MANUFACTURING – GENERAL

1989

JANUARY – MAY.

R2bn for listed JSE companies

180

S Times 1/1/89

By Julie Walker

MORE than R2-billion was raised on the JSE in the first 11 months of 1988 — by existing listed companies.

Cynics had challenged the ability of companies to seek equity capital, but new listings remained abundant.

The largest amount ever raised in a single deal was by Fugit — now First International Trust (FIT) — which was the vehicle used to house the foreign interests of Donny Gordon's Liberty Life. Fugit issued 59,4-million shares at 815c each to raise R485-million.

Members of Liberty Life and Liberty Holdings also qualified for rights to FIT shares. FIT shares traded as low as 975c in November but are 1 160c now.

Platinum

Northam — Gold Fields of SA's developing platinum mine — offered shares on a one-for-one basis at R19 to raise R273-million. The share price has hovered close to R19 for much of the year. But nearly 90% of Northam is retained by GFSA and Cons Gold Fields, so management was hardly concerned that the offer would not be well subscribed.

East Rand Proprietary Mines (ERPM) made a one-for-two issue at 1 650c a share, raising R91-million to finance expansion. The price dropped as low as 1 325c in February. When the pitch price was pinpointed by management, the shares were more than R29. The price is now 1 625c.

Defunct

Randfontein members were given rights to subscribe for shares in Barnato Exploration and in Lindum Reefs.

Barnex contains impressive mineral rights and R75-million was raised for their investigation. Lindum is the name given to the parts of the old Randfontein Estates mining area which are being reopened with the R30-million proceeds of the offer.

Gencor's Oryx gold mine — being developed at the site of the defunct Beisa uranium venture — raised more than R60-million at 800c a share though rights offers to Gencor and Fedmyn members. Oryx shares dipped to 720c in June, but have rallied to 825c. They reached 975c early in December.

Nedbank financed its purchase of the SA Perm with a rights offer of 18 for 100 at R6 a share. A total of R168-million was raised, and Nedbank shares have since strengthened to R7.

Federale Volksbeleggings rights offer of one-for-four at 300c raised nearly R100-million for debt reduction and growth. Fedvolks is now 365c.

FSI Corporation members followed their rights in a sequence of offers. Top of the pile was FS-Group, which raised R26-million through preferred ordinaries at R3.

FS-Industries — now FSI Corporation — raised R40-million at 600c a share. Waicor raised R36-million at R14 a share, W&A R75-million at R35 and Hunts R113-million at R7.

Property

TSI (Technology Systems International) was listed through a rights offer to members of Reunert at 400c in which R187-million was raised. TSI is now 610c.

Property trust companies Capital Property Fund, CentreCity and Vetrust collectively raised R110-million.

In addition to the rights offers by these companies more than 40 new listings took place in the year, some of which raised capital and others merely applied to list. The spread was broad — from thoroughbred studs to rugby stadiums to independent homeland investments.

Black consumers more optimistic B/Day 5/1/89

BER probe finds manufacturing sector still lively

180

KAY TURVEY

BUSINESS activities are expected to taper off progressively during 1989, after an unexpectedly buoyant final quarter in 1988.

However, notwithstanding the current slackening in the tempo of economic activity, the manufacturing sector is still experiencing "fairly lively" business conditions, a BER manufacturing survey has found.

Manufacturers are confident and expect to increase their real investments in machinery and equipment over the next 12 months. Full production capacity was experienced by 40% of manufacturers surveyed.

Yet, at pay-out points most determinants of consumer spending suggest a slackening in demand which will become progressively worse during the year.

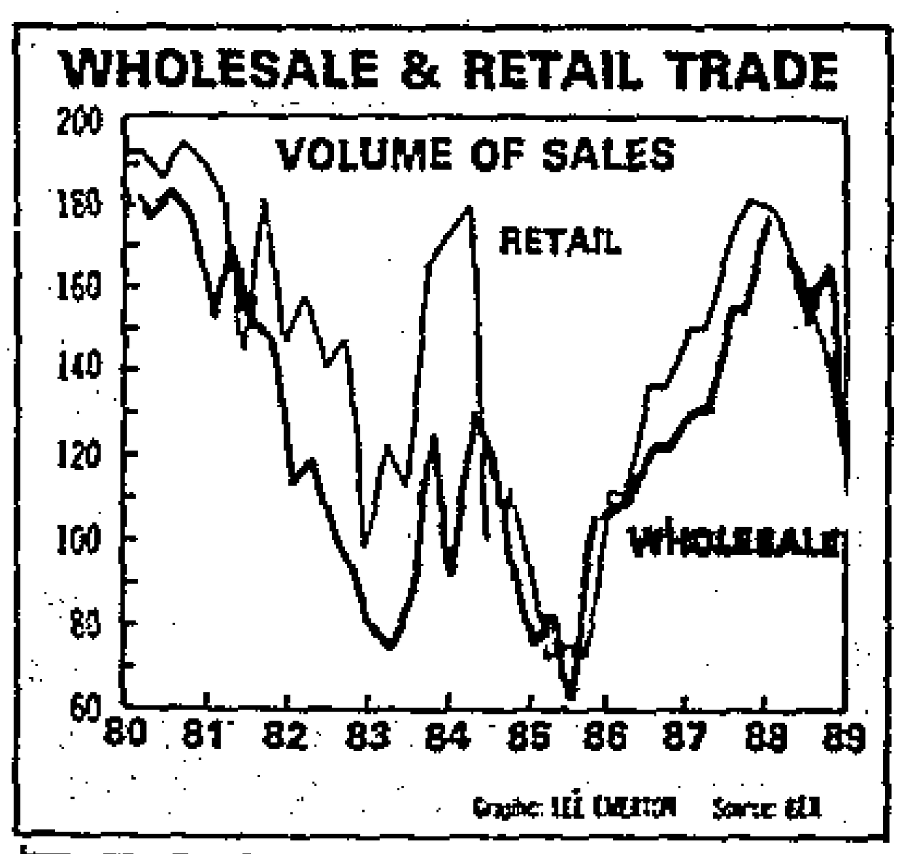
BER's trade and commerce survey shows total consumer spending is expected to grow by a mere 0,3% in 1989, after a 3,3% growth last year. Spending on durable goods is expected to plummet by 8,8% this year after an increase of 9,6% in 1988.

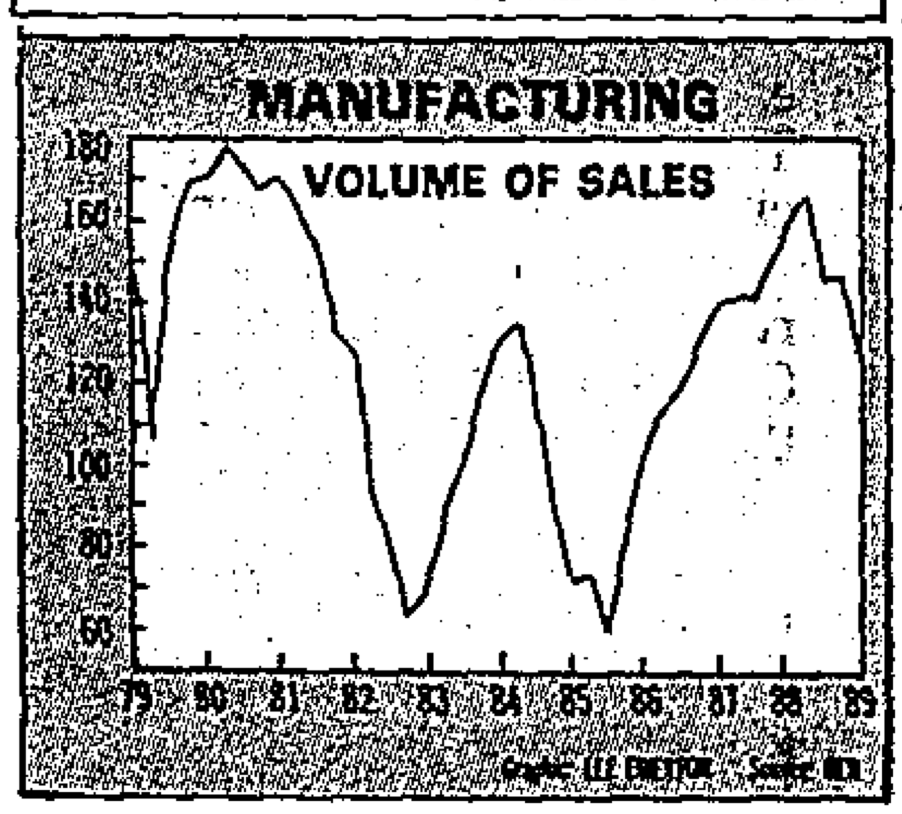
It appears white consumers are well aware of a looming downturn in the national economy, but blacks are more optimistic.

The survey concludes it is difficult to rationalise this mood among blacks, but suggests there is a positive correlation between black consumer confidence and manufacturing output.

Wholesalers expect sales to become much more sluggish in the current quarter, after sales overshot expectations in the final quarter of 1988.

Retailers also anticipate a less keen demand for their goods in this quarter and motor dealers are expecting a sharp drop in demand.





On the manufacturing side, cost and selling prices are expected to soar in the first three months of 1989 and 77% of respondents are estimating an increase in their selling prices, which bodes ill for future consumer prices.

Current manufacturing stocks are sufficient to meet expected demand. Manufacturers cited the present political climate as hindering the sector most. The second obstacle was the increase in interest rates and the third the shortage of skilled labour.

As the effects of import surcharges are felt, 28% of manufacturers envisage a lower level of imports in 12 months and 14% expect the volume of exports to rise.

Further interest rate increases 'unavoidable'

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Star 6/1/89

Magnus Heystek,
Finance Editor

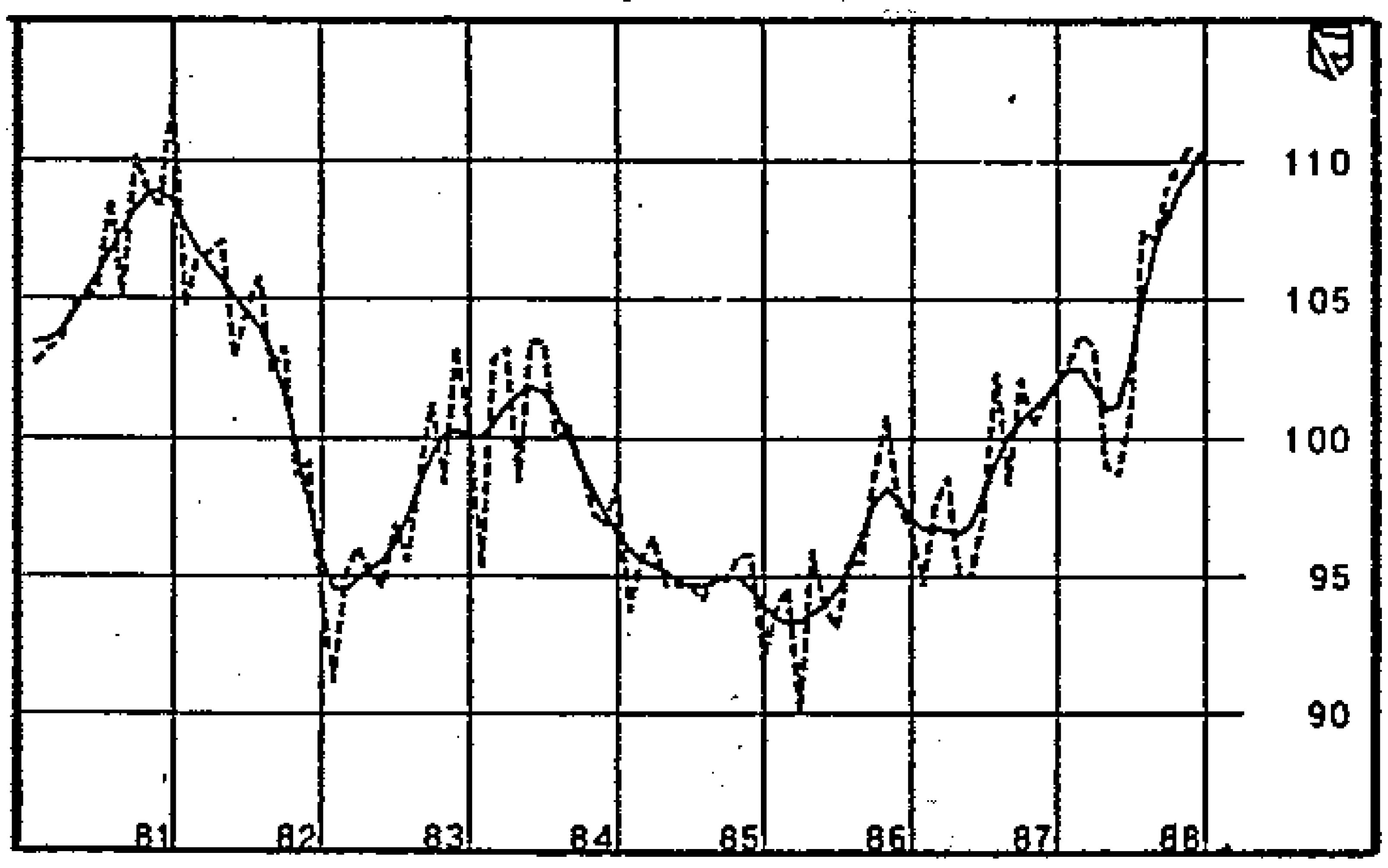
Economic activity, especially in the manufacturing sector, is showing no signs of cooling down and further increases in interest rates are unavoidable, says Dr Gadd Ariovich, economic consultant to the SA Federated Chamber of Industries (FCI).

