as a soft landing — there has been a crash," says Mr Ringo. "I have been encouraged by many developments in SA, but I fear that measures to cool the economy have had too severe an impact. I would have liked to have seen interest rates off the peak by 2% or 2.5% by the end of the year, but it seems the best we can hope for is a 1% reduction — unless there is a change in official thinking."

He is, however, encouraged by reduced inflation

"South Africa has a tremendously resilient economy and people," says Mr Ringo.

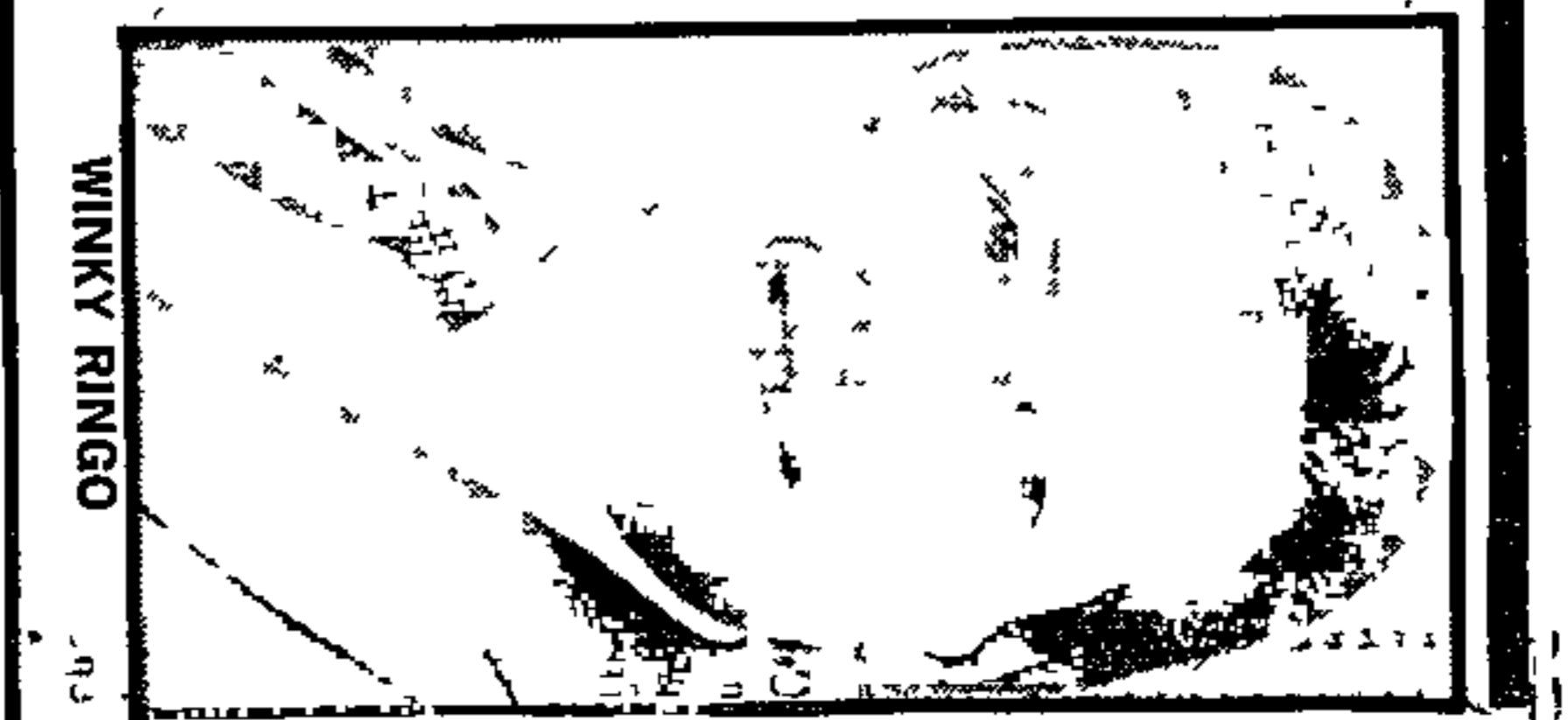
Math Ash has concentrated on preparing for the upturn. There has been heavy investment in equipment and additional factory space. The group's controlling interest in Fine-seat will give it entry to the catalogue sales market, worth R350-million last year.

All divisions have been computerised — "a painful exercise but we are now feeling the benefits."

Good management is in place at all five subsidiaries, leaving the five-man headquarters team free to concentrate on strategic planning and to investigate potential acquisitions.

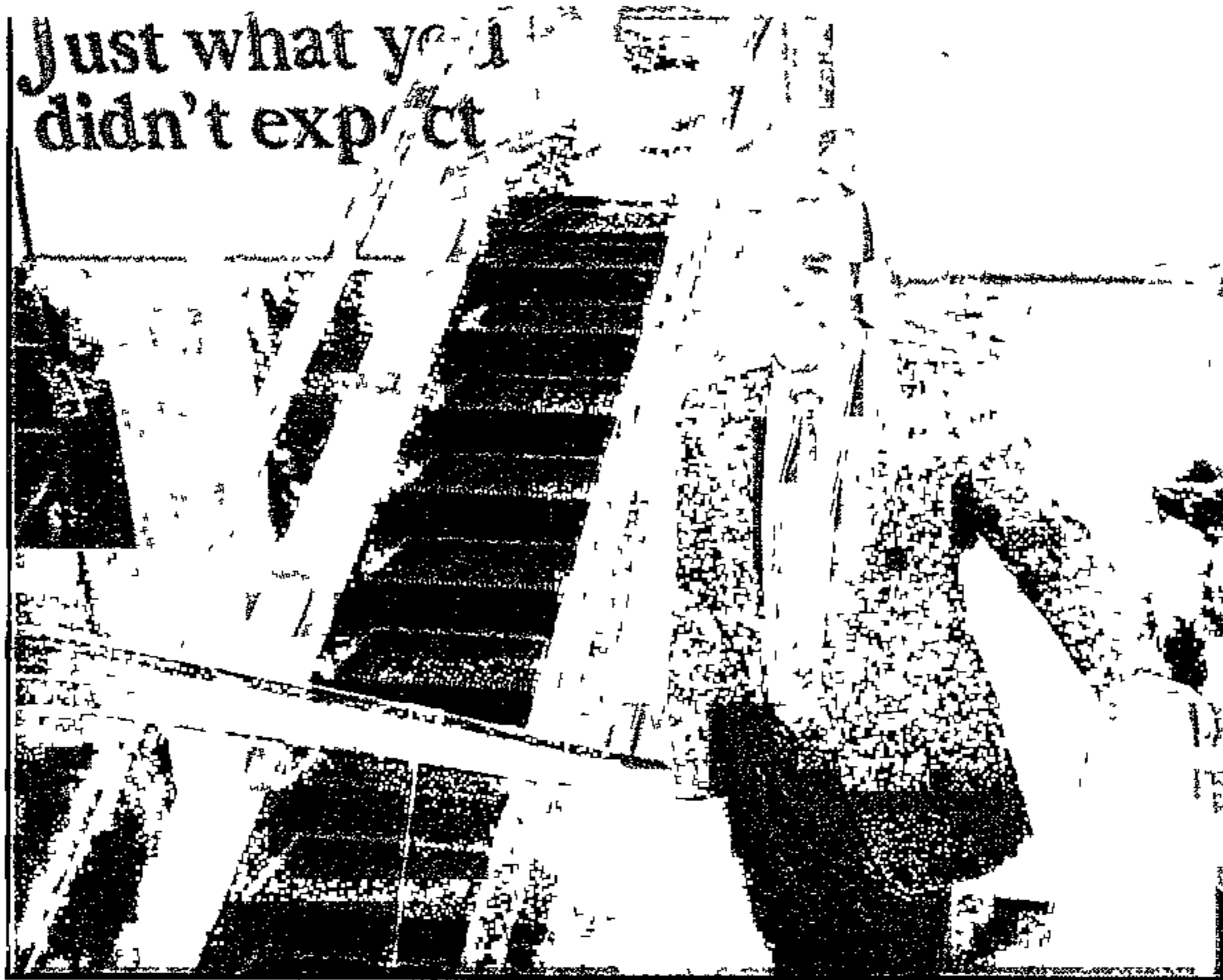
Mr Ringo says a high emphasis remains on maintaining good labour relations and promoting training.

"We see the current downturn as a period providing unique strategic opportunities."



WINKY RINGO

Just what you  
didn't expect



GEOFF AUSTIN . . . it was more than many expected of an audacious management buyout that's turned into a selling triumph Picture: GARTH LUMLEY

## CARTE BLANCHE



By DAVID  
CARTE

RUSFURN chairman Geoff Austin and his management team could hardly contain their glee in announcing a 54% earnings increase for the year to June.

"We're so proud of our company," he told 400 investment analysts and friends of the company, who crowded into a results presentation at the huge Dion Wynberg store.

Making the most of a sales opportunity, Mr Austin invited guests to go on a buying binge at 7pm after the presentation.

Mr Austin's pride is hardly surprising. With sales in the year to June up by 38% at R1,3-billion, taxed profit 54% better at R92,8-million and assets of R1-billion, this is quite a substantial privately owned company. Its progress will be influential in future management buyouts.

About 42 executives borrowed roughly R23-million to buy about 20% of their company from Tradegro a year ago. Further management purchases have raised the stake to 30%. This was not a leveraged buyout because the company picked up no debt.

Had the company not achieved these splendid results, enabling a 16c dividend, Rusfurn's bosses would have had a spot of bother servicing their debt.

Mr Austin says "An important reason for our success was decentralisation of the 420 stores. The three main operations are Dion, Russells and Wanda Frasers. Each has its own board and is fully accountable."

Rusfurn has beaten national sales trends. Eliminating acquisitions, group turnover rose by 25% against the national rise of 18%. The group accounts for 20% of household durables in SA.

Mr Austin attributes a large part of Rusfurn's success to the hunger of a management with its own pocket-book on the line. But he acknowledges that increasing affluence in the black community is helping.

Townships may be in upheaval, but in the rural

## TIME TO CROW FOR RUSFURN

5 Times 26/8/90  
areas on which Wanda Frasers concentrates, all is quiet and pay packets are bigger. There has been a swing from cash to credit.

Mr Austin says: "Dion, which reflects mainly upper-market white buying, mostly for cash, increased sales only 17%, but, through holding costs, lifted operating profits 60%. Dion accounts for 40% of group turnover, but only 20% of profit."

Rivals say Rusfurn has chased sales at the expense of debtors' quality, but Mr Austin rejects the slur.

"We have put R170-million or nearly 20% of debtors into a reserve. We want to emulate Ellermes in building that reserve up to 30%."

Accounting policy is conservative. Goodwill of R40-million has been written off the R53-million cash purchase of Furniture Fair.

Mr Austin admits that with a debtors book of R772-million, Rusfurn is something of a bank. "Banking" accounts for nearly half of group profits. Rusfurn lends at 32% while it pays less than the prime rate of 21% for its

funds. As interest rates fall, Rusfurn will sit pretty for it will continue to receive rates of up to 32% on existing contracts while paying less for its funding.

Rusfurn pays little tax because of allowances in respect of its debtors under Section 24 of the Income Tax Act.

Mr Austin is budgeting for an earnings increase of 23% to 68,8c this year and a dividend of 20c. He expects the going to be tough. In 1993, the target is earnings of 114,3c and a dividend of 33c.

At 120c, the share price is still where it was at the time of the MBO — an insulting two times earnings.

But that is partly because a weak holder has been selling. On Wednesday there was a R6-million bookover, representing the final sale of the unidentified weak holder.

Mr Austin hopes that with the seller out of the way, the efforts of his team will be better recognised.

# JD on track to meet analysts' forecasts

8/27/90 188

A GENERAL improvement in furniture sales, coupled with growth in market share, has enabled listed furniture retailer JD Group to boost interim earnings by 32,8% to 35,7c a share during what is traditionally a slower trading period

A dividend of 8c — 33,3% higher than a corresponding 6c with cover maintained at 4,5 times — has been declared

These figures put the 169-store group firmly on track to meet analysts' forecasts of full-year earnings of about 124c a share

SYLVIA DU PLESSIS

and dividends of 21c

JD, in the FSI fold by virtue of Homemakers Holdings' 49% stake in it, buoyed turnover by 28,1% to R271,3m, to achieve an operating income of R27m (R20,9m)

After finance costs of R9,9m (R7,9m) and a marginally lower tax rate, bottomline income was 32,8% higher at R12,7m

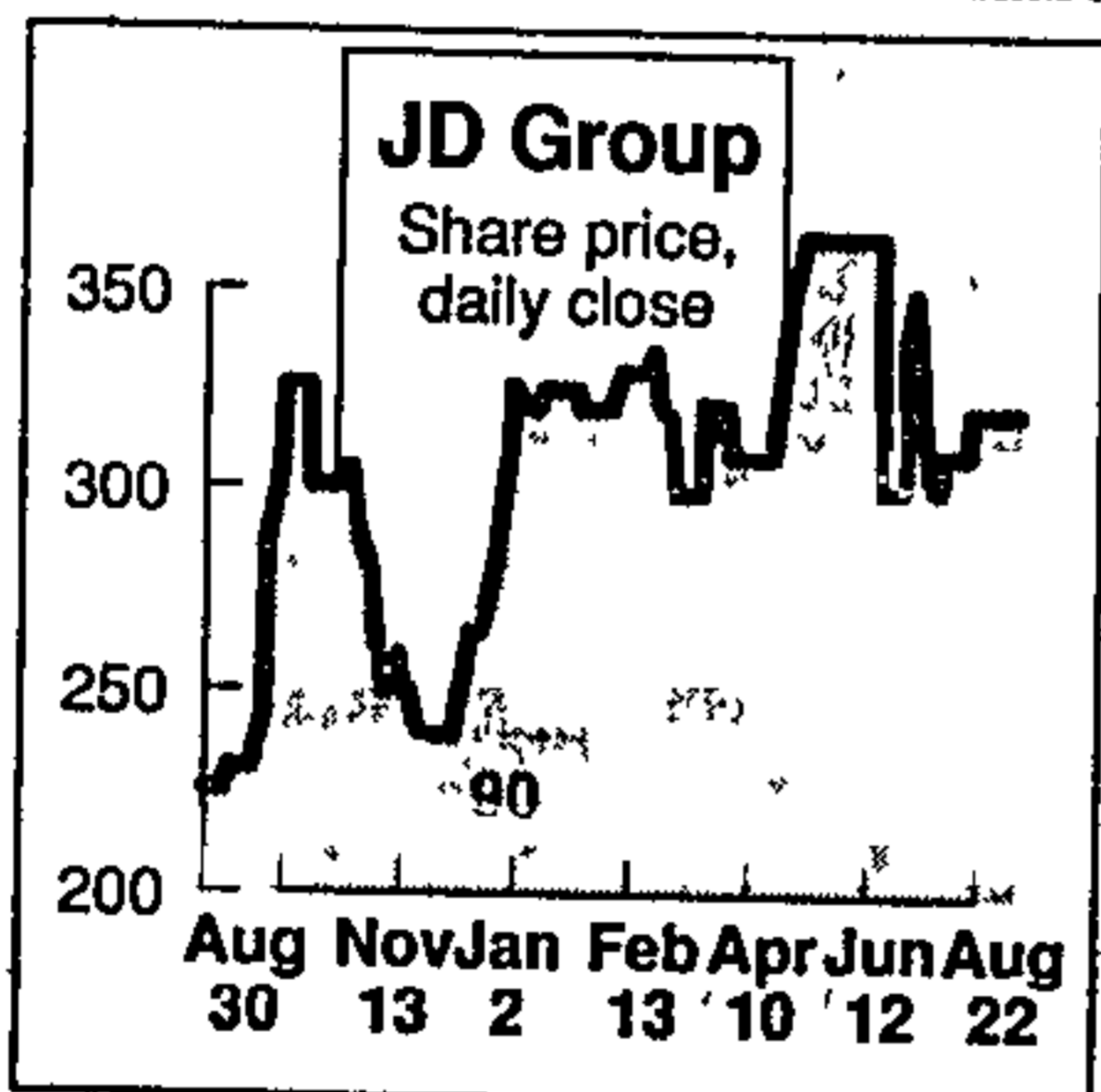
Chairman David Sussman, commenting on the group's performance, said at the weekend the level of growth in turnover was due to better furniture sales and a further increase in market share

"The latter was achieved while maintaining the highest standards for the granting of credit — deposits average 20% across our four chains," he said.

JD's debtors book increased by R80m to R464m during the six months, but long-term borrowings rose by only R19,8m, he said

"The benefits of our focus on the quality of business conducted is further underlined by the fact that the debtors book is growing at a slower rate than turnover — 21% and 28% respectively in the period under review"

On prospects Sussman said its chains — Bradlows, Joshua Doore, Price 'n Pride and Score — were trading well



Graphic LEE EMERTON Source JSE



# SMH bosses face tough year

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188

SYLVIA DU PLESSIS

MANAGEMENT at Supreme Manufacturing Holdings (SMH) — formerly Victoria Lewis Holdings — faces a difficult financial year and is not optimistic about achieving its earnings forecast of 5,4c a share, according to chairman Edward Ronbeck

Ronbeck says in the group's annual report that this is because of the economic climate and the vulnerability of the furniture and housing industries to high interest rates

"In the coming financial year we shall consolidate further and streamline operations while continuing to seek growth organically despite tight market conditions"



● RONBECK

SMH, comprising furniture manufacturer Victoria Lewis, cold room and refrigeration unit manufacturer Insulated Structures and stainless steel fabrica-

tor Mewa Manufacturing, posted a R1m taxed profit in the nine months to end-December

This, based on turnover exceeding R38,5m, followed a loss of R800 000 at the interim stage.

In his review for SMH parent company Supreme Industrial Holdings (SIH), formerly Mewa Holdings, Ronbeck says directors expect to "comfortably exceed" their earlier earnings forecast of 25,4c a share for the 1990 financial year.

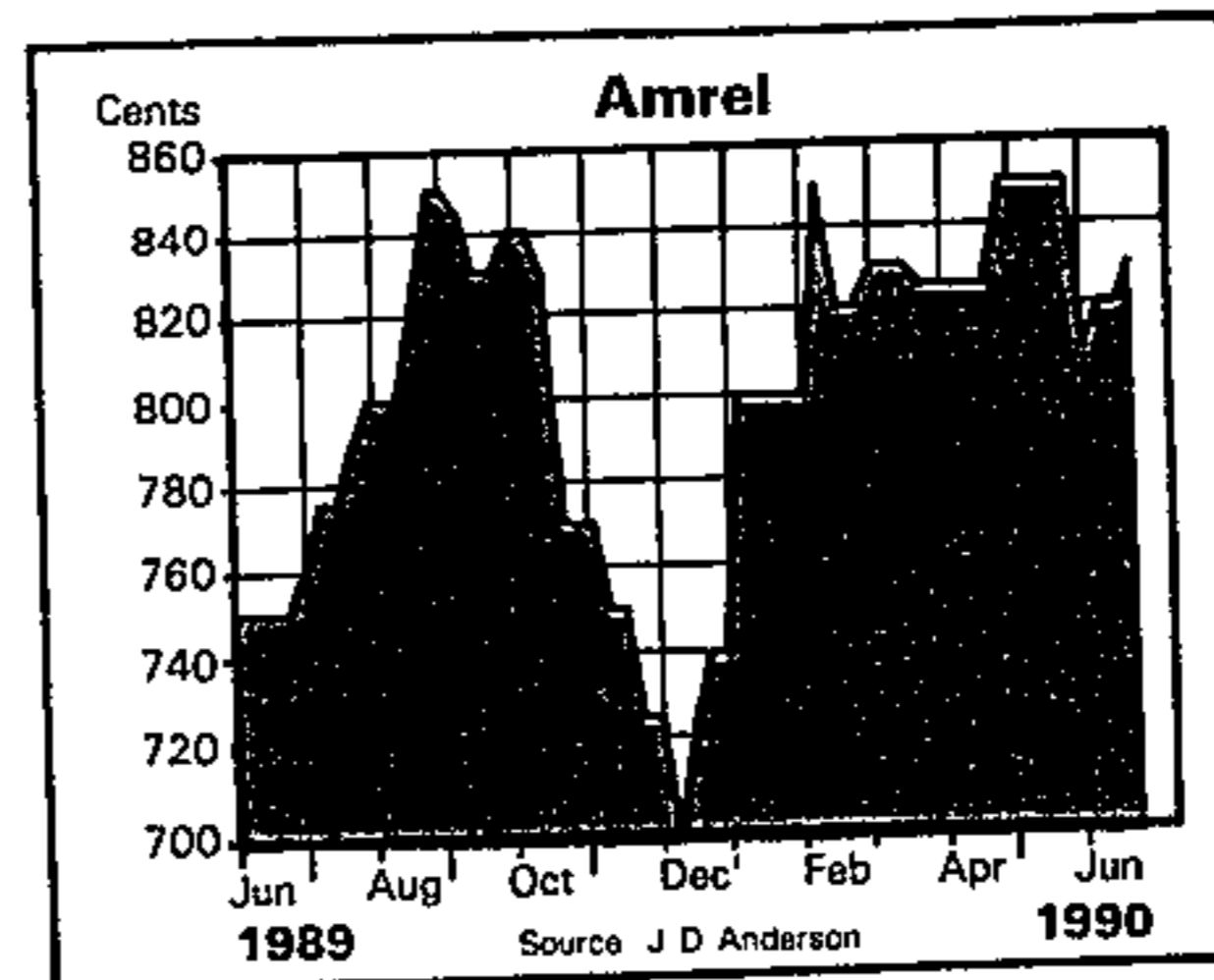
SIH, whose activities are grouped into manufacturing under Supreme Manufacturing and furniture retail and distribution under Protea Furnishers, achieved a 98% rise in earnings to 18,6c a share in the year to December.

FIM 617190  
 attributable earnings to 1,8%, this compares with a half-time decline of 8,3% (188)

Management is happy with this. MD Stan Berger says the strategy in recent years has been to strengthen the balance sheet and earnings quality, not chasing sales at the expense of sustainable profitability

National retail furniture sales were buoyant throughout the year, but turnover of the furniture and appliances division rose only 12,9% and earnings 6%. Appliance sales were generally weak in 1990 due to tight credit restrictions, whose easing may benefit Amrel later this year

First-half sales of footwear and apparel held up well, but Berger says thereafter margins came under increasing pressure. The loss-making Smiley Blue, Goophees and Rock Bottom — with about R4m turnover at mid-year — were sold for R2,8m. The 9,1% sales growth and 22% fall in earnings from



AMREL FIM 617190

## Modest recovery

**Activities:** Retail furniture, footwear and clothing (188)

**Control:** SA Breweries 69%

**Chairman:** J M Kahn, MD S J Berger

**Capital structure:** 9,21m ords Market capitalisation R77,4m

**Share market:** Price 840c Yields 9,8% on dividend, 29,2% on earnings, p e ratio, 3,4, cover, 3 12-month high, 860c, low, 700c

Trading volume last quarter, 105 000 shares

Year to Mar 31	'87	'88	'89	'90
ST debt (Rm)	7,6	5,8	7,2	0,6
LT debt (Rm)	155,3	132,5	121,2	94,8
Debt equity ratio	1,67	1,25	1,09	0,72
Shareholders' interest	0,21	0,29	0,29	0,32
Int & leasing cover	1,42	3,30	3,34	5,80
Return on cap (%)	11,5	13,8	13,4	12,1
Turnover (Rm)	627	694	760	849
Pre-int profit (Rm)	43,3	52,8	53,6	48,8
Pre-int margin (%)	6,9	7,6	7,1	5,7
Earnings (c)	154	231	241	245
Dividends (c)	51	77	81	82
Net worth (c)	1 072	1 189	1 272	1 361

The latest results appear out of line with the more upbeat figures of some furniture retailers but are a modest recovery from a poor first half. Pre-tax profit for the year rose 8% on a 12% turnover rise. Even though a 27% hike in the interest bill, higher tax rate and lower contribution from equity-accounted associates (mostly Boymans) held the gain in

the footwear and apparel division largely reflect bad results from Select-a-Shoe/Footprint and the 36% stake in Boymans.

Turnover of the small services division (Early Bird, Multiserv and Prontaprint) grew 15,4%, but earnings were slightly off.

Berger says the intention is to increase the profit contribution from cash-based footwear and apparel, slowly reducing furniture's contribution to 50% from the present 66%.

The balance sheet has been rationalised. The debt equity ratio is down for the third straight year. The interest in 50%-owned finance company Amretfin has been reduced by greater use of external debt and tighter control of debtors. Berger says all debtors' books improved, net debtors, including those financed by Amretfin, rose only 8%.

Stocks were written down and deferred tax comprehensively provided for, no further arrear write-downs are expected. Foreign subsidiaries over which there is effective control — such as those in Boputhatswana and Swaziland — have been consolidated.

Berger says depressed retail activity will make it difficult to increase earnings this year but the group is well placed. He is cautious about prospects for furniture but expects improved profitability from footwear and apparel. New store openings will be resumed and systems will be upgraded.

With the sustainability and quality of earnings now looking better than those of some competitors, the share price, at 840c, is close to the 12-month high.

Pam Baskind

**Activities:** Manufacturing furniture and household appliances

**Control** SA Breweries has 65,6% of the equity

**Chairman:** L van der Watt

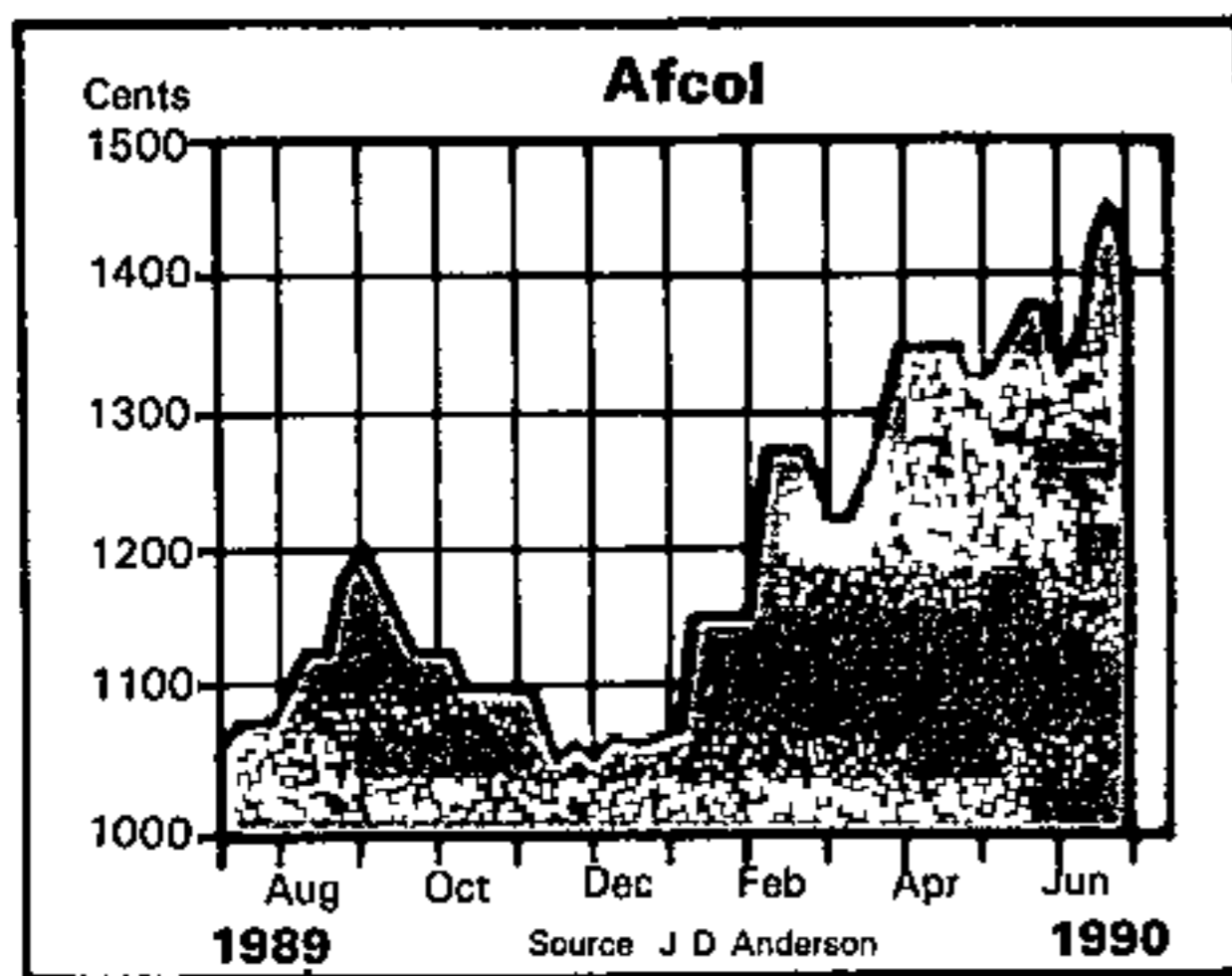
**Capital structure:** 24,5m ords Market capitalisation R337m

**Share market:** Price 1 375c Yields 13,8% on dividend, 6,9% on earnings, p e ratio, 7,2 cover, 2,0 12-month high, 1 450c, low, 1 050c Trading volume last quarter, 173 000 shares

Year to Mar 31	'87	'88	'89	'90
ST debt (Rm)	3,4	0,9	2,5	2,7
LT debt (Rm)	65,4	53,3	92,5	96,7
Debt equity ratio	0,40	0,27	0,36	0,37
Shareholders interest	0,53	0,55	0,56	0,49
Int & leasing cover	3,2	8,0	4,4	3,5
Return on cap (%)	8,4	13,5	15,8	17,7
Turnover (Rm)	389	510	579	701
Pre-int profit (Rm)	25,9	49,6	56,1	68,6
Pre-int margin (%)	6,8	8,6	9,05	9,07
Earnings (c)	100,4	144,8	170,0	190,3
Dividends (c)	50	72,5	85	95
Net worth (c)	718	821	1 073	1 074

Van der Watt, endorses management's view that merging the office interests of Afcol and Mathieson & Ashley will help earnings

Attributable earnings from Romatex fell



because that company is expected to earn less in its year to September than last year

Van der Watt says the nature of the business entails a relatively high ratio of current



Afcol's Van der Watt merger helps earnings

assets to turnover These are immediately affected by turnover increases and higher raw material costs, which make it necessary to control assets stringently if gearing is to be held at acceptable levels

Private consumption spending is the foremost generator of furniture demand Expenditure growth declined to an estimated nil in the March quarter from a real 3,7% in the June 1989 quarter

The trigger to furniture activity is housing, says Van der Watt According to Central Statistical Service data the value of residential buildings completed fell and building plans passed slowed markedly in the second half of 1989

These two factors will still exert a major influence this year, when Van der Watt expects margins to come under even more pressure At 1 400c Afcol is still close to its June high of 1 450c, reflecting the good results A drop in the share price is likely, however, as trading conditions may stay tough for at least another year

Gerhard Slabber

AFCOL FIM 1317190

## Beating the sector

The enhanced focus on sales, together with the benefits of investment in modern plant in previous years, were the main factors helping Afcol overcome tough times in the furniture industry and dull consumer spending, with commendable turnover growth of 21%

Executive chairman Laurie van der Watt is satisfied with these results, attained in trying conditions Turnover topped R700m, the highest yet The increase in sales exceeded industry growth, indicating Afcol's ability to meet consumer needs, he says

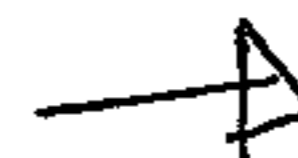
Net borrowings rose by only R4,6m despite R16,6m investment spending, mostly financed out of cash generated by operating activities This brought gearing down to 41% of shareholders' funds

The primary business is domestic furniture in which the group dominates the market It also has stakes in Romatex (21%), office furniture manufacturer Kallenbach-Hendler (50%) and several raw materials suppliers

Well over half of the increase in earnings flowed from Kallenbach-Hendler This, says

FINANCIAL MAIL JULY 13 1990

From here!



# Ellerine heads for best in

SITimes 22/7/90



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## Nationwide chain born in one small furniture store

By DON ROBERTSON

RETAIL furniture giant Ellerine Holdings celebrates its 40th anniversary this month with record profits and dividends, a peak JSE price and a commitment to expand.