Commenting on the FCI's latest opinion survey, which show an ever increasing level of optimism among South African industrialists, Dr Ariovich says the economy is now like a "mad train gone out of control".

Considering the restraints imposed upon the economy by the balance of payments, it looks like the authorities will have no option but to tighten monetary policy even further.

"Monetary policy in the form of higher interest rates is always preferable to politicians who can then blame the Reserve Bank for any economic inconvenience experienced by the voters," he said.

FCI's survey, which was done early last month and is considered to be a very up-to-date reflection of business thinking, reveals that business optimism is at its highest since the launch of the survey.



Volume of production (1980 - 100).

Furthermore, says the FCI, this high degree of optimism appears to be countrywide as all 12 reporting participating regions are very optimistic about the prospects for the manufacturing sector in the coming 12 months.

The highest level of optimism was expressed by the Maritzburg region whilst the least degree of optimism was reflected among Cape industrialists.

Dr Ariovich points out the obvious discrepancy between the bouyant mood among industrialists and businessmen on the one hand and the generally pessimistic viewpoint about the economy held by most economists.

Most economists tend to be gloomy about growth prospects, with the consensus forecast of a growth rate in the gross domestic product of between 1,5 and 2 percent. This compares with a growth rate of about 2,7 percent recorded in 1988.

"It seems to me that the lower exchange rate coupled with the imposition of high import surcharges has prompted import-substitution on a grand scale. This partly accounts for the very high levels of activity currently experienced by the manufacturing sector," says Dr Ariovich.

The results of the December survey supports the argument that manufacturing activity in 1989 may be stronger than expected by many analysts. In fact, the SA manufacturing sector is perhaps facing a crossroads where industrialists will have to decide about considerable production expansion to satisfy internal and external demand.

Should manufacturers take the "high road" of extensive expansion of production capacity, the country could enjoy an industrial boom in the Nineties of the same magnitude of the Sixties, says FCI.

The optimism portrayed by the FCI survey remains correlated to the figures published recently by the Central Statistical Services.

The latest figures regarding the three-month trend in manufacturing production, ending October 1988, indicate an increase in production volumes of 7,1 percent over the August to October period compared with a year earlier. This upturn was much stronger than for the economy as a whole, says the FCI.

210 520 FMML 9/12/88

MINING TAXATION

Marais backs a dead cert

■ The new proposals on tax should make mines more like ordinary companies

It's unsettling to realise that SA mining — our only truly internationally competitive industry — pays higher tax rates than in any other country. But then, the average South African is also paying more tax than ever.

So the report of the Marais Committee into mining tax must be welcomed. It proposes a new regime that could put mining back on a strong growth path. And while it may mean a short-term loss to the fiscus (0,5% of 1988-1989 revenues, declining annually for six years), the effects are almost certain eventually to increase substantially the State's revenues from mining as the sector begins to grow in response.

Unfortunately, the Marais report first has to go to the Permanent Tax Committee; but Deputy Finance Minister Org Marais — who chaired the committee — seems confident that the proposals will be included in next year's Budget.

Whether the findings were prompted by very high tax rates, or by Margo, which left the mining tax question open, is moot. The point is that rich gold mines pay a marginal rate of 79%, including the formula tax, surcharge and lease payments.

Add to that the Minimum Tax on Companies (MTC), RSC levies, fuel tax, GST on capital goods, and recent import surcharges, and some gold mines could well pay a 90% marginal tax rate. Diamond mines pay an effective 56,2%, others an effective 57,5% — admittedly, before other sundry imposts.

Despite the high tax rates SA still has a substantial mining sector — so why change the system?

Mining houses by their very nature operate on an ultra long-term basis. They have to make decisions for expansion, based on lengthy exploration and prospecting. These, in turn, need funding that, by definition, is high-risk. The *one* certain factor that can assist them is a fair tax regime that takes into account the extraordinary features of the industry. That means a system free of ad hoccery and political expediency.

Unfortunately, this has not been the experience, whether for the general body of taxpayers or the mining sector. Gold mines, for example, have experienced a hike in surcharge from 5% in 1979 to 25% in 1985 — simply to help fund budgetary shortfalls. More recently, all have been hit by MTC.

But a high tax rate is by no means the only problem; spiralling costs occasioned by stubborn double-digit inflation could be even more dangerous. The report shows that the estimated break-even cost for SA gold producers in 1988 is about US$255/oz-$265/oz. This compares unfavourably with Australia at $212, the US at $242 and Canada at $223.

Org Marais ... a need for security in planning

Indeed, SA became the highest-cost gold producer in the non-communist world in 1987. Add to that the problems of declining grades, deeper mines, fluctuating prices of the rand and gold, threats of more sanctions, and the recent tendency for wages to rise faster than inflation — and SA's mines are in an extremely serious situation.

So it's a major blow that the Marais Committee recommends that its proposals be phased in over seven years. Tax is the only mining cost element that can be changed unilaterally and with speed — and, the figures suggest, at fractional cost to the State.

Perhaps the greatest problem is that the recommendations look less revenue-neutral than they really are. In other words, if it is perceived that the (insatiable) fiscus will lose material revenues if the package is accepted, it will be ignored, as were practically all relief provisions in Margo.

But if there is truly a sector which has a right to special pleading, it is mining. It has always paid a significant amount of tax; now employs over 750 000 people; and contributes significantly to exports — averaging about 46% from 1980-1987 (and so how ironic that mines get no automatic relief from the new import surcharge).

Special pleading aside, the Marais recommendations are technically immaculate, taking in:

☐ Reduction of the gold formula marginal tax rate from 75% to 61% (the outcome effectively reduces the average rate to 50%, the same as company tax);

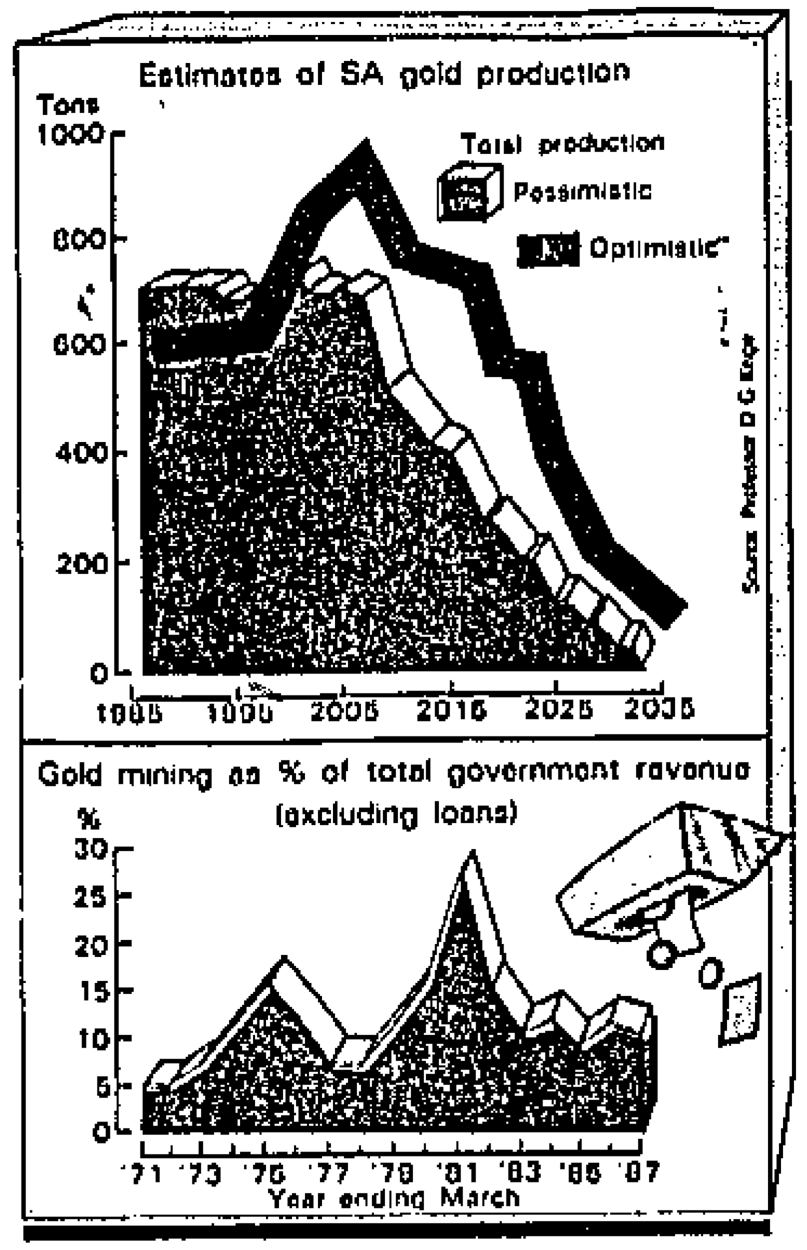
☐ Abolition of the surcharge (now 25% for gold mines) for all mines;

☐ Abolition of lease payments;

☐ Retention of the 100% redemption for hard-core capex;

FMML 9/12/88

Pay now, mine later?



☐ Non-gold mines to pay the standard company tax rate (50%);

☐ Retention of the gold "tunnel" (the tax-free portion of mining income), though with a fall from 6%-8% to 5%; and

☐ Retention of ring-fencing (subject to a new discretion for marginal projects).

Price Waterhouse's Chris Frame comments: "Marginal mining will be made less attractive (something of a sacrifice) and, on average, existing mines will be supported. Significantly, the gold mine formula tax will be placed back where it was supposed to be."

The last significant report on mining tax was the Holloway Commission in 1945, when there was a fixed gold price. Mining tax has since deteriorated into a system of anomalies and excessive rates.

There are reasons for optimism about the Marais report. A big one is the composition of the 17-member committee. Unlike Margo, many members (seven) were employed directly or indirectly by government; another seven were from the main mining houses; three were academics.

This suggests that a great number of practical problems were sorted out *before* the recommendations were signed. The prime example is the seven-year phase-in period.

A Revenue official says immediate implementation of the proposals would mean a one-off revenue loss of about R800m-R900m a year. Phasing-in will slash this to R150m/year-R200m/year (about 0,5% of 1988-1989 revenue), with substantial relief from the discounting effect of inflation over the phase-in. And as formula tax falls from 75% to 61%, the 100% capital redemption allowance will be worth progressively less.

As summed up by Marais: "The idea is to encourage new ventures." It is to be hoped that possible relief on ring-fencing (which tries to prevent the losses of one mine being offset against another's profits), plus potential increases in EPS yields, will attract new capital into mining.

It is widely accepted that the choking-off of foreign capital has severely stunted new ventures. One respected academic has estimated a potential for 15 new economic mines in the Witwatersrand basin, each with a 30-year lifespan.

The committee must be congratulated for reporting seven months after appointment, though it is a pity it did not complete its investigation into the writing off of mineral rights, and whether the tax system should encourage prospecting. Recommendations on both will be made "in due course."

Moreover, the committee has done its homework on the formula vs flat tax debate. It says that the new suggested formula will be tantamount to the 50% corporate tax rate — so has suggested that as an alternative. Retention of the formula, of course, is aimed at keeping the tax tunnel, which to some extent encourages low-grade mining.

Pretoria's bid to allow indirect tax to take over that should ensure the conversion of the committee's findings into law. After all, Margo recommended greater emphasis on indirect taxes — which may be seen as a euphemism for invisible taxes.

Pretoria realises that the white tax base is now too narrow to support its insatiable needs. The conversion to indirect taxes is overt, with a VAT-type impost in the liquor

Judge Margo .. provisions for relief ignored

industry, RSC levies and the proposed substitution of GST by full-blown VAT.

A main objective is to tax the informal sector (most recently by hiking the fuel levy). If this allows tax relief for the mining sector, so much the better.

It has never been more important to ensure the long-term survival of SA's flagship industry. For 1988's potential 90% gold mining tax is not only a long cry from 1910's 10% rate; it is also unsustainable. ■

Some companies bruised by their own generosity

Star 6/1/89. (180)

By Ann Crotty

Despite some initial concern, prompted by fears of a slow down in economic growth, the bulk of SA's industrial companies reported sterling improvements in earnings during 1988. In many cases the rate of increase in earnings reached record levels and encouraged directors to pay out generous dividends.

A recent article in Businessman's Law alerts companies to the danger of being too generous with dividend payments. It points out that in many cases, if figures are adjusted to take account of the effect of inflation, then many companies "are not actually covering their dividend payments in terms of income adjusted for inflation."

Looking back on the industrial company results for 1988 the major factors behind the improved performance included healthy advances in turnover, which were enhanced by tight asset management to produce excellent figures at the operating profit level.

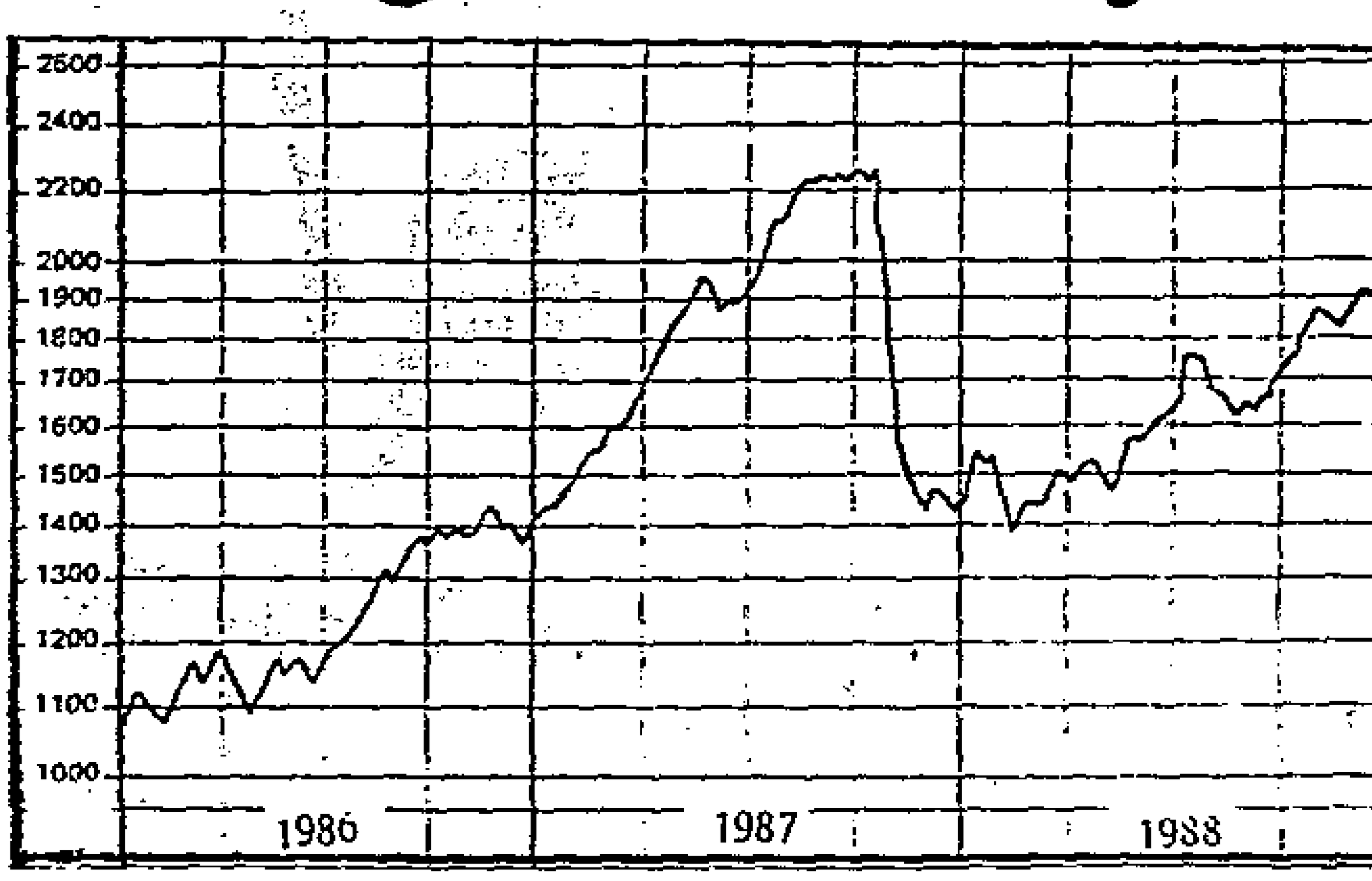
In many cases, additional help also came in the form of substantial reductions in finance charges. Given that these were achieved in the face of increasing turnover and rising interest rates, they reflect the benefits that can be derived from tighter asset management. Along with improved debt control, tighter asset management helps significantly to conserve a company's expenditure.

Star performers

Among 1988's star performers is Amic, which at the half-way stage in June reported a 26 percent increase in turnover and a 63 percent surge in operating profit. Earnings per share were up 48 percent and the directors upped the dividend by 31 percent. Finance charges were down 26 percent.

Reporting interim figures to end-September, Edgars announced a 30 percent increase in turnover and a 44 percent rise in operating profit. Earnings per share were up 54 percent and the dividend was increased 38 percent. Finance charges dropped by 26 percent.

These examples (there are many more) reflect the tendency for the blue-chips to adhere to a reasonably conservative dividend policy. How conservative they really are, depends on the accounting policy used by management.



The surging Industrial index on the JSE

Growing concern

While performances over the past few years have been warmly welcomed by shareholders, who have reaped the benefits in the form of generous dividend payments and/or surging share prices, there is growing concern that in many cases directors are being more generous than they can actually afford.

In the recent Businessman's Law article, Derek Botha refers to the "substantial" increases in industrial companies' earnings, noting that "this, together with the constant double-digit rate of inflation experienced in SA during the past few years, are significant developments which could have a meaningful impact on a firm's dividend policy."

He suggests that it is now appropriate for management to reassess the relative importance of certain factors influencing the formulation of dividend policy.

According to Dr Botha: "With the goal of maximising shareholders' wealth, the management of a company must decide upon the proportionate allocation of profit between the payment of dividends to shareholders and the retention of funds for reinvestment."

He points out that in formulating dividend policy in a context of substantial increases in earnings, the following factors should be considered:

- Working capital and business cycle consideration;
- Future financing and;
- Past dividend policy.

Dr Botha believes that a decision to increase the rate of dividend payment on the basis of increased earnings "would be rational only where the expected level of earnings is at least likely to be maintained for the foreseeable future."

The impact of inflation is significant as it increases shareholders' expectations and also affects the determination of a company's real (i.e inflation adjusted) net income.

Results of research on SA companies emphasise the importance of taking into consideration the substantial influence of a continuously high rate of inflation on a company's income.

"This practice will assist management in making more meaningful decisions by using more meaningful data to determine a company's earnings, and therefore to formulate a sound dividend policy."

SA astoun

Troop

By David Braun,
Political Correspondent

The South African Government has greeted with consternation the United Nations plan, reported today, to accept the Cuban troop withdrawal from Angola on trust and without verification.

It is likely to challenge the UN on the reported remarks of the head of the UN Verification Mission, General Ferreira Gomes of Brazil, that the world body would simply trust Cuba to adhere to an agreement to remove its 50 000 troops from Angola.

Senior South African diplomatic sources today said the general's remarks most certainly were not in accordance with what South Africa expected and understood by the agreements signed last year by South Africa, Cuba and Angola.

The agreement between the countries made specific provisions for effective verification.

It provided for real mechanisms to monitor the withdrawal of Cuba's forces from the region to the satisfaction of everyone, including South Africa, they said.

Immediate approach

The sources indicated South Africa was likely to take up the matter with the United Nations immediately after establishing if the general's comments were reported accurately and in proper context.

The Foreign Minister, Mr Pik Botha, is in Paris today to address an international conference on chemical warfare and could not be reached for immediate comment.

South Africa is already concerned by the apparent inability of the UN to come to an agreement on the peace-keeping force which is to monitor the implementation of Namibia's independence process.

The starting date for Namibia's independence process, in terms of UN Security Council Resolution 435, is April 1.

The UN was supposed to have agreed on the size and composition of its peace-keeping force by December 31.

It has still not reached any fi-

Rescue workers f

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Index shows a four-point gain

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Manufacturers optimistic on coming year

BDay 6/1/89

HELOISE HENNING

OPTIMISM over sales of manufactured goods in the next year has increased among 300 industrialists surveyed each month by the FCI.

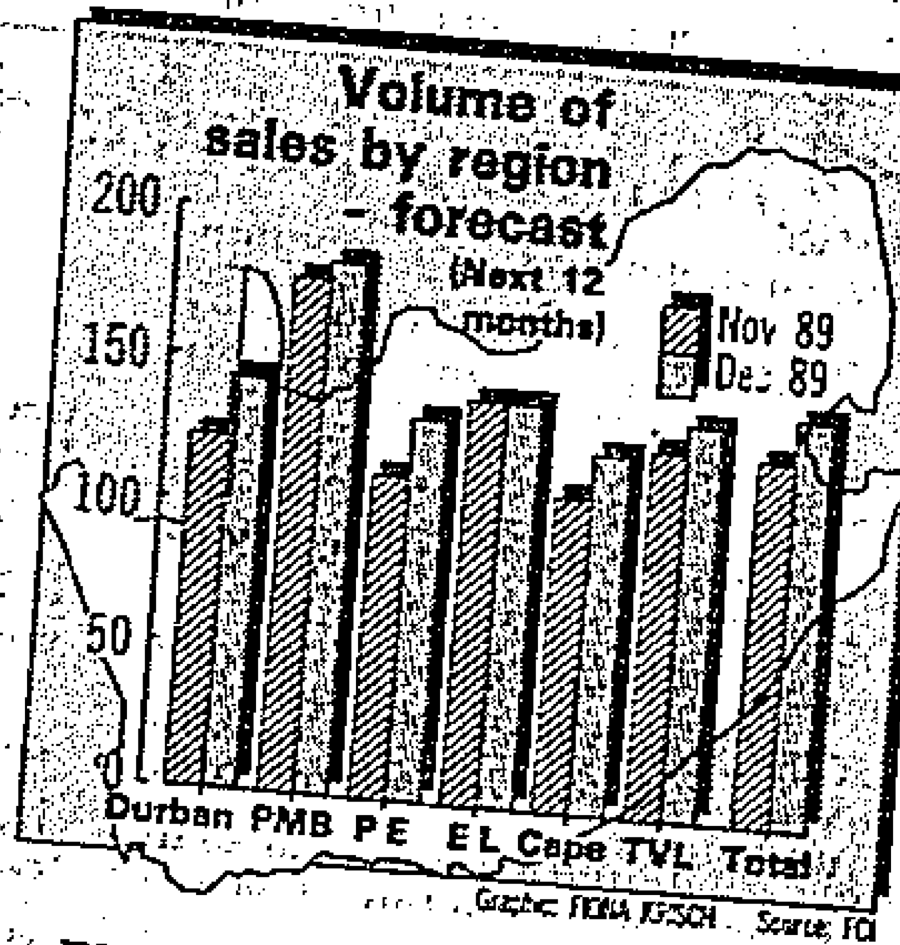
On an index where points above 100 depict optimism, industrialists' outlook on sales for the year to December 1989 rose to 142 points from 138 in November and 128 in October.