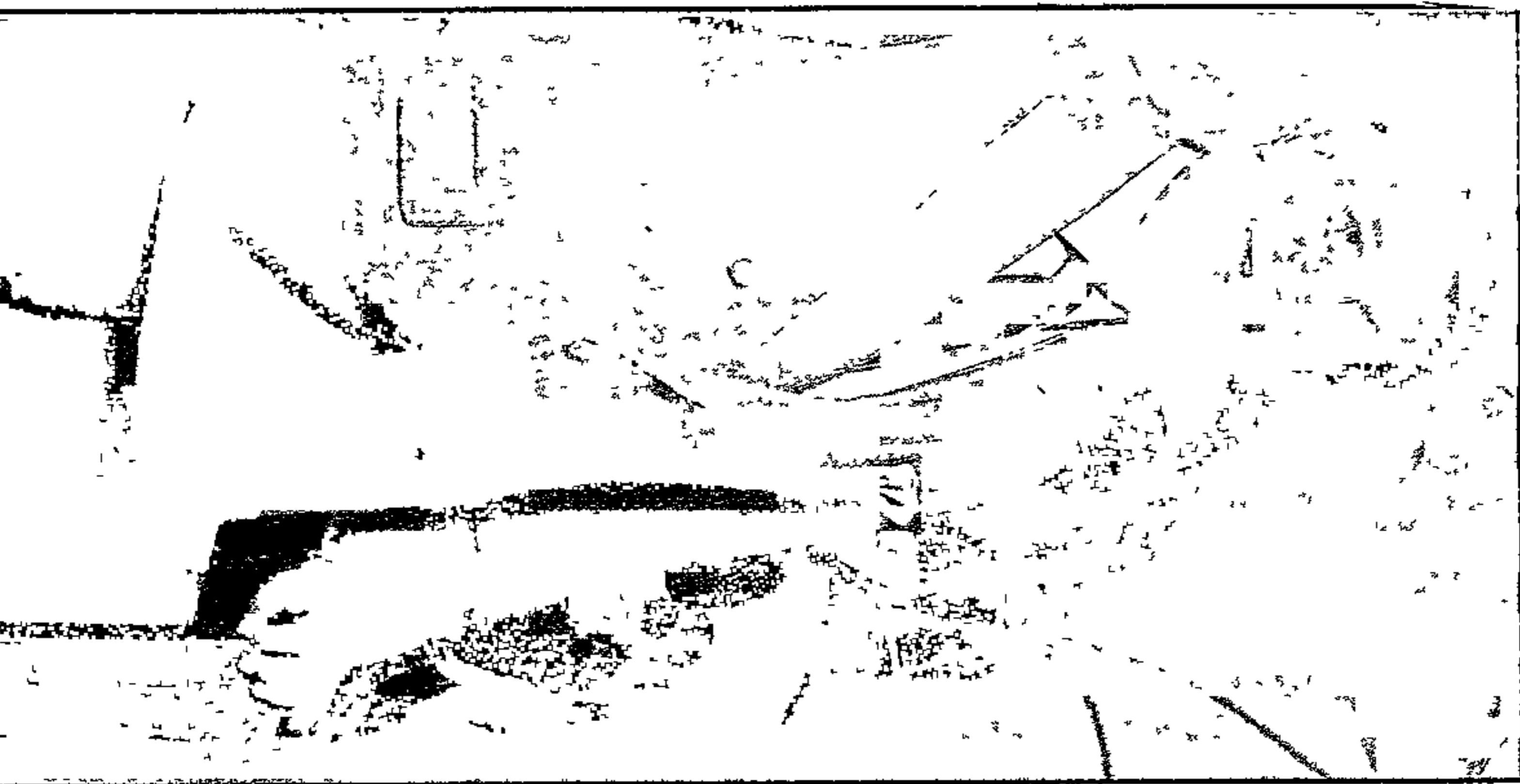
Founder, chairman and managing director Eric Ellerine says income for the year to August, to be disclosed in October, will be the best ever and shareholders will receive record dividends

By then, the Ellerine group will include 321 stores, with the addition of another 17 outlets in the next three months

He forecasts that by the end of the century, 500 stores will carry the Ellerine name throughout Southern Africa

### Basic

The embryo of the Ellerine group was established in July 1950 by Eric Ellerine who left university to fill a gap he had seen in the furniture business — the burgeoning black market



ERIC ELLERINE founder, chairman and managing director turned £108 into a fortune

With only £108 in his pocket, the 16-year-old entrepreneur opened a furniture store in High Road, Germiston, to meet the needs of the increasing number of blacks who were drawn to the city for work

### Team

Their basic needs were beds, tables, chairs, coal stoves and wardrobes

Eric's Furnishers was an immediate success and by 1952 it had moved to better premises in Knox Street

Eric Ellerine was joined by his brother Sidney, who is now director responsible for developing group marketing, merchandising and promotional strategies

gained control Gencor bought Tedalex in 1983 The Gencor interest was eventually acquired by its subsidiary Malbak, which now holds slightly more than 60%

The Ellerine family maintains its 20% stake and has full management control

The 100th store was opened in 1974, the 200th in 1981 and the 300th this year

New stores do not come cheaply

"It costs between R1.5-million and R2-million in the first two years to open a store," says Mr Ellerine

### Agreed

All the stores do not bear the Ellerine name Also in the team are Royal Furnishers, Oxford Furnishers, Town Talk Furnishers, Rheingold Furnishers, Volks Furnishers, Jako Furnishers and FurrCity They are spread throughout SA, Bophuthatswana, Botswana, Lesotho, Transkei, Swaziland, Ciskei, Venda and Namibia

FurrCity, which deals in a more affluent market, is destined for growth

In the difficult six months to February this year when the sector went through hard

times because of hire-purchase curbs and high interest rates, Ellerine confounded JSE sceptics with excellent results

Sales rose by 31% to R239-million from R182-million

Earnings a share rose by 88% to 327c from 174c Dividends climbed to 109c from 58c

The reason for the improvement, says Mr Ellerine, was a decision taken in 1988 to clean up the debtors book and manage assets more carefully

The benefits of this timely action and an increase in turnover were felt in the first half of the current year

### Training

Mr Ellerine says "This decade could be one of real growth and major developments as our market expands"

Mr Ellerine is still excited by his business — even after 40 years But after an 11-hour day, he refuses to take work home He spends time with his wife and family, jogs on sunny mornings and plays a "poor but enthusiastic game of golf"

The share is trading at a peak of R27.50 compared with a low of R10 last August It offers a historic price earnings ratio of only 4.1 and a dividend yield of 7.9%

# 40 years

# Consumers in SA are 'very conservative'

South African consumers are generally very conservative in furniture tastes

Amrel managing director Mr Stan Berger says fashion trends to be dictated by what people can afford

"The upmarket client wants leather, and there has been a massive increase in interest in leather furniture. A number of manufacturers are now producing ranges of leather furniture.

"As a result of leather becoming fashionable there has been considerable technical development in the area of imitation leathers. The quality, durability and appearance of the imitation leathers is such that it has become difficult to tell them from the real thing.

"Gratton has introduced a range of exciting, top quality patterned fabrics both textured and non-textured.

"However, where the majority of South Africans are concerned, we have to stick to conservative tastes. Particularly outside of the main metropolitan areas, consumers are very conservative and they still want their solid wooden arms on their lounge suites," he says.

Rusfurn chairman Mr Geoff Austin agrees that the bulk of the South African market is very conservative in its tastes. "We have launched the Dion furniture stores and there will be seven by the end of the year. These stores are aimed at the upper end of the market.

"Therefore, the stores will stock furniture such as high quality leather and will be more adventurous.

"In stores such as Russells, which aim at the middle market, we have tried to introduce new fads and fashions but with only limited success. These consumers do not like change.

"The lower end of the market is even more strict in its requirements. For example, it is pointless trying to sell fully upholstered furniture to the black consumers. They want to see the wood.

# Retailers bank on credit customers

For many furniture retailers their business is divided between the retail trade and banking.

Rusfurn chairman Geoff Austin points out that the industry is internally funded and has to borrow to finance growth and an expanding debtors' book. However, he says, no company is as heavily geared as they were in 1984.

For the year ending June 1989 the Rusfurn Group had 42 percent cash sales. There has been a swing towards credit and Mr Austin estimates the present level of cash sales have fallen to about 36 percent.

"Our business is half retailer and half banking — 50 percent of our profits come from financing sales.

"Dion aims at the A and B income groups and tends to be more price sensitive. As a result the finance charges are lower than the rates on offer by the major banks on their mass credit cards. However, this is the only one of our groups which discounts on the finance charges.

"Generally our stores are charging 32 percent. The administration costs are high — we have to physically collect the payments each month from a certain segment of our clients — the risks are also high and have to deal in lower value ticket items than most of the banks will consider financing. However, it is still very attractive to us," says Mr Austin.

He notes that generally the bad debt rate is about 5 percent in the rural areas, about 2.5 percent in the middle income bracket and in the upper income groups bad debt is almost non-existent.

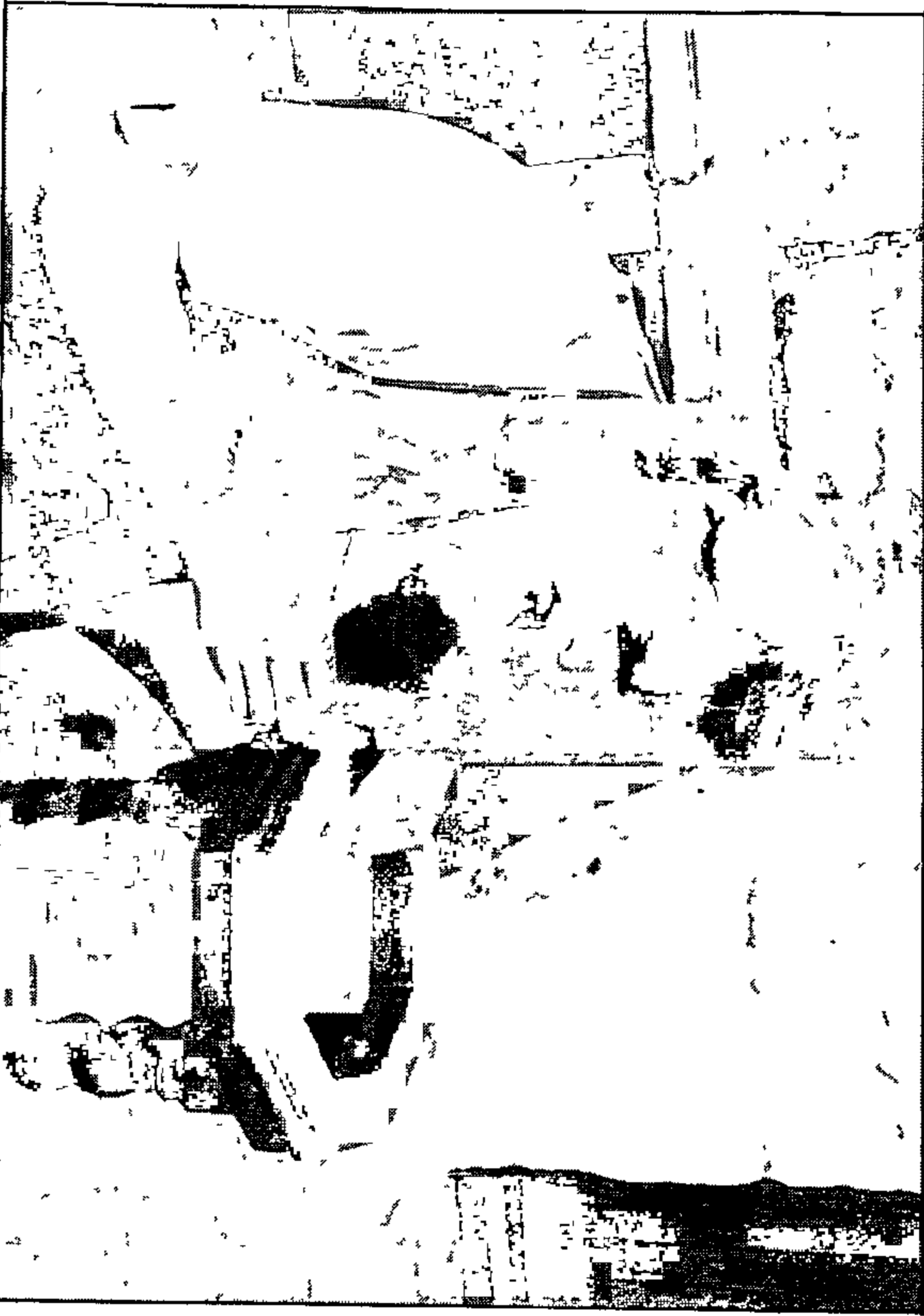
Mr Austin says "We have improved our procedures as an industry so if there was another recession on the scale of 1986 we would be affected less."

He points out that the industry has lived with high interest rates for some time. Mr Austin believes interest rates have peaked and may soften one percent in the last quarter of 1990 and another one percent in the first quarter of 1991.

"In a situation of declining interest rates the prospects for the industry are good. Some smaller companies may have trouble. Demand is not consistent at the moment. While overall demand is strong, there are shifts from one product segment to another, such as from furniture to appliances. Some smaller firms which are concentrated in a particular product line may struggle. There are a number of smaller retailers up for sale.

"The larger manufacturers are now taking orders for Christmas — indicating their order books are strong. However, they are trying to shorten payment terms enjoyed by the retailers. Market conditions are not such that they are able to achieve this without offering discounts to the retailers in exchange."

But the smaller manufacturers are facing problems. Mr Austin says the industry as a whole will suffer if more small manufacturers are forced to leave the industry. He points out that it is the smaller manufacturer who contributes the variety.



Finding the former glory... Ralph Mothes runs classes in restoration in Johannesburg and Cape Town.

## 'Tough times ahead for industry'

The furniture manufacturers are expecting a tough time this year and predictions are that manufacturers will suffer more than in 1989.

Federation of Furniture Manufacturers of South Africa president Dr Winston Smith says the industry employs about 35 000 workers in about 1 350 factories. The main concentration is in the Transvaal, with 60 percent of the manufacturing capacity. This is followed by the Cape with 23 percent.

Dr Smith says the industry's turnover in terms of wooden and upholstered furniture is more than R1 billion.

He says the industry conducted a survey which indicated it had experienced 3.2 percent real growth during 1989.

"Unfortunately the figures do not reflect the true situation. The apparent real growth was achieved through running down stocks and not increased production. Growth was unhealthy and margins came under further pressure. This is indicated by the fact the consumer price index for furniture increased by

11.2 percent compared with a 13 percent increase in costs.

## Learn the fine art of restoration

For people who love digging around in junk shops and auctions for their often damaged antique bargains, there is a course in furniture restoration on offer.

The course is run by Mr Ralph Mothes, a South African who completed a three-year apprenticeship with an art cabinet maker and restorer in West Germany.

He returned home in 1980 and has since founded the School of Restoration in Cape Town and Johannesburg.

He says the course is for anyone who has a love of antiques, wood and beauty.

"In the six years we have offered the course in various cities throughout South Africa, we have had a broad range of participants including housewives, surgeons, interior decorators, retired folk looking for a hobby or additional income, antique dealers, auctioneers and DIY enthusiasts.

"Their ages range from 17 to 80 and while some have been skilled in carpentry, many have never handled tools in their lives," says Mr Mothes.

The course covers subjects such as stripping and sanding techniques, repairing, surface treatments and the art of French polishing.

The next course will run in the Transvaal at the beginning of August.

Interested parties should phone Renate Steydler (011) 704 1035.

## Few labour problems in furniture industry

While labour problems have not been absent in the furniture industry, unrest has been isolated.

Rusfurn chairman Mr Geoff Austin says "On the retail side we have a very active union. The industry is very people-intensive and this makes us vulnerable to union action, but we just have to manage.

"A year ago there were no union agreements in force, and now the group is almost entirely unionised.

"The unions and management have proved able to deal with one another. The past two negotiations have ended well with both sides cracking open the champagne to celebrate. Federation of Furniture Manufacturers of South Africa president Dr Winston Smith says the manufacturers have not experienced any major labour problems, though there have been some isolated difficulties.



## Design key element in manufacture

Design is one of the most important elements in furniture manufacture and South Africa is succeeding in attracting top overseas design skills.

Mr Fred Ruf is one such designer, having come to South Africa in 1982 after studying in the Art & Craft School in Zurich and Juventus Technical Institute. He has worked in Sweden, Finland, France and Italy.

Mr Ruf worked as an assistant to the famous Ms Florence Knoll on projects for Connecticut General Insurance and the Rockefeller Institute for Medical Research.

In 1982 he came out to South Africa to work for Kallenbach-Hendler. In his first three years with the company he developed Interlink (a sophisticated office furniture range) and Parasonic Screens, a screen system. Both designs won Shell design awards in 1986.

Later that year he joined Masterplanners and is now the company's chief designer.

His team developed the Prosa chair range and the adaptawall screening as well as planning the interiors of the new Durban University.

"It gives me great satisfaction as a designer to create workstations which will benefit operators in their daily work. We recently developed a concept of combining cellular offices with group offices, leaving the action office and the open plan area behind us."

He believes that local companies should develop their own designs rather than pay royalties to overseas companies. This does not mean he rejects the use of overseas developments totally.

Sax 29/6/90 (188) (whole area)

FURNITURE

# Retail industry set to grow this year

The retail furniture industry racked up R5,6 billion in sales last year and this is expected to grow to R6,5 billion this year

Furniture Traders' Association of South Africa executive director Mr Frans Jordaan says shortages of certain raw materials and labour problems at some manufacturers have led to some shortfalls

There has been a large amount of pent-up demand in the TV/audio and appliance market, which has resulted in large increases in sales since the Government lifted the restrictions covering credit sales of these items Audio sales (at current prices) were up 35,4 percent in April, compared with April last year

TV and video sales were up 44,2 percent in April as opposed to the same period last year However, manufacturers have not experienced increased sales to the same level as retailers Mr Jordaan says "The sales appear to have been mainly to black consumers who could not afford the large deposits and the shorter repayment periods"

He says the market is buoyant at the moment and the industry is hoping for 3 percent percent real growth in 1990 "Over the past 10 months, furniture has shown stable growth as retailers have tended to concentrate on furniture sales at the expense of appliances, due to the regulations governing credit sales

"I would expect most retailers to survive comfortably through some smaller retailers may find the going tough," says Jordaan

The rationalisation which has taken place in the industry is illustrated by the fact that in 1971 the association had 900 members representing 2 000 outlets and it now has less than 300 members owning about 2 700 outlets

Amrel managing director Mr Stan Berger says the industry has experienced more growth in the first few months of this year than it did in 1989 However, he points out that 1989 was a tough year and the growth being experienced this year is starting from a low base

1988 (whole area)



three months of this year we have had growth of about 20 percent but I expect this will be difficult to maintain throughout the year I predict Amrel's growth at between 16 and 20 percent for the year

"Appliance sales have improved As a company we have been trading better and the relaxation of hire purchase requirements has helped

"Building on the experience we gained during the tough times of 1986 and the losses we experienced then, we have been working to put the company into a healthier position We didn't want to be caught by high interest rates so we have reduced our gearing

"Another precaution was to introduce stricter qualifications for granting credit This was done ahead of the Government's curbs In general our restrictions were higher than those im-

were aimed at improving the quality of our debtors' book," says Mr Berger

He expects appliance prices to increase substantially in the next year

Furniture makes up about 50 percent of Amrel's furniture division's business, appliances 30 percent and the balance is in products such as TV, audio and carpeting

Rusfurn chairman Mr Geoff Austin says trading has been surprisingly strong with April 28 percent up on the previous year and provisional May figures are substantially better than 1989

"We have been finding conditions good for some time though there was a hiccup during February and March due to the generally unsettled conditions in South Africa," says Mr Austin

However, the group has taken a pessimistic view in its budget

pect sales to drop, he is predicting that it will become difficult to achieve real growth

"We expect trading to become more difficult towards the end of 1990 However, we have set a target of making some real growth and we usually achieve our goals But it is going to be tough," says Mr Austin

Mr Austin points out that the lower-income worker has been receiving increases which have generally been ahead of inflation

He says interest rates work two ways against the industry

"Customers tend to become nervous during a scenario of high interest rates Even though they do not tend to directly affect the lower-income earners, rates are still a deterrent


"The other major impact is on homeowners, who pay more on their mortgages and therefore have less disposable income,"

The trend in Europe in the United States is towards natural materials, which includes fine suites in cane.

## SA 'hasn't recognised value of cane'

Cane manufacturers are hoping that the overseas trend towards more natural products will spread to South Africa and increase sales of their products

Cane director Mr Michael Shan says "There is a trend overseas towards products made from natural materials such as oak, cane, rattan, leather, marble and granite



**Furniture Survey**  
A Star survey

## Lifting of sanctions 'won't hurt local firms'

The South African furniture industry is not worried that the country might be flooded with imported products if sanctions are lifted

Amrel managing director Mr Stan Berger says: "Furniture products are bulky and difficult to import from overseas but the local manufacturer can produce better quality products which do not have to be assembled

"There is a good relationship between the local retailers and manufacturers This is essential as furniture is easily damaged and there is a need for responsive local support

"Imported products are likely to be targeted at the top end of the market, where exclusivity is able to command a price premium - imported products will not work in the mass market

"South Africans are not interested in knockdown furniture We have tried knockdown products in the past and have burnt our fingers We will continue to keep our eyes open with regard to new developments but we will need to proceed with caution

"There is not much investment taking place in the local manufacturing industry and a number of manufacturers have gone out of business There is less product choice available than there was prior to 1984 and I would not like to see it get any worse"

Federation of Furniture Manufacturers of South Africa president Dr Winston Smith points out that furniture is fragile and doesn't travel well Repairs to damaged furniture is a problem

"This is why South African manufacturers are exporting knockdown furniture If the product is damaged the affected parts are simply replaced

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The Star

29/6/90

# Downturn predicted towards "end of year"

Along with the rest of the furniture industry, the office furniture sector is expecting a downturn towards the end of the year.

Grant Andrews Office Furniture managing director Mr Mike Edwards says "It would appear that either due to the current political climate or an expected

downturn in the economy, the office furniture market has tightened up considerably

"Previously the office furniture market was estimated at about R800 million per annum. Present estimates vary widely

"I believe the market is currently worth about R600 million

a year". He says the company plans to increase its market share through the "hard work and professionalism" of its entire organisation targeted through its national sales force

The company's design emphasis is towards service function,

where the customer and information technology dictate the trends

Mr Edwards says "We can no longer design a product and expect a life span of 10 years, because computerisation, information technology and the customers' needs are changing too fast"

# Morkels displays great confidence

188

Star 28/6/90

By Ann Crotty

Morkels management is forecasting a 40 per cent hike in earnings for financial 1991. If achieved, this would represent a massive turnaround from the 35 per cent drop in attributable profits in the 12 months to end-March 1990.

Morkels management appears to be made of fairly tough stuff. During the last financial year when the furniture industry was going through a particularly difficult patch it negotiated a management-led consortium buyout from the Fedvolks group.

And now, at a time when most chief executives are reluctant to forecast anything more than a "growth in earnings" (often not even specifying whether it will be real or nominal growth), Morkels' chairman Mr Rian Pauw states that. "Management remains confident that it can achieve a major turnaround in the year ahead with sales targeted at 21 per cent for Morkels and 32 per cent for Totalsports."

He adds, "The achievement of these objectives will restore market share and, with tight control over expenses should yield earnings growth of around 40 per cent. Increased focus on asset management, especially stocks and debtors, should ensure the maintenance of healthy balance sheet ratios."

Referring to the performance in financial 1990 Mr Pauw notes that the earnings' drop brought to an abrupt halt five consecutive years of above average growth and had dented investor confidence.

But if the 1991 targets are achieved (and he believes they are well within the Company's capabilities). "The base will have been reestablished for an accelerated expansion of the existing operations and pave the way for diversification into identified areas in the years ahead."

As part of the buy-out arrangement, management has the option to acquire (within five years) 10 million of the 30 million shares that German industrialist Klaus Daun acquired from Fedvolks back in March.

The chairman believes that this option will "Act as a significant spur to re-establish the profit base and in time surpass the excellent growth record of previous years."

As with other players in the industry, the severe weakness in the brown goods sector (audio/video products) caused Morkels much damage as a result of massive price increases curbing demand. In an attempt to cope with the much weaker level of demand Morkels indulged in costly promotional activity — including discounting — all of which squeezed margins.

Despite this activity, the stock level at end-March was R38,2 million (R30,1 million) and interest bearing debt was up by R3,8 million. The increase in debt lifted the group's gearing to 52,8 per cent from 48,5 per cent but is still within the targeted optimum ratio of 80 per cent.



## Afcol faces 'likely drop in earnings'

ACHMED KARIEM

FURNITURE group Associated Furniture Companies' (Afcol) earnings were likely to decline in 1991 despite shares rising to a new peak this week of 1 450c, analysts said yesterday.

The group's primary business is domestic furniture and it dominates the market. It also has investments in Romatex (21%), office furniture manufacturer Kallenbach-Hendler and several raw material suppliers.

21/6/90 Firm (188)

Poor results expected from Romatex during the current financial year were likely to see its contribution to earnings eroded in 1990.

Another analyst said the Afcol share price had been firm this year, despite the furniture sector being under pressure. The company was well-run and the shares were tightly held.

Afcol executive chairman Laurie van der Watt said yesterday the expected continuing application of stringent fiscal and monetary restraints in the months ahead would continue to inhibit consumer demand for durables.

Van der Watt said Afcol's sales were at a satisfactory level.

SA Breweries, with a 65,6% stake, is the major shareholder.

# Morkels MD says state intervention must be restricted

188  
B/D ay 22/5/90

SYLVIA DU PLESSIS

THE SA reform process had to ensure government was separated "as quickly and thoroughly as possible" from the power to take decisions private enterprise and consumers ought to be taking, Morkels Group MD Carl Jansen said yesterday.

This was because the national economy of a future SA needed review as much as the political environment, he told a group board meeting

Jansen, whose newly-independent group — formerly in the Fedvolks stable — today publishes poor year-end results, said wealth-creating mechanisms should be allowed to function without "the intrusive effects of ill-conceived state intervention"

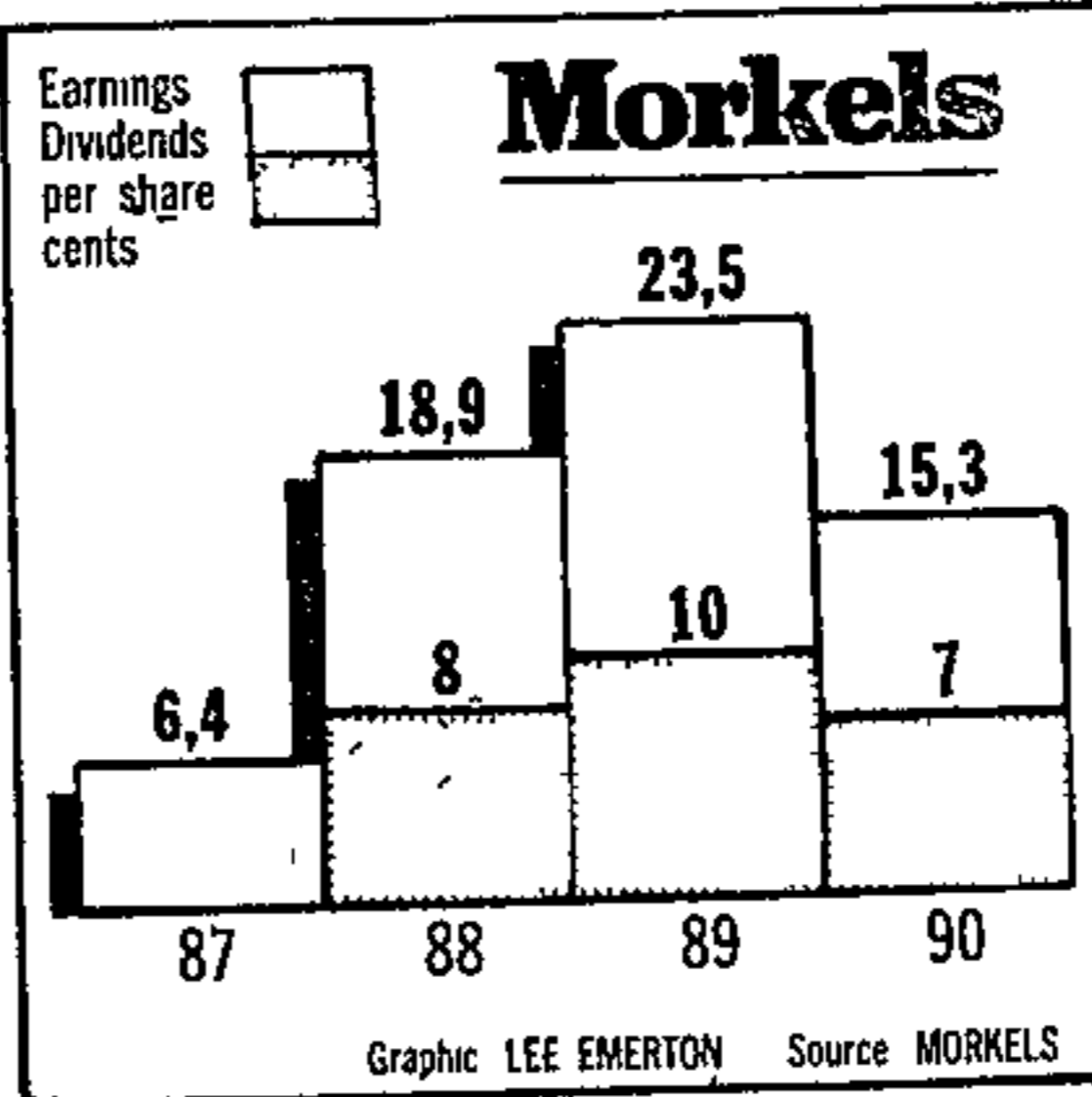
The SA furniture industry had been beleaguered by restrictive measures for 33 of the 66 months since August 1984, a period which had seen the loss of one-third of the available furniture manufacturing output, he said.

"In addition, producers of 'brown goods' such as hi-fi and TV sets have sustained major reversals in terms of strategic direction and current profitability"

Referring to Morkels' latest figures, he said the furniture, appliance and home entertainment electronics market was hard hit by inflation, ongoing balance of payments difficulties and a consistently weak exchange rate during the year

And as consumer demand faltered in the face of interest rate hikes, sales became "increasingly dependent on costly promotional and discount activity"

End-March earnings and dividends for



the group, which began operating from April 1 under full control of executive management and West German company Daun et Cie AG, dipped to 15,3c (23,5c) and 7c (10c) a share respectively

This followed a sluggish 2,6% rise in overall turnover to R204,6m and a 25,4% drop in operating profit to R16,6m, which slashed margins to 8,1% from 11,1% and filtered down to a 35,2% drop in taxed profit to R6,1m

Jansen said sales at furniture chain Morkels were a negative 1,4% off those of the previous year, against annual growth of 15,4% in the furniture sector. But sportsgoods retailer Totalsports had driven turnover up 51,8%, well above market growth of 22,9%

While the economy would slow down further, benefits flowing from strategic activities over the past two years, revived merchandising and marketing focus and store expansion should allow for real growth in the year ahead, he said.



## Grant Andrews in export deal

CHARLOTTE MATHEWS

OFFICE furniture company Grant Andrews Holdings has secured a contract to export knock-own kits to the Netherlands as part of its drive to lift exports to R2m in the 1990 financial year 1990 (18/6/90)

Grant Andrews CE Mike Edwards said the company had no trouble in marketing SA products overseas "If we are selling to Holland things are improving considerably" (18/6)

The group was budgeting for exports of R5m in 1991 and R10m in 1992. Exports should account for around 25% of the turnover figure

# Evidence of recovery for furniture industry

to 18/6/90 (1990)

PIERRE DU PREEZ

THE furniture industry was experiencing a strong recovery, Furniture Traders Association executive director Frans Jordaan said in a statement yesterday.

National sales figures also released yesterday showed a 27,7% increase in the retail sales of furniture, appliances, TV and audio equipment for April compared with April 1989.

Jordaan said the revival in the furniture industry had been evident since the lifting of credit restrictions came into affect in March of this year.

The greatest growth of sales had been in the black market. It showed a 37,8% increase for April 1990 compared to April of the

previous year.

But he did not foresee growth continuing at its present rate, because there had been some pent-up demand for goods.

Also, the growth in sales had been measured against a low base figure.

"Overall, however, we are optimistic about the immediate future. During the 19 months that the restrictions were in force, we felt the furniture industry had been unfairly singled out and that we had been specifically discriminated against," Jordaan said.

The statement concluded that manufacturers were working at capacity to keep up with increased demand.

Stc 14/6/90

188

The Star

## Finance

# Furniture industry out of the slump

By Sven Lunsche

The lifting of certain credit restrictions early in March has allowed the furniture industry to recover strongly from the slump it experienced last year.

Sales figures released by the Furniture Traders Association (FTA) yesterday show that retail sales of furniture, appliances, TV and audio equipment in April are 27,7 percent higher than in April last year.

And, according to FTA executive director Frans Jordaan, the growth area is black consumer buying which has increased by almost 38 percent over the period.

"The credit restrictions laid down higher deposits and shorter repayment periods for items bought on hire-purchase which had a limited impact on the more affluent buyers, who have recourse to other forms of credit — credit cards, personal loans and overdrafts," Mr Jordaan explains.

### RESTRICTIONS

"Since the restrictions were removed on March 9, sales to black consumers in particular have increased substantially."