The survey, which has been published for three months, had predicted growing optimism since October 1988. This has been borne out by increased output figures supplied by the Central Statistical Service (CSS), FCI said yesterday.

CSS figures for August to October showed increased output in the manufacturing sector. Output in the rubber sector rose by 22,1%, in electrical machinery 21,8%, in transport equipment 18%, beverages 17,7%, non-metallic minerals 15,9% and cars and parts 14,8%. The average percentage change of output for 13 top performing sectors was 7,1.

In spite of this optimism, the retail and wholesale sectors have had waning perceptions of the coming year, according to Bureau for Economic Research and Assocom measurements.

FCI industrial consultant Gad Ariovich said the explanation for the mini-boom in the manufacturing sector could be found in the fact that new investment, and even expansion of plant and capacity, was taking place after the recent consumer-led boom.



Plant wear-and-tear had forced replacement after six years of negative investment. This explained the increased output of electrical machinery and cars and parts. There was also evidence that production capacity was more fully used.

The CSS figures for the three months to October 1988 put production capacity used at 84% — a level last reached in 1981.

Ariovich said evidence that manufacturers had improved exports in the last quarter of 1988, and increased activity in the informal sector, explained why the optimism had by-passed the retail and wholesale sectors.

"Manufacturing activity in 1989 may be stronger than expected by many analysts, although it could be lower than 1988 levels. However, industrialists could be at a crossroads deciding to increase production capacity considerably. SA could enjoy in the 1990s a new industrial boom of the magnitude of the 1960s," the FCI said.

Retailers top industrials on '88 earnings growth

B| Day 6|1|89 (180)

BRUCE ANDERSON

THE earnings growth of retail companies easily outstripped that of industrial companies in 1988.

After underperforming against industrials during 1987, the earnings growth of retail companies averaged 54,6%. Industrials grew by 36,4%, according to a comprehensive review of the retail sector compiled by stockbroking firm Max Pollak and Freemantle.

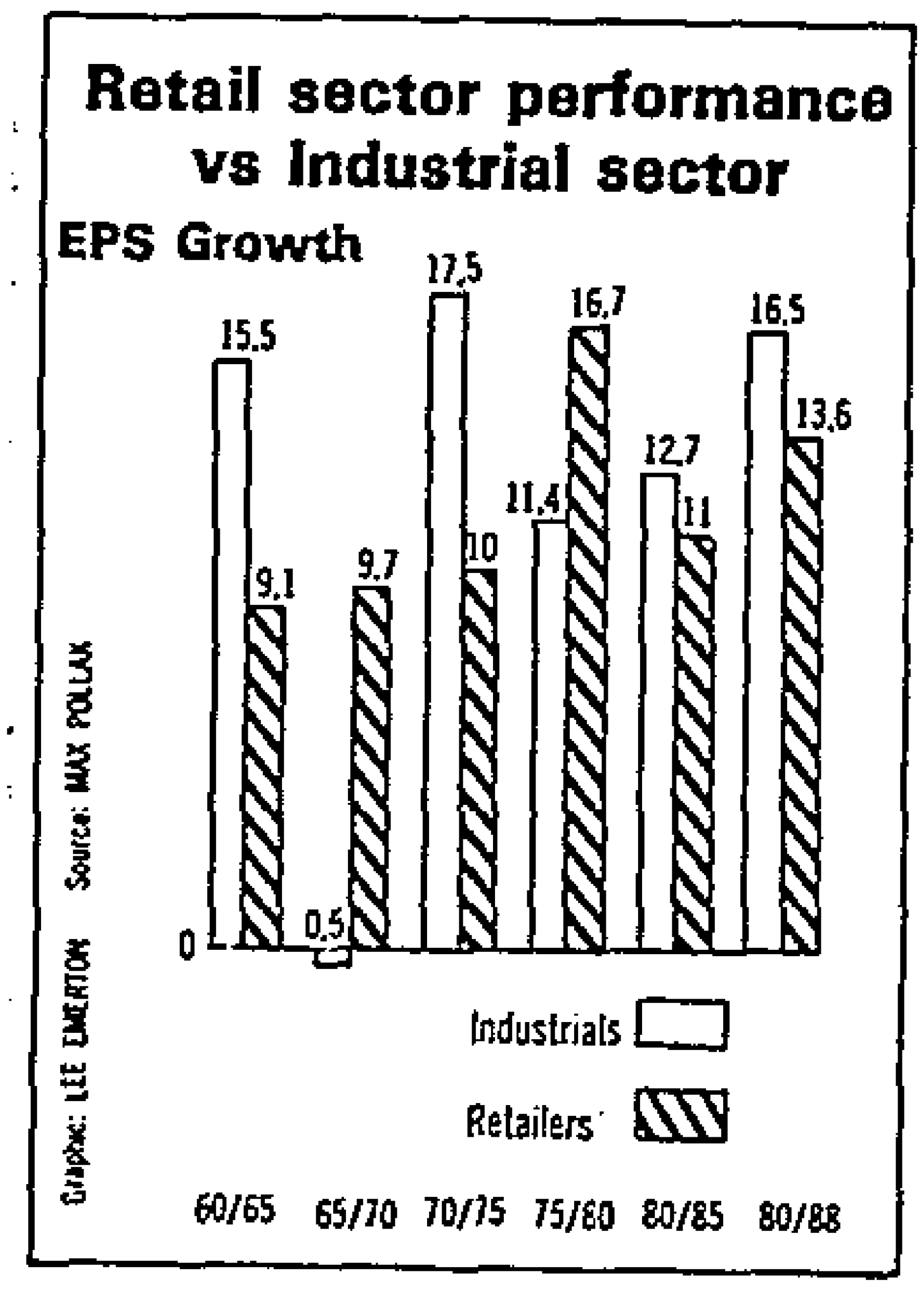
For this year, Max Pollak forecasts an earnings growth of 31,2% for retailers and 28,2% for industrials and says retail exposure in a portfolio should be about 2,5%.

The report bases much of its forecasts on the opinion that average private consumption expenditure grew at a rate of 3,5% for 1988 and will grow at 0,5% for 1989.

In reviewing the performance of retail companies listed on the JSE, certain trends emerged. These include a drop in gearing from 63,8% in 1987 to 40,8% for the six-month period in 1988.

"We believe the gearing will remain at current levels for the next 18 months, with retailers aware of the constraints imposed by the current high interest rates," says the report.

The gearing of furniture retailers averaged 78%, third party distributors 54,8% and the diversified retailers 56,1%.



Retail shares are expected to trade at a PE premium of 10% over industrials, says the report.

The downrating of retail shares is over, the report says, noting that the premium of retail shares over industrials has fallen from 81% in June 1985 to its present level of about 10%.

The downrating of retail shares has been an international phenomenon: "On the London Stock Exchange, the stores index has declined by 7,8% for the 12-month period to October 1988, in comparison to the industrial index, which has increased by 17,4% over the same period."

After trading historically at a PE premium of 30% to the industrial index, the stores index is now trading at a price earnings discount of 4,5% to the industrial index.

The dividend yield premium of the retail and wholesale index has declined from a premium of 30% in June 1985, and is presently trading at a discount to the dividend yield on the industrial index, says the report.

It is the first time this has occurred since the period between November 1979 and October 1980.

Optimistic outlook for manufactured goods sales

From HELOISE HENNING

JOHANNESBURG. — Optimism for sales of manufactured goods in the next year has increased among 300 industrialists surveyed monthly by the Federated Chamber of Industries.

On an index where points above 100 depict optimism, industrialists' outlook on sales for the year to December 1989 rose to 142 points from 138 in November and 128 in October.

The survey, which has been published for three months, has predicted growing optimism since October 1988. This has been borne out in increased output figures supplied by the Central Statistical Service, FCI said in a press statement yesterday.

While actual output for December was not caluculated because of factory shutdowns over the festive season, the measurement of optimism for the coming 12 months has increased compared with November.

Central Statistical Service figures for August to October have borne evidence of increased output in the manufacturing sector.

Output in the rubber sector rose by 22,1%, in electrical machinery 21,8%, in transport equipment 18%, beverages 17,7%, non-metallic minerals 15,9% and cars and parts 14,8%. The average percentage change of output for 13 top performing sectors was 7,1%.

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"However, industrialists could be at a crossroads deciding to increase production capacity considerably. SA could enjoy in the 1990s a new industrial boom of the magnitude of the 1960s," the FCI statement said.

B/Day 11/1/89 180

UAL trusts increase holdings in key stocks

LIZ ROUSE

UAL Management Company consolidated its holdings in key stocks in the December quarter and increased total equities and assets in its four funds.

Total assets of the largest of the four funds, UAL Unit Trust, increased to R240m from R218,6m at the end of the September quarter.

The liquidity percentage was reduced to 12,81% from 13,3%, but the amount increased to R30,75m from R29,1m at the end of the September quarter.

Holdings in Nedbank and Barlows were increased.

Barprop loan stock was sold and the stake in Plate Glass was reduced.

UAL Unit Trust's top holdings are Anamint, JCI, Pick 'n Pay, Anglo, Rusplat, De Beers, Nedbank, Sasol, Vaal Reefs, with Liberty, NEI and Sunbop tying in tenth place.

With the latest quarterly distribution of 10,73c a unit, the Unit Trust's distribution for the 12 months of 49,36c a unit is 10% hihger than the previous year's distribution.

UAL Mining and Resources reduced its liquidity to 17,98% (R36,27m) from 22,13% (R39,7m) at the end of September and total assets rose to R201,8m from R179,4m.

The trust, which has its focus on rand-hedge investments, added to its holdings of Palamin, Leplat, CMI and Sasol to place more focus on the underlying commodities.

The holdings in Lefko and Randex were reduced.

The top ten investments at the end of the December quarter were Anglovaal loan stock, JCI, De Beers, Anamint, Rusplat, Anglo, Anglovaal A, Palamin, Gencor and CMI.

The fund is distributing 3,07c a unit for the quarter, which makes its total distribution for the year 13,65c a unit.

UAL Selected Opportunities Unit Trust reduced liquidity to 11% (R5,4m) from 15,48% (R7,15m) at the end of September.

Considerable rationalisation took place during the December quarter.

New holdings in Siltek and Walhold were introduced, while stakes were increaed in GDM Finance, Time Holdings, FS Group, SA Bias, Solid Doors, Strebel; Control Instruments, FS Team, Clyde, Toyota, Gresham, Tongaat and Lion Match. Anglo, Wit Deep, Placor and Joshua Doore were sold.

The fund's managers believe that in 1989 many of the smaller companies represented in the portfolio will begin to follow the price recovery of the larger listed companies, which started in 1988.

UAL Selected Opportunites' portfolio assets increased to R54,7m from R46,2m.

Top ten holdings were JCI, I & J, Rusplat, CNAGallo, FirstBank, Toyota, ICS, Laser Transport, Siltek and SA Bias.

While UAL Gilt Unit Trust reduced liquidity during the quarter, cash holdings remain high — 50,86%, or R32,26m, of its total assets of R63,44m.

The reason for the high liquidity is that the opportunity cost of not being invested in the long end of the market is reduced substantially as the yield curve flattens.

The fund's strategy has been to move to longer-dated investments.

Damage from crash of '87 still evident on JSE

Star 13/1/89 (180)

By Ann Crotty and Derek Tommey

This week's results from unit trusts highlight the solid progress that was made on the JSE in 1988.

Leading the field was Guardbank, whose Growth Fund reported a 32,1 percent return for the year, on the back of a heavy commitment to the top blue-chip stocks in the industrial sector.

The initial trading days of 1989 have seen a continuation of the strong trend.

But the wounds inflicted by the October 1987 crash are far from healed and certainly, in terms of price/earnings ratings and dividend yields, the JSE is very far from reaching the sort of unrealistic levels that prevailed in the heady days of mid-1987.

The overall index is currently standing at 75 percent of its pre-crash high.

This overall figure hides a widely divergent performance by the individual sectors.

The gold sectors have put in a dismal performance since the crash, with many of them currently standing at less than 50 percent of their October 1987 values.

The list of weakest performers, which was dominated by the mining-related sectors, also included clothing and footwear, property, motor and banks.

The strongest performance was recorded by the tobacco and match sector, which has shot up almost 60 percent above its October 1987 level. Other strong performers include steel and allied, managanese, paper and packaging and engineering.

The exceptional performance from the tobacco and match sector reflects the chase for shares in the Rembrandt group.

The average price/earnings (historic) rating of the sector is 7,1 times and average dividend yield is 4,1 percent.

The three Rembrandt shares (Remgro, Rembrandt Beheer and TIB) are each on P/E ratings of 7,9 times and dividend yields of 2,2 percent. Even at these levels they are believed to represent good fundamental value.

Since August, when there was a small correction in the slight but steady progress that the overall market had been making since February 1988, the overall index has been on a consistently firmer trend. This was led by industrials and helped by financials.

The overall improvement was achieved despite growing rumblings about an inevitable slowing down of the economy and the impact this would have on company earnings.

In addition, it was achieved despite the weak-to-uncertain outlook for the gold price and the weakness in the rand.

Guardbank's Roy McAlpine explained the background to the strong tone in the market when he released the funds' results this week: "There is no doubt that the precipitous decline in the SA equity markets which occurred in the aftermath of the collapse of world stock markets in October 1987 was excessive and that certain counters in the financial and industrial sectors were offering outstanding value in the first half of 1988.

"As it became increasingly improbable that further major falls in international markets would occur, many SA institutions found themselves with excess liquidity and scrambled to buy quality counters — particularly over the last quarter of 1988.

"On account of a severe shortage of scrip in the case of the majority of blue-chip counters, price movements were at times very sharp in low volume of turnover."

The recovery trend in the market has been achieved in the absence of the small investor and has occurred on relatively small volumes of trade.

In the months leading up to the October crash the daily value of shares traded on the JSE was R70 to R80 million. In the days just before the crash it shot up to over R100 million.

Values in 1988 were much more modest, at R30 to R40 million a day.

In this week, daily values of R45 million have been recorded.

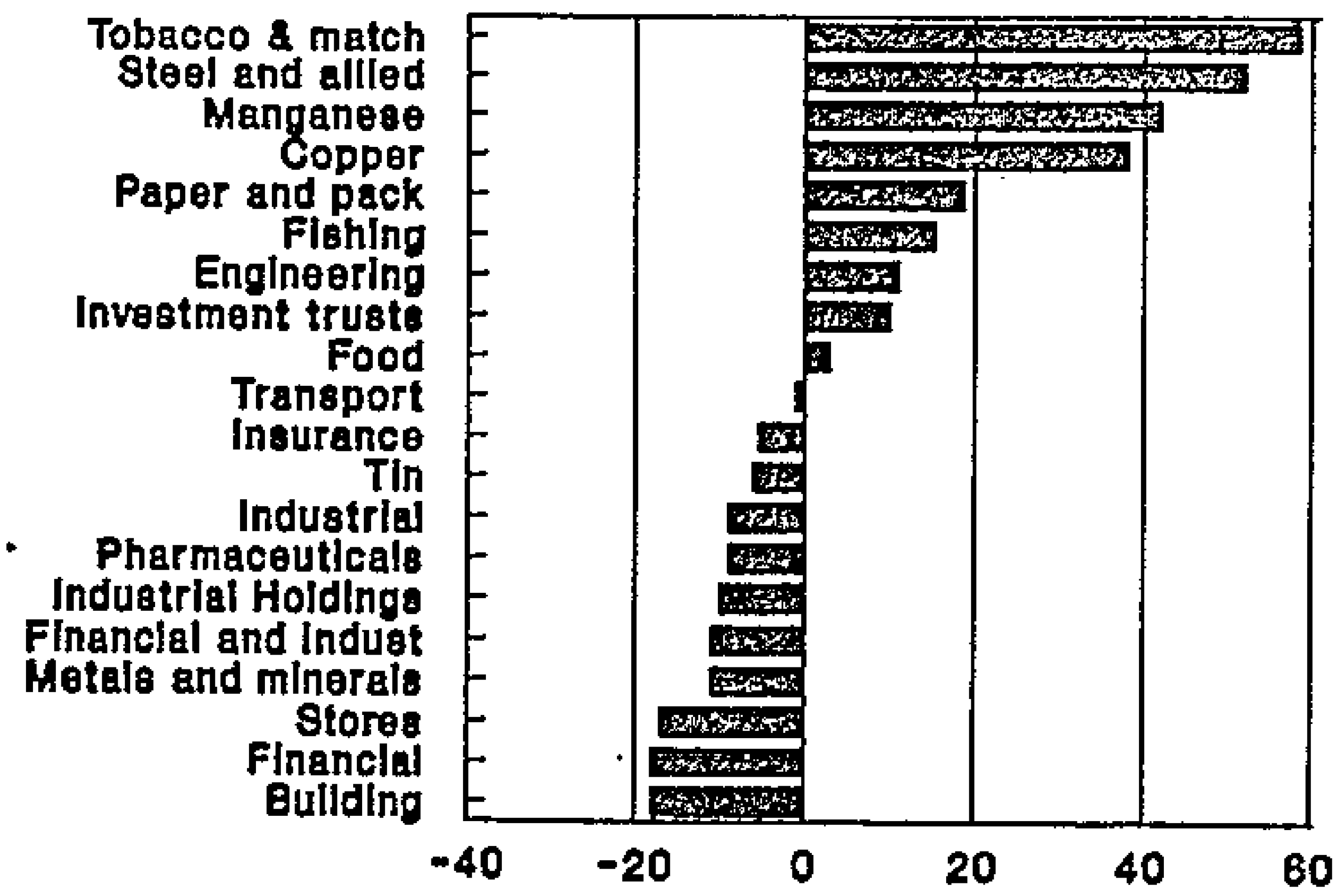
If the small investor remains out of the market and trading remains at relatively low values, then share prices are unlikely to move to unrealistic levels.

While there will be a strong temptation for institutional investors (the dominant players in the market) to chase the best of the blue chips, which are always in short supply, this will be countered by their oft-stated requirement that share purchases must represent good fundamental value.

In the short term there may be a slight correction (an almost instinctive reaction to five months of steady price improvement), but longer-term there is sufficient justification for prices in the non-mining sectors to move back to and beyond their 1987 highs.

Because of the advances in company earnings and dividend payments over the past 15 months, these new highs will offer good fundamental value.

The blue-chip industrials will continue to be the chief beneficiaries of this stronger trend, but given the shortage of supply on this front, the quality second-liners should attract some strong buying sentiment. The banking sector, which currently stands at 75 percent of its 1987 high, also looks set to speed up its recovery rate.

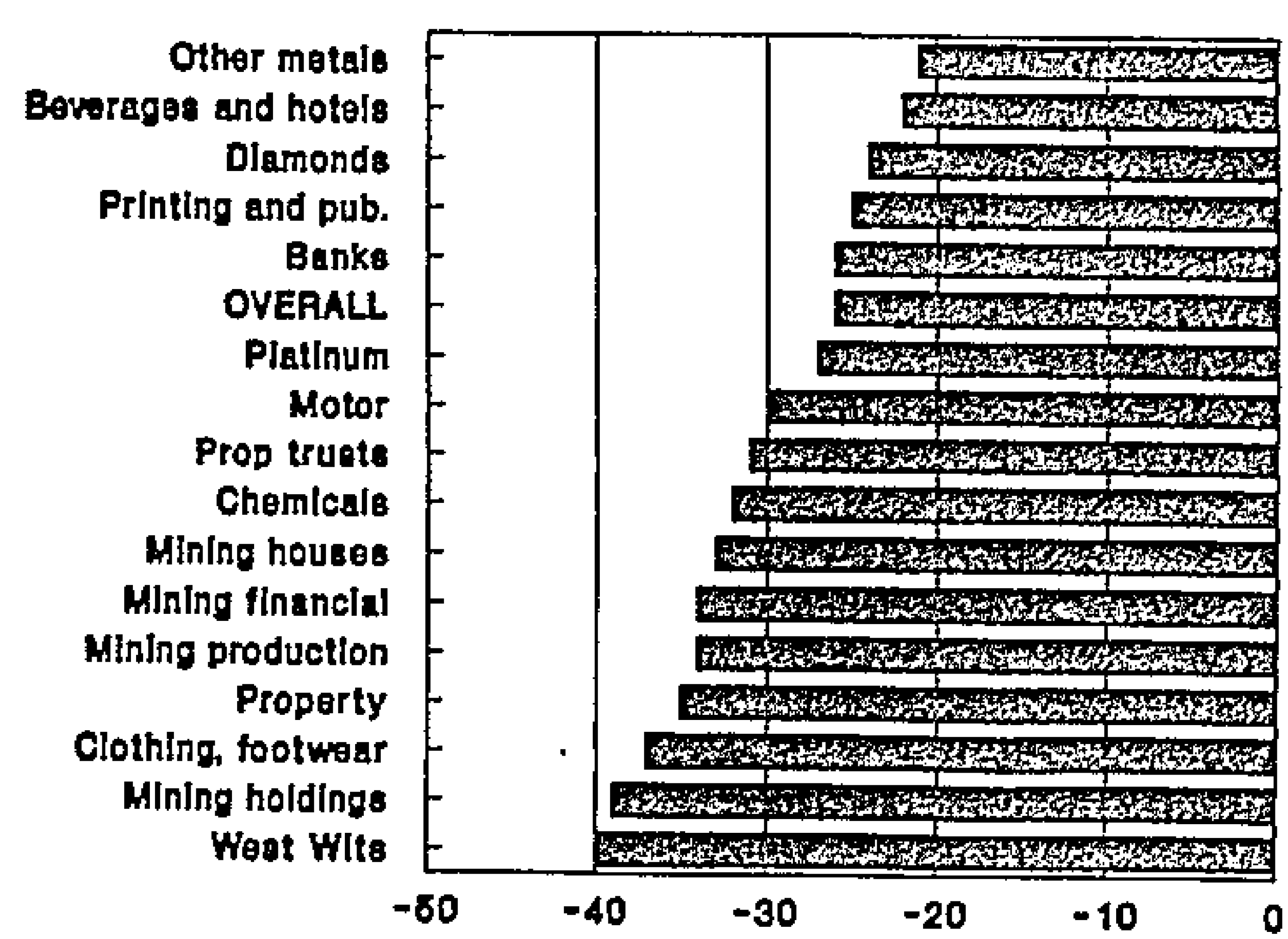


In spite of the recent improvement in share prices on the Johannesburg Stock Exchange a great many are still standing at levels well below their highs immediately before the world-wide share market crash in 1987.

Only nine of the 45 share indices produced by the JSE are standing above their October, 1987 peaks, and in most of the cases this is the result of overseas developments and not improved conditions in South Africa.

Best performance has been by the tobacco and match sector which is almost 60 percent above it 1987 peak, reflecting the great attraction of the Rembrandt group counters as rand hedges. The three next best sectors — steel and allied, manganese and copper — owe their growth to the continued industrial boom overseas and the growing demand for raw materials and non-precious metals.

Paper and packing was the only home-grown success. This mainly reflects the upsurge in consumer spending which has a major impact on the packaging industry.



A great many shares in the industrial and mining sectors are still well down on their 1987 peaks. The poor performance of the mining shares can be blamed on the slide in the gold price from just below $500 an ounce a year ago to slightly above $400 an ounce. The reasons for the depressed state of the industrial sectors are more complex, but include concern about the future level of profits in the light of possible more intensive American sanctions measures, balance of payments problems leading to higher interest rates as well as to depressed consumer spending. However, there is some evidence that fears about the country's economic prospects may have been overdone and some improvement in these industrial sectors seems likely.

Stocks' turnover up 42 percent

By Sven Forssman

Turnover at Stocks & Stocks rose a healthy 42 percent from R393 million to R558 million for the six months to October 31, 1988, but net income after tax increased by only two percent to almost R10 million, compared to the corresponding period last year.