He adds, however, that this growth rate was unlikely to continue in the near future, as the growth in sales was driven by pent up demand and was measured against a low base figure

"Overall, however, we are optimistic about the immediate future. During the 19 months the restrictions were in force, we felt that the furniture industry had been unfairly singled out," says Mr Jordaan.

During 1989 spending on furniture and household appliances fell by one percent in real terms with a decline of 10 percent in production volumes recorded in the last quarter of the year compared with the preceding three months.

Many economists estimate that spending on furniture could drop by a further five percent this year.

However, black spending has previously been underestimated and industry sources confirm that the easing of hire-purchase financing could provide an unexpected boost to furniture retailers.

This is confirmed by the recent trend in the black housing market towards down market housing, which implies that more units are being erected which subsequently have to be furnished.

Mr Jordaan says that currently many manufacturers are working at capacity to keep up with the increased demand. In the fourth quarter last year capacity utilisation in the industry was running at 88 percent.

**Activities** Manufacturer and distributor of leather and canvas goods and outdoor equipment and furniture

**Control:** Directors 53,3%

**Chairman.** B M Joffe, MD P R Joffe

**Capital structure:** 30m ords Market capitalisation R1,8m

**Share market:** Price 60c Yields 1,0% on dividend, 23,8% on earnings p e ratio, 4,2, cover, 2,4 12-month high, 100c, low, 60c Trading volume last quarter, 7 800 shares

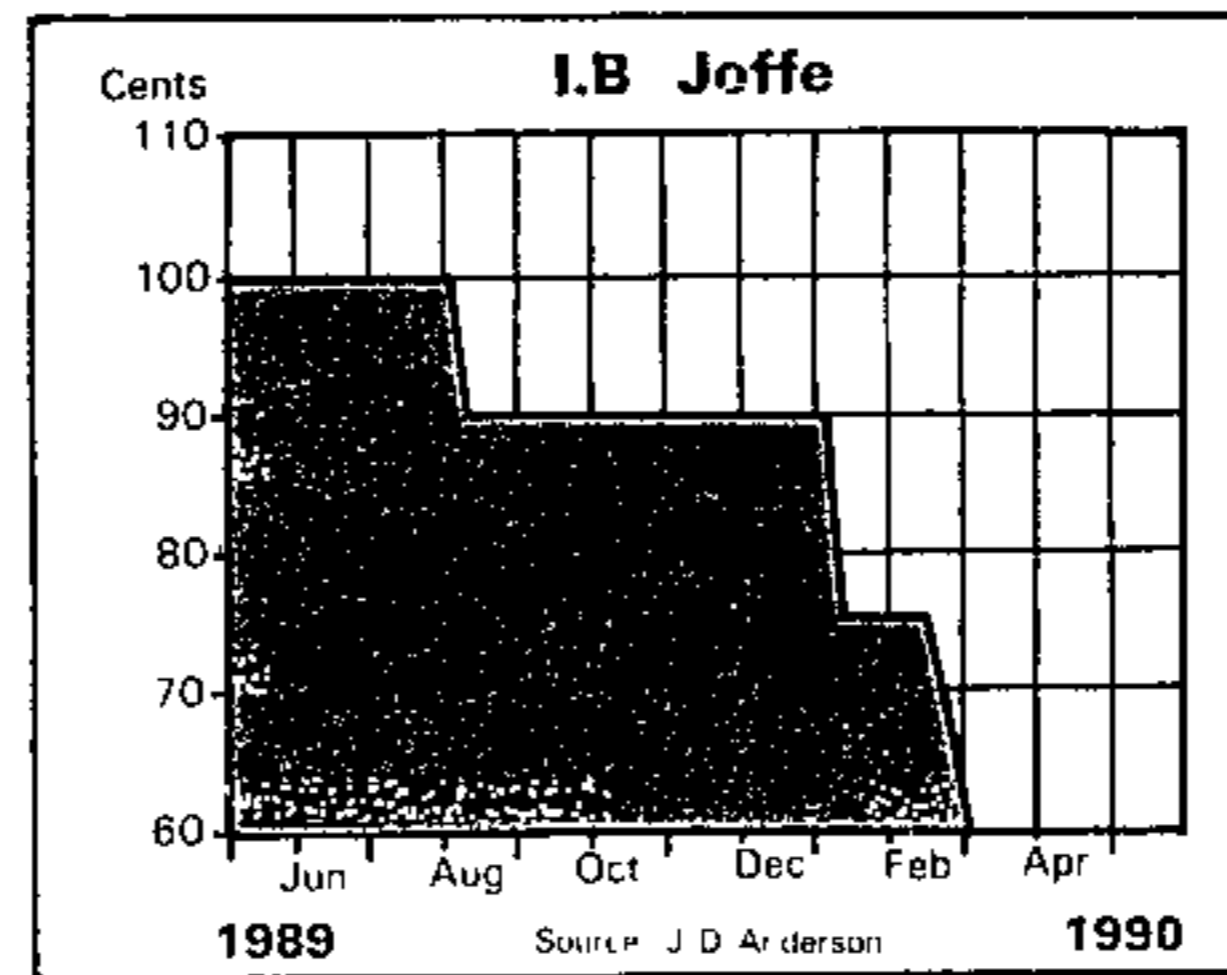
Year to Dec 31	'87	'88	'89
ST debt (Rm)	0,6	1,4	2,3
LT debt (Rm)	0,3	4,7	4,6
Debt equity ratio	0,07	0,47	0,55
Shareholders interest	0,64	0,47	0,48
Int & leasing cover	41,9	20,7	5,5
Turnover (Rm)	14,1	25,9	28,5
Pre-int profit (Rm)	2,6	3,7	3,9
Pre-int margin (%)	18,7	14,6	13,8
Earnings (c)	9,3	16,7	14,3
Dividends (c)	—	5,0	6,0
Net worth (c)	38,9	70,2	76,6

offered shareholders the choice of receiving bonus shares in lieu of a 3c final cash dividend or a combination of the two

Heather Formby

solidated profit before taxation compared to the saddlery, camping and back-packing products which contributed 67%

But the positive effect of Telek producing to its full capacity will be evident in 1990 when Joffe is predicting a R12m-R15m



turnover from the factory The effects of the fire were part of the reason for pre-tax profit for the group declining from R3,5m to R3,2m and earnings growth falling by 14,4% Cash flow problems in the Telek business caused interest payments to rise from R182 000 in 1988 to R713 000

Rising interest rates during the year put further pressure on Telek's interest-bearing debt The large interest increase is reflected in the dividend cover which dropped dramatically from 20,7 to 5,5

A wobble in previously satisfactory results has also been attributed to "the growing pains of changing a family business into a proper business operation," Joffe says "We had to invest time and money in management and new systems, but this is beginning to pay dividends "

Joffe's conservative forecast of turnover for this year is R36m Plans for expansion are under way Last month's purchase of Leisurelaze, a plastic folding chair manufacturer, is due to come on stream next month Other plant equipment has been bought to make patio tables in time for the summer season

In an effort to enlarge its capital base, and provide for expansions, the company has

### Burnt-out case

**Difficulties** in getting the Telek factory operating after it was gutted by a fire in 1988 have been overcome But the negative results of the fire in the kitchen and garden furniture factory, which normally constitutes 50% turnover of the I B Joffe group, are still creating major profit distortions

An extraordinary item recording under-recovery on a R4m insurance claim against the fire amounted to R281 000 "Because we had recently purchased the previously insolvent Telek business, it was difficult to calculate the exact loss of profits we incurred," says MD Peter Joffe

The division contributed only 32% of con-

S/Times 13/5/90 (188)

# Grant Andrews in drive for exports

By Charmain Naidoo

OFFICE furniture company Grant Andrews Holdings earned at least R1-million in foreign currency from exports in the past year.

Its export target this year is R2-million

Since January this year, exports to Africa brought in about R300 000 and another R500 000 came from sales to Indian Ocean islands

Group export manager Stuart Rogers-Brown, 27, says "The export division is in its infancy International markets are being sought, and the company is considering ways to increase this sector of its business"

Mr Rogers-Brown, armed with a marketing diploma from the Wits Technikon, joined Grant Andrews six years ago as a salesman Four years later, he moved into sales management and last year was asked to head the export team

The company, listed shortly after the 1987 stock-market crash, reported a disappointing 23% drop in taxed profits for the six months to December 31, 1989 — in spite of a 23% increase in turnover

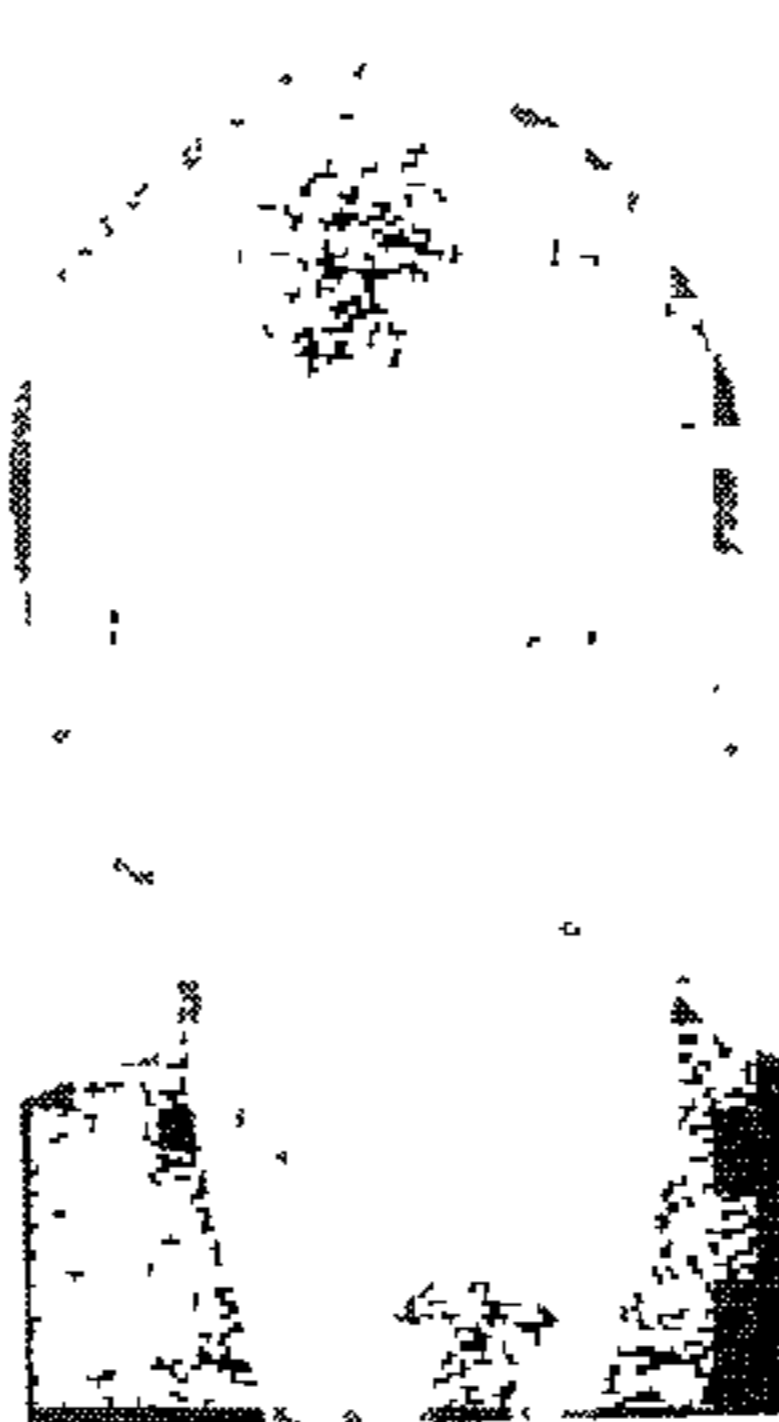
## Expensive

The search for export markets has been expensive and returns have been slower than expected But now, says Mr Rogers-Brown, the benefits are beginning to flow

"We looked at the export market for many years We first showed our products at the Orga Teknik Exhibition in 1986, an international office furniture trade fair in Cologne."

The fair brought several positive responses and an agreement was signed with a British company, giving it sole rights to manufacture and distribute a Grant Andrew product range in Europe and the United States

A decision has been taken to boost exports to 30% of the group's turnover of R60-million



STUART ROGERS-BROWN  
drive for quality

Increased exports will not diminish the supply of goods to SA buyers.

Mr Rogers-Brown says "Our manufacturing capacity increased by more than 50% in the past 18 months We have commissioned two factories in Industria and acquired a plant in Transkei"

Mr Rogers-Brown has met several challenges, export quality being one of the most important

He believes the lack of skilled labour in SA is a giant drawback

"To manufacture high-quality, internationally acceptable furniture we introduced several quality checks

"When you are exporting furniture, it is not cost effective to send anything but the best quality You cannot send a repair man abroad to fix a piece of furniture or replace it if it's faulty"

All products are designed and made to the SABS 1057 Quality Assurance Certificate awarded to the GA manufacturing facility last year.

Mr Rogers-Brown says the export division comprises two divisions — the African market and the rest of the world

"The needs in the African market are different to those of the rest of the world African buyers want interior design, supply of furniture, installation and servicing

"In First World countries all that is needed is the product"

The potential for growth is unlimited, says Mr Rogers-Brown

"We have had favourable responses and are positive about our decision to seek export markets"



# Afcol results dampened by heavier interest bill

STIFF competition and sluggish consumer spending in the year to March failed to hamper turnover growth at Associated Furniture Companies (Afcol), but a heavier interest burden filtered down to earnings only 12% up at 190.3c (170c) a share.

The JSE-listed group raised turnover by 21% to R701.4m, but an interest bill of nearly R20m (R12.7m) translated into attributable earnings of R46.7m, compared with a corresponding R41.6m.

A final dividend of 42.5c has lifted total distribution to 95c (85c), twice-covered.

On the balance sheet strict management of working capital demands contained the increase in net assets to 10% in spite of the higher level of turnover and gearing. It proved to 41% (44%).

Executive chairman Laurie van der Watt in a

SYLVIA DU PLESSIS

statement accompanying the results, said quarterly private consumption expenditure growth rates had declined to an estimated nil growth in the March 1990 quarter.

"Against this backdrop, and extremely competitive trading conditions, Afcol performed well to achieve a turnover growth of 21%," he said.

Van der Watt said the continuing application of stringent fiscal and monetary restraints expected in the months ahead would continue to "severely inhibit" consumer demand.

"In this scenario of reduced demand and increased competitive pressures, Afcol will be hard-pressed to achieve the results of the past year, although it is well-placed to take advantage of any improvement in trading conditions."

# Reunert earnings boosted by exports

REUNERT's attributable earnings grew 32% in the six months to March — in spite of difficult trading conditions — after being boosted by exports.

Reunert, a member of the Barlow Rand group, achieved earnings of 80.1c (61.1c previously) a share. A dividend of 22c (18c) a share was declared, up 22% and covered 3.6 (3.4) times.

The results are in line with chairman Clive Parker's forecast that Reunert's growth in earnings would be satisfactory in the current year, but at a lower rate than the 56% jump in the 1989 financial year.

Exports again boosted earnings of this electronic, telecommunications and electrical engineering group.

MD Tony Ellingford says

ZILLA EFRAIT

the continued higher offshore earnings are the result of an export drive started six years ago. Reunert continues to design and develop products for export.

However, Ellingford says trading conditions are tough.

The group's electronics engineering interests have felt the effects of the economic downturn.

In addition, uneasy industrial relations have made life difficult for certain companies.

While turnover rose 21% to R651.4m (R539.8m), operating profit improved 35% to R52.4m (R38.9m) because of management of costs.

The interest bill, however, soared to R11.1m (R3.2m) reflecting higher interest rates and the in-

creased borrowings needed to finance working capital.

This saw interest cover fall to 4.7 (12.3) times and pre-tax profits rise 16% to R41.3m (R35.7m).

However, a slightly lower tax rate and a 35% rise in the share of associated companies' profits contributed to the rise in attributable profits to R21.1m (R19m).

Net borrowings to shareholders equity remains at 33% and total liabilities to total shareholders funds lowered to 156% (167%).

Directors expect trading conditions to remain difficult in the second half, but they say exports will continue to make a meaningful contribution to earnings.

Indications are the results for the full year will show satisfactory growth, although not at the same level as the first half.

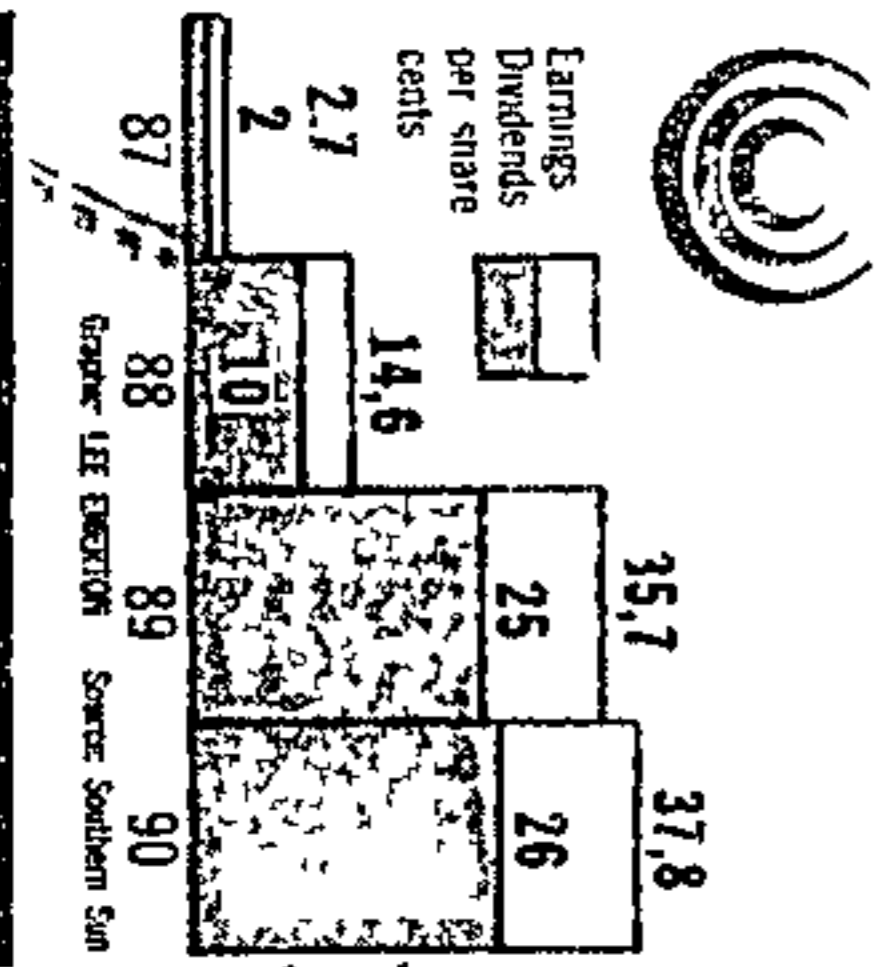
THE cost of maintaining SA's premier group of hotels took some of the lustre out of SAB-controlled Southern Sun Hotel Holdings (Suthsun) in the year to end March as its interest bearing debt escalated sharply.

Earnings improved by a marginal 6% to 37.8c (35.7c) a share, on attributable profits of R26.5m (R25m) — slightly ahead of analysts forecasts. A dividend of 26c (25c) a share was declared.

The performance puts the share, at 600c, on a dividend yield of 4.3% and a P/E rating of 15.9 times, compared to the sector

# Escalating debt takes some shine off Southern Sun

## Southern Sun



averages of 3.2% and 14.6.

Group interest bearing debt increased by R54.7m to R323.5m (R268.8m), attributed by directors to further investment in refurbishments and maintenance.

The heightened debt pushed gearing to 64% (59%) although the group improved its cash deposits to R29.7m (R7.5m). Directors believe capex budgeted for this year, including R42.5m relating to the acquisition of the Drakensberg and Airport Sun properties, should not affect gearing.

Although operating profit al-

BRENT MELVILLE

most doubled to R28.2m (R14.7m), with receipt of dividends chipping in an additional R22.7m (R18.3m), financing costs climbed by 85%, slashing off R34.4m (R18.6m).

Directors say that the results were significantly affected by action taken by authorities to cool local consumer demand.

"The impact was partially reduced by the improvement in overseas tourism, and real growth in the annual occupancy rate improved to 64% (62%), ahead of the industry," say directors.

A modest improvement in earnings this year is expected.

# Play tough for toy wholesaler

PIERRE DU PRET

REDGWOODS Holdings' August interim could be worse than the finals to end-February just announced, CE Allen Muirhead indicated yesterday. But he said the toy retailer and wholesaler "could have turned the corner".

"Results in August are not going to be good," he said, adding things would have to get worse before they improved.

Redgwoods shares are currently priced at around 20c after trading above 100c at flotation in 1987.

Muirhead said all the corrective measures were in place for a recovery and company overstocking had been rectified.

Improvements now depended on the state of the economy. Trading conditions were still very tough.

A retail analyst said Redgwoods's problem last year had been one of stock.

"The bottom-line was that stock holdings were quite high," she said.

On the margin decrease from 11% to 5%, she felt the idea was "not too far fetched at all" that some stock was sold below cost.

Muirhead denied this, saying some stock was sold at low margins but not below cost.

# EXECUTIVE SUITE

AS YOU KNOW, THE RALEY THE COOL WAR IS WANNING.

Medipark Clinic

# It's been a rollercoaster ride

11/12/1971 188  
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■ But a new, leaner look may in time restore the group's image

When Unidev was listed via a reverse takeover in 1986, market expectations for organisations calling themselves "investment bankers" were hyper-optimistic. Enormous price rises by shares like New Bernica and Columbia set the pace. With a similar label, Unidev roared to 1 050c in October 1987 from an issue price (after consolidation) of 225c. This February, it hit a low of 85c, from which it has made a good but partial recovery.

There are many reasons for this rollercoaster behaviour. But studying it leads inexorably to the obvious questions: what brought it about and what are the prospects for this diverse operation that so captured the imagination of the investing public in those halcyon days only to be discarded and dumped to a p/e ratio of just over two now?

Geoff Grylls and Steve Phelps started the ball rolling when they structured a consortium deal with Benny Rabinowitz in 1986 to take effective control of Unidev by pooling assets. Rabinowitz contributed venture capital and certain properties through his Property Group of SA (Propgroup) and its Retco subsidiary, while Grylls and Phelps brought to the party properties, the property company Equikor (listed in 1989) and the managerial services company, Quaestor IV, then best known for its new listing business.

In a surprise move after only a few months, Ra-

binowitz, in effect, negotiated a swap with insurer Southern Life of his 26% of Unidev for a parcel of Frasers shares and quit. This left Grylls and Phelps with a minority shareholding, no effective control and vulnerable to predators.

The Crash of 1987 trimmed the share to a trading range of 200c-400c for most of 1988. It was also at this time that the debacle of Milly's unexpectedly proved the Achilles heel that ruined Unidev's reputation.

Milly's delicatessen chain was bought for R2m in early 1988. In mid-year, Unidev's financial manager discovered Milly's had a second, undisclosed bank account — with a huge overdraft. Auditors were called in and the share was suspended. Milly's unaudited attributable loss of R4,3m took the accumulated loss to R5,5m. Unidev wrote off its R2m investment and pumped resources in to try to save something from the wreck (Fox October 21 1988).

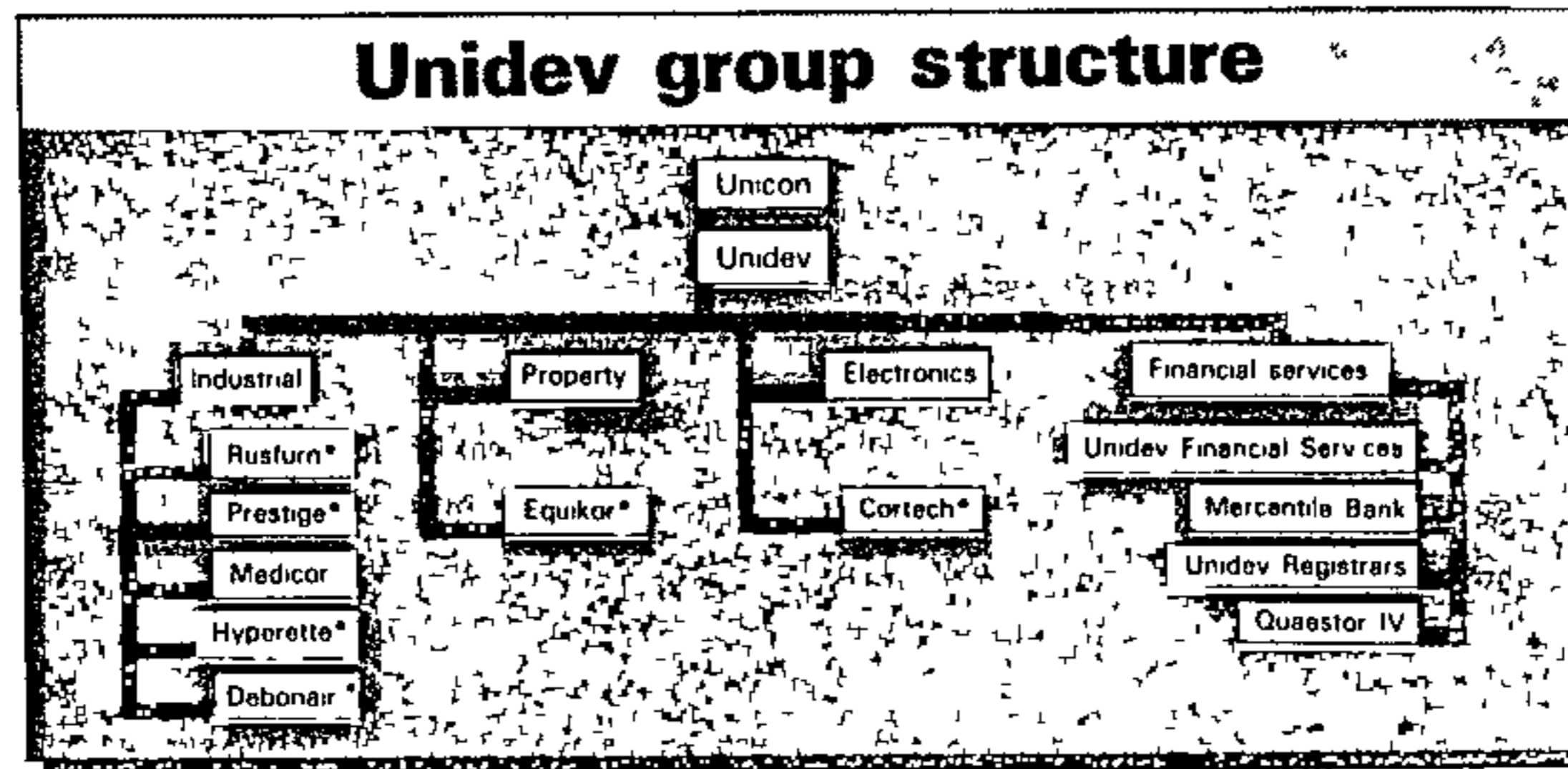
Meanwhile, most of the properties were realised. Prestige, which makes household kitchen equipment, was acquired from a divesting parent and a division of Krost was bought and merged into it, and Quantum Finance, Corbank Registrars and stakes in computer operations CIG and CRB were added to the portfolio.

Whereas 1987 EPS of 61c exceeded the transmuted listing statement forecast, 1988 EPS fell to 52,1c. Milly's remained a drag both in the marketplace and internally and a change in top management was decided on.

In 1988, Ronnie Stein, previously managing partner of auditor Kessel Feinstein in Cape Town, overseeing the management consulting arm, was appointed to the board. From four partners when he joined, he built Kessel's Cape operation into a 23-partner organisation when he left.

Stein admits that when he joined, Unidev had a "cowboy" image. He ascribes this to the fact that "top management was composed of genuine entrepreneurs who were all expert financial engineers but none was trained or suited to manage companies." All, he says, were and still are motivated by the heady attractions of "deal making."

The result was a lack of meaningful management infrastructure. Situations like Milly's were bound to occur. In essence, there were no





**Geoff Grylls ... analysts' scepticism is misplaced**

tight controls on management in subsidiaries or associates. Stein says these have now been implemented across the board and are continuously policed by hand-picked, professionally qualified staff in Unidev Corporate Services. This division oversees the implementation of management controls, investigates budget exceptions and examines prospective acquisitions.

It is backed up by the Financial Services division, which contributed no less than 54% of attributable earnings in 1989, when EPS recovered modestly but in line with forecast to 55,5c. It earns fees from handling "one-off" deals — the area which caused all the excitement when Unidev was listed. Even today, this division is the "wild card." As Stein says, while it is budgeted to produce at least 17% of overall earnings this year, this could be substantially higher depending on the nature and number of deals done.

Stein, named group MD in March 1989, has been responsible for the reconstruction of the past two years. "When I joined, the subsidiaries just dangled," he says. "So we sold off the small companies and formed the four divisions that now exist. Meanwhile, we became aware that the low share price was attracting predators' attention."

"That was when we bought the Garcon cash shell for R26m. We had two reasons. First, the five of us (Stein, Phelps, Grylls, Lionel Willmore and Ian Hirschson) believed that our combined strengths would enable us and our shareholders to benefit from our expertise, second, we knew it to be

important that the investing public saw that we were seriously committed by putting our own money up front."

Stein structured a rights issue in such a way as to reduce debt in Unidev while ending up with control in Unicon, as Garcon was renamed. This pre-empted any bidder.

Since then, the philosophy has changed. Stein says the group will now involve itself only with more mature companies to which value can be added or which offer outstanding value at acquisition price. When it becomes evident that no further value can be added, the investment will be realised and turned into cash.

In essence, this process is Unidev's *raison d'être*. It creates a growing capital supply continually reinvested in new opportunities. It is in this context that Stein says the financial expertise of his colleagues really manifests itself.

In future more than 50% will be sought in new investments, giving control. He hastens to add, though, that even in present minority holdings Unidev influences operational direction through board representation and even more directly if loan funds are involved.

Stein points to the recent buy of 23% of Rusfurn as typical. Rusfurn, he says, is a mature company that needs no day-to-day involvement. But in policy matters, Unidev has a definite influence. Irrespective of unrest, Stein is sure that Rusfurn will make the earnings reflected in Unidev budgets.

He is also confident that Unidev will make its own forecast EPS of 20% to at least 66c this year. The biggest growth is expected to come from the unlisted "industrial" subsidiary Medicor, which operates seven clinics, hospitals and has assets valued in excess of R80m. It will produce operating profits of over R3m this year, which is expected to rise exponentially thereafter. Strategy is to sell off Medicor properties within two years and turn these into a source of cash for Unidev.

The second largest growth area will be Equikor. Unidev bought Natprop in late 1988, did a Section 311 compromise with

creditors to get rid of old liabilities, sold Equikor's property business into Natprop and changed its name to Equikor Holdings. The property division is expected to contribute 6% of group earnings this year.

Stein and Grylls say analysts' scepticism of recent preliminary figures for the Cortech electronic operations is misplaced. Stein counters that while Cortech contributed just 0,4% to 1989 attributable earnings, in 1990 this will increase to 10%.

Finally, Stein predicts that industrial holdings will contribute 67% (38,7%) to overall earnings this year. All are expected to produce real growth. Milly's, now effectively reversed into Hyperette, is a small percentage of either assets or profits.

With 30,7m shares outstanding post-rights, attributable profit will almost have to double, to top R20,2m (R11,6m), to produce EPS of 66c. Stein and his team are firm that, unless economic conditions deteriorate in unforeseen and uncontrollable circumstances, the target is realistic.

In Unidev's early days, the quality of earnings raised some eyebrows. Stein is adamant that Unidev never included one-off property profits in its reported earnings. Equikor did, but that's part of any property developer's normal business.

The 1989 preliminary figures put net worth at 294c a share. Stein says this includes goodwill equivalent to 73c, so tangible NAV is 221c. The current 130c market price is a 41% discount.

With four times cover, distribution this year should be about 16,5c. If the required yield stays at the present 9,2%, that gives

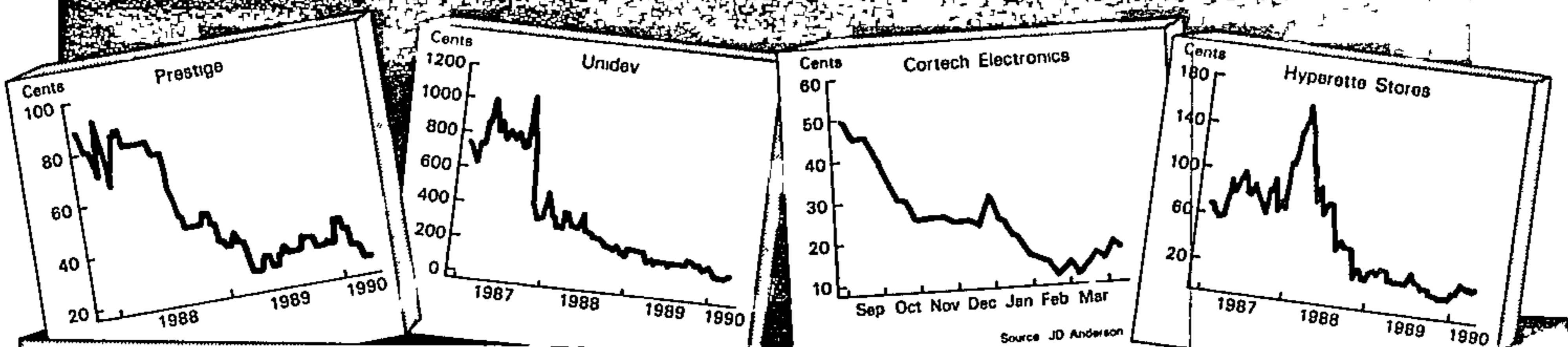
the share a forward value of about 180c. As the average P/E and dividend yield of the Industrial Holding sector are 8,4 and 4,4%, the rating suggests the market does not view the share with much enthusiasm.

It's a moot point whether Stein has given the operation all the bathing it needs. For example, debt is still too high. But it can be argued that Unidev is now clean and lean enough to post a real recovery. Certainly, prospects seem better than the rating the market attaches to the shares. *Gerald Hirschson*



**Stein**

**Share Prices in a Trough**



Source: JD Anderson

# Furniture dealers are feeling the squeeze

W/E Arcus 21/4/90 (188)

By DICK USHER  
Business Staff

THE squeeze is on the furniture industry and manufacturers fear that many less-efficient concerns could be forced out of business.

Measures for cooling the economy have taken their toll, reducing orders from retailers, while the employees' organisation, the National Union of Furniture and Allied Workers (Nufaw), is taking a harder line at this year's wage talks than previously

## Unprofitable

"While we had a 3,2 percent growth last year it was not healthy growth because it was achieved on the basis of running down stocks of finished and semi-finished goods," said Dr Winston Smith, executive director of the Federation of Furniture Manufacturers of South Africa (Fedfurn)

"And it was mainly unprofitable growth in that price increases were around 11,2 percent while the cost input index rose 13 percent

"This gave the industry overall a real rate of return of about two percent on investment

"This year is not good and there is a fair amount of

short-time being worked and a falling off of orders"

He attributed this to the tight economic situation, with increased interest rates and tighter hire purchase terms, and general political uncertainty which have dampened consumer demand

Meanwhile, at what is generally a slow time of the year, manufacturers are also faced with a slow-down of orders

"Retailers do not appear to have had as good a Christmas season as they had anticipated

"Many were left with surplus stocks and so they cut orders," said Mr Tony Thompson, chairman of the Cape Furniture Manufacturer's Association

## Fresh hand

Sources suggested that the harder attitude of Nufaw was due to a fresh hand at the helm following the death last year of long-serving secretary Mr George Fletcher

The union, which is the only representative worker organisation at industrial council level, is itself under pressure from encroachments by the Cosatu-affiliated Paper, Printing, Wood and Allied Workers' Union

Mr Thompson said the industry also suffered from South African buying patterns

"Overseas people tend to change their furniture about

every five years, but here they keep it at least three times longer," he said

The good news is that the industry surcharges on capital goods, on which general sales tax is also paid, are being reduced over three years while

an anticipated 30 percent increase in the saw-log price is now expected to be about 19,5 percent

But Dr Smith pointed out that other inputs such as paint, foam and fabrics were subject to ongoing increases

## Sketching a new n

● From page 1.

are obliged by law to be a member of both the institute and the South African Council of Architects

"Because there is a statute governing our existence and membership basis, in the eyes of the world the institute is aligned with the government

"In recent years this has resulted in our being excluded from the International Union of Architects The Royal Institute of British Architects, which used to send an inspection board to South Africa every four years, no longer formally recognises degrees from South African universities"

However, he said "encouraging developments" in the political arena had already had a noticeable effect "Other institutes around the world who have ignored us for a long time are now contacting us and some architects who had left South Africa are returning

"The reduction of military service also bodes well for the future of the profession and will reduce the brain drain we have been experiencing"

He believes the membership of the institute should have identifiable categories which would help broaden the base of the profession and include the registration and recognition of technologists

"Technologists will play an increasingly important role in South Africa as they begin to establish their position and status within the industry and undertake more and more design work when working on their own

"This is fundamentally due to the fact that, provided a reasonable economic growth rate accompanies our rapid urbanisation, the present quota of architects will be unable to meet the country's demands"

Mr Pike, who completed

Ste 18/4/90 (188)

# Toyota acts to increase share of market

By Jabulani Sikhakhane  
Toyota South Africa is hoping for an improved supply of parts from Japan to help the company improve turnover and increase its market share

Chairman, Dr AJ Wessels writes in the company's 1989 annual report released yesterday that the company also expects to maintain its profitability during the year

During the 1989 financial year, Toyota experienced a demand for vehicles which exceeded available supply. This was partly due to constrained stock supply by the Toyota Motor Corporation in Japan and partly to labour disturbances which affected the company's plants and supply of components

In 1989 Toyota sold 90 635 units compared with 94 756 in 1988 and Dr Wessels attributes this reduction almost entirely to supply constraints

He says the stock constraint has now been largely resolved and labour relations have also been normalised and productivity restored to former levels

## Shortages

"We therefore expect to erase the vehicle shortage at all dealerships within a few months, ensuring a higher turnover for the year"

Dr Wessels forecasts that 1990 will be a complex year for the motor industry as the Phase VI of the local content programme will have an inevitable influence on investment requirements and production costs of vehicles

He says the introduction of a new local content programme for the motor industry, of which several aspects are still uncertain, was both disruptive and expensive

Toyota is fully equipped with regard to both management and funds to accommodate and utilise these changes to strengthen further its position in the motor industry

# Dashing invests R4-m in new hi-tech furniture range

Dashing Office Furniture is to spend R4 million on the production of a new range of furniture called Unit

The investment is for specialised machinery, dies and tooling for the manufacture of an advanced range of modular, multi-purpose office furniture designed by its design partner, Planmobel of West Germany

It was first shown in Cologne at the end of 1988

Rudi Schmidt, co-founder of Dashing and the group's technical director, says "The range is so advanced because of its design, its modular components and its use of hi-tech alternative materials that it will take us into the 21st century"

Production is expected to start at the company's Roodepoort-factory in June and the range will be available for delivery in September

The system can be combined in a variety of ways to produce single and multiple desks to create team workstations

The basis of the design is an extruded aluminium profile which is assembled with connecting components to form the structure which houses all cable ducts

Franco Barocas, managing director, says that while the initial capital investment is high relative to this sector of the R120 million-a-year office furniture market, once the high tooling costs have been amortised, the Unit range will be highly cost effective

## Polypropylene pallet

A near-indestructible polypropylene nesting pallet, Samy, which has been designed to replace the thousands of timber pallets stolen, vandalised, damaged or destroyed each year, is on display at the Rand Easter Show

Samy is resistant to grease,

## Industrial Beat

STAN KENNEDY



solvents and oil and is extremely flexible and lightweight

"The annual cost of suitable timber is astronomical," says Mr Brian Peasley, a director of Dala Enterprises, sole agents for Samy.

"Using polypropylene makes replacement almost unnecessary

"It is economical and recyclable and thefts are few because it has only one basic role — as a nesting pallet"

## Identity system

Marsh Software & Associates has launched Iris, a computerised identity retrieval and imaging system

The pictorial database is capable of holding digitised photographs, fingerprints, signatures, logos and barcodes

Identification cards can be produced in minutes as well as all pictorial and textual data on the cardholder which is displayed on monitor-screens at security checkpoints

Staff traffic in and out of controlled areas is logged on continually updated records of date and time to the nearest second

Paymaster stations with the tailored information on time worked, confidential personnel records and photographs and thumbprints are available on line throughout the system. Fraudulent payouts are, therefore, eliminated

The database is capable of holding up to 10 000 records of user-definable structure and can be expanded to store records of millions of people



Iris, a computerised identity retrieval and imaging system, holds digitised photographs, fingerprints, signatures, logos and barcodes in its database. It uses no photographic processes and prints on standard bond paper. The plastic sealed identity cards are produced on site in five minutes, are programmed into the system and can be used immediately

ESCALATING RENTALS? NO CAPITAL? EXPENSIVE FINANCE?



# Amrel promoted for its income benefits

188

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PIERRE DU PREEZ

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STOCKBROKERS Mathison & Hollidge recommend investors keep Amrel shares on income considerations

The share price of the specialist retailing group involved in furniture, footwear and clothing sales, provides a reasonable return, though capital gains seem remote, says analyst Aloma Jonker in a research report

If the price weakens, the share can still be considered a speculative buy for longer-term growth because of the relatively good quality of earnings, Jonker says

She says Amrel does not signal a re-rating as growth above the inflation rate can occur only in financial 1992

The share is trading at around 825c

The decline in earnings experienced by Amrel during the first half to end-September 1989, is expected to continue through to the second half to end-March, although the rate of decrease might slow. Amrel achieved earnings of 241c (231c) in the year to end-March 1989

Jonker expects total earnings for 1990 to decline by about 6%, slightly lower than the decrease experienced at interim mainly due to the sale of Smiley Blue, Goopees and Rock Bottom, which eliminated a loss during the second half

An 11% increase in earnings is forecast for 1991 because of the expected decrease in interest costs

"The group's current policy is to improve the quality of their earnings through a conservative expansion by creating adequate provisions. Recent tax changes should not have a material effect on earnings, as adequate provisions have been created," Jonker says

Cashflow should improve as the tight control over working capital is maintained

810-1714190

# Improved outlook in retail sector

Star 11/4/90

188

By Derek Tommey

Furniture and electrical appliance traders are happier than they have been for some time

Cuts in import surcharges on many imported goods, a substantial reduction in income tax on people in the lower income groups and an easing of hire-purchase regulations by the Government have improved the outlook

Mr Frans Jordaan, executive director of the Furniture Traders Association, says he is optimistic about real growth in the industry this year

He is supported in this view by Mr Richard Ferrer, chairman of the Domestic Appliances Manufacturers Association

Members of the furniture and electrical appliances trade warned yesterday that it takes time for the effects of the cuts to reach the retailer. The benefits of the lower surcharge were definitely in the pipeline and the prices of some items had already been reduced

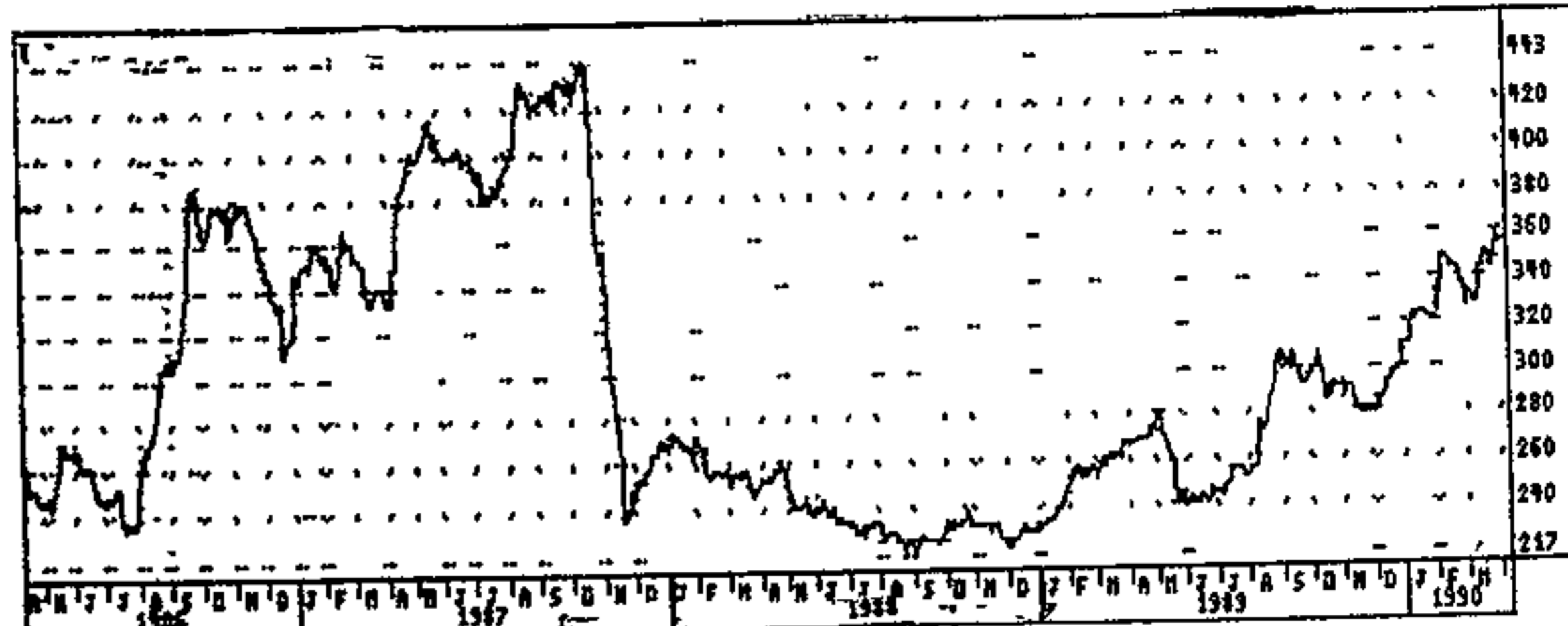
They said that while some importers and retailers might not want to pass on the full benefit of the surcharge cut to the public, competition in the trade would ensure they did not do this for long, an importer said

Retailers would be keen to cut prices to stimulate sales, he added

The Minister of Finance, Mr Barend du Plessis, in his Budget reduced the surcharge on certain imported goods from 60 percent to 40 percent, and on others from 20 percent to 15 percent and from 10 percent to 7,5 percent

Mr Tim Atkinson, financial director of Sharp, reassured consumers, saying the cost of imported electronic goods must come down

However, when this would happen would depend on how big were import-



Towards the end of 1987 the furniture retailing sector on the JSE took a hard knock as the Government put the squeeze on spending. But the outlook has now improved and the sector is clawing its way back

ers' stocks at the time of the Budget, how much they had in a bonded warehouse and how long it would take to get new supplies

Importers with stocks in bond and nothing in their warehouses were able to pass on the surcharge cut immediately, he said. But those who had large warehouse stocks on which the surcharge had already been paid could not reduce their prices immediately. However, some importers were balancing the surcharge on new and old stock

Mr Stan Etkind, head of the electronic and photographic chain Stan's, said that there had already been some comfortable drops in prices on television sets, VCR, computers and calculators and video cameras

The reduction in prices had averaged about 8 percent. "I would have loved to have cut a VCR from R1950 to R1500", he said, "but it is not the price of goods that has been reduced by 20 percent but only the surcharge," he said

Mr Aubrey Zelinski, merchandise director, Pick 'n Pay, said that electronic items, including VCRs, which were sold in the hypermarkets had been reduced in price immediately

after Budget day. But he warned that the decline in the value of the rand in recent weeks would erode some of the benefits of the surcharge reduction

However, Mr Jack Cohen, chairman of the Radio and Television Manufacturers Association, was not too optimistic about an immediate cut in prices. He said the high surcharge had forced retailers to trim their margins to the bone, so that there will not be immediate price reductions

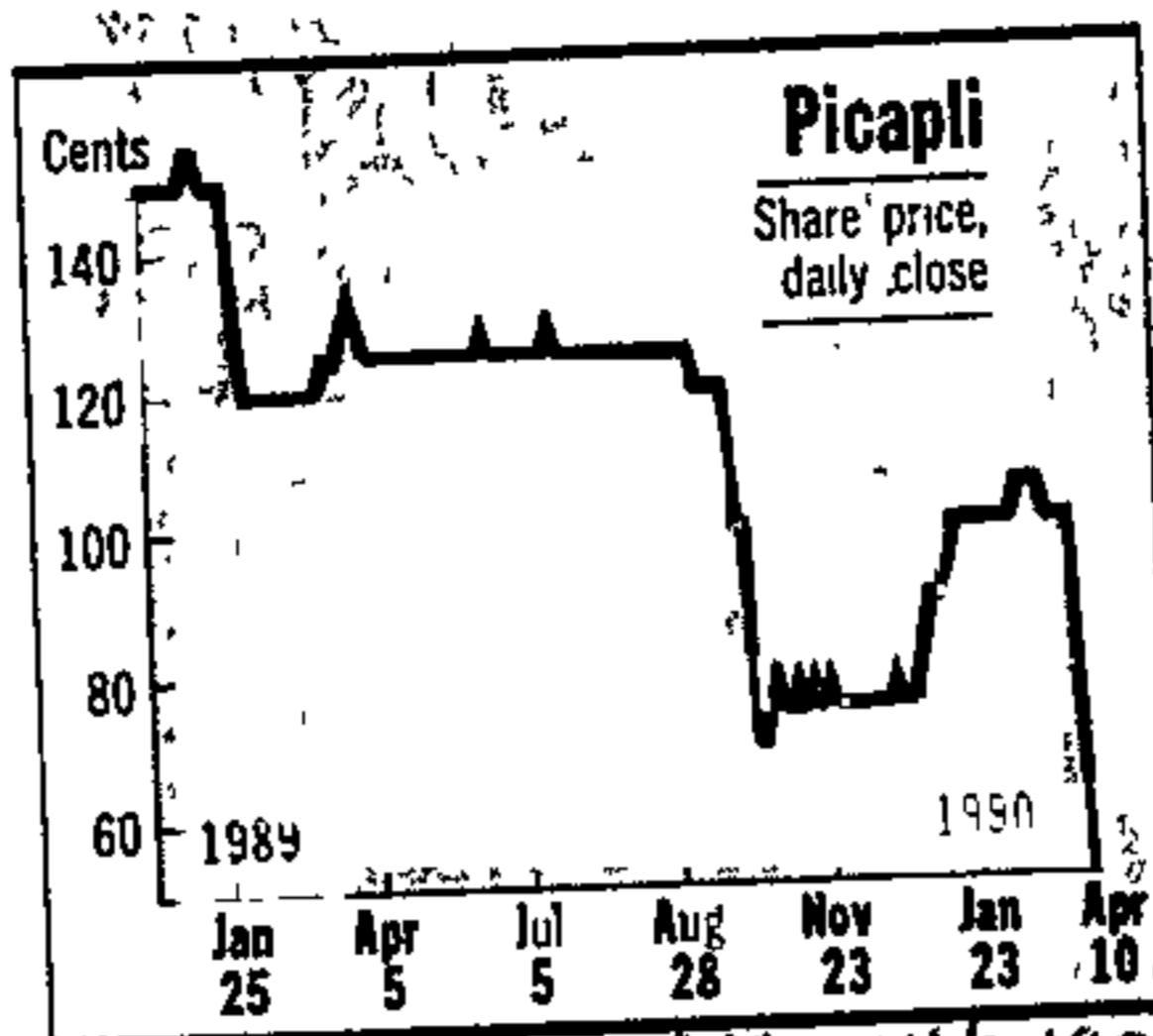
But the industry should benefit in the long-term, he said

Mr Jordaan said he expected the effects of the easier hire-purchase regulations to be felt in a few months' time

Mr Ferrer said that the cuts in personal income tax could increase many families' discretionary spending by up to 27 percent

He believed these families would use the extra cash first to reduce their debts and in the second half of the year to buy appliances

These factors taken together should result in significant growth for the industry, particularly in the second half of the year



Graphic: FIONA KRISCH Source: JSE

15/04/1990

## Pichold posts a loss of 44c a share

**188** SYLVIA DU PLESSIS ~~188~~  
 GROWTH at Picard Holdings (Pichold) continues to be hampered by higher interest bills and lower margins at major subsidiaries, exacerbated by particularly depressed market conditions at 90%-owned Picard Appliances (Picapli)

The group, which derives most of its income from Picapli, Picard Properties (Picprop) and Union Wine, has posted a loss of 44c (128c earnings) a share for the six months to December.

The loss, produced on margins of 5,8% (9,8%) and interest paid of R21,5m (R15,1m), follows a dismal performance at June year-end, when interest doubled to R34,9m and bottom-line earnings tumbled to R10,3m from R14,2m

Chairman Jan Pickard Snr said at the time government's efforts to restrict growth had caused a build-up of excessive stocks at high interest rates, but increased earnings were expected this year.

However, a sad interim showing from Picapli — it contributes more than 50% of group turnover — translated into a loss of 12,7c (32,2c earnings) a share for the manufacturer/distributor of household and electrical appliances

□ To Page 2

## Pichold loss

While Pichold's shares — at a low of 450c in December — closed unchanged at 550c yesterday with buyers offering 500c, Picapli's lost 15c to close at a new yearly low of 50c. *15/04/1990*

The latter's loss per share, taking into account the conversion of compulsorily convertible preference shares, was based on undisclosed turnover which fell 8% and an interest bill which rose R4m to R15,2m.

Pickard said yesterday trading conditions would remain restrictive to end-June, but he had no plans to sell the company.

Substantially reduced stockholdings of brown goods, for example, and major

**185** ~~185~~ □ From Page 1  
 reductions in interest-bearing debt since December were expected to help cut interest costs in the second half, he said.

Restrictive fiscal and monetary measures which negatively effected the liquor industry saw undisclosed turnover at 58%-owned Union Wine grow 12% (14%) — negative growth if inflation-adjusted.

This subsidiary recorded a loss of 5,6c (5,4c earnings) a share, but Pickard said improved market share, coupled with the sale of three hotels — two of which were unprofitable — pointed to satisfactory long-term prospects.



**Well padded**  188

Strong results from Ellerine appear to confirm that furniture sales to lower- and middle-income consumers are not depressed. They also explain why Ellerine's share, which languished around R12 for most of 1989, has risen steeply since November to its present R25,50.

The results are off a low base of a year ago but reflect a changed sales focus from outdoor canvassing by salesmen to conventional selling.

The improvement is shown in the 31% higher turnover, 85% higher operating profit and 88% higher EPS in the latest six months to end-February. Government HP restrictions were slightly tougher in the latest six

**AGGRESSIVE GROWTH**

Six months to	Feb 28 '89	Aug 31 '89	Feb 28 '90
Turnover (Rm)	183	207	239
Pre-tax profit (Rm)	20,1	40,1	40,5
Attributable (Rm)	12	23,4	23,5
Earnings (c)	174	339	327
Dividends (c)	58	57	109

months than in the first half of the comparable period. But since February this year, relaxation of HP restrictions on audio equipment has made selling slightly easier, according to Ellerine.

Though almost all Ellerine's sales are on credit, net cash during the half-year resulted in interest being earned — unusual in the furniture sector. The group's liquidity has been built up on years of high dividend cover. Unlike competitor Rusfurn, Ellerine's results include a provision for tax, at a rate of 42% in the latest half. At August year-end Ellerine has R45,5m in deferred tax provisions.

The group is expanding aggressively by opening new outlets. So far sales have not been seriously hit by unrest.

*Teigue Payne*

ANDREW GILL

MAJOR restructuring and acquisitions have enabled Supreme Industrial Holdings (formerly Mewa Holdings) to post a 98% earnings per share increase of 18,6c for the year to December 31 1989, compared with 9,4c for the 10 months ending December 31, 1988. The earnings increase takes

## SIH posts a 98% rise in earnings

into account a 57% rise in the weighted average number of shares in issue

After-tax profits grew to R4,9m for the year compared with the previous year's R1m Turnover shot up 520% to R75,6m as a result

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of last year's acquisitions of Insulated Structures, Protea Furnishers (formerly Sam Steele) and Victoria Lewis

R51,6m, most of which SIH took up from Viclewis

SIH's two main interests — Protea and Supreme Manufacturing (SMH) — recently turned their profits around and are now operating in the black.

A dividend of 7c per share was declared, based on Mewa and Insulated Structure's earnings

However, the downside of the deals is witnessed in the R2,6m interest bill on the long-term debt, (including deferred tax) of

MD 21490

8 Times 1/4/90

# Grant setback

By Ian Smith (188)

OFFICE furniture manufacturer and distributor Grant Andrews Holdings has stumbled under the weight of competitive pressure on margins, delayed delivery of orders because of construction hold-ups and delayed profitability from start-up retail and manufacturing operations.

The group has met its forecast improvements since listing shortly after the 1987 crash.

But attributable income fell 21% to nearly R1,5-million in spite of a 23% turnover rise to R28,8-million in the half-year to December 31. Attributable income in the same time last year was R1,8-million.

Earnings in the first half were 9,2c compared with 11,5c last year.

The share price slumped to a low of 60c ahead of the results, to be published tomorrow. A week ago there were sales at 90c.

It is not policy to pay an interim dividend, and managing director Mike Edwards says no decision has been made on the final dividend.

"The problems have been addressed and the next six months should see an improvement. More lucrative orders are being pursued aggressively."

The search for export markets has been expensive and returns have been slower than expected. But the benefits are beginning to flow.

The export sales target for 1990 is R2-million, and orders worth R800 000 have been confirmed in the first three months.

Stuart Rogers-Brown, who has been appointed group ex-

port manager, says: "We are expanding our push in Europe with supply contracts

for some products, and we have made contacts in Mauritius, Zaire and Botswana."

## The rand's world value

	R1 equals		One foreign unit equals (R)	
	30/03/90	30/03/89	30/03/90	30/03/89
US \$ .....	0,3775	0,3887	2,6493	2,5663
UK £ . . . . .	0,2298	0,2308	4,3521	4,3358
Deutschmark .....	0,6400	0,7364	1,5825	1,3579
Japanese yen .....	59,500	51,705	0,0168	0,0193
Swiss franc ... ..	0,5849	0,6419	1,7702	1,5579
French franc .....	2,1549	2,4861	0,4841	0,4022
Canadian \$ . . . . .	0,4424	0,4655	2,2604	2,1482
Italian lira . . . . .	471,56	540,50	0,0021	0,0019
Zimbabwean \$ . . . . .	0,9000	0,7776	1,1111	1,2862
Australian \$ .....	0,5018	0,4755	1,9928	2,1031
Trade weighted value of rand, % change against 1974 base .... 39/28				

## Domestic interest rates

	MONEY MARKET		
	Friday	Friday	Friday
	30/03/90	23/03/90	16/03/90
	%	%	%
SARB accommodation: rediscount rate TBs .....	18,00	18,00	18,00
Treasury bill tender rate .....	17,90	17,91	17,94
Basic call of discount houses . . .	18,00	19,00	18,25
Three-month banker acceptances	18,40	18,35	18,35
Three-month NCDs . . . . .	19,40	19,40	19,25
Three-year RSA stock .....	15,75	15,83	15,50
Prime overdraft rate .....	21,00	21,00	21,00
All-in yield of finest acceptance credits .....	19,44	19,64	19,44

	CAPITAL MARKET	
	RATES ON MOST TRADED STOCKS	
	Average Previous Month	As on Friday
Long-term RSA stocks .....	15,81	15,93
Long-term Escom stocks . . . . .	15,43	15,57

## Best sections this week

	Av % Mv	Av D/Y	Av E/Y
Tin . . . . .	22,9+	2,0	7,9
Property .....	7,9+	7,6	14,7
Investment Trusts .....	3,9+	3,8	7,8
Manganese . . . . .	2,7+	7,0	17,9
Mining Houses .....	1,5+	3,3	8,8

## Overall market this week

# Ellerines results confound analysts

8/24 30/3/90 188  
Although it was off a weak base, the 31 percent hike in turnover and 88 percent surge in earnings reported by Ellerines for the six months to end-February seem to have been well ahead of analysts' and competitors' expectations.

The comparative period in financial '89 was severely affected by government restrictions aimed at curbing consumer spending.

Earnings for those six months dropped from 203c to 174c and confirmed the market's view that furniture shares should be avoided until there were signs of an easing of pressure on consumers.

But a number of furniture groups appear to have survived remarkably well throughout calendar 1989 and indications so far are that some are expecting a reasonably strong "real" performance in 1990.

What appears to be the winning ingredient is the degree of exposure to the middle-to-lower black income group

Over the past 18 months this group's disposable income has surged — helped by increased and more effective trade union activity.

When it released its results to end-December, Rusfurn management referred to the significant lift that its sales figures got from the lower end of the market

The JD group, which is heavily exposed to this end of the market, did not perform as strongly because in calendar 1989 much time and effort was spent restructuring, cleaning up the book and introducing new disciplines

Diagonal  
Street

ANN CROTTY



But it is looking very well placed for growth this year.

Tightening up its operation — including closing marginal stores, stricter credit controls and some stock write-downs — is expected to hold back performance at Amrel in the 12 months to end-March.

The 1988/1989 squeeze on consumer spending has had a significantly different impact on the industry than did the 1984/1985 squeeze

This time around the players are benefiting from strong demand at the lower end of the market and from much tighter controls on credit sales.

Across the board, managements have stressed that there has been no chasing of turnover at the expense of the quality of their debtors' books, which have been improved dramatically over the past few years.

Ellerines executive director Jeff Dritz says the strong sales advance was helped by the opening of eight new stores and a generally more aggressive marketing approach.

This, he says, was not at the expense of credit-granting disciplines. "Credit-granting remained unchanged and was fairly stringent."

Mr Dritz emphasises the sales benefits derived from a general improvement in management.

Ellerines quality of earnings has also benefited from its switch to in-door selling.

# Retailer Ellerines sets hot pace 188

By Ann Crotty

Furniture and household retailer Ellerines has reported an 88 percent surge in earnings to 327c (174c) a share for the six months to February

The interim dividend has been increased to 109c (58c) a share

The results show a 31 percent hike in turnover to R239,4 million (R182,9 million)

The directors say this reflects a continued improvement in the group's market share and that it was achieved "through the training and development of its sales force, coupled with the opening of additional stores and the re-siting of others to more favourable locations"

Operating profit shot up 85 percent to R38,1 million

(R20,6 million), which the directors attribute to the rise in sales volumes and to stringent management of assets and tight control of expenses

The group enjoys a net interest income situation and for the six months under review received R2,4 million in interest income

This comfortable position was achieved despite an aggressive expansion programme, which has seen the opening of eight stores since the beginning of the financial year

A further 19 new stores will be opened in the second half — bringing the total to 320

Pre-tax profit more than doubled to R40,5 million (R20 million).

<sup>510x 29/3/90</sup>  
A slightly higher tax rate meant taxed profit was up 95 percent to R23,5 million (R12 million)

Eight new stores were opened in the six months under review, while other were re-sited to more favourable locations, the directors comment. This expansion programme is being maintained, and it is expected that a further 19 stores will be opened in the remainder of the year

The directors say the company's ability to maintain its current level of performance will "to a large extent depend on external factors such as political stability and an economic climate similar to that which prevailed during the first six months of the financial year"

B/day 29/3/90

## Ellerines at a high ahead of solid results

SYLVIA DU PLESSIS

ELLERINE's shares — at a low of 950c in June — reached a fresh peak of 2 400c yesterday after gaining 100c ahead of sturdy halfway results from the Malbak-controlled furniture and household appliance retailer

Figures to February, which reflect earnings 88% up — off a low base — at 327c (174c) a share, are a firm indication the group has recovered from a difficult 1989 during which credit restrictions severely hampered growth at the halfway stage

Dividends of 109c (58c), covered three times, have been declared

Turnover during the period under review rose 31% to R239,4m in the face of the economic downturn, while operating profit which climbed by 85% to R38,1m lifted margins at this level to 15,9% from 11,3%

After current and deferred taxation 112% higher at R17m, this translated into 95% growth in attributable earnings of R23,5m

### Locations

Chairman and MD Eric Ellerine said yesterday increased market share, coupled with stringent asset management and tight expense control, were responsible for boosting interim earnings

Eight new stores were opened during the six months, while others were resited to more favourable locations, he said. Store names include Ellerines, Town Talk, Royal, Jako and FurnCity

On prospects, Ellerine said the group was maintaining its aggressive expansion programme, and 19 additional stores planned for the current year would lift the total number of outlets to 320

However, directors' ability to maintain the group's momentum in the second half depended on external factors such as future political stability and an economic climate similar to that which prevailed during the first six months of the current financial year

Analysts are forecasting full-year earnings of 606c (513c) a share and dividends of 199c (166c)

Star 28/3/90

## M & A's earnings improve <sup>188</sup>

### Finance Staff

Office furniture and business equipment group Mathieson & Ashley (M & A) performed strongly in the six months to end-December 1989, with earnings per share rising by 30 percent to 26c (20c) and the interim dividend up by 28 percent to 8c (6,25c)

Turnover was up by 52 percent to R84,9 million (R42,6 million) although chairman Winky Ringo admits that the performance of the office equipment division was somewhat disappointing given the difficult trading conditions in the electronic office automation industry.