Chairman Reg Edwards says the comparative figures reflect the realisation of income on several property projects during the period.

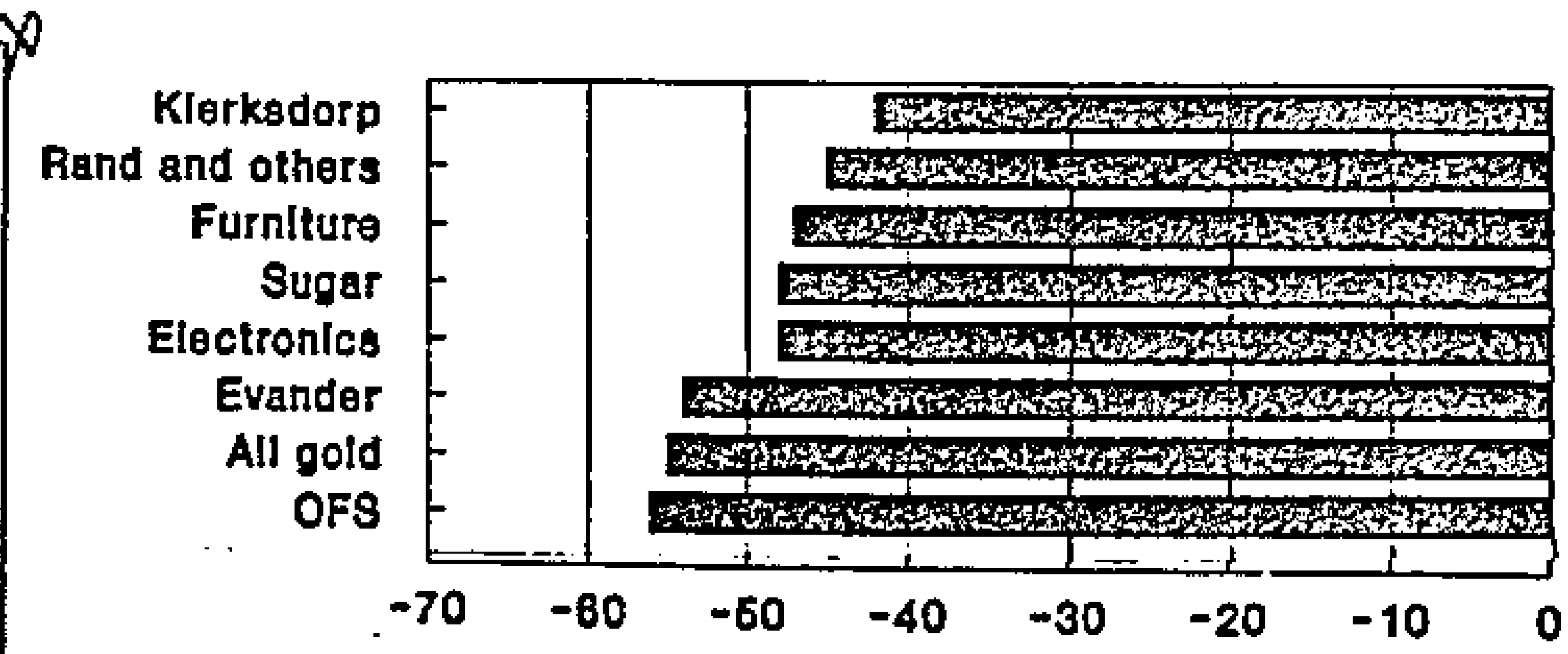
The value of work on hand at the end of the year under review was approximately R812 million which was 59 percent higher than that of the previous October.

Purchases of plant and equipment amounted to approximately R6 million during the period.

Contingent liabilities in respect of property venture guarantees and mortgage bonds amounted to approximately R22,5 million.

The group's net asset value has increased 26 percent to 213c (169c) a share.

An interim divdend of 4c (3,5c), covered five times, has been declared.



The slump in the gold price has depressed the shares of gold producers and especially the marginal ones. The failure of electronics shares to recover to anywhere near their 1987 levels is more likely to result of their being extremely overpriced at the time of the crash that to any failure to perform this year. The same can probably be said for furniture shares.

Grocery suppliers turn to cafe owners for help

S Times 15/1/89 (180)

By Udo Rypstra

GROCERY manufacturers, squeezed by supermarket chains, are turning to South Africa's estimated 35 000 cafe owners and informal shops for relief.

Faced with increases in the cost of raw materials, labour, transport and packaging, they are showing keen interest in schemes to break the power of the chains.

The Catering, Restaurant and Tearoom Association (CRTA) has set up a task force to negotiate grocery prices on behalf of members, who have no option but to pass on increases in full. Supermarket chains, because of their negotiation and bulk buying power, can phase them in to soften the blow for customers.

Inflation

Major retailers like Checkers expect price increases to be so steep that inflation will hit 16% by the end of this year.

Retailers and the Groceries Manufacturers Association (GMA) are surprised by the CRTA's plans.

According to executive director Frank Swarbreck, the CRTA has set up the Independent Cafe Alliance to negotiate prices with manufacturers. Several suppliers are willing to take part in the scheme.

"Even cash and carry stores, who belong to the same groups as the big chains, are interested."

Grocery suppliers are unhappy about the demands made by the big chains. They have turned to buying groups, such as Shield and Sentra, which make bulk purchases for cafe groups. The growth of these groups is seriously affecting cash-and-carry stores.

Spazas

The informal retail sector's spazas — shops in black households — are making special deals with soft-drink and cigarette manufacturers, eroding the turnover of cafes and supermarkets.

To give its members a slice of the pie, the ICA intends to negotiate deals for cafes that will enable them to offer at least 15 items and "specials" at competitive prices.

Mr Swarbreck says: "Manufacturers are under constant pressure from the big conglomerates. They and other suppliers who cannot produce large volumes realise the importance of the small retailer. The response from suppliers has been so encouraging that even cash-and-carry outlets are interested in our scheme."

Mr Swarbreck says cafe owners are survivors and they do well in poor economic conditions.

"But we cafe owners are in deep water. The conglomerates work on variable margins, they have bulk buying power. But they have huge overheads and they have to make up elsewhere on their 'specials'. Consumers should remember that.

Phasing

"The cafe owner works on a fixed margin, no bulk buying power, but his overheads are low. The price increases, however, are alarming."

John Williams, marketing director of Checkers, says the supermarket chains will always be cheaper than cafes. Because of longer working hours, cafe owners are entitled to charge more than other retailers.

"We do not see cafes as a threat. We have been negotiating with grocery manufacturers on prices since last year. Because of the competition among major retailers, price increases will be kept as low as possible. Where they are high, they will be phased in."

Figures from Central Statistical Service (CCS) show the producer price index rose by 1,5% between October and November. The imported component of the PPI rose by 0,9% in November, and domestic prices by 1,7%

Grocery manufacturers are bracing themselves for fuel and sugar price increases.

GMA executive director Jeremy Hele says manufacturers always give a better price for bulk orders. The transport element in manufacturing costs is relatively small — the cost of labour and raw materials is the biggest factor.

He believes the sugar price increase will lift the price of sweets, jam, soft drinks and condensed milk.

The GMA has asked the CCS to differentiate between "basic food" and "processed food" when it calculates the inflation rate.

Export drive

S Times 15/1/89

SEASPRITE, a manufacturer of swim- and exercisewear is looking for export sales.

Founder and chairman Hans Noli says the company will build a factory in Cape Town and one outside South Africa.

Paul van der Horst, former executive in charge of swimwear at Gossard SA, has joined the company as managing director. Andre Byren is production manager, succeeding Raymond Law, who is retiring after 30 years with the company.

Duros primes Filati

(180) ST Times 15/1/89

FILATI Holdings is to raise R2-million in a renouncable rights offer "to enlarge the capital base and reduce borrowings".

But it looks as though Duros Merchant Bank (DMB) is priming the listing as a vehicle for another deal. DMB will buy a stake of at least 49,9% of Filati after the deal.

My guess is that the business of Filati — manufacturer of knitted garments — will be onsold and the shell used for a reverse take-over.

The renounceable offer is 10-million shares at 20c each — 125-for-100 — to shareholders registered at the end of December. Filati shares were suspended at 22c on December 2 and reinstated on January 3.

They are now 21c, and the nil-paid letters have traded at 1c — in line with the take-up price. Filati shares were 50c a year ago.

The company was listed in October 1987, having been incorporated in June of that year. Before the listing, almost 4-million shares were issued to existing shareholders for R400. Another 4-million shares were offered to the public at 50c each. The offer was fully subscribed, but the shares never traded above the issue price.

In the report for the year to February 1988, chairman Edwin van der Burgh said the group was budgeting for increased profitability, but could be affected by higher tax.

Its results for the six months to August 1988 were not affected by tax because taxable income fell from R483 000 to only R46 000. An extraordinary item of R619 000 related to losses in the woven division, which was discontinued. Earnings a share of 0,6c were only a tenth of the previous figure.

The balance sheet at August 31, 1988, put shareholders' interests at R2,1-million. Six months before, they were R2,7-million. In the same time, long-term liabilities rose from R576 000 to R726 000. Net current assets went from plus R455 000 to minus R131 000.

The rights offer is expected to increase shareholders' funds to R4-million and boost net asset value by 2,2c to 17,3c.

Shareholders are therefore asked to pay a premium to the pro forma net asset value to follow their rights.

The offer will have a minimal effect on earnings and no effect on the dividend of Filati in the year to February 1989. It has been underwritten by DMB free of commission.

Current major shareholders in Filati have undertaken not to follow their rights but to renounce them at 20c to DMB. After completion of the rights offer the Filati board of directors will be reconstituted with DMB names.

B/Day 18/1/89

Barlows' capex could be R1,5bn for the full year

KO

ZURICH — Barlow Rand performed well in the first quarter of the year ending September 30, 1989, and capital spending for the full year could reach R1,5bn, CE Warren Clewlow said yesterday.

In a presentation to financial analysts here, he said: "We have had a very good first quarter — far better than the corresponding previous quarter and better than our budget." He gave no figures.

Capital spending had risen to R1,12bn last year from R656m in 1987 and would go as high as R1,5bn in 1989, he added.

Clewlow and chairman Mike Rosholt reiterated earlier company forecasts for a further rise in profit this year, despite an expected slowing in SA economic growth and higher interest rates.

In the year ended September 30, 1988, Barlow's pre-tax profit rose to R1,94bn.

Board member Clive Knobbs said 74%-owned Rand Mines planned capex of R884m this year after R782m in 1988, followed by further spending of R494m in 1990, R626m in 1991, R577m in 1992 and R576m in 1993. — Reuter.

Great potential for SA exports

SYLVIA DU PLESSIS

COMPANIES may be nervous about entering the export market because they do not know enough about it, says Norrik Marketing MD Erik Schoeman. Yet there are many services available to potential exporters.

Schoeman says services range from those provided by government offices and Safto to the SABS, which could supply the quality specifications required by most countries.

On the marketing side there are "a host" of services available. It is up to the exporter to establish his needs and then learn how to use these services.

Basic selling techniques — whether for exporting or local selling — are still the same, he says.

"The manufacturing industry is sitting on a gold mine. There's terrific potential. The exchange rate is in our favour and the availability of material, the necessary manufacturing expertise and the utilisation and training of labour are all climbing to a peak in SA."

BDay 23/1/87

Constraints

180

Safto general manager Ann Moore agrees that not enough SA companies are entering the export market. "Perhaps this is because they don't have the long-term commitment to exporting," she says.

"Export projects are often limited or constrained by local demand during boom times. For this reason, Safto is promoting the concept of multiple shift production to provide export capacity wherever practicable."

25/1/89.

Team-work vital to make SA real industrial force

B/Day 25/1/89 180

RON HAYWOOD, executive director Federated Chamber of Industries

BUSINESS has criticised government recently for delays and a lack of co-ordination in implementing its economic and industrial plans. In turn, the public sector has questioned the commitment of manufacturers, especially to exporting.

The time has surely come for us to stop criticising one another and to start acting as a team. This is the only way SA will become a truly industrial nation.

Despite the country's sound industrial base, South African exports of manufactured goods have not been as good as they should have been in the last decade. SA continues to rely heavily on exports of metals and minerals. In sharp contrast, the new developing countries are importing raw materials, beneficiating them and becoming powerful industrial nations.

It is also of concern that, in the long-term, raw material exports are both less profitable and less labour intensive. Why has this happened? Reasons include:

□ Because of the abundant supply of raw materials, there has been a natural tendency to mine the product rather than manufacture finished goods. There has also been a strong tendency over the years for local investment by overseas companies to encourage the export of our raw materials, which are then beneficiated overseas.

In certain instances we have also been prevented from manufacturing or exporting into competitive areas. As a result, we have neglected our research and development facilities, and the opportunities for technical and scientific people to develop themselves;

□ There has been uncertainty about the future, and SA has actually been fighting a border war for 22 years. The only positive aspect of this has been that a group like Armscor has contributed to the development of a sophisticated armaments industry;

□ Relatively long recessions in the late '70s and mid-'80s, combined with increased competitiveness in the international trading environment, have contributed to poor trading conditions for local manufacturers and exporters; and

□ International aversion to SA's political system has led to the unavailability of foreign capital and a wide range of sanctions. The latter have created difficulties for exporters.

As a result of these difficult trading conditions, the trend has been towards consolidating companies by amalgamation and takeovers. While this may have strengthened certain major groups, it has led to a decline in job opportunities and the number of small companies, and a loss of entrepreneurial skills.

Government itself has created uncertainty by failing to clarify long-term economic or industrial growth strategy. We have basically managed the country on a short-term crisis basis instead of possessing a long-term strategy.

Education policy has not been adapted sufficiently to meet the ever-increasing shortage of technically qualified people desperately needed for the necessary expansion of the industrial sector.

Furthermore, a degree of fresh thinking is required. Fortunately, this is already evident in the Board of Trade's new outlook towards pipeline studies which trace the stages of manufacture, from raw material to final product, with a view to improving SA's import replacement programme, and in particular increasing exports.

Apart from such important issues as controlling and minimising government expenditure, holding down inflation, pursuing privatisation and deregulation and encouraging small business, a comprehensive economic strategy will have to address the following areas:

EDUCATION: One of the reasons for the superior productivity of the Japanese and Koreans is their high level of educational and technical qualifications. Their skills greatly assist them, not only in research but also in producing better quality products more efficiently.

□ HAYWOOD ... "act as a team"

SA has to stimulate enrolment in the disciplines of engineering, mathematics and science. We must also make better use of our technikons, utilising them over longer hours with more emphasis on part-time study.

In the short-term, we need to investigate changes aimed at modular type training which will allow people to qualify sooner. The whole status of the engineer and the technician needs to be improved, bearing in mind that a world shortage of technically skilled people is developing.

RAW MATERIALS: We have a chicken and egg situation in raw materials. Though it is very often better to export raw material, and more profitable to do so, in some cases the local manufacturer is having to pay a premium price for them. He is thus at a disadvantage in manufacturing a local product to compete against imported products made from our own raw materials!

RESEARCH AND DEVELOPMENT: This is an area that is going to require increasingly more of our attention, especially because of the disinvestment taking place. R & D is an expensive exercise requiring highly skilled personnel.

We need to link up with as many overseas companies as possible to import technology, but at the same time we must develop our own. Because of the high cost of research, we will have to look at more centralised facilities, such as the CSIR, and identify more clearly our major growth potential areas.

MARKET OPPORTUNITIES: The Department of Trade and Industry is to be congratulated on the new approach designed to identify major market opportunities and develop them. Naturally, these will have to be given priority because of the shortage of capital and skills.

PRODUCTIVITY: SA's productivity record compares unfavourably with those in most of the world's developed and developing nations. One way of overcoming this would be through some form of tax incentive for achieving productivity improvement goals.

EXPORTS: The critical need to improve SA's export performance applies particularly to manufactured goods. Markets, however, are becoming more and more difficult to penetrate, and successful exporting requires considerable effort and specialised skills. The small businessman therefore usually takes the easy route and sticks to the domestic market.

Here again, a considerable degree of team effort is required between the state, the large individual exporters, and organisations such as Safto. The small businessman needs all the encouragement he can get to move into this very competitive area, which certainly offers opportunities but normally operates on a low profit basis.

Stef Naude, Director-General of the Department of Trade and Industry, has stressed that a total export culture is required for SA. This can only be achieved when we start building up a strong local manufacturing industry, with exports being part and parcel of that scenario. It must be made worthwhile for businessmen to get involved.

Government is already putting a lot of effort into a co-ordinated export programme, and incentives are being reviewed. A suggestion that merits consideration is that a percentage of any export allowance should be committed back into research and training.

We also have to concentrate on getting more trade into Africa. Our neighbouring states are, after all, our natural trading partners.

GOVERNMENT'S ROLE: Government has a vital part to play. South Africans are well aware of the need for a reform process, not only because it is right for the country but also because of all the benefits that must flow from improved foreign relations.

Perhaps the greatest demand on government is that it should operate within its budget parameters. This has not happened for many years, and unless this is achieved the efforts to improve the performance of the economy may be in vain.

A further major incentive the country needs is on the tax front, as the high tax rate is proving a demotivator for both productivity and risk investment.

I am personally impressed with the many developments taking place, including the initiatives from the Department of Trade and Industry, but we have so much to do and so little time. Unless all efforts are co-ordinated and there is a total commitment by the state, employer and employee, success will be limited.

There is no doubt SA is on the threshold of new opportunities in 1989. It is up to all of us to meet the challenges.

Manufacturing shares look set for a positive rerating

(180)

B/Day 25/1/89

ANALYSIS: STEPHEN RICHTER

INVESTORS interested in manufacturing-related shares should take a serious look at these stocks as their market ratings indicate that they provide good value relative to industrial counters.

The JSE industrial index is trading on an earnings and dividend yield of 10,4% and 3,7% respectively, while the counters of many manufacturers are rated at a discount.

Manufacturers remain confident that activity will hold up well in spite of the expected tough economic conditions. The stronger bottom-line performance should eventually bring in solid buying support, thereby causing a rerating.

● MOSTERT

Some industries should perform better than others, but overall, manufacturers feel that customers will continue knocking at their doors. Perhaps the most dramatic recent development is the emphasis on import replacement, which is gaining momentum in the domestic economy.

The rand's collapse in the early '80s set the stage. But now that sanctions legislation in the US and various other countries is a reality and new import surcharges have taken effect, many manufacturers are seriously considering import replacement.

Therefore, manufacturers seem justified in their optimism. The latest BER manufacturing survey confirms the upbeat mood with 40% of those questioned operating on full production capacity.

Widely diversified engineering group DORBYL provides solid evidence of the strong manufacturing activity. CE Dawid Mostert says sales volumes are expected to increase by 20% in rand terms, or 5% in real terms. He expects a noticeable improvement in group activities which are involved in the fixed investment sector. He points specifically to the Mossel Bay Gas (Mossgas) and Mossel Bay Refinery (Mossref) projects where Dorbyl Marine, TOSA and Dorbyl Heavy Engineering and other group companies will be involved.

The Mossgas and Mossref projects combined are expected to account for an average of 5% of group sales over the next two years. In addition, Mostert is optimistic that his group could land a major shipbuilding contract in 1989.

● WESSELS

Dorbyl sees vehicle sales weakening in the second half of the year, but Mostert is still optimistic this industry will keep Dorbyl busy because of the local-content programme based on value rather than mass. This should cause some components which are currently imported to be substituted for local products.

"I believe earnings for the year to end-September could grow by 18% to reach 290c (245,5c), with dividends rising a similar percentage to 92c (77c)."

Everything also seems to be going right at TOYOTA, according to vice-chairman Bert Wessels, who says capacity utilisation during the past year rose by roughly 5% to 80%. The order book is satisfactory and indicates strong demand through March. Toyota is having difficulty meeting demand for virtually all its vehicles at present and Wessels points specifically to the new Corolla and all commercial vehicle lines.

● VAN AS

Looking at the total market, Wessels feels vehicle sales will decline by between 5% and 10% this year. He is not willing to make a specific prediction for the group.

It appears that 1988 earnings can advance by 7% to 2 200c (2 056c) with a proportionally greater dividend increase to 350c (300c).

The paper and packaging industry appears poised for a good year, says SAPPI MD Eugene van As. The group does not specify its capacity utilisation, but Van As says the majority of its units are running at near full capacity.

Sappi has firm order books at present and expects this to be maintained. Van As sees local demand for paper increasing by 4% this year, while export volumes are also expected to grow. He says that "writing and printing papers will probably grow faster than packaging papers this year".

The group will change its financial year-end to February from December and the current year's results will cover a 14-month period. Attributable income nearly tripled in 1987 to 317c a share, and the group is looking for substantially higher earnings. Therefore, attributable earnings could increase by 39% to at least 440c with a proportionally similar dividend rise to 180c (130c).

In the building and construction industry, LTA MD Colin Wood is satisfied with the order books for most LTA companies. But looking to the next few years, he cautions that uncertainty about economic conditions makes it difficult to predict levels of business activity. Nevertheless, he expects most operations to experience increased activity.

Despite the strong building activity during 1988, LTA had no trouble obtaining adequate supplies of building materials and other related products.

LTA is involved in Lesotho Highlands, Mossel Bay Synthetic Fuels and various toll roads, which could give the impression that these projects alone may see the group through for the next few years. But Wood quickly points out: "To say that they have some special significance to the group as a whole, which involves a large number of companies working in a great variety of business areas, would be overstating the situation".

● WOOD

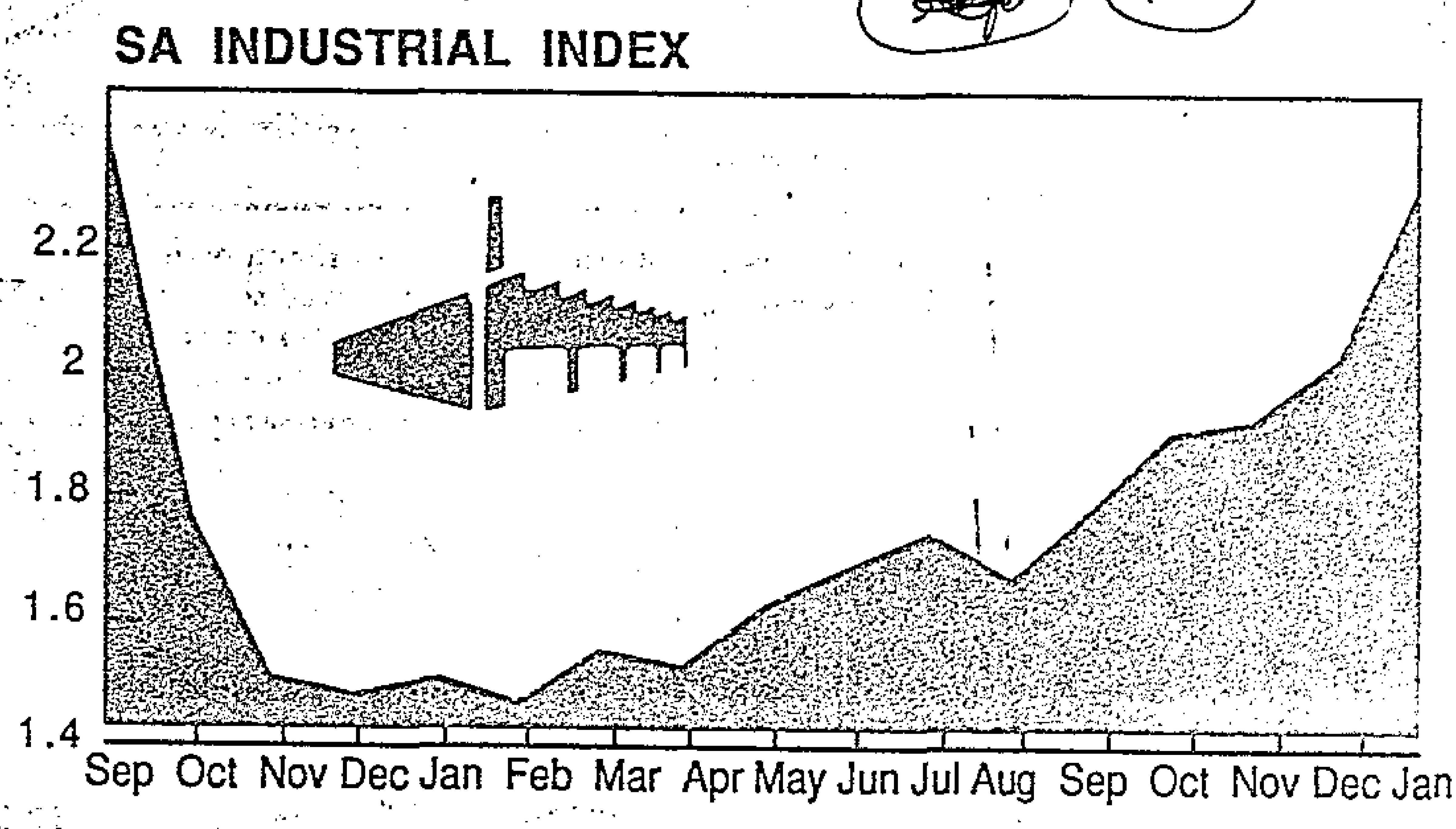
Taking into account the strong 91% interim earnings jump, EPS for the year to end-March could rise by 88% to 45c (24c), while a dividend of 10c (nil) is a distinct possibility.