He is confident, however, that last year's restructuring of the group's office furniture business would overall earnings growth for the full year to exceed the inflation rate

Pyramid company, Vestacor improved earnings by 32 percent to 29c (22c) a share, while the dividend was raised by 31 percent to 8,5c

## M & A achieves 52% turnover rise in half-year

188) CHARLOTTE MATHEWS

A STRONG performance from the office furniture side of Mathieson & Ashley Holdings (M & A) helped to boost attributable income for the six months to December by 27% to R2,9m from R2,3m in the previous year on a 52% rise in turnover to R64,9m (R42,6m)

M & A's office furniture side, which consists of Dashing, Woodmet, Anglo Dutch, Offex and a controlling interest in Fineseat, performed well because of the recent restructuring, fine-tuning and large capital expenditure recently invested in it, the directors said on 28/3/90

The office equipment division, Mathieson & Ashley (Pty) Ltd, did not perform as well because the market had become more competitive in the past year, chairman Winky Ringo said

"We gained market share but our margins were squeezed, so in September/October we took the decision to keep the business small in niche markets," he said

The group's earnings were 26c (20c) a share and an interim dividend of 8c (6,25c) a share was declared

M & A paid only an 8% tax bill compared with 13% in the previous interim period because there were tax losses in certain subsidiaries which stood at about R8m at the end of December

With effect from October M & A bought 100% of Cape Town-based office furniture and distribution group Brown and Neethling (B & N) for R10,5m. Three months' trading results are included in today's published figures

An extraordinary item of R1m represents the loss incurred on the write-off of goodwill on the acquisition of B & N

Ringo said the outlook for the remainder of the current year remained favourable.

M & A had just been awarded a 30-month option to make products under licence from a leading European manufacturer for export to the US.

He added that results were traditionally better in the second half.



# National unrest creates February hiccup for Rusfurn

FEBRUARY sales for furniture giant Rusfurn fell about 10% short of budget following Nelson Mandela's release and general unrest nationally, CE Geoff Austin said yesterday.

Austin said certain of the group's chains sold "virtually nothing" in the week after Mandela's release because of political uncertainty amongst consumers, while stores in the Ciskei, for example, were burnt and looted.

31 day 28/3/90

SYLVIA DU PLESSIS

Russells showed standstill year-on-year growth in nominal terms during this period, Arrow 15% and Wanda-Frasers and Dion 10%, he said.

But while none of these chains showed real year-on-year growth in February, March sales were "a lot better" and Rusfurn remained on track to achieve the R92m in full-

year earnings forecast earlier. "Clearly, Mandela's release has created unrealistic expectations in some quarters of the black community and this has affected retailers generally, but we believe it to be of a fairly temporary nature."

Austin said the recent easing of credit restrictions on domestic appliances, civil servants' 10% salary increase and reductions in PAYE tax all boded well for business.

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B/Day 28/3/90

## Analysts foresee lacklustre results from SA Breweries

THE impending results of SA Breweries (SAB) are not expected to go very far towards reversing a trend that has drained 18% from the company's market rating in just over a month.

This is the view of market analysts who are forecasting a pedestrian performance by SA's beer giant, currently labouring well off its 12-month high of 4 125c at 3 400c. SAB's financial year ends on March 31.

Averaging the predictions of three analysts pegged earnings at about 225c (187,2c) a share, and a dividend (maintained at 45% of earnings) of 100c (84c).

Based on its ruling share price, the earnings scenario places the group on a p/e of 15,1 times and a dividend yield of about 2,9%.

Performance is expected to be adversely affected by the retail division, as well as by static performances from its hotels and manufacturing interests.

In the retail arena, 69,9%-held OK Bazaars is looking at contributing about R18,2m to SAB's bottom line, or 3% of group attributable income which analysts say will be about R600m.

"OK Bazaars, reflecting the impact of sluggish consumer spending, particularly on the furniture side, will not show a rise in earnings of more than 9%," said one analyst.

Edgars, which is 63,5% owned, should be the star retail performer although an expected 30% rise in attributable earnings to about R125m will be diluted by the conversion of debentures "At the end of the day the contribution to bottom line from Edgars will be about 13%," said an analyst.

Although Southern Sun (68,4% held)

BRENT MELVILLE

was expected to show only a small improvement attributed almost solely to its 20% holding in Sun International, analysts said it would pull up its rating within the SAB stable over the following two years.

For its part, the beer division should still donate a full 50% of earnings, but analysts said a slowdown in profits should become apparent because of its incurred additional depreciation in new plant, and the squeezing of margins due to the relatively low increases in the price of beer.



Furniture

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The real performer in the beverages division was likely to be 69,7%-held Amalgamated Beverage Industries (ABI) which was operating in the "fastest-growing market in the country"

In manufacturing, Da Gama and Lion Match are both expected to suffer from the downturn in consumer spending although forecasts look more attractive for Associated Furniture Companies, which should post a rise of about 14% in earnings a share. Analysts said, however, the downturn in furniture sales would catch up with the office furniture industry over the next financial year.

The group's overseas interests were also expected to do well, contributing about R46m or 8% to the bottom line. SAB financial director Selwin McFarlane said he could disclose no information on the group's overseas interests or the results.

# Chipboard industry expects 20% boom

*B/Dam 27/3/90 188*

THE chipboard industry, with annual turnover around R500m, is expected to experience real growth of about 20% a year.

Interboard's flatboard division MD Mike Clemitson says increased demand will come from growth in the furniture industry.

With good furniture woods in short supply and becoming more expensive, veneered chipboard is fast becoming an attractive substitute.

Further down the road, he expects growth to come from the low-cost housing market.

He says veneered chipboard is substantially cheaper than wood and chipboard has some advantages over wood. For example, it does not warp and is

usually harder wearing, particularly when finished with melamine.

Chipboard is particularly versatile, as wood, because of its grain, can only be worked in certain directions.

The demand for chipboard has been rising as older trees get scarcer, making it more difficult to find wider widths of wood.

Chipboard exports have also risen rapidly in the last few years, but SA, with a much higher quality of product, is not always price competitive on international markets, says Clemitson.

SA producers have also had to face the dumping of vast quantities of chipboard on the international market by some countries.

8 Day 26/3/90

## Protea Furnishers recover

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SYLVIA DU PLESSIS

CONCENTRATION on furniture retailing and a change in top-level management by new controlling shareholder Supreme Industrial Holdings (SIH) have enabled Protea Furnishers to move back into the black in the four months to December.

The 84-store group — formerly Sam Steele Holdings — has reported a R3m profit during this interim period from which earnings of 4,7c a share have been declared on an increased number of shares in issue.

This follows a strategic corporate restructure, including the disposal of manufacturing divisions together with land and buildings for R18m cash, and represents a R30m turnaround from the year to August when a R27,4m loss, or loss per share of 130c, was posted.

Chairman Edward Ronbeck said at the weekend results for the group, whose year-end has been changed to December to bring it in line with group subsidiaries, were achieved solely through trading performance.

Turnover during the four months amounted to R31,4m — nearly half the R70,9m achieved in the 12 months to August.

FIM 16/3/90

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## UNIDEV/RUSFURN

### Back to furniture

Only six months ago, the new MD of Unidev Ronnie Stein sold the group's 30% holding of Furniture Fair (Furngro) to Rusfurn for R14m. At that time, Stein was also chairman of Furngro. Now he has spent R53,4m to acquire 23% of the issued share capital of Rusfurn.

When Stein sold Unidev's Furngro interest, the present Rusfurn management had approached Unidev to take a stake in their prospective operation. The subsequent management buy-out (MBO) of Rusfurn had not yet been consummated.

Unidev, however, had other internal priorities which required management concentration and financial resources, and the offer was sidelined. In terms of Section 311 of the Companies Act, the deal was concluded in February — only after the close of the offer to the minorities in Rusfurn, which resulted from the MBO.

Stein says there are three reasons why Unidev wanted to go back into the furniture industry. Rusfurn management was well regarded by Unidev, a re-rating for the furniture industry is expected, and finance for the deal was granted by the two banks involved on favourable terms for Unidev. Trust Bank financed 75% and Finansbank 25%.

Unidev established two wholly owned subsidiaries as vehicles for the transaction. The acquisition was made largely by these companies. They issued preference shares worth R44,4m and yielding 72% of the prime rate and redeemable on March 30, 1993. There is no recourse to Unidev through these companies. The balance of about R10m was payable in cash and funded by Unidev.

The deal, effective November 1 1989, was struck on the basis of estimated EPS for Rusfurn of 55c for the year to end-June 1990. Against a deal price of 140c a share, the prospective p/e of the acquisition is 2,5. This looks cheap next to the current average p/e for the sector of 4,3. Ian Sturrock, MD of Rusfurn, confirms that the group is on track

FIM 16/3/90

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to achieve a target of at least 55c. Sturrock says trading is generally holding up, though softening at the top and bottom ends of the market. The middle section remains buoyant.

Meanwhile, Stein says that Unidev's EPS forecast of 55c for the year to end-December has been achieved. He estimates that, had the Rusfurn transaction been effective on January 1 1989, EPS would have been 15c higher and amounted to 27% of the earnings. For the 1990 year, he says, the contribution of Rusfurn's earnings is unlikely to be as high.

Gerald Hirshon

MORKELS FIM 16/3/90



### Daun raid

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In buying Federale Volksbelegging's 75% stake in Morkels, German businessman Claas Daun is swimming against the tide of both overseas investor sentiment about SA and local investor sentiment about the furniture sector

Morkels' management believes Daun's

LD

FIM 16/3/90



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al

optimism is justified because it has passed the worst of its downturn. The easing of HP restrictions on most household goods announced last week is one positive factor. Financial director Terry Simon says consolidation and improvements in efficiencies in its next year, to March 1991, should bring reasonable earnings growth.

Rare among non-mining groups, Morkels reports every quarter. In the nine months to December operating profits were 24% lower, and EPS, at 12c, 32% lower than in the same period in 1988. Full-year EPS of 15c are expected, which would put the share, now 90c because of the impending 95c standby offer, on a p/e of 6.

Simon says this drop in earnings is mild compared with 60% falls and worse in past recessions. He believes the furniture sector generally has become less cyclical because of

higher spending power in the lower income groups, which are less affected by higher interest rates and better management.

Support for this emanates from JD Group, whose earnings grew 18% in the year to December, despite disruptions caused by re-organisation of the World stores, acquired in mid-1988. Dominant furniture retailer Rusfurn, which recently reported strong interim results, agrees that sales are still resilient in the lower income sector.

Groups like Morkels, that focus on the middle income sector of all races, squeezed by higher bond repayments, have been harder hit.

Simon says the takeover by Daun will give Morkels more freedom to grow. He says it has scope for organic growth and plans within the next few years to increase the number of Morkels outlets from 83 to about 120 and

Total Sports outlets from 18 to about 50. Longer-term, Morkels is considering establishing a furniture chain aimed at the lower income group and possibly an apparel group.

As with the management-led buyout of Tradegro's stake in Rusfurn, management has a strong incentive to perform. The price of management's option to buy 25% of Morkels from Daun is linked to performance.

But Tradegro appears to have got a better price for Rusfurn than Fedvolks for Morkels, possibly because the Rusfurn sale was the result of an ultimatum and Rusfurn has performed better.

That deal, at 140c, was at net worth and about 75% above the pre-announcement market price of 75c-85c, the Morkels deal is 30% below net worth of 132c at December, and about 26% above a 70c-80c pre-announcement price.

Teigue Payne

# Masterplanners scorns aggressive price cutting

By Stan Kennedy

Business in the top end of the office furniture market has been aggressively competitive since the late 1980s, when the industry started discounting

"They call it comparative selling but it is only a euphemism for trying to beat each other to death," says Mr Doug Troxler, managing director, Masterplanners

"We decided from the outset that we would carry on offering the market products at fair prices and that we would not take part in cutting prices.

"Once you get into the maelstrom of underselling, you suddenly wake up and find that your price tag of today is your price list of tomorrow.

"We have seen some great organisations disappear in the past 10 years or just barely survive. We have also seen some wealthy people in the industry lose many millions through discounting."

Though Masterplanners is the youngest of the four majors operating at the top end of the market, its designers constantly produce some of the best office systems for the corporate office environment

## Overseas trends

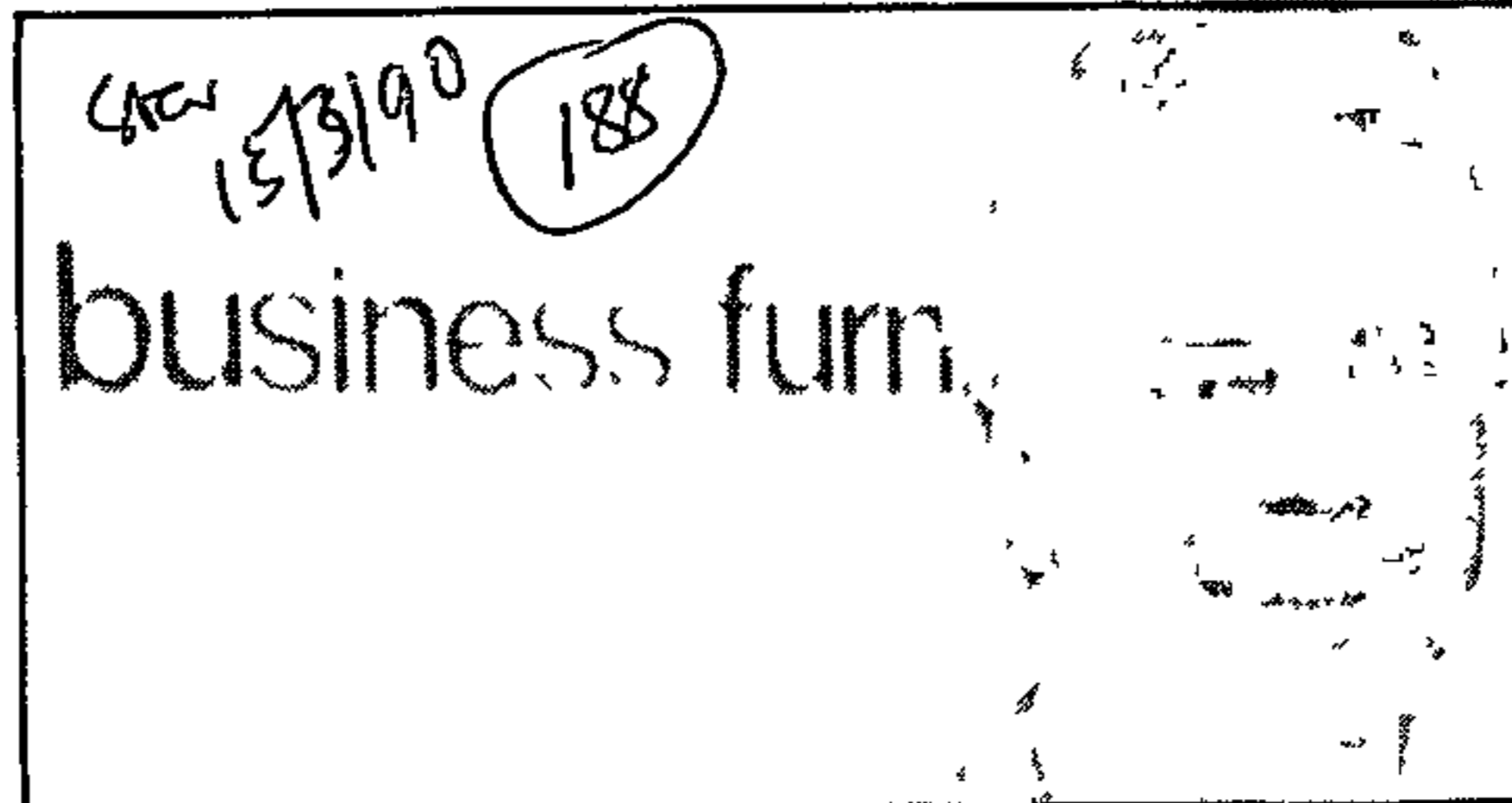
In the five years of its existence, it has diligently investigated and evaluated the needs of the corporate marketplace and gone to great lengths to monitor overseas trends

Coming out of these initiatives are ranges of furniture with distinctive characteristics that enhance the many corporate images and cultures in South African business

It is thought to be the only South African company carrying specific ranges, each with their own permutations, the basic elements being simple and flexible and allowing for countless individual expressions

Mr Troxler says this is achieved by understanding people, indentifying their work needs and inventing systems which make ergonomically and aesthetically pleasing environments.

"We are in the business of selling productive environments, not merely expensive desks or the latest in partition-



Doug Troxler, managing director.

ing but a total, harmonious office which impacts psychologically on the people working in it and those who visit it

"In many ways, the offices of today are knowledge factories and the workplaces of thinking people require environments that stimulate creative thought"

Returning in 1981 from Switzerland, where he ran a marketing consultancy for US corporations in Europe, Mr Troxler (42) joined a local furniture company Four years later, he was head-hunted by GKN Sankey, which had operated in South Africa for 37 years

"Unknown to me it was quietly disinvesting and two days before it decided to pull out, I was told they could not sell the business With my golden handshake I was emboldened to ask if I could take over the company. It agreed

"As they traded out, my colleagues and I traded in and together we got Masterplanners off the ground

GKN Masterplanners had been operating in the top end of the market for seven years and the new company took its name and client base

He says no one expected the company to enjoy the successes it has had In its first five years it achieved its primary goal of developing a corporate culture which emphasised the co-operative spirit and of obtaining 50 percent of its business through recommendation.

It is also the only one of the four which is an unlisted company Mr Troxler says it doesn't need the cash flow which comes from a listing. He believes he can control and direct the company's growth far better by relying on the profits it generates

and using them to grow the company

"Happy and satisfied customers are a measure of our success, as well as being recognised testimonials We weigh our success by customer satisfaction and not by the size of a deal or the profits made"

By the end of the next five years, he plans to have 100 percent of the company's business coming from recommendations by satisfied customers

Mr Troxler is essentially an entrepreneur He had his first business at 12 when he made and painted figurines and sold them door-to-door At 18, he ran an outside catering service to help pay for his engineering studies

## Brainstorming

His main role at Masterplanners is motivating his team and holding regular brainstorming sessions These are run in a style that follows Dr Edward de Bono's teachings on lateral thinking

"We employ people with intellectual and creative talent and every session brings forward ideas on new styles of furniture

"No idea is ever rejected We don't just laugh them off and say they will never work We accumulate them and take another look at them later on"

In South Africa's changing times, the local marketplace may once again be open to international manufacturers, he says

"If we don't see what is going on overseas and understand how the market operates, we will leave ourselves wide open to international competitors coming in and flooding us with their products"

# Earnings of 124c a share 'within' JD's grasp

3/Day 143190

**SYLVIA DU PLESSIS**

EARNINGS of about 124c a share for the current year to December are easily within the grasp of furniture retailer JD Group, analysts say

Based on this, dividends could be in the region of 21c, with dividend cover unlikely to drop, they say

This follows the 102.6c a share and six-times covered dividend of 17c the group — formerly Joshua Doore — reported yesterday for the 1989 financial year

According to analysts, directors have learnt valuable lessons from the recent strike, the group's structure is now "in place" and its debtor's book is healthier than it has been for years

While the shares have justifiably been at a low point over the past year — JD spent a lot of money on the closure and conversion of its World outlets and was hard hit by labour action — good 1989 results in the face of these factors should see this improve

One analyst says investment is recommended in the medium-term as JD is set to become one of the best performers in the furniture sector

Its shares — an unchanged 300c at close of trade yesterday — are currently cheaper than Rusfurn's, which

closed at 130c, and it has a higher dividend cover, she says

The shares dipped to a low of 220c at the height of the strike in July

Another analyst said JD's business was of a far better quality because the group was not chasing market share to the same extent as Rusfurn and its debt had remained virtually unchanged at year-end Rusfurn's debt was "on a rising trend"

Chairman and MD David Sussman was unavailable for comment last night but has indicated directors expect "satisfactory" growth in earnings in 1990, given stable operating conditions



# Furniture keeps up with the times

S/Times 11/3/90 188

**THE 37-year-old Anglo Dutch office furniture company is moving into information technology (IT)**

Managing director Alan Green says "Each time technology changes, so do job functions and then office furniture. The nature of work has altered with the arrival of computer technology. It has become essential for us to move into information technology."

This move is essential for furniture companies dealing with large corporate clients — they do not merely buy desks, they require solutions for cable management and communications.

## Licence

Mr Green says his company cannot afford to be reactive any longer.

"We need to be proactive and to spend more time discussing changes and trends with the computer and office equipment manufacturers to keep abreast of developments."

Anglo Dutch has signed a licence agreement with Austrian furniture group Bene, which has based the development of its desking range on research done with universities, computer manufacturers and users. The furniture is designed to cope with foreseeable developments in IT.

The new systems are far removed from those of 50 years ago when people worked in cellular offices carrying out well-defined jobs. This era was followed

by people working in open-plan environments using rows of desks.

Then came the new open plan which allowed for typewriters and maybe calculators. These layouts were followed by more modern reticulated designs to cope with wiring and cables. The screen-based desking or action office was its successor.

Bene's concept is based on the group office and concentrates on the degree of communication between people in different departments, tailoring their workplaces accordingly.

## Modular

Mr Green says that in large corporations, 60% of people and furniture are moved around an office every year causing problems with cabling.

"The new furniture is modular and it is not necessary to move people. Instead, it is possible to take items away or add them as the individual's needs change."

Bene has produced a lay-in system so that cables can be placed through the edge of desks without having to remove plugs and end-attachments as is necessary with current "feed-through" reticulation systems on desking.

The company has ensured that its desks will be able to cope with fibre-optic cables for computer networks in offices.

Mr Green says "Work space is expected to increase



**FRANCO BAROCAS** design from the inside out

because people will use more pieces of equipment — faxes, digitisers, scanners or mouse-based software on their PCs — so the Bene system is built to add space by augmenting desking with levels above one another."

## Canteens

Grant Andrews Office Furniture managing director Mike Edwards says companies are choosing more cost-effective products and demanding more professionalism from furniture suppliers.

Only a few years ago, the

market was neatly divided into upper, middle and lower ends. The upper end sold comprehensive, problem-solving systems and offered all-embracing consultancy services. Now, the middle and lower vendors are also offering services.

Mr Edwards says "There is much less distinction between the vendors involved in the market."

It is estimated that the market — including such items as lockers and canteens — is worth about R650-million a year. The upper and middle suppliers share about R350-million.

"Customers have become more knowledgeable about furniture systems, most larger companies having specialist facilities management staff. Suppliers cannot rely on impressing buyers with their jargon, but must have a professional approach to selling."

Buyers are choosing aesthetically pleasing furniture, although functionality is also important.

## Privacy

"There is a trend to mix open-plan systems with room-in-room furniture. Screen-based desking or desk-based screening needs less space than traditional open-plan systems, and offers more privacy."

"Screen heights can be adjusted according to the privacy needed by staff."

Mr Edwards finds desk-based screening is best for dynamic companies which

tend to move staff around frequently.

"There is a tendency to view open plan critically because it is not space effective, but it can provide a good working environment for team building. The trend in the US moved away from this concept years ago, but it still works well in SA if it is well planned."

He believes a new concept for First National Bank's Bank City offices will pave the way for desking. The shape of the desk will change to include working and computer space, and conference semi-circles and visitors' attachments can be added for staff members who need them.

"The system takes less space than traditional desking, and costs less to manufacture," he says.

## Pressure

Woodcreations marketing manager Robbie Bergh says office furniture has had to change radically in the past decade because of technology and automation.

"The next decade will show a strong swing towards aesthetics and space productivity."

"Modern, modular designs provide the flexibility necessary to accommodate an increasingly pressurised working life."

Dashing Office Furniture managing director Franco Barocas says there is an increasing trend to plan buildings from the inside out. Although clients want attractive structures, they must also be functional because by far the biggest outlay for any company is spent on employees.

More companies are realising that a serious investment in office environment can improve staff productivity.

Mr Barocas says "It is thus more effective to provide a better working environment than to crack the whip."

B/pay 9/3/90

## Morkels eye on expanded horizons

SYLVIA DU PLESSIS 188

MORKELS' strategic horizon extended beyond its furniture retailer Morkels and sports goods chain Totalsports, MD Carl Jansen and financial director Terry Simon said yesterday.

And the recent management-led buyout from parent Federale, following an intensive strategic renewal programme, would allow directors to steer the group on this course through diversification and acquisition, they said.

They said in an interview West German textile group Daun et Sie, which backed the breakaway — effective from April 1 — had guaranteed financial support for future growth.

Growth entailed a move into speciality retailing to rid the group of its dependence on the cyclical furniture sector and achieve a "total balance".

"We plan to expand 18-outlet Totalsports to about 40 stores over the next three years, and also see a future in fashion because it is less credit-intensive than furniture and we have skills in that area," Jansen said.

"But there are opportunities in furniture outside of the Morkels target market. We'll expand the chain and keep it focused where it is — the middle incomers — but if we continue to grow in this area we'll look for another business pitched at the lower end of the market to give us a better spread."

These objectives would not have been in financial reach had directors gone the management-buyout route, he said.

"We considered an MBO but decided against it because Morkels would have emerged debt-ridden and debilitated, and this would have eliminated our opportunities to grow it. It was more important for us to find a partner."

Financial support for management's objectives would be "readily forthcoming" from privately-owned Daun et Sie, which had also given management the option of acquiring 25% of its 75% stake in Morkels over the long-term.

Jansen said the group initiated a strategic renewal programme two years ago in a move which had "knocked profits by millions but was an investment in our future." Money was put into computers, more productive use of storage space, redesigning stores and addressing the manpower shortage.

This programme, coupled with the financial backing guarantee, meant Morkels was about to "turn the corner".

Earnings in the current year — 12c (17.7c) a share at the third quarter — were "not exciting", but good management underpinned the economic downturn and directors expected evidence of a turnaround in the first quarter of the new financial year, he said.

B Day 6/3/90

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## GROWTH EXPECTED IN FURNITURE INDUSTRY

SYLVIA DU PLESSIS

A RELAXATION of HP curbs and a reduction in import surcharges could improve year-on-year growth in the furniture industry this year by at least 4%, according to Furniture Traders Association executive director Frans Jordaan.

Jordaan said yesterday an easing of these measures, whether announced on March 14 or shortly thereafter, would see overall growth in the sector rise from 1989's negative real growth of 2% to positive real growth of 2-3%.

Jordaan said he and representatives from the Radio and TV Manufacturers Association and the SA Domestic Appliance Manufacturers Association last week met finance department authorities to discuss a possible easing of curbs on durables spending.

He said they had a constructive discussion but would have to wait until the budget was presented to see what would happen.

Jordaan said January figures, released yesterday, indicated appliance sales had dropped from December's year-on-year negative real growth of 5% to negative real growth of 10% the following month.

Sales of TVs and video equipment were also poorer, reflecting negative real growth of 12,5% against 5%.

However, audio equipment sales reflected real growth of 2,5% against standstill growth the previous month, while undisclosed furniture sales, which showed 9% real growth in December, were "very satisfactory".

RUSFURN FM 2/13/90

**Ahead of target** 188

At the time of the management buy-out last year, chairman Geoff Austin and his team were given the option of raising their stake from 20,9% to 31,2% over three years subject

F/M 2/13/90

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to dividends reaching 16c a share this year and rising by inflation plus 5% in the next two years, with dividends covered at least 3,5 times. Earnings of 55c a share were forecast for the current year, though 3,5 times 16c is actually 56c.

Even though the subsequent purchase of the Furniture Fair chain in the western Cape added the equivalent of 5c a share to pro forma 1989 earnings, this was a stiff target. But the latest interim, reporting 6-month earnings in excess of those for the whole previous year, suggests it's in reach.

CE Geoff Austin now says the target is a compound growth rate in EPS of 50% a year for five years from the June 1987 listing, or earnings of 95c a share by the year to June 1992. That will require only more modest growth in 1991 and 1992.

Comparable turnover in the latest period grew 23% (37% including Furniture Fair), so margins improved. Austin says that, con-

**BUSINESS BOOMING**

Six months to	Dec 31 1988	Jun 30 1989	Dec 31 1989
Turnover (Rm) . . .	509	425	696
Pre-tax profit (Rm) . . .	43,0	23,8	70,6
Attributable (Rm) . . .	39,8	20,3	61,5
Earnings (c) . . . . .	24,0	12,3	37,1
Dividends (c) . . . . .	3,5	7,0	5,5

trary to some perceptions, total furniture sales in December were 20% up on the previous year, but the improvement came at the top and bottom — the middle was squeezed. Rusfurn benefited from its broad spread.

Confirmation for part of this view comes from the poor results at Morkels (now itself the subject of a buy-out) and for another part from the recent strength in the share price of Ellerine, which sells largely to the black market.

Cash sales fell from 42% of the total to 38% — still high by industry standards — but the policy of building up provisions against debtors continued and these are now almost 20% of the book. However, the group makes no provision for deferred tax, which though an acceptable policy affects the quality of reported earnings compared to some others in the sector.

Despite the excellence of these results, earnings in the invariably less profitable second half will still have to grow 50% to meet the 55c annual forecast.

The buy-out was at then NAV of 140c a share (since trimmed by the Furniture Fair acquisition but pushed up to 147c by retained earnings). The share is still 140c, at which the forward p.c is 2,55 and prospective yield 11,4%. Spending on consumer durables may be slackening, but there's no reason to doubt that an entrepreneurially driven Rusfurn should continue to outperform the sector. While current tough economic conditions continue a rerating may be difficult to achieve, but if Austin and his team consistently come up with the goods it should be only a matter of time.

Michael Coulson

104 27 290

# COMPANIES Projec shares put on intriguing show

188

AN INTRIGUING share performance has emerged from the last eight months' trading of DCM-listed Projec Investment Holdings, which bought canvas company Canvacor and appeared on the JSE last July under its new name

The company appeared at around 500c a share after a one-for-five consolidation of the previous shares. Within a month it had shot up to 900c and proceeded to zig-zag upwards to 1100c at the beginning of September, where it has stayed unchanged for the last five months.

The volume of shares traded, however, started to get really significant after this stage. Without the price changing at all, the share frequently recorded more than 100 000 shares changing hands a day. On two occasions more than 200 000 shares were sold in one day.

Projec's Joe Caldeira, said this week the directors, who owned around 89% of the shares in issue at the time of listing, now together held about 40% of the issued share capital. He said the remainder was publicly held.

## LOSS

Caldeira said he had no direct involvement with Projec Holdings and preferred to call himself a consultant to the company. MD Bernard Bester had been unable to make the interview, although the first interview arranged had been cancelled for this reason.

Canvacor was a canvas product and protective clothing manufacturer. In the year to November 1988 directors reported the Solid Pine division had incurred a loss of R213 000 and the profitability of the core business had also declined.

The company was then bought by Interstate Breweries, a private company, and renamed Projec. At the same time the sale of the Solid Pine division for R1,4m was announced.

CHARLOTTE MATHEWS

Caldeira said Projec had disposed of the Canvacor business in January for R2,3m, payable over four months, to a private company called SAPHI. The price had been determined on the basis that Canvacor carried excess stock for which the buyers would be invoiced over a period of time. An announcement would be made shortly.

However, Caldeira said the buyers of Solid Pine had not complied with the purchase agreement and the division would now form the base of a furniture retail venture for Projec.

## Expand

"Most of it will be owned by Projec and the remainder by two senior directors of a large public furniture company in SA."

The furniture business would start with two stores and eventually expand around the country, he said.

"In the first year of operation net earnings are budgeted at R6,5m."

Caldeira said Solid Pine broke even during the last financial year.

"About 80% of its production was for the export market. The pricing was wrong and the marketing policy generally was no good. But with new management we believe it will do well."

Projec's other investment was a 32% holding in a private company called Project Financing, bought for R2,6m and paid for by the issue of 258 000 shares.

"Project Financing has an issued share capital of R7,5m," Caldeira said. "Its business is the financing of various things — it lends money in the liquor industry and leases shop fittings and so on. It has a current book of R1m."

Caldeira said final results for the year to November would be released at the end of February.

# M & A may have R10m investment

CHARLOTTE MATHEWS 188

9/12/70  
B/pat

MATHIESON & Ashley (M & A) office furniture company may have found an investment for the R10m cash it has been holding on call for nearly a year

A cautionary in yesterday's Business Day warned shareholders that negotiations were in progress which could affect the value of M & A and holding company Vestacor shares

Chairman Winky Ringo refused to comment but admitted the notice related to a deal that M & A had been working on for a long time

M & A specialises in manufacture and distribution of quality office furniture and distributes office equipment

Commentators have suggested M & A could move into an acquisition as high as R40m due to its low gearing

At yesterday's closing price of 575c a share market capitalisation was R66m.

# Rusfurn bucks trend to post 55% earnings rise

LATEST interim earnings from Rusfurn, recently the subject of a management buy-in (MBI), have put chairman Geoff Austin and his executive team firmly on track to lift their stake in the furniture giant from 10,9% to 22,5% in three years.

The group, bought for R232m from parent Tradegro with effect from July 1 last year by a management-led consortium with Austin at the helm, has posted earnings 55% higher at 37,1c (24c) a share for the six months to December.

Dividends of 5,5c (3,5c), covered 6,7 (6,9) times, have been declared.

In terms of a share incentive agreement between management and its institutional backers, executive directors were given the option of raising their stake in three years, provided dividends reached 16c in the current year to June and rose by inflation plus 5% over the following two years.

Austin said at a presentation last night he had no doubts his group would post a 16c full-year dividend and earnings of 55c a share, despite depressed consumer spending. Its target was to achieve a five-year compound growth rate

## SYLVIA DU PLESSIS

in earnings of 50% a year, or earnings of 95c a share in the year to June 1992.

Management met its earnings forecast during the period under review by bucking the trend in the industry to produce 37% growth in turnover to R696m (R509m) and bottom-line profits of R62m (R40m).

Chains in its stable include Arrow, Rudicks, Russells, Giddy's, Wanda-Frasers, Furniture Fair — acquired at the time of the MBI — and Dion.

Austin said cash sales dropped slightly from the 42% of total turnover reported at 1989 year-end to 38%, but a rise in credit sales was in line with prevailing economic

conditions and no reason for concern. He added that the group had traditionally adopted an "extremely conservative" approach to the management of its debtors' book.

"We have not traded at the expense of prudence and the quality of our book is as good as ever," he said.

"The policy of building up provisions, which have been growing steadily over the last three years, is being continued.

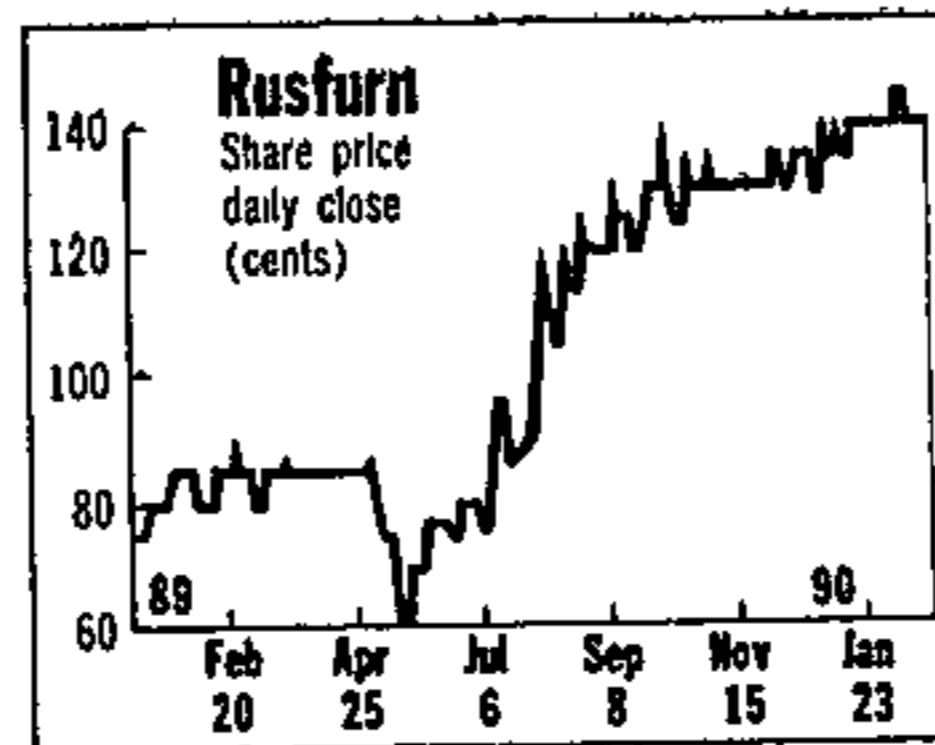
"These now stand at almost 20% of gross debtors."

The debt to equity ratio deteriorated marginally from 48% to 54%, due mainly to both the Dashaus and Furngro acquisitions being paid for in cash.

Austin said no major acquisitions or expansions were planned for the second half.

Rather, this period would be one of consolidation, with the focus on the restoration to full profitability of Dashaus and Furngro and the launch of Dion Furniture at the end of March.

The shares closed unchanged at 140c yesterday, having held steady at this level in recent weeks, just below their mid-month peak of 145c.



1987 (188) CM-Tips 23/2/90

# Rusfurn earnings rise by 54,6%

By AUDREY D'ANGELO  
Financial Editor

RUSFURN'S acquisition of the Furniture Fair group for R53m in July "is yielding substantial returns on investment", the directors say in their report for the six months to December 31 — which shows a 54,6% rise in earnings

Helped by acquisitions, turnover for the six months rose by 36,8% to R696,4m compared with R509,1m a year earlier. Allowing for the acquisitions, the real rise in turnover was 23%

Attributable earnings were R61,5m (R39,7m), and earnings at share level 37,1c (24c). The in-

term dividend is 57% higher at 5,5c (3,5c)

The net asset value has risen to 147c (136c) a share

But the interest bill rose by 70,9% to R13,3m (R7,8m). The directors explain that the group assumed liabilities of Furnfair and its holding company Furngro, for preference shares of R39m and borrowings of R6m, at the time of the acquisition

"The inclusion of an additional R98m in borrowings and preference shares as well as the write-off of goodwill and extraordinary items of some R39m have impacted on our gearing"

They also point out that most sales are on credit over 24 months while suppliers expect to be paid within four months

"High rates of growth necessarily require increased working capital"

The group has acquired some of this through the issue of R53m worth of additional preference shares. "Long-term preference shares represent a high-

ly efficient and less expensive means of financing, given the company's tax profile"

The directors say group accounting policy is to treat these preference shares as minority interests rather than equity or debt. "On this basis the debt equity ratio has increased to 54% from 48%"

Discussing prospects, the directors say they are confident of achieving earnings of 55c in the year to June 30 and paying dividends of 16c a share

Pointing out that forecasting is difficult in a time of significant change, they say that progress in solving problems should encourage consumer confidence "which is a major determinant of the performance of credit sales"



**M&A's Cape deal**

F 101 2312/90

Mathieson & Ashley (M&A) has strengthened its presence in the Cape with a takeover for R10,5m cash of furniture-maker Brown & Neethling. Chairman Winky Ringo says the company will be held in Kallenbach-Hendler, in which the office furniture interests of M&A and SA Breweries are merged.

The price will be funded equally by M&A and Breweries, through a Kallenbach-Hendler private rights issue. It includes Brown & Neethling's 15 000 m<sup>2</sup> Epping factory and land. (188)

With this deal M&A has gained entry into the dealer segment of the office furniture industry.

# K-H acquires furniture firm

*CAH 7-25 2/12/98*

## Financial Editor

**EPPING**—based office furniture manufacturer Brown & Neethling has been bought by Kallenbach-Hendler (K-H), the company in which Mathieson Ashley (Math Ash) and SA Breweries' office furniture interests are merged.

But Math Ash chairman Winky Ringo said, in a statement issued yesterday, that the deal would make no difference to Brown & Neethling customers.

He said the sale included the company's Epping factory and land.

"In keeping with K-H's successful decentralisation policy, Brown & Neethling management retains control, to run the company autonomously, in competition with the other three office furniture manufacturers in the group.

"The holding company's role will be one of support rather than direct involvement."

Brown & Neethling production di-

rector Martin Janutsch said he expected output to increase as a result of joining the group.

The target for the current financial year is R30m, but the firm has the capacity to step this up to R50m.

Janutsch said expansion already planned for the factory included the installation of a R1m painting facility in March.

Ringo said the purchase price was funded equally by Math Ash and SAB through a private rights issue by K-H.

He said the acquisition would enable the group to supply dealers, estimated to make up 50% of the R716m-a-year office furniture market in SA. Math Ash already held R120m worth of this market.

It had been the group's stated intention "to enter the dealer market in which there is a supply shortage of quality office furniture."

But until now, it had lacked the capacity to supply dealers who approached it.

# Math Ash and SAB join in another deal

13/10/91 21/2/90 188  
CHARLOTTE MATHEWS

MATHIESON & Ashley has bought Cape-based office furniture manufacturer Brown & Neethling (B & N) for R10,5m in cash, chairman Winky Ringo announced yesterday

The purchase price was funded equally by Mathieson & Ashley and SAB through a private rights issue by Kalenbach-Hendler, in which their office furniture interests are merged

Ringo said B & N customers would not be affected as B & N management would retain control

"The company will run autonomously in competition with the other three office furniture companies in the group.

"The holding company's role will be one of support rather than direct involvement"

Mathieson & Ashley's office interests include Anglo Dutch, Offex, Dashing and Fineseat. The company has around 17%, or R120m a year, of the R716m office furniture industry.

Ringo said the acquisition would give Mathieson & Ashley a foothold in the dealer segment of the office furniture market, where there was a supply shortage of quality office furniture.

B & N production director Martin Janutsch said the group's Epping factory was budgeting for R30m turnover for the current financial year, but had the capacity to reach R50m

"Further developments are already planned for Epping, including the installation of a film paint facility scheduled for March"

Mathieson & Ashley still had significant cash on call and continued to look at suitable opportunities, Ringo added.

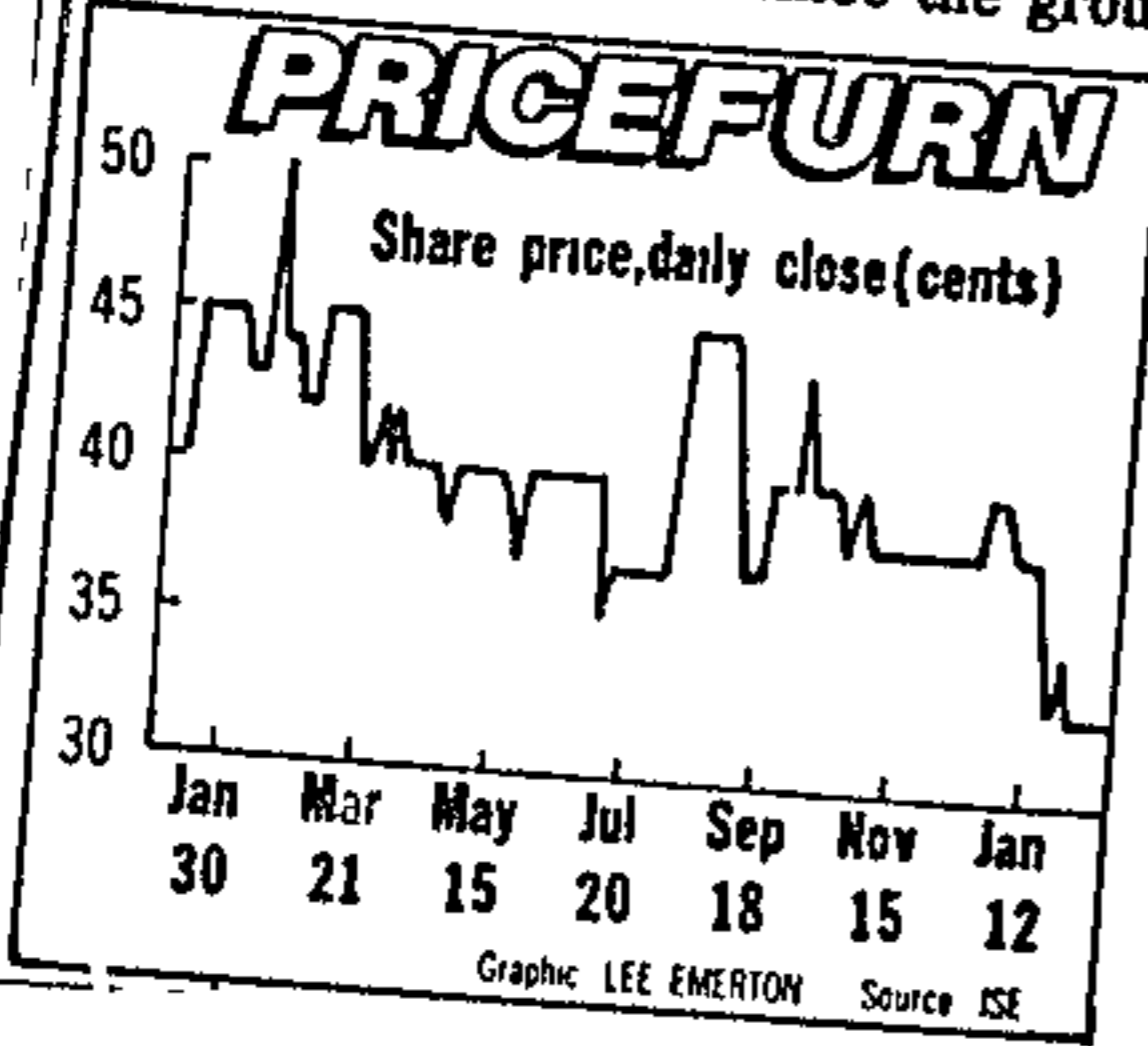
# Pricefurn lists its first decline in profits since JSE debut

DIRECTORS of Durban-based Pricefurn are forecasting negative growth in full-year income after a decline in earnings for the first time since the group

was listed in 1987. <sup>(186)</sup> Attributable income for the six months to December has dropped to R481 000, from R774 000 during the six months to December.

SYLVIA DU PLESSIS

that income for the year will remain below that of the previous year."



This translates into weighted earnings of 4,01c a share — compared to 6,45c a share in the previous period, and puts the 10c a share for the previous financial year well out of reach.

The group, a retailer of appliances, furniture and other consumer durables, increased turnover to R44,3m (R31,5m) But operating income fell to R1,4m (R1,6), and the interest bill rose more than fourfold to R483 000.

In a statement accompanying the results, directors say "Trading conditions remain difficult and it is anticipated

Pricefurn MD Sid Trickett was not available for comment yesterday, but industry sources said the group had expanded at a time when interest rates were increasing and consumer demand was tapering off. Like its competitors, it has also been hard hit by import surcharges and HP restrictions.

The group posted a 67% rise in turnover to R60,3m in the year to end-June after expanding from 11 to 18 stores in Natal and the Transvaal. However, the cost of establishing these stores trimmed growth in attributable income to R1,2m, from which dividends of 4,5c were declared.

B/10/90 2/2/90

13 Dec 57 11:30  
**Cecil Nurse leaves Furntech stable for Central Office Furnishers**

CECIL NURSE, an office furniture retailer until recently in the Furntech stable, has been bought by independent furniture retailer Central Office Furnishers for an unspecified amount, with effect from January 1

Central Office Furnishers' financial director Alan Golombick said yesterday the purchase price had not been finalised because it was based on the net asset value of the company  
 Cecil Nurse was a subsidiary of West-

**CHARLOTTE MATHEWS**

ern Transvaal Industries (WTI), which was the 100%-owned operating subsidiary of JSE-listed Furntech

In November Furntech announced the sale of WTI to Macsteel, which resulted in Furntech becoming a cash shell  
 The Furntech directors commented in the interim results released at the same time as the announcement that

the profitability of the office furniture retail division — Cecil Nurse, Krost Office Furniture, Furnsteel, Huski and Kof Desking Systems — had been adversely affected by more difficult than anticipated market conditions

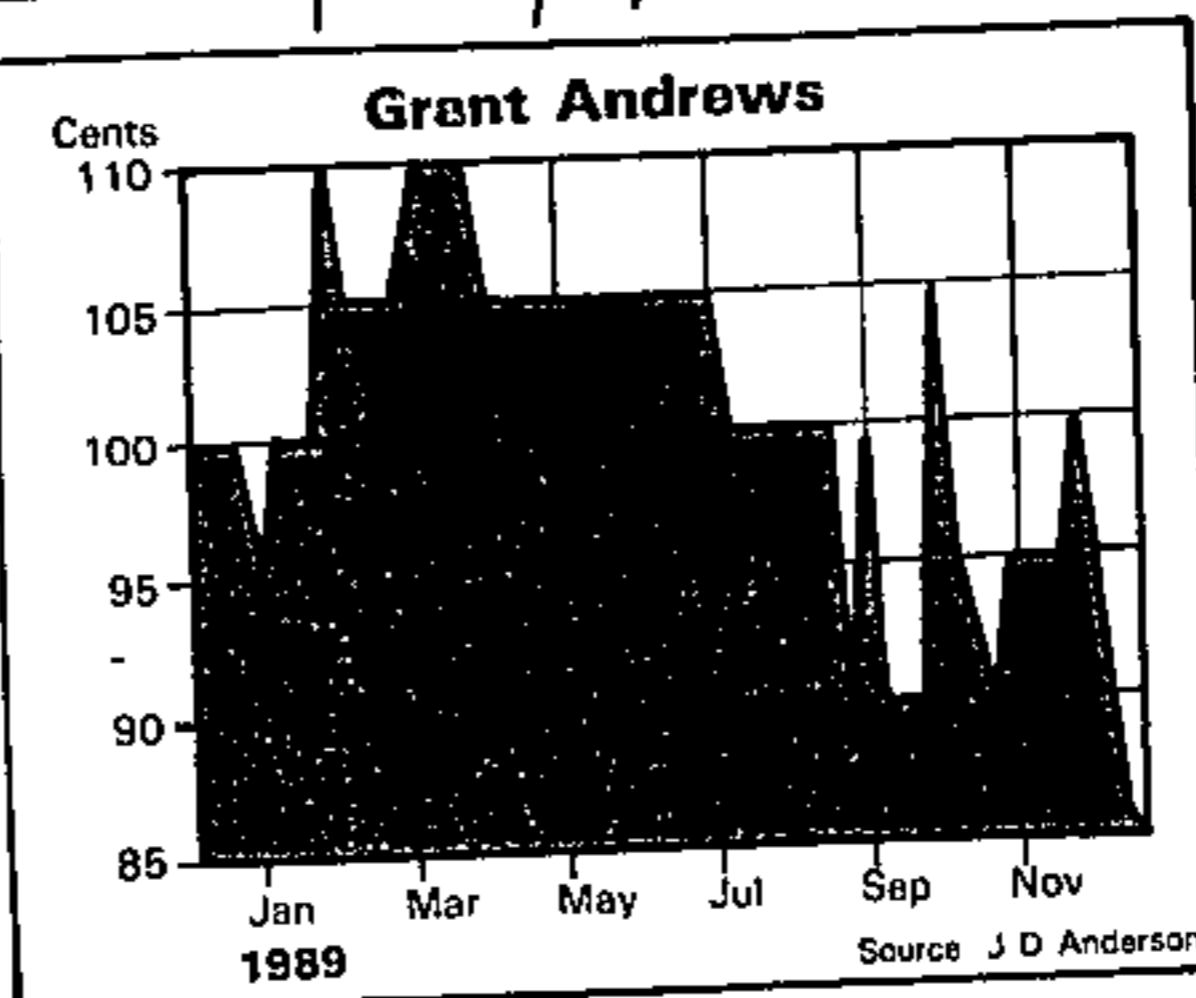
The purchase price for WTI depended on the audited NAV of the company at December 31 and the purchase price for Cecil Nurse would therefore be established at the same time  
 Golombick emphasised that Central

Office Furnishers' purchase of Cecil Nurse depended on the ratification of the deal between Furntech and Macsteel, which required the approval of the JSE and Furntech shareholders

Golombick said no changes in Cecil Nurse were envisaged at this stage and the two companies would continue to operate as competitors in the office furniture retailing field  
 "There are some synergies, but we are still assessing them," he said

F/M 5/1/90

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GRANT ANDREWS F/M 5/1/90

**Not cyclical** 188

**Activities:** Subsidiaries manufacture and sell office equipment

**Control:** Directors hold 70%

**Chairman:** G Andrews, CE M Edwards

**Capital structure.** 16m ords of 1c each  
Market capitalisation R13,8m

**Share market.** Price 86c Yields 5,8% on dividend, 28,6% on earnings, PE ratio, 3,5, cover, 4,9 12-month high, 110c, low, 85c  
Trading volume last quarter, 144 000 shares

**Financial.** Year to June 30

	'88	'89
<b>Debt:</b>		
Short-term (Rm)	0,3	0,2
Long-term (Rm)	0,8	1,1
Debt equity ratio	0,55	0,58
Shareholders' interest	18,5	19,3
Int & leasing cover	3,0	3,6
Debt cover		
<b>Performance:</b>		
Return on capital (%)	25,5	29,8
Turnover (Rm)	24,0	33,2
Pre-int profit (Rm)	4,8	6,9
Pre-int margin (%)	20,2	20,8
Taxed profit (Rm)	2,9	4,0
Earnings (c)	19,6	24,6
Dividends (c)	—	8,5
Net worth (c)	64,7	84,0

There seems a good case for Grant Andrews to appreciate, or at least for it to be a prime choice for investors, when the furniture sector is eventually rerated. The share is trading at net worth, and has a rating as low as that of domestic furniture operators, but CE Mike Edwards says sales are not cyclical. No downturn in sales has been experienced — or is foreseen — and he expects this year's EPS to grow by about 30%.

The group has no gearing, though Edwards says capital spending this year may lead to borrowings. Unlike domestic furnishers, which often say their furniture selling is an excuse for their financing activities, Grant Andrews is not involved in credit. This means it does not claim HP debtors' allowances for tax while effectively accounting for profits on an accrual basis.

Edwards says 70%-80% of sales are to major institutions, particularly in the financial sector. They continue to modernise and computerise, which he believes will keep Grant Andrews buoyant for the next few years. The company is heavily involved in

office equipment for computerisation; much of its business also comes from new office construction which Edwards says has not slowed yet.

He believes that, with technology advancing rapidly, leasing of office furniture will become a trend, but Grant Andrews will take no part in financing. It has begun exporting, largely of components and knocked-down units. This accounts for less than 10% of turnover but Edwards foresees growth this year and hopes to forge a joint venture with a British company.

Mathieson & Ashley, which derives almost all its income from office furniture activities, is far better rated than Grant Andrews. This is not surprising considering its long and distinguished record — though it must be helped by its listing under Printing & Publishing. Grant Andrews's low rating is not warranted given the post-listing profit record.

Teigue Payne

## Rusfurn looks set to gain top EPS growth among retail giants

SYLVIA DU PLESSIS

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FURNITURE group Rusfurn looks set to produce the best growth in earnings a share (EPS) this year when compared to a range of other retail giants, says Max Pollak & Freemantle retail analyst Martine Hickman.

In the stockbroking firm's latest annual retail report, which analyses the past and future performances of 21 groups, including Amrel, Edgars, Metro, OK Bazaars and Tradegro, Hickman predicts a hefty 51,5% improvement in EPS to 55c for Rusfurn in the current year to June.

This compares with anticipated average growth in EPS this year of 18% for all 21 groups.

While Rusfurn's 1990 growth is expected to slow to 22,9% in 1991 — still marginally above an average of 22,4% — it compares with forecasts of -12,9% and 9,5% respectively for furniture group Amrel, 18,2% and 17,5% for Ellermes and 16,4% and 22,8% for the JD Group.

The group's EPS growth over the next two years is also higher than the 24,9% and 24% predicted for Edgars and the 19,8% and 17,5% for Pick 'n Pay. OK, the only share Hickman advises investors to sell, is expected to show growth of 12,3% and 18,7%.

### Commendable

Hickman says Rusfurn — recently bought from Tradegro by management and various institutions — will achieve a 51,5% improvement in EPS this year, provided the interest rate scenario does not alter significantly and consumer confidence remains at reasonable levels.

"Considering the economic climate over the past year, Rusfurn's results for the year to June 1989 were highly commendable. Turnover increased 28% to R934,1m, translating into real growth of 19% versus an industry average of 11%.

"Rusfurn's strength lies in the fact that its target market is the lower income group, which is impervious to interest rate pressures, and the higher income group which does not depend on credit in order to purchase goods."

During the 1989 financial year, 42% of group sales were cash, and allowing for the inclusion of recently acquired Furniture Fair, the proportion of cash sales is likely to remain at these levels, she says. This makes the group less vulnerable to interest rate changes.

However, while Rusfurn's projected dividend yield of 12,3% in 1990 is higher than the mean of 6,84% for all 21 groups, the p e forecast is, at 2,4, below the average of 6,6.

Hickman says she does not believe there will be significant capital gains in the short term because of the sharp run-up in Rusfurn's share price over recent months.

## Rusfurn subsidiary Dion to enter furniture market

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RUSFURN subsidiary Dion would be entering the furniture market at the end of March, CE Jannie Els said yesterday.

*12/1/90*  
The move would coincide with the opening of a new store in Alberton, and about six to 10 stores selling furniture were envisaged by the end of the year.

This included three self-contained furniture outlets in the PWV area. Els said the refocus was logical

### SYLVIA DU PLESSIS

because most of Dion's direct competitors were in this market.

"We also feel we now have the draw of feet in our existing stores, while a more balanced product mix would boost our earnings performance in that the margins on furniture are higher than on what we are currently selling."

The move had been on Dion's agen-

da since Els's appointment as CE in February last year.

"The time is right and we feel confident we will be able to maintain our current cash credit ratio. About 15% of our sales are credit-based, but our customer profile is the A and B-income group, so credit at Dion is short-term."

Els worked for a number of furniture groups, including Amrel, before joining Rusfurn in 1983.



# Poor disclosure at M&A

Mathieson & Ashley Holdings (M&A) increased sales by 155 percent in 1989, which includes the Anglo Dutch office furniture operation consolidated for the first time after the merger of SA Breweries' office furniture interests into Afcol.

The merger in June 1988 of M&A and Afcol's furniture interests was channeled through Afcol's subsidiary, Kallenbach & Hendler (K&H), and was obviously designed to use K&H's massive tax losses, while bailing out Afcol from significant losses.

For 50 percent of K&H, M&A paid only R30 000, but received back R10 million in cash, preferential rights to unspecified percentages of K&H's earnings for 1989, 1990, 1991, the use of the R26 million tax loss and assumed responsibility for a massive interest-free loan. What a deal!

SAB's Afcol must have been desperate and in an insolvent position, kept alive only by shareholder loans.

In 1989 the preferential rights produced R1,5 million of M&A's earnings. But I am afraid the merger goes much farther.

## Balance sheet

The disclosure in the balance sheet was misleading, with the amount "outside shareholders R13,3 million" being shown with total shareholders' funds of R35,77 million.

But note five shows this amount comprises outside shareholders' loans repayable R26,51 million less the negative net share of equity in subsidiaries R12,98 million.

Furthermore, the outside shareholders' loans are unsecured, interest-free and have no fixed terms of repayment. In addition, a R26,35 million loan is subordinated to the extent of the outside shareholders' share of the deficit in a subsidiary and the annexure "interest in subsidiaries" shows that M&A owed K&H R26,64 million at end-June 1989 (1988: R26,62 million).

The proper disclosure at June 30 1989 that should have been insisted upon by the external auditors is as follows:

• Ordinary shareholders' funds shown R22,12 million (1988: R17,86 million), less the deficit in subsidiaries (presumably K&H) R12,98 million (1988: R15,38 million), giving a revised balance of R9,14 million (1988: R2,48 million).

• Debt R8,76 million (1988: R3,34 million) shown plus the outside shareholders' loans R26,51 million (1988: R26,65 million), giving a revised balance of R35,27 million (1988: R29,99 million) — gearing of

Bottom  
Line

MICHAEL MENOF



400 percent.

The massive tax losses in K&H are benefiting M&A to such an extent that for the year to June 1989 the effective tax rate was only 1,76 percent (1988: 50 percent) and, in fact, much lower because R110 000 of the current year's R219 000 tax relates to prior years.

If full tax was payable on 1989's income, attributable earnings would have declined by 50 percent.

The tax losses of R23 million in 1988 declined to R16,5 million at end-June 1989, so M&A's low tax rate will continue for a while. *show 15/11/90*

Now why has interest jumped to R2,28 million (1988: R214 000) if the R26,5 million outside shareholders' loans are interest-free? Debt is shown as R8,76 million (1988: R3,34 million). Where is the interest received on the cash resources of R10,32 million (1988: R13,1 million)?

Turnover increased to R99,4 million (1988: R39,02 million), but operating income less than doubled to R14,69 million (1988: R7,88 million).

Interest expense was R2,28 million (1988: R214 000). Tax was only R219 000 (1988: R3,87 million) and outside shareholders' profit share R4,36 million (1988: nil).

Attributable earnings were R7,83 million (1988: R3,79 million), which at first glance looks impressive. But below-the-line extraordinary expenses of R1,28 million (1988: R8,09 million gain) left the net income at R6,55 million (1988: R11,88 million).

With earnings per share calculated before extraordinary items, it increased to 273,2c (1988: 135,2c), with dividends upped to 80c (1988: 50c).

During the year "the cost of bedding down Afcol's Anglo Dutch operations had a detrimental impact on operating profit", says chairman Winky Ringo.

Its management team has been strengthened, slow-moving products have been rationalised, operating procedures streamlined and production methods improved — which confirms that Afcol's Anglo Dutch was a can of worms.

K&H acquired 51 percent of the Brimart group (Fineseat) for R500 000, leaving management with its minority stake according to percentages given.

Office furniture sales were

R87,37 million (1988: R32,66 million) and contribution to pre-tax profits R11,08 million (1988: R7,55 million).

Office equipment sales were R12,03 million (1988: R6,36 million) and contribution to pre-tax profits R214 000 (1988: R146 000).

Administration produced R1,2 million (1988: loss R30 700) of the profits. Presumably this includes the R1,5 million in preferential income from K&H.

With office furniture sales nearly 90 percent, why isn't M&A listed under "Furniture and Household" instead of "Printing and Publishing"?

Capex cost R5,6 million in 1989, with the major portion for Anglo Dutch of R3,4 million and R1 million in leasehold obligations. Future capex includes building a new factory for Anglo Dutch where land costing R2,1 million has been acquired. Construction is budgetted at an R6,5 million, beginning in 1990.

The balance sheet shows ordinary shareholders' funds increasing — restated to R9,14 million (1988: R2,48 million). Working capital increased to R32,04 million (1988: R27,15 million) and includes cash resources of R10,32 million (1988: R13,01 million) earmarked for suitable acquisitions.

M&A is controlled by listed Vestacor which, in turn, is controlled by Ringo Family Investments (Pty).

## Net asset value

Directors control 54,8 percent of the ordinary shares. The net asset value at end-June 1989 was R7,72, compared with the current JSE price of R18,50. The four-for-one split is still outstanding.

Winky Ringo believes M&A will increase earnings in 1990 in excess of the inflation rate. There are no working directors from the subsidiaries (not a good way of motivating people). Four members of the board of eight are non-executive.

I notice Dr Bill Venter resigned suddenly during the year without comment.

Afcol certainly paid dearly to rid itself of problems which M&A must now overcome in a difficult and uncertain economy.

Some fancy footwork went into producing the 1989 annual report and shareholders should have been given the full details of the office furniture merger with Afcol, including when the R26,5 million outside shareholders' loans will be repaid.

The annual report cleverly tries to conceal the facts.

# Time to move the furniture about

Star 27/1/90 (188)

ALTHOUGH the gold market benefited considerably from this week's international developments there wasn't too much trading in industrial shares.

But there was a lot of talk about deals on the go and quite a few cautionaries were issued.

Morkels issued one the same day as Furniture Fair. Such a coincidence seemed designed to tempt investors to assume that Rusfurn was in some way using the Furnfair cash shell to acquire Morkels — its former Sankorp stable-mate.

This is seriously off the mark

Myles didn't have too much to say on Morkels but he was fairly adamant about what was happening at Furnfair. It seems that Marlin, which also issued a cautionary, is acquiring the Furnfair cash shell (complete with its R37,5 million cash) and is creating a pyramid.

He gets a bit vague after that but it looks as though Furnfair will be at the top of the pyramid, which will be controlled by the controlling shareholders of Marlin after the issue of Furnfair shares. It will hold a lump of cash as well as Marlin and will be on an acquisition trail.

In a deal that could be reminiscent of Bidcorp's acquisition of Curries last year, it is likely that the Marlin controlling shareholders will be getting access to the R37,5 million for a minimal outlay of funds.

So what's happening at Morkels? Myles reckons that the cautionary either relates to paper and asset shuffling within the Sankorp stable or to a Morkels MBO.

With regard to the former — it could be that Morkels is being moved out of the Fedvolks group and into Malbak. For years analysts have reckoned that Morkels didn't really fit into Fedvolks and thought it should be slotted into Rusfurn — remember Rusfurn was once part of Sankorp — but according to rumours back

Inside  
Out

ANN  
CROTTY



then, the Rusfurn guys weren't one bit interested in coughing up the 200c-a-share price tag that Sankorp put on Morkels

It is difficult to see how management could find the funding for an MBO priced at 200c. The current net asset value is around 150c, the share price is 95c and medium-to-short term prospects for Morkels' niche of the market aren't too hot

Myles says there is talk of other MBOs within the Sankorp organisation. He wouldn't be specific ("maybe within Malbak, maybe not") but just mentioned that developments at Sankorp are beginning to resemble those in Eastern Europe and the Soviet Union.

On a related front, there's speculation that negotiations between Sentrachem and Prochem are back on. In view of the rumours that earlier talks were called off because Sentrachem thought the price was too high, Myles wonders if we should assume that these talks are based on a lower price.

Malbak's decision not to use a separate listing (via Arban) for its mining supplies interests, sparked off speculation that its mining supplies activities are either doing exceptionally well and Malbak does not want to share the spoils, or that maybe they're not doing well enough to make public.

So, Tredcor and Goodyear have linked up. A tie-up between Tredcor and a manufacturer probably doesn't surprise too many in the industry. Almost exactly a year ago there were rumours that Tredcor was talking to Gentyre's controlling shareholder, FSI.

B1 Day 3/11/90  
**Small share rises in poorly rated furniture sector**

CHARLOTTE MATHEWS

SMALL rises have been notched up by shares in the poorly rated furniture sector in recent weeks in anticipation of financial results due to appear in the next few months. The furniture index has risen by 84 points or 35% to close at 322 points yesterday since its 12-month low of 238 last May. At this level it is 20 points off the 342 points reached two weeks ago.

In 1989 the furniture sector was hit by stricter HP regulations and by higher interest rates designed to curb consumer spending. As expected, greater resilience to these moves was shown by the larger furniture companies.

According to figures released by the JSE, shares such as Amrel have shown an increase of 10.3% over the last two months while Afcol, considered to be an exceptional performer in the sector by several analysts, has gained 8% in the last month and 9.5% over the last two months. One analyst said Amrel had been under-performing "for a long time" but he expected results for the year to March would show an improvement. The share closed at 800c yesterday, having picked up 100c or 14.28% since December 7.

188 **Optimistic**

Ellerine Holdings, which showed a 79.8% improvement in earnings to 512.9c (283.5c) a share for the year to August 1989, has gained 66.8% in value over the last 12 months and a 38.5% improvement in the last two months alone.

Analysts were optimistic about Ellerine's performance for the interim period, and one said earnings growth could be 20% higher. Another analyst frequently mentioned by analysts was that of JD Group. It had gained 28% over the last year but in the last month fell back 1.5%. It closed yesterday at 320c, slightly down from last week's 325c which was a 12-month high.

One analyst said the JD Group was the best share in the sector in his opinion. "They have a most solid management and a very conservative policy and do not over-expand their debtors book."

But, he added, he would not advise anyone to be in the furniture sector unless it was in office furniture. "Grant Andrews (Gahold) is an office furniture company and that sector is generally more resilient."

In contrast, small shares such as Romano and Tafelberg have dropped significantly over the last year. Romano fell 71.9% to 9c in the course of 12 months and Tafelberg by 28.6% to close at 20c yesterday. These two shares are, however, not frequently traded, with a total of 65 000 and 60 000 shares respectively changing hands on average a month.

But, one analyst warned, 1990 would probably not be a good year for the furniture companies. "This year I do not expect spectacular results," he said.

6/Day 30/1/90

# Marlin deal unlocks plans for fast growth in granite operations

CHARLOTTE MATHEWS

MARLIN Corporation's R37,7m in cash will enable it to expand its existing activities and also expand by purchasing other operations, the directors said yesterday.

Marlin announced yesterday that a consortium headed by the Board of Executors would acquire control of Furnfair, which holds R37,7m in cash

Furnfair will offer to exchange 60% of the Marlin shares for Furnfair shares at 190 Furnfair for 100 Marlin. This will create 41m new Furnfair shares and bring the total of Furnfair shares in issue to approximately 62m. Furnfair will become the pyramid holding company of Marlin.

Marlin will raise R37,8m by a rights offer of 30 Marlin shares for every 100 held, the offer to be underwritten by its pyramid company.

"Marlin will be able to expand its existing granite operations at a faster rate than would otherwise be the case," chairman Peter Gain said in a telephone interview yesterday.

**Embassy**  
Our existing activities are quarrying and exporting of granite blocks, international granite trading and the processing of granite, including its application in specialised cladding and flooring contracts on construction projects.

"The group is actively engaged in SA in work on Bank City and Anglo American's new head office at 55 Main Street, as well as the US Embassy, Pretoria."

Financial director Ian Macmillan said the group was moving more into the beneficiation of granite.

"We believe the future of the industry lies in this area."

"Up to now we have been mainly engaged in the sale of the raw material. Initially beneficiation would not form a large part of our operations but we will expand this as rapidly as the market will allow."

He said the new arrangement would have a significant effect on the group's earnings.

Marlin announced its first step into beneficiation in September with the acquisition of Marble Pentelic, a leading granite and marble processor for building contracts.

Vertical text on the left margin, possibly a page number or reference code.

# Morkels' buyout closer?

By yesterday, it was odds on that the deal behind last week's cautionary statement from Morkels was a management buyout (MBO) rather than a move out of Fedvolks into another branch of the Sankorp giant

Those who were prepared to speculate on a possible MBO price were pitching it at around 127c a share.

The market was playing it much more cautiously — yesterday the share price moved up 5c to 90c where it is just short of its 12-month high of 95c and well up from the 12-month low of 70c.

The 127c represents an historic (and possibly prospective) price/earnings rating of 5,4 times which looks expensive against the sector average of 3,9 times, even allowing for a control premium

It is comfortably covered by the group's net asset value, which at end-March 1989 was 123c a share. This does not include the R21,8 million of deferred tax in the group's balance sheet

The end-March 1990 nav figure could be in the region of 130-135c

On balance analysts appear to be reasonably enthusiastic about the prospect of an MBO at Morkels. This is despite the fairly grim short-term prospects for the group — in the six months to end-September higher overheads, increased interest charges and steeper tax charges knocked earnings from R4,3 million (at the previous interim) to R2,7 million.

Performance in the second half is expected to be stronger as it will not be off as strong a base as that of the first half. Analysts are predicting that the full year figures could be similar to those reported for financial 1989

In part, the warmth of the response to the idea of a Morkels MBO can be attributed to last year's efforts by Rusfurn and its advisers Finansbank and stockbrokers, Frankel, Kruger. This combined team spent several hectic weeks persuading institutions of the

Diagonal Street  
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ANN CROTTY



long term attractions of investing in the furniture household industry and of funding the R232 million Rusfurn MBO

It was an awesome task in view of the general perception that there is little prospect for earnings growth from this sector for the next few years

This time around, although the short-term prospects for Rusfurn are brighter than Morkels, the institutions are likely to be far more responsive because they are more familiar with the situation. The departure of Morkels from the Fedvolks group does not have the same strategic implications for Fedvolks that Rusfurn's departure had for Tradegro

Rusfurn was a far more logical part of the Tradegro portfolio than Morkels is of the Fedvolks' portfolio

Since Morkels' re-listing at 97c a share back in March 1987, analysts have been speculating on when the apparently ill-fitting Morkels would be moved out of Fedvolks. This in turn led to speculation about a Morkels' MBO or a move over to Sankorp stable-mate, Tradegro (Two years ago it was rumoured that Rusfurn management was being encouraged to buy Morkels at 200c a share)

Now Morkels management team will be looking for around R50 million — assuming the speculated 127c a share is reasonably accurate.

None of the management at either Morkels or its 75 percent holding company Fedvolks was available to comment on the cautionary. Morkels chairman Mr Neville Organ indicated that an announcement would be made towards the end of February but gave no indication as to what was on the cards

## Lower tax rate lifts CMI profit

Finance Staff  
Consolidated Metallurgical Industries (CMI), helped by a lower tax rate, increased its attributable income in the six months to December by 5,1 percent to R45,3 million

Turnover fell 9,4 percent to R128,6 million

An unchanged dividend of 35c has been declared out of earnings of 107c (101c) a share

The lower tax rate follows the spending of R29,9 million on upgrading

ferrochrome production from 150 000 tons to 200 000 tons a year

The company will spend R30,2 million (R60,7 million) this year

It reports a worldwide reduction in demand for ferrochrome as a result of a drop in stainless steel usage

Attributable income this year is expected to be less than that of last year

Selling prices have declined and are unlikely to improve in the short term. Sales volume are also expected to be below last year's second-half figures

# Outlook bleak for durable goods

By Sven Lunsche

Sales of durable goods could slump dramatically this year as the financial situation of consumers worsens in the wake of an expected decline in disposable income

Sales have already tapered off over the last few months, with most retailers reporting lower Christmas sales than in 1988

Figures provided last month by Central Statistical Services showed that retail sales for November and December at 1985 prices were expected to fall 1,5 percent, compared with the same period in 1988

On this basis, sales for the year as a whole would still be up 2,4 percent, compared with the previous year, but in a declining trend

A report released today by the Bureau for Economic Research at Stellenbosch University (BER) shows that total private consumption expenditure

	1988	1989	1990
Total Rm	74 180	75 60975	970
% change	4,8	1,9	0,5
Durables	7 115	7 057	6 222
% change	12,0	-0,8	11,8
Semi-durables	11 455	11 867	11 682
% change	7,0	3,6	1,6
Non-durables	33 846	34 546	35 220
% change	2,5	2,1	2,0
Services	21 764	22 138	22 845
% change	5,0	1,7	3,2

(PCE) will rise by only 0,5 percent this year, after increases of 1,9 percent in 1989 and 4,8 percent in 1988

The BER forecasts total PCE at 1985 prices of just under R76 billion this year

Particularly hard hit will be spending on durable goods. After rising by 12 percent in 1988, spending on these goods fell 0,8 percent last year and is expected to slump 11,8 percent to R6,22 billion this year

The BER expects spending on semi-durables to slide 1,6 percent to R11,68 billion this year, while non-durable goods expenditure should continue to grow by about two percent to

R25,22 billion (see chart)

The share of durable goods spending to total PCE has slipped consistently since spending on durable goods peaked in 1980, when it was 13,7 percent of PCE and the BER expects this figure to drop to 8,2 percent this year — 1,4 percentage points below the 1988 figure

Some fundamental structural changes took place in the durable goods sector in the Eighties, with consumers spending more on furniture and household appliances at the expense of cars

The higher demand for furniture and household appliances was partly the result of the mass housing schemes in black townships, but can largely be ascribed to the continuing impoverishment of consumers, as cars are certainly more of a luxury than furniture and appliances, says the BER

This impoverishment was in evidence throughout the 1980s. Real taxed income in the first half of the decade fell 0,5 per-

cent a year. From 1984 to 1988 it accelerated to 2,5 percent, the bureau says

The BER says that remuneration is expected to increase 14,5 percent in 1990, after a rather hefty increase of about 17 percent in 1989

We expect that tax relief will be announced in the March Budget but this will probably be restricted to provisions for bracket creeping

As a result, disposable income is expected to increase 13,5 percent in 1990, compared with slightly more than 15 percent in 1989

The BER economists add, however, that the rate of inflation could be close to 15 percent on average, which implies that disposable income is likely to decrease by about one percent in real terms

This will obviously put a damper on the consumer spending rate, with demand for durable goods in particular expected to be negatively affected over the year

# Afcol trims to keep <sup>188</sup>twice-covered dividend

MERVYN HARRIS

ASSOCIATED Furniture Companies (Afcol) has cut its interim payout by 5c to 47,5c a share in line with group policy of paying a twice-covered dividend, after earnings fell 9% to 95,5c (105,4c) for the half-year to end-September

The SA Breweries-controlled group, which dominates the domestic furniture market, did well against the background of recessionary conditions to lift turnover by 13% to R401,8m (R358,2m) and trading profit by a similar margin to R35m (R30,9m).

But this performance was eroded by high finance costs, up to R11,7m (R9m), and a lower contribution of R7,9m (R9,5m) from its equity-accounted interests, which includes a 21% stake in Romatex.

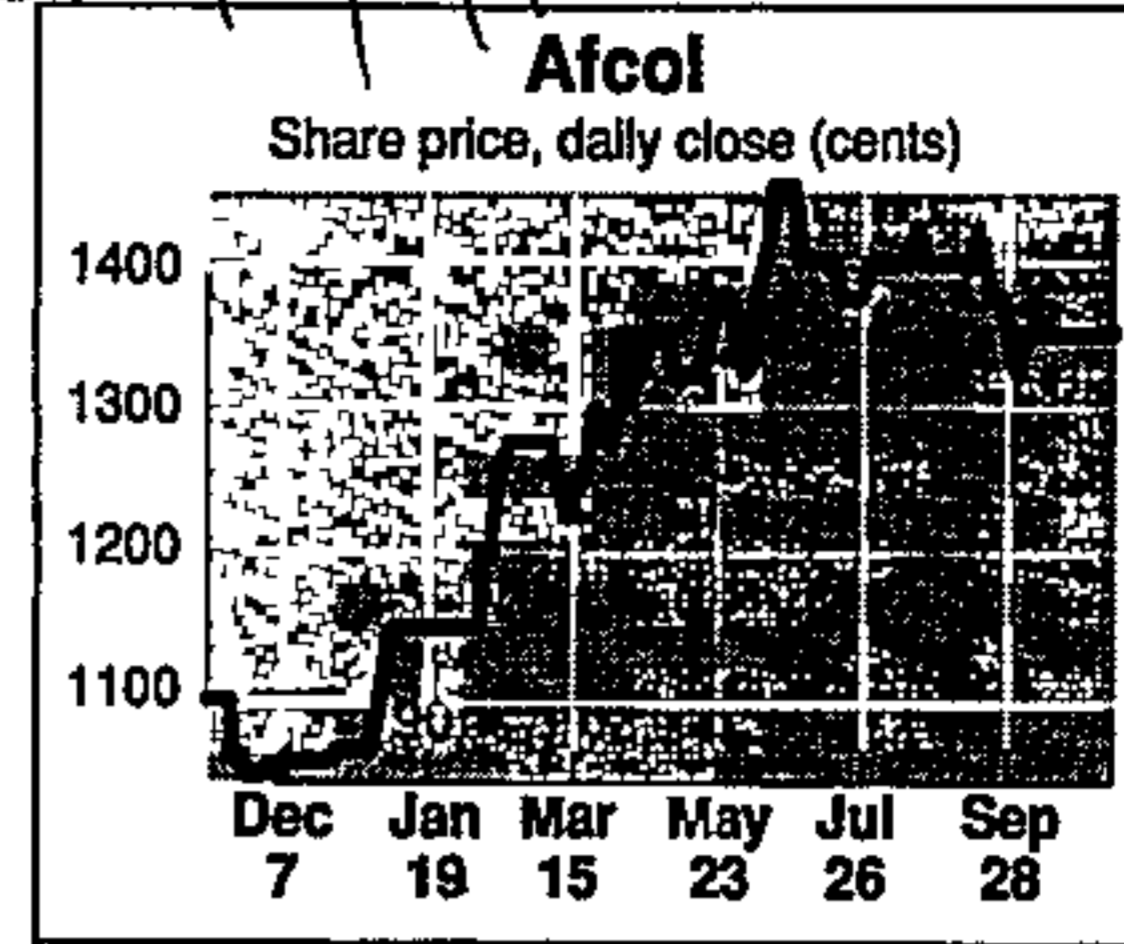
Romatex today reported a 29% drop in attributable earnings

Afcol's attributable profits consequently declined to R24m (R25,7m) and executive chairman Laurie van der Watt said in the comment accompanying the results that it would be difficult for Afcol to do better than match earnings of 190,3c achieved in the previous financial year.

He said the softening of durable goods spending was not expected to moderate during the rest of the financial year, nor were the equity-accounted investments expected to show any improvement in the present depressed circumstances

The group also has a 50% stake in office

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Graphic: LEE EMERTON Source: JSE

furniture manufacturer Kallenbach-Hendler — enlarged by the merger of the office interests of Mathieson Ashley — and several raw materials suppliers.

Van der Watt said the major part of the increase in borrowings was to acquire a bedding business and to establish a wood component factory Both, said directors, were in the group's strategic interests.

Despite this expenditure, gearing remained well contained at 40% of shareholders funds and directors expected it to be below this level by year-end.

Afcol shares were bid yesterday at the last traded price of R13,50, after coming off a June high of R14,50 If the final dividend is maintained at 42,5c a share, this would place the shares on a dividend yield of 6,6% at the current price of R13,50

# Barnetts earnings <sup>188</sup> are down

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MARCIA KLEIN

FURNITURE group Barnetts has reported a marginal decrease in earnings to 9,9c (10,1c) a share — based on a weighted number of shares in issue — for the year to June.

Unadjusted earnings are 8c (12,15c) a share.

The group operates Barnetts and ABC furniture retail chains, which target lower- and middle-income groups

While turnover rose 12% to R50m (R44,5m), income before tax was down to R2,5m from R3,3m. Net income for the year was R1,06m (R1,09m)

A 2c interim dividend was passed.

## Margins

Chairman and MD Myron Lewkowski said yesterday the group concentrated on asset management and reducing stock and slow-moving or redundant lines

While operating margins were affected, stock turnover ratios had been improved. Collection rates were also improved and the gearing level was reduced

A 74% increase in the interest bill to R2m was put down to "particular funding requirements of the furniture trade" and high interest rates

The synthetic marble business — which had had technical problems — showed a loss of R150 000

The group hoped to report at least similar earnings during financial 1991.



# Amrel slowed by higher tax rate

B/D ay 2/11/90

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MARCIA KLEIN

SPECIALIST retailer Amalgamated Retail (Amrel) posted a modest 4% increase in earnings to 84c (81c) a share for the six months to September.

While results are not strictly comparable, the furniture, footwear and clothing retailer's turnover was lifted 22% to R476,6m (R390,1m), and pre-tax profit rose 29% to R15,9m from R12,3m, despite higher financing costs

However, a higher effective tax rate — with full provision for deferred tax — and lower profits in an associated company saw attributable earnings increase marginally from R7,4m to R7,7m

"Under prevailing circumstances this was a sound performance", Amrel MD Stan Berger said yesterday

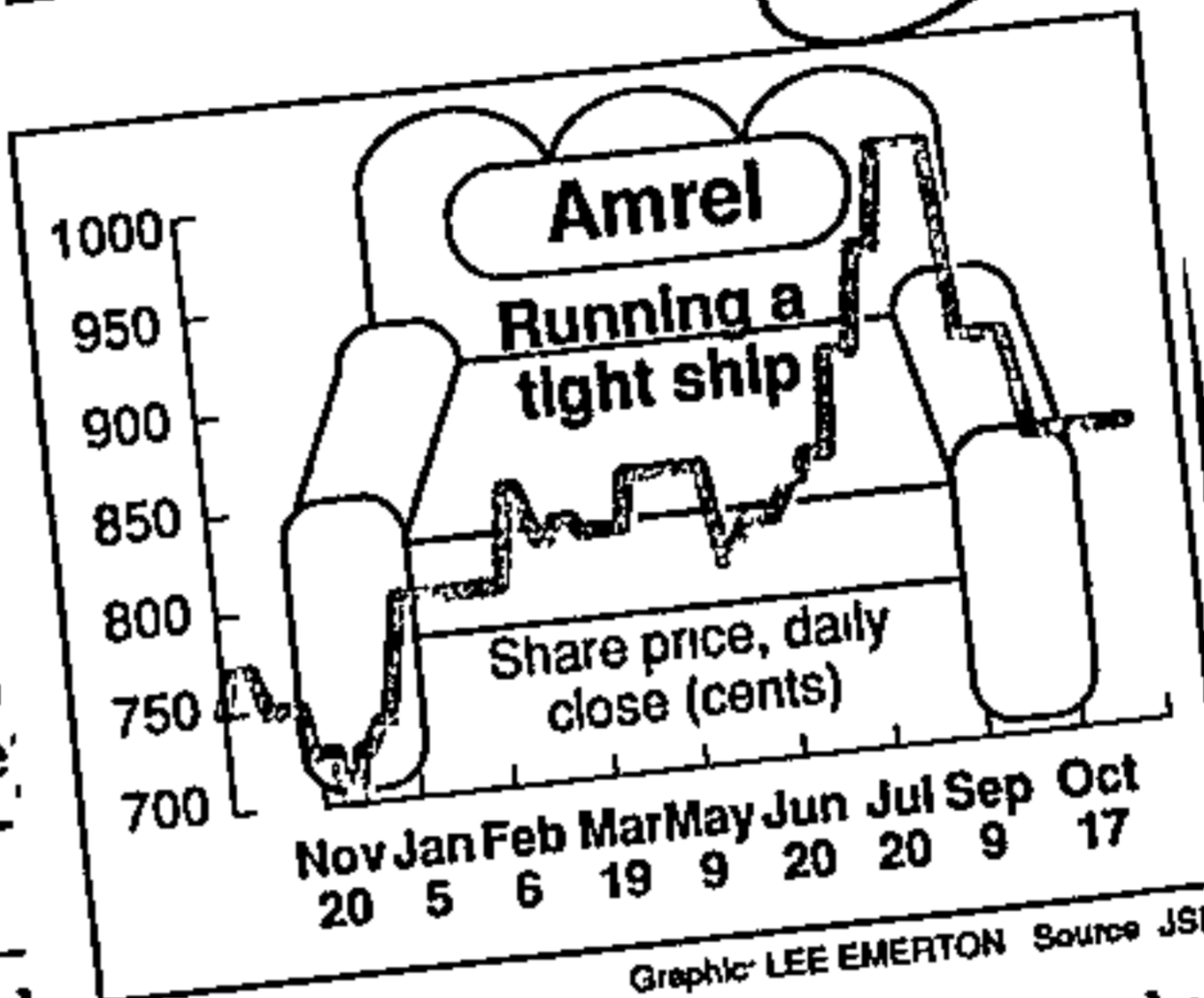
He said the results were not strictly comparable to the corresponding six months last year because since the March year-end results of foreign subsidiaries were no longer represented on an equity accounted basis and were fully consolidated with the group's overall results

He said that turnover grew in comparable terms by about 17% — allowing for the change in accounting practices

An interim dividend of 28c (27c) was declared with the three-times cover maintained

The relaxation of hire purchase restrictions in March benefitted the sales of furniture and appliances, whose contribution to turnover rose from 60% to 63% and to attributable profits from 60% to 69%

Berger said while the furniture division



Graphic: LEE EMERTON Source: JSE

did so well, the footwear side suffered in comparison — contribution by the footwear and apparel division decreased from 29% to 22%, and in the service division from 11% to 9%.

Berger said associated company Boymans had been showing lower profitability, but the division was improving and he was "starting to feel quite pleased with it".

Gearing — at 72% — was in line with the March 1990 year-end, and Berger said it "reflects the success of a well-controlled level of investment in working capital and a fixed asset growth which has been limited to only 9%".

He said the group would continue providing for tax while the future remained uncertain, and "will take a better view when we know what is happening".

The group was starting to open one or two stores on the furniture side, but was still very careful, he said, and "unless a bargain comes along, I am happy to keep improving the business"

MARCIA KLEIN

MAJOR furniture groups Ellerine Holdings and Associated Furniture Companies (Afcot) have "fallen out", with Ellerine cancelling big orders, industry sources said

It was believed the disagreement related to a petrol price surcharge Afcot wanted to impose

Ellerine chairman and MD Eric Ellerine confirmed on Friday there had been "a disagreement" A spokesman from one of Afcot's factories said this was believed to be over a surcharge Afcot wanted Ellerine to pay because of the petrol price rise

A number of Afcot factories confirmed on Friday that Ellerine had closed its ac-

## Ellerine, Afcot 'in fuel surcharge row'

counts with them and that all orders had been cancelled

Another factory spokesman said the cancelled orders — just before the Christmas period — would amount to "millions"

An industry source expressed concern over the large amounts involved in the cancelled orders and the number of big factories and jobs involved

Ellerine said relations with Afcot — with which Ellerine had been doing business for 40 years — had not been severed but would be reduced

Afcot directors declined to comment

188

6/10/90

## Unrest forced a move to off-shore sales

188

INTERMODAL, based in Harrold, has been involved in exporting knock-down pine furniture for the past seven years, says owner Richard Rod

Exports have increased by about 500% since the company was established, he says.

Last year, exports grew by 68.5%, mainly due to the expansion of the factory

Updating machinery in the plant in 1988 also allowed the company to supply bigger volumes

The company specialises in the production of six main lines, including tables, dinettes and stools. The main export countries are in the European Common Market

"I got into the export business during the political unrest of 1976," Rod says.

"In that year, I went from the best production month in June to the worst in three years in July.

"So I decided to go solely into exporting," he says

## FURNITURE manufacturer

Romano's reorganisation during 1990 will provide a sound base to achieve a turnaround in financial 1991, chairman and MD Mario de Chaud says in the annual report.

Romano — which manufactures tubular brass, chrome and epoxy-coated furniture as well as lamps and light fittings — posted an attributable loss of R994 000 at the June year-end, down by R765 000 from a loss of R229 000 in June 1989.

De Chaud says the costs of the

# Romano builds a sound base

MARCIA KLEIN

reorganisation — including relocating divisions and the disposal of operations — were fully absorbed in financial 1990, when a loss of 7,4c a share was reported and the dividend was passed.

Consolidation and streamlining over the last year included a concentration on the group's core business, marginal operations

have been sold or shut down, and certain divisions have been relocated, he says.

The consolidation involved a reduction in total stock of almost R1m and the generation of sufficient cashflow to reduce interest-bearing debt by R800 000 and still provide for the cash acquisition of plant and machinery, according to De Chaud.

While it is difficult to make ac-

curate forecasts, "the benefits of the changes will be reflected in next year's results."

The group will take advantage of the enormous potential of Romano's market niche — lower to middle income groups — and especially the growing black consumer market.

On July 1, 500 000 preference shares were redeemed and converted to ordinary share capital. The amount of ordinary shares has increased to 13,9-million

# MathAsh squeezed

SITimes 11/11/90

By IAN SMITH (188)

WITH the office furniture industry in full recession highly rated Mathieson & Ashley Holdings will find it difficult to maintain earnings

In the three years since current management, led by chairman Winky Ringo, took over, the group has increased earnings a share at a compound rate of 42%

But Mr Ringo says in the annual report that reduced demand in all sectors and overcapacity in the industry has resulted in price cutting becoming the dominant strategy

"This has put margins under pressure for the past eight or nine months, and the trend is expected to continue well into 1991"

Earnings growth will be "restrained" in the year to June 30, but MathAsh is committed to "significantly outperforming the inflation rate over the longer term", says Mr Ringo

Although group turnover increased last year from R99-million to R135-million, pre-tax profit fell from R12,4-million to R9,7-million. Earnings were down from 68,3c a share to 50,2c. The dividend was maintained at 20c

The office furniture interests are held through Kallenbach-Hendler, which is equally owned with Afcol but managed by MathAsh. Cut-throat competition led to a 26% fall in operating profit in this division

The office equipment division lost R1,5-million last year, but is now trading profitably

MathAsh's heavy investment in upgraded manufacturing facilities has cost R9,9-

million in the past three years and the capital commitment at the yearend was R6,2-

million, including R3,1-million to be spent in the current year on plant and equipment

## The rand's world value

	R1 equals		One foreign unit equals (R)	
	09/11/90	09/11/89	09/11/90	09/11/89
US \$	0 3939	0 3803	2 5388	2 6208
UK £	0,2009	0 2391	4,9760	4,1827
Deutschemark	0 5884	0 7006	1,6991	1,4279
Japanese yen	51 04	54 29	0,0196	0,0184
Swiss franc	0,4944	0 6146	2,0227	1 6271
French franc	1 9753	2 3754	0,5063	0 4211
Canadian \$	0,4602	0 4438	2,1729	2 2533
Italian lira	442 36	512 14	0,0023	0,0019
Zimbabwean \$	0 9985	0 8493	1 0015	1,1740
Australian \$	0,5057	0 4821	1,9775	2 0743
Trade weighted value of rand % change against 1974 base				39-13

## Domestic interest rates

	MONEY MARKET		
	Fnday 09/11/90 %	Fnday 02/11/90 %	Fnday 26/10/90 %
SARB accommodation rediscount rate TBs	18,00	18,00	18 00
Treasury bill tender rate	17 82	17 80	17 75
Basic call of discount houses	18,00	18 25	18 75
Three-month banker acceptances	18 05	18 10	18,00
Three-month NCDs	18 75	18 70	18 60
Three-year RSA stock	16 35	15 80	15 80
Prime overdraft rate	21 00	21,00	21,00
All-in yield of finest acceptance credits	19 11	19 17	19,06

	CAPITAL MARKET	
	Average Previous Month	As on Friday
Long-term RSA stocks	16 43	16 59
Long-term Escrom stocks	16 30	16 31

## Best sections this week

	Av % Mv	Av D/Y	Av E/Y
Venture capital	9 5+	0 0	5 0
Curtailed operations	6 7+	1 3	0 0
Electronics etc	1 7+	6 5	21 6
Food	1,4+	5,2	14,5
Banks and Fin Serv	1,4+	8 8	20 2

## Overall market this week

(Ordinary Shares Only)



# Ellerines has high hopes after 'most exciting year'

B Day 12/11/90

MARCIA KLEIN

PROSPECTS for furniture retailing giant Ellerine Holdings are encouraging with expectations for further improvement in profitability in financial 1991, chairman Eric Ellerine said in the annual report.

"At no time in the past have we been more enthusiastic or positive about the future of the group," he said

Ellerines posted a 50% rise in earnings to 669c (447c) a share in the year to August. Earnings a share have increased at an annual compound growth rate of more than 30% over the last five years.

In the year to August, profit after tax was up 54% to R47,7m on a 24% increase in turnover to R483m.

A full-year dividend of 221c a share reflected a 33% increase on the previous year.

The group had no gearing which

shielded it against high interest rates, Ellerine said, and return on funds employed was better than 30%.

The group had "a most exciting and eventful year, achieving most pleasant results", and Ellerine's strong capital base as well as its experience and success over the past 40 years placed it in an excellent position from which to grow at "an ever-increasing rate".

However, Ellerine added that there was a need for government to relax tight fiscal controls and allow limited economic growth.

"The group is fortunate to be operating in an industry which stands to benefit significantly from the socio-economic changes which will come about in the new SA," he said.

Changes would include "a major acceleration in the provision of hous-

ing" to the sector in which Ellerine operates.

After a period of consolidation, the group had embarked on an exciting expansion programme, Ellerine said.

Future expansion will be in the form of organic growth and expanding existing outlets, as Ellerine has not been successful with acquisitions in the past, the report says.

In November the group was trading from 322 outlets, which could grow to 400 by the end of 1994.

Financial 1991 will see continuing branch expansion — 15 new stores have already been added in the first two months — as well as the introduction of a new branch computerisation programme costing about R12m.

Ellerines is also trying to expand its customer base in metropolitan areas through FurnCity, aimed at a more sophisticated consumer

Sta 12/11/90 (188)

# Morkels on growth target

By Ann Crotty

Furniture and appliance group Morkels has announced a 27 percent increase in turnover to R120,5 million (R94,9 million) in the six months to September.

A hike in operating margins helped lift this turnover increase into a 47 percent surge in earnings to R3,9 million (R2,5 million) — equiva-

lent to 9,7c (6,6c) a share. An unchanged interim dividend of 3c a share has been declared.

The directors say sales by the Morkels furniture and appliance chain increased by one percent to R105,9 million, while Totalsports increased its sales by 57 percent to R14,6 million.

Group operating profit was up 41 percent to R10 million (R7 million)

reflecting an improvement in margins from 7,4 percent to 8,3 percent,

“This illustrates the ability of the group, with the major portion of the costs being of a fixed nature, to convert real sales growth into enhanced profitability,” the directors say.

Interest charges were up 27 percent to R2,2 million (R1,7 million)

Pre and post-tax profit were both up 46 percent, the former to R7,7 million (R5,3 million)

The balance sheet shows working capital increased by 14,4 percent to R82,3 million (R71,9 million). Gearing is unchanged at 52 percent.

## Turnover

“With turnover growth in the Morkels furniture chain well ahead of target, substantial amounts were invested in stocks and debtors,” the directors say.

This is why there is no reduction in gearing.

Management had earlier forecast a 42 percent increase in taxed profits and a 22 percent hike in turnover for the full year to next March.

This indicates full-year earnings of around 21,7c a share, which puts the share, at its current market price of 90c on a prospective P/E rating of 4,1 times.

# Pickard details Picapli losses

810am 19/11/90

188

MARCIA KLEIN

FINANCIAL 1990 had been the most difficult in furniture-listed Picardi Appliances' (Picapli's) trading history, chairman Jan Pickard said in the annual report.

He said the household and appliances group, "which is totally dependent on consumer durables and semidurables", felt the full impact of continuing reductions in consumer expenditure. At the same time it had to maintain a high level of expenditure to support its existing structure.

Picapli posted a net loss of R13,7m for the year to end-June compared with a profit of R3,4m in the previous year, while holding company Pichold posted a loss in attributable earnings of R13,4m for the same period.

Pickard said Picapli remained dependent on interest-bearing debt — the interest bill stood at R27,5m at year-end — which significantly affected earnings potential. To ensure that resources were better utilised, Picapli had withdrawn from the portable audio market and improved its working capital.

Picapli featured on the stock exchange when its share rose 71% to from 35c last week to close at 60c on Friday.

Another Pichold subsidiary, Union Wine — which was bought by Kangra Holdings

in September — showed "disappointing results", posting a loss of 15,1c a share compared with earnings of 13,9c a share.

Pickard said some smaller and less profitable liquor stores were sold while others in strategic areas were acquired.

Earnings of Pichold subsidiary Picardi Properties (Picprop) declined by 33% to R1,3m in the year to end-June. In May Picprop announced the disposal of all its operating subsidiaries — Logans Sports, Revelation Luggage and Tush.



● PICKARD

Pickard said gearing in Picprop's subsidiaries had deteriorated, resulting in an 85% hike in the interest bill to R1,87m.

Pichold recently announced Picprop's proposed delisting and its becoming a wholly owned subsidiary. Picprop currently holds R14,2m cash.



SOWETAN BUS

# Building industry faces grim future

*Sowetan 19/11/90*



By JOSHUA RABOROKO

THE continued gloomy outlook in the building industry is very depressing, and perhaps the only factors which can bring relief are improved political, economic and labour conditions.

According to the Stellenbosch University's Bureau of Economic Research latest survey of the industry these factors are not likely to occur in the immediate future.

There are too many other influencing factors, and only once the political situation becomes more certain and positive, will improvements follow.

"The facts are that

materials prices are continually increasing and labour is costing more and more; production output is decreasing and quality standards are deteriorating

These factors are causing grave concern in the industry, the survey says.

### Problems

"Labour unrest and the intimidation of workers are also causing problems, and these will also only be solved once the above-mentioned three factors have shown considerable improvements"

Forecasts suggest that conditions in the industry

will not improve during next year, but that they may turn upward toward the end of 1991 or the beginning of 1992

If this is so, the survey adds, next year will also be a tough year in the building industry, as well as in many other industries throughout South Africa.

It can only be hoped that the political situation will improve to such an extent that its effect will permeate all the spheres of South African business and industry.

Regarding the labour situation, the survey says that the wage demands were unrealistic and that

the quality of workers and artisans was continuously deteriorating.

This, in turn, led to deterioration in the quality of work being done and lower productivity.

A number of contractors also commented on their dissatisfaction with the labour unions as well as the industrial councils.

### Slump

It says comments made by the sub-contractors mirrored those made by contractors, but it appeared that they were now beginning to be more aware of the slump than previously and that their future expectations were becoming poorer

Story 22/11/90

# Medwood to continue trading

Finance Staff

DURBAN — Medwood Furniture Removers will continue trading nationally despite its provisional liquidation last week and the suspension of its holding company, Supertrans, on the JSE.

Medwood managing director Mr K A Murphy said there had been several offers to buy out the company since it was provisionally liquidated with both Supertrans and another subsidiary, Blue Chip Race Horse Carriers

"The company will continue as before and there will be no staff reductions or interruptions in the day to day business

"The general consensus is that the cash injection brought

188 about by a takeover will see the company out of trouble by Christmas."

Problems had arisen through Supertrans's rapid expansion and acquisition of companies in 1988. Subsequent increases in interest rates resulted in cash flow problems for the group

In the past investors had been frightened off by the massive debts.

"Although the company is trading profitably the historical debts are impossible to overcome and by liquidating we have made the company far more attractive"

Mr Murphy believes the holding company, Supertrans, will be taken over intact and be able to continue from a consolidated position.

# Furniture sales miss mini-rally

RELAXATION of credit restrictions on consumer goods in March resulted in exceptional sales growth of household appliances, TV and audio equipment — but furniture business is dull

Sales of appliances for the year to August 30 jumped by 40,8%, audio equipment by 57,2% and TV sets by 55,5%. But furniture sales rose by only 22,1%

Frans Jordaan, executive director of the Furniture Traders Association (FTA) says, however, that the increases were off the low base of August last year when credit restrictions depressed sales

The figures also include finance charges on sales which now stretch over two years compared with one year last August and are based in 1990 money terms, thus taking inflation into account

But there is cautious optimism in the trade. After several difficult years, it is hoped that sales from September to the end of the year will climb again

Mr Jordaan rejects a proposal by Trade and Industry Minister Kent Durr for greater regulation of the retail furniture industry

By DON ROBERTSON

The proposals include a code of conduct to "strengthen and clarify" consumer law

Mr Jordaan says "Members of the FTA already subscribe to a stringent code of conduct. It embodies a great deal of consumer protection. More than 90% of furniture stores, including all the big groups, are FTA members."

Mr Durr says several laws apply to furniture retailers

## Variance

Mr Jordaan says "We do not need any more. We believe the proposals are at variance with the Government's intention to deregulate the economy."

Mr Jordaan says the reason for higher sales of appliances, TV sets and audio equipment is pent-up demand

Winston Smith, executive director of the Furniture Manufacturers Association (FMA), says manufacturers are not as busy now as they were last year

In June, 703 workers in a total of 27 739 were working short time and the situation is about the same now

# Interest bill a drag for Gahold

MARCIA KLEIN

A COMPETITIVE market and a hike in the interest bill reduced office furniture company Grant Andrews's (Gahold's) earnings 51% (on an annualised basis) for the 14 months to end-August. (188)

Although turnover increased 28% to R71,1m (R47,7m) because of the opening of new retail outlets and "an aggressive assault on export markets", operating income declined 40% to R4,8m (R6,9m)

The interest bill increased to R1,3m (R358 000), reflecting start-up costs in some factories and spending on research and development, CE Mike Edwards said yesterday. B/Dam 20/11/90

Start-up costs and the resulting increase in interest paid brought Gahold — which was previously ungeared — into a geared situation

Attributable income was 49% down at R2,29m (R3,88m)

The dividend (8,5c for the year to June 1989) was waived in order to conserve re-

sources as difficult trading conditions were expected in financial 1991

Edwards said there had been nil growth in the office furniture industry, and the market was shrinking

An acquisition was imminent "in a closely related field" which had a huge growth market.

Gahold would be concentrating on asset management and production in financial 1991, and would try to maintain a leaner, more flexible infrastructure which would be market-driven, not manufacture-driven

Although the results were not as good as expected, Edwards said the last few months had been "excellent"

Gahold had been looking at cash management, stocks and debtors, and hoped to reduce to a nil-gearing situation in financial 1991.

# Ellerine beats the recession

SI Times 2/12/90

188

By CIARAN RYAN

ELLERINE group results should dispel any misconceptions that all sectors of the economy are in recession.

Underlining the point is Ellerine's 47,8% rise in operating profit to R87,1-million for the year to August 1990 on a 24% increase in turnover to R483,2-million

Shareholders who bought Ellerine shares a year ago will have seen their investment appreciate by 160%. This puts the group at the top of the one-year table

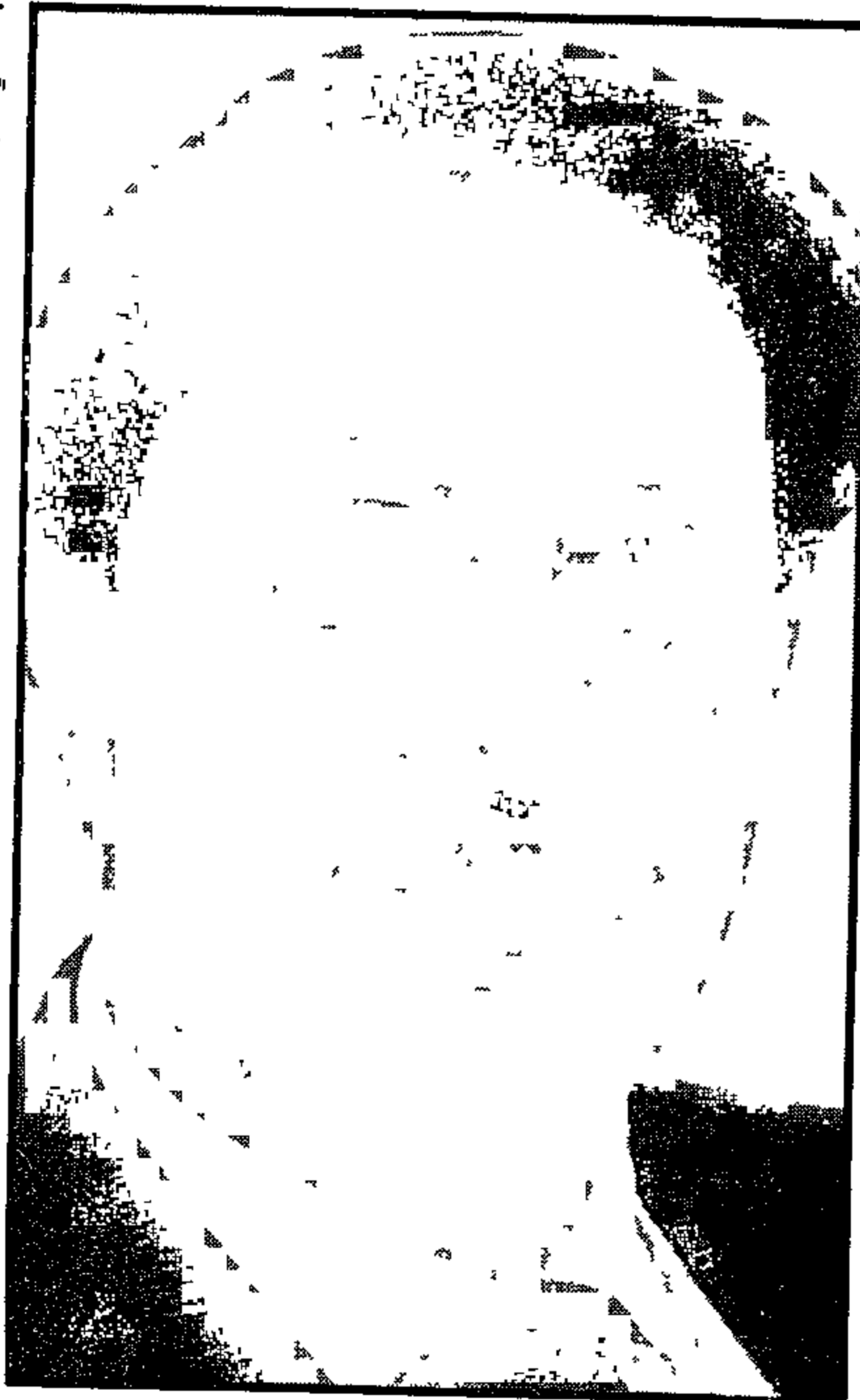
More good news is in store Eric Ellerine, chairman and managing director of the furniture and household goods group, says sales for September and October this year were 25% higher than in 1989

## Slaughter

South Africa is going through its fifth major downturn in 20 years, says Mr Ellerine, but the furniture industry continues to blossom

"We were slaughtered in 1972, then again in 1976, 1981 and 1985-86. But this downturn has gone against the trend."

A reason for the anomaly is the relaxation of credit restrictions in May 1990 — they were imposed by the Government in 1988 to control spending and were aimed at the consumer electronics industry in particular. Another reason is the emergent financial muscle of the black con-



ERIC ELLERINE: From factory to the shopfloor keeps tills ringing

sumer, due in some degree to union wage bargaining power

Ellerine has become a regular in the Sunday Times Business Times Top 100, and ranks 31st this year

The group's latest spectacular performance was achieved because of tight asset management and an absence of debt. Ellerine earned R3,7-million in interest over the year. In con-

trast, competitors Rusfurn and the JD Group are heavily geared

Tightening up on asset management meant a clean-up of the debtors' book, valued in the balance sheet at R257,9-million after provisions for bad debts and unearned finance charges of R146-million were deducted from total outstanding debtors of R399-million. Stock is valued at nearly R40-million

That means stock is turned over once a month

Mr Ellerine says this accounts to a large degree for the group's success

"We don't warehouse our stock. It goes straight from the factory to the shop-floor."

Ellerine has consistently dominated the furniture and household goods market in South Africa. Mr Ellerine estimates that it has 18% of the black furniture market

Ellerine markets to the middle- to lower-income groups, not much business being done with A earners

Undaunted by the prospect of a deepening recession, Ellerine opened 13 stores in October this year, the largest ever in a single month. The total number of stores in Southern Africa is now 323

## Diversified

Mr Ellerine says the group will have 400 shops by 1994 and 500 by the end of the century. If economic channels to the rest of Africa open up, the figure could rise

The group was started 40 years ago by Eric Ellerine and his brother Sid

Ellerine was listed in 1969 a few months before the market crash of that year. It raised R2,7-million from the listing

A deal was struck in the mid-1970s with the late Bennie Slome who was then in control of Tedalex. In terms of the deal the Ellerine family diversified its personal portfolio, handing over control (but retaining management control) to Tedalex

Tedalex then sold its 60,9% stake to Malbak, today the controlling shareholder. The Ellerine family holds more than 19% of the shares

They are tightly held — fewer than 250 000 in an issue of 7,17-million are traded a year

# Gomma hopes to sit comfortably after its recapitalisation

1990 5/12/90  
 BOPHUTHATSWANA-based furniture manufacturer Gommagomma Holdings (Gomma) is to recapitalise after spending about R20m on relocating its production facilities to Garankuwa, MD Markus Jooste said yesterday.

Gomma was considering capitalisation through a rights issue early next year or by placing some of its shares — which are 85% held by parent company Decagon Group — with various institutions which have shown interest.

## Earnings

Capital expenditure for the relocation was funded by Decagon, which took over Gomma in April 1989 when it was running at a R4,2m loss.

Jooste said the recapitalisation would result in a substantial increase in earnings in financial 1991.

Gomma reported a R533 000 loss in the six months to end-June before an extraordinary item of R245 000, reflecting some of the cost of relocating the plant from Industria to Garankuwa.

While results were not comparable due to the different reporting periods — the year-end was changed to December in line with Decagon's — Gomma reported an attributable loss of R778 000 for the six months to end-June.

In the six months to September 1989, Gomma posted an attributable income of R11 000.

Turnover for the six months to June was R17,5m and was R20,2m for the six months to end-September 1989. However, Jooste said that on a comparative basis, turnover was 44% up on the same period in the previous year.

Jooste did not foresee any profit for the year to

MARCIA KLEIN

December 1990, and said results would be in line with those in June

This was because there was full production for only some months of the year — factories were fully operational only in August — and Gomma missed out on a big portion of the Christmas season trade in terms of orders.

However, turnover would be in excess of R40m, the highest in the company's history.

"Given a stable local environment, Gomma will report substantial growth and accelerated earnings next year," he said.

1991 would be the turnaround year, followed by normal growth.

Exports grew in excess of 20% in 1990, and were expected to be 20% of Gomma's turnover in the year to December 1991.

Gomma exported mainly to the UK — a container was shipped to the UK daily — and Jooste was optimistic about going into the US market in the future.

He said export orders for the whole of next year had been confirmed.

## Distribution

About 70% of local turnover was from supplies to the eight major furniture retailer groups, and Gomma had about 90% of the local recliner market through Lazy-Boy.

The company also moved to an in-house distribution system in August and had built new warehouses.

All of the plants, equipment and land were owned by the company and nearly all the capital expenditure requirements have been taken care of in one year.

This should benefit Gomma in the long term, Jooste said.

MATHIESON & ASHLEY 188

**SPENDING CASUALTY**

**Activities:** Supplies office furniture systems and equipment FIM 7/12/90

**Control:** Ringo family via Vestacor s 74.4%

**Chairman:** A L Ringo, chief executive D W H Helyar

**Capital structure:** 11,46m ords Market capitalisation R33,2m

**Share market:** Price 290c Yields 6,9% on dividend, 17,2% on earnings, p e ratio, 5,8, cover, 2,5 12-month high, 650c, low, 290c

Trading volume last quarter, 400 shares

Year to June 30	'87	'88	'89	'90
ST debt (Rm)	1.6	—	0.4	0.5
LT debt (Rm)	3.7	3.3	8.8	11.9
Debt equity ratio	0.49	—	—	15.7
Shareholders interest	0.49	0.43	0.53	0.54
Int & leasing cover	13.3	36.8	6.01	8.32
Return on cap (%)	24.0	36.6	21.9	13.1
Turnover (Rm)	38	39	99	135
Pre-int profit (Rm)	5.3	7.9	14.7	10.7
Pre-int margin (%)	13.7	20.2	14.8	7.9
Earnings (c)*	17.5	34	68	50
Dividends (c)*	5.8	12.5	20	20
Net worth (c)*	60	79	190	212

\* Adjusted for four-way share split

Spending on office equipment has been one of the casualties of this recession. Postponement and cancellation of purchases by the



**Mathieson & Ashley's Ringo**  
toughest in 20 years

hard-pressed corporate sector has hit the industry badly. Mathieson & Ashley (M&A) did not escape this fate and suffered an earnings decline in financial 1990. The outlook for 1991 remains gloomy.

As demand tapered off, and market participants tried to recover high fixed costs, margins collapsed. M&A, whose major asset is Kallenbach-Hendler (jointly owned with Afcol), had a change in its traditional trading pattern. Most of the profit is usually earned in the latter half of the year — 73% in financial 1989 — but this time the pattern was reversed.

Chairman Winky Ringo says trading conditions, particularly in the last three months of the financial year, were the toughest in 20 years. Turnover grew more than 50% at the interim stage but slowed to 23% in the second half compared to the same periods in financial 1989. Still more dramatic was the decline in the operating margin. In the first half, the operating margin was firm at 10,3% (9,3%) but fell to 5,7% (18,9%) in the second six months. The combined effect was a 27% slump in operating income for the full year.

The interest bill eased, despite a higher level of interest-bearing debt at year-end. Debt:equity remains low and Ringo says there is about R6m cash in the bank and the interest bill should not rise this year.

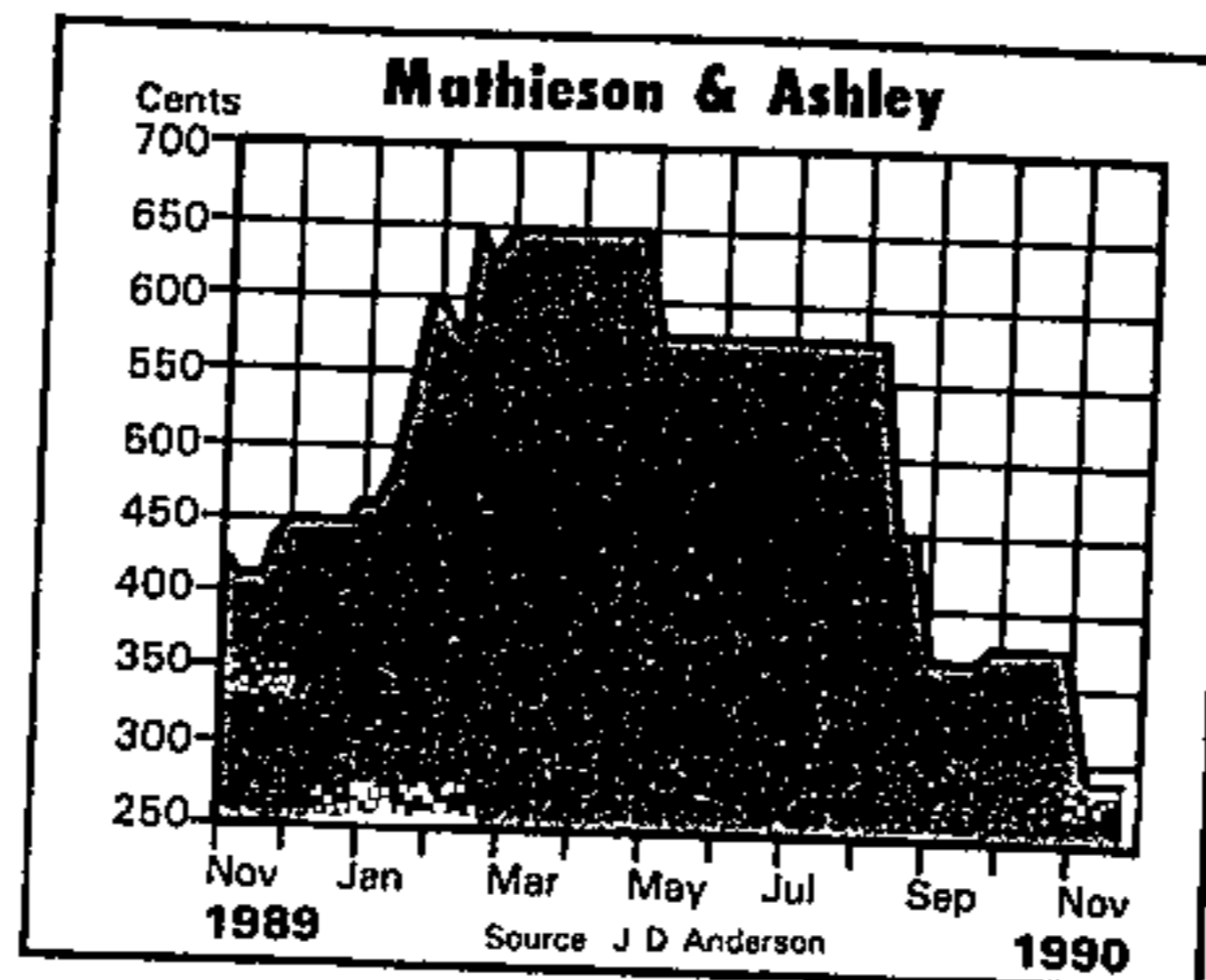
The effective tax rate is set to rise to about 32%-35%, from its current 4% over the next three to five years, but should remain low this year.

Ringo expects that EPS, which fell 26,5% last year, will be restrained in financial 1991. A number of large orders are in the pipeline and the order book is standing at about R35m. But these are at keen prices and the mix needed to improve profitability is not there. If anything, Ringo says, conditions have worsened since year-end.

But, with the balance sheet looking sound, an acquisition falling within the broad focus of the group — though not office furniture — is likely. This, and the group's entry into the fiercely competitive R350m/year catalogue market, may brighten prospects.

The share trades at a 12-month low on a 5,8 earnings multiple and 6,9% dividend yield. Competitor Grant Andrews reported a 51% drop in earnings for the 14 months to August 31 and the dividend was passed. It is also trading at a 12-month low but on a 2,9 earnings multiple.

Pam Baskind



# Tightly held shares put MathAsh out of the race

S/Times 2/12/90 (188)



WINKY RINGO: A company that's too highly rated by the shareholders to find a rating in the Top 100

THE determination of shareholders in office furniture and equipment group Mathieson & Ashley to hang on to their stock forced the company out of prime place in the Business Times Top 100 table.

MathAsh's performance, which took it to fourth place in 1988, would have given it top position with an overall return of 95,8% in the past five years — if more shares had been bought and sold.

The group was not considered in the final tally because fewer than R5-million worth of shares were traded in the year.

Chairman Winky Ringo is philosophical about the bad break, saying: "We have always been aware that there were too few shares in issue. A year ago we went into a four-for-one share split of MathAsh and pyramid Vestacor to improve marketability."

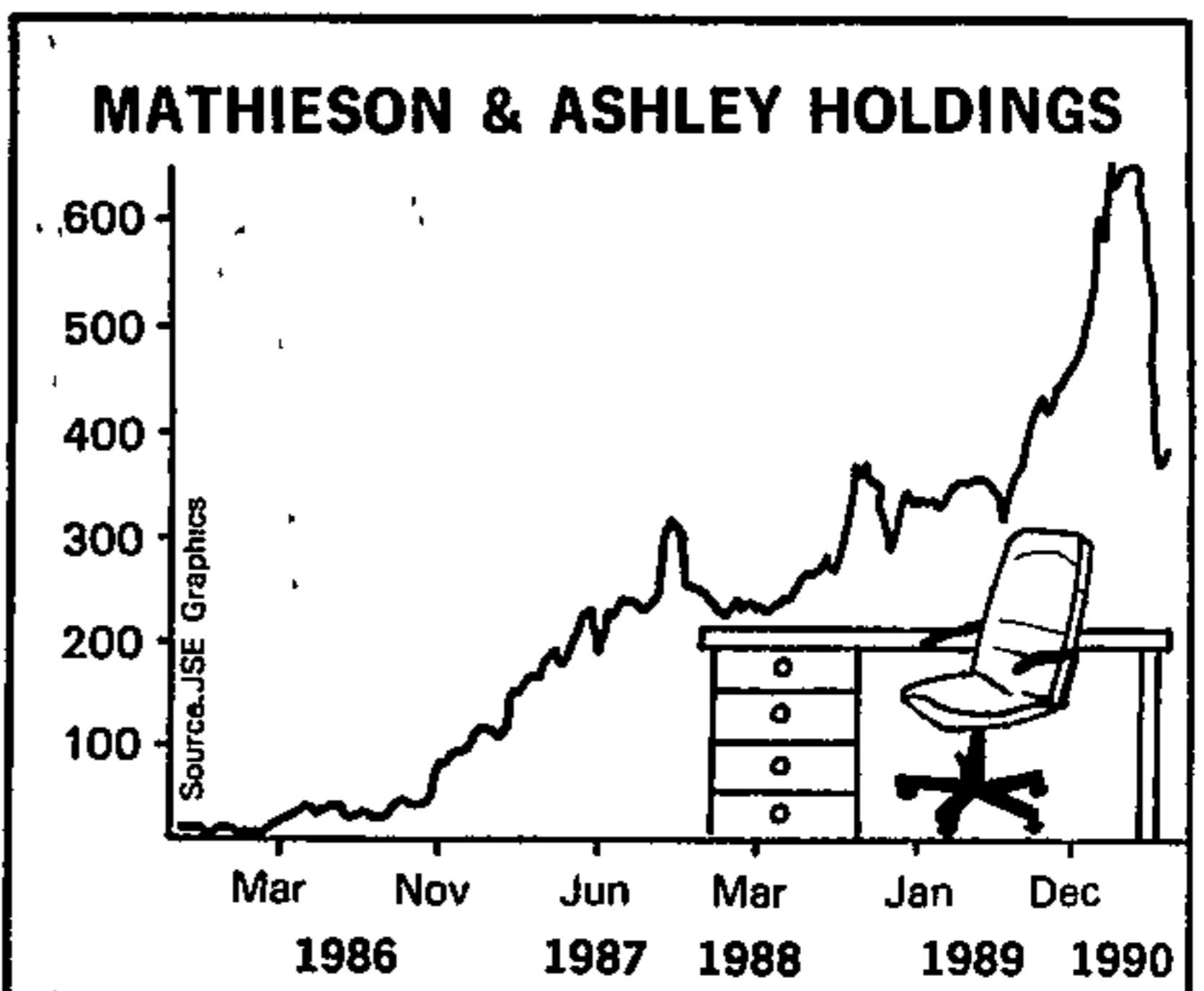
"There could be another share split two years down the line — or a big acquisition could be accompanied by a rights issue."

There are now nearly 12-million MathAsh shares and nearly 8-million Vestacor issued.

Institutions took advantage of the share split to increase their holdings and, given the group's remarkable track record, they have not been inclined to sell.

MathAsh's strong past performance sustained it in the year to June 30 when earnings fell by 27% to 50,2c a share after a 38% increase in group sales to R135-million.

Nevertheless, earnings a



By IAN SMITH

share have risen by 42% a year on the back of an annual compound turnover growth of 57% in the past three years.

Mr Ringo is not disheartened at recent results. He says the downturn is a full recession for the office furniture industry — probably the worst the sector has experienced. Margins have been cut to the bone.

### Invested

One company closure dumped R15-million to R20-million of stock in the office equipment division on forced sale, hammering sales by surviving suppliers.

But the MathAsh furniture companies in particu-

lar have invested heavily in equipment and computerisation and they will come out of the lean times in a good position to compete aggressively.

Mr Ringo says "There is too much capacity for the office furniture market and this has led to price cutting. But lean group companies have benefited in the tough environment, winning orders from major buyers who have found that they can do deals on about 20% better terms than in a normal market."

Office furniture contributed about 90% to group turnover last year and somewhat more to pre-tax income after a poor spell for the office equipment division.

The equipment division, which imports and distributes fax machines, mail

room equipment, paper shredders and other goods, reported a loss of R15 million for the year.

Mr Ringo says "stringent correction action and a shake-out among competitors in the sector have returned the division to profitability."

After a long, hard look at export opportunities the group scored its first small success in foreign markets at the end of the last financial year, says Mr Ringo.

### Exports

Offex which concentrates on cost effective furniture for executives and computerised offices sold know how to a UK company without giving up any of its own rights in that market.

The group is making a bigger capital commitment to exports this year, and in the first quarter of next year a senior executive will be sent to Europe on a two-year assignment.

"Our investment in equipment means that when we begin to export we will match European goods on quality and price," says Mr Ringo.

"We have satisfied ourselves that there is a need for our products and now we must work out successful distribution channels."

MathAsh is also embarking on a promising venture in the SA market. Its first retail flagship will open on the South Rand soon.

The 5 000sq m store will compete in the cost-conscious market dominated by small businessmen, black and white. Mr Ringo says there will be no effect on group results in the first half of the current year but he hopes for sales of R30 million in a full year.

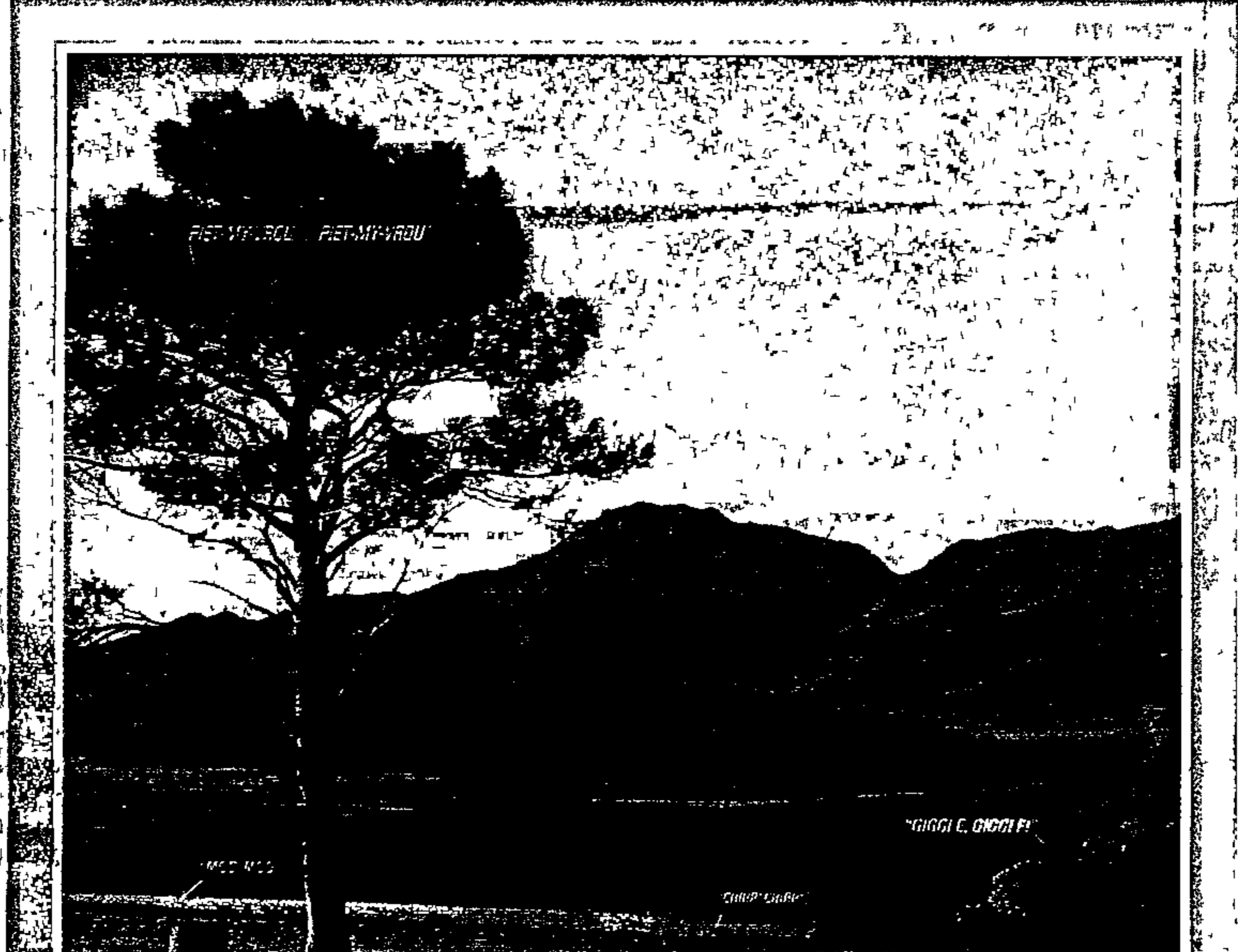
### Test

About 35% of stock will come from group manufacturers and the balance from other producers.

Test marketing has shown that about 60% of customers will be white, black businessmen making up the rest.

Mr Ringo says there is a strong element of 'buying down' in the market.

"The very top end of the market is unchanged. But we want to be sure that we can provide what every-





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Mr Ringo says SA industry has the capital to buy the machinery that competitors around the world have. The urgent task is to provide people to operate the equipment

MathAsh has recruited high-school leavers and sent them to Europe for on-the-job technical training.

"The biggest challenge facing us is to develop the technical skills which this country will need to keep up with rapidly changing technology. We have the raw materials and people. The private sector and the State must make a concerted effort to provide skills"

### Reserves

He sees no quick fix for the office furniture and equipment market, and next year will be difficult. Judged purely on return on assets, MathAsh will probably underperform, he says

Even after last year's acquisition of Cape-based Brown & Neethling for R10,5-million cash, the group is sitting on reserves of R5,5-million

"We are still looking at strategic opportunities in the short and long term. But we will remain focused," says Mr Ringo