Resurgent Wall St holds out hope to SA investors

Star 26/11/89

180

By Derek Tommey



The US share market entered a new era this week when it returned to pre-October 1987 crash levels.

The Dow-Jones industrial average rose 38 points yesterday to reach 2256,43 — 10 points above its closing level on October 16, 1987, the day prior to the crash.

While the Dow-Jones still has to climb another 350 points to exceed its 1987 peaks, its return to pre-crash levels will be a major boost to investor sentiment in the US.

It will also encourage investors elsewhere to take a new look at their own markets.

South African industrial shares have been rising strongly in recent weeks.

The rise in US shares to pre-crash levels should help remove the emotional shock imparted to the psyches of American investors when the world's biggest market collapsed for no good reason and dropped 27 percent in four weeks.

This had a traumatic effect and led to widespread questioning of the value of share market investment.

It was widely asked: "If tens of billions of dollars can be wiped off investments so quickly and for no reason, can share investment be safe anymore?"

These who said yes have been vindicated and investor confidence should again be on a rising curve.

The US business boom should spill over into the rest of the world and into SA.

One indication this is already happening here on a significant scale is the rise in exports last month to R4,5 billion, which is R1,1 billion, or 32 percent, above the December 1987 figure.

South African industrial, metal and mineral shares could well reach their pre-crash levels in the near future.

The industrial index was 2142 at the close of trading on the JSE last night. This was a gain of 25 points on the day and put it within 122 points, or less than six percent, of its October 16 1987 closing level of 2264.

The metals and minerals index is close to the 1656 at which it stood before the crash. It closed 14 points higher at 1608 last night, so that it has only 48 points, or three percent, to go to reach its October 16 1987 level.

The financial share index was 1389 at the close. Although 180 points below its pre-crash level, it is getting within shooting distance of it.

Women mean business

SYLVIA DU PLESSIS

A GROUP of women — representing companies from computer distributors and transport consultancies to cosmetic manufacturers and aluminium frame producers — has clubbed together to form the National Association of Women Business Owners.

The network aims to encourage business ownership among women and promote economic opportunities for female entrepreneurs.

It also aims to strengthen the network of professional contacts that business women can draw upon to improve and expand their enterprises. In addition, the association hopes to offer educational and training programmes.

The association's founder members include Reeva Forman (Reeva Cosmetics), Aida Geffen (Aida Estates), Joan Joffe (Joffe Associates) and Margaret Lessing (Women's Bureau).

Five major industries spotlighted

Star 28/11/89. 180

An indication of Government plans for the economy was given this week by Dr Theo Alant, Deputy Minister of Economic Affairs and Technology.

He says in a statement that the Department of Trade and Industry was investigating "structural adjustment programmes" aimed at improving economic performance for five major industries — textiles and clothing, electronics, motor vehicles, stainless steel and chemicals.

Dr Alant says that in recent years the economy in general and the manufacturing sector in particular had not come up to expectations.

Between 1975-80 the average economic growth rate was only a low 1,9 percent, and from 1980 to 1987 it was an ever poorer 1,3 percent.

An investigation had shown that the existing incentives for industrial development and export promotion are ineffective and have barely contributed towards economic growth.

"As a result structural adjustments are necessary in many sectors to improve this situation."

As part of this programme the Department was:

- Continuously investigating new possibilities for import replacement;
- Considering the possibility of manufacturing capital goods locally;
- Monitoring productivity achievement;
- Amending legislation to remove restrictive clauses in licensing agreements; and
- Investigating, with the Industrial Development Corporation, the development of an effective infrastructure for small industrialists and sub-contractors, especially in the medium and high technologies.

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Between 1975-80 the average economic growth rate was only a low 1,9 percent, and from 1980 to 1987 it was an ever poorer 1,3 percent.

An investigation had shown that the existing incentives for industrial development and export promotion are ineffective and have barely contributed towards economic growth.

"As a result structural adjustments are necessary in many sectors to improve this situation."

As part of this programme the Department was:

- Continuously investigating new possibilities for import replacement;
- Considering the possibility of manufacturing capital goods locally;
- Monitoring productivity achievement;
- Amending legislation to remove restrictive clauses in licensing agreements; and
- Investigating, with the Industrial Development Corporation, the development of an effective infrastructure for small industrialists and sub-contractors, especially in the medium and high technologies.

Predators seen as threat to more entrepreneurial control

Star 30\11\89 Finance Staff (58) 180

Entrepreneurial control of the JSE-listed companies rose from 4,1 percent of market capitalisation in 1983 to 6,9 percent in 1988.

Although this is encouraging, Mr Robin McGregor of *Who Owns Whom* suggests the situation could in due course reverse itself because the companies in question are vulnerable to predators.

Entrepreneurial control in South Africa, he says, lags far behind the rest of the world for a number of reasons.

Among these are:

- Excessive state and local authority regulations, which govern the entry of new businesses into the South African economy.
- The barriers to new entry created by monopolies and cartels.
- Practical training for aspirant businessmen is provided mainly by the public sector and the four major groups, which control almost 80 percent of the JSE.

Few employees in these groups have an inclination to venture into the relative insecurity of self-employment.

- The lack of venture capital available to the entrepreneur.

The ninth edition of *Who Owns Whom* has just been published.

It features nearly 1 300 pages of detailed, listed company information.

CONTROLLING BODY	% JSE CONTROL						
	MARCH					DEC	SEP
	1983	1984	1985	1986	1987	1987	1988
Anglo American Group	52,5	54,1	53,6	54,1	60,1	56,1	49,5*
Sanlam	9,4	10,7	12,2	11,3	10,7	9,7	10,2
S. A. Mutual	0,6	2,7	10,6	10,9	8,0	8,9	9,8
Rembrandt Group	2,1	2,8	3,8	4,4	4,3	4,9	7,6
Foreign Controlled	5,4	5,7	5,9	6,1	4,1	4,9	5,1
Controlled by Directors	4,1	5,1	3,0	3,5	3,7	5,9	6,9
Anglovaal	1,7	1,7	2,1	2,1	2,4	2,8	2,2
Liberty Group	1,1	2,1	2,0	2,3	2,0	1,6	2,6
State Controlled	3,2	2,3	2,8	3,2	1,9	1,7	1,6
Ventron Group	-	-	-	1,1	1,0	1,2	1,1
Total	80,1	87,2	96,0	98,8	98,2	97,7	97,2
Unallocated	19,9	12,8	4,0	1,2	1,8	2,3	2,8
Total	100,0	100,0	100,0	100,0	100,0	100,0	100,0

JSE control based on market capitalisation

Business mood is still positive

Star 31/1/89. 180

By Magnus Heystek, Finance Editor

The business mood continues to be positive and although many companies in industry and commerce expect a slowdown in economic activity, they still remain cautiously optimistic about economic prospects over the next twelve months.

Assocom's Business Confidence Index (BCI) in December/January moved up slightly to 96,7, but is still down from its peak of 100,0 reached in October last year.

Positive factors influencing the BCI included the overall improvement on the Johannesburg Stock Exchange; an increase in retail sales in December; a slight improvement in the rand/dollar exchange rate and a continuing increase in manufacturing production.

Economic developments to negatively influence the BCI includes the downward trend in the gold price, a decline in new car sales and a slight increase in the inflation rate.

Assocom, however, warns about a delayed reaction to the various measures taken by the authorities in the second half of last year to cool down the economy.

The full impact of these measures, says Assocom, will only become apparent in the months ahead.

"Leaving aside the possible impact of external or internal political factors on the business mood, the three major sources of uncertainty for the business sector are the rising trend in government spending and its possible implications for taxation and interest rates, the weak performance of the gold price and the rising trend in the inflation rate.

"On present evidence, however, most of industry and commerce are clearly not expecting a severe recession this year, as compared with traumatic experiences in 1984-1986.

"If the economy slows down to a more sustainable rate of growth in 1989, there should be no need to take any further restrictive economic measures", Assocom concludes.

Sam Steele's taxed profit jumps 69%

B/Day 31/1/89 (180)

ZILLA EFRAT

SAM STEELE Holdings, which has interests in furniture, cleansing products, electronics, engineering, timber and catering, increased its taxed profits by 69% in a year when full advantage was taken of the prevailing buoyant economy.

Taxed profits jumped to R2,3m (R1,4m) and earnings were up by 50% to 15,4c (10,3c) a share for the year ended August 1988.

Profits for the second half were lower than the first six months, which MD Montie Goldberg says is generally a busier period.

Instead of a final dividend payment, the directors propose a capitalisation issue on the basis of five tax-free shares for every 100 shares held.

With the shares trading at 38c each this amounts to 1,9c a share against last year's final dividend of 2c a share.

No turnover figures are given, but operating profits grew 53% to R7,97m.

Goldberg says the 50% increase in finance costs to R5,6m was due to large HP costs in retail operations, especially Protea Furnishers.

A lower amount of R7 000 (R70 000) was paid in tax as a result of deferred tax and tax benefits, says Goldberg.

The directors are cautious about short-term prospects due to government's stringent measures to curb economic activity.

Venture capital market for JSE

Star 11/1/89 180

By Magnus Heystek

The JSE is going ahead with its plan to list venture capital companies in a separate sector.

Its official name will be the Venture Capital Market (VCM).

A statement yesterday said the JSE was willing to consider applications from venture capital conglomerations or single venture capital companies for listings.

A memorandum must be submitted through a sponsoring broker, giving a summary of the nature of the company concerned, its modus operandi, its business plans and prospects.

If the memorandum satisfies the general manager (listings), the matter will be referred to the listings sub-committee for a decision in principle on whether the JSE will consider a full application for listing.

A venture capital conglomerate must have as its dominant business a portfolio of investments in capital ventures.

These investments must essentially be equity-based and must be backed up by support services and additional financial aid.

The JSE expects the applicants to have drawn up a business plan for the next three years in respect of each underlying venture, together with combined forecast balance sheets, profit and loss accounts and cash flows.

Applications from single venture capital companies must have drawn up an analysis of prospects based on expected market segment growth, a competitive analysis and prospective market share.

Both capital venture conglomerates and single venture capital companies must have assets in excess of R1,6 million at the time of listing. Only 5 percent of the issued shares need be held by the public.

Final and precise requirements for a listing are not given because of the nature of the market and the JSE will have the right to add to, alter, or exempt any of the requirements where it feels this is appropriate.

Unprecedented boom in manufacturing sector

Star 1/2/89. 180

By Derek Tommey

The manufacturing sector is enjoying its biggest-ever boom.

Makers of cement, bricks, pottery, electrical machinery, scientific instruments, beer and carbonated soft drinks are doing more business than ever before.

Figures issued by Central Statistical Services this week show that in November the basic index of physical volume of manufaturing production (1980 equals 100) after seven dismal years at last exceeded its October 1981 high of 116,3, to reach a new record of 117,2.

The upsurge in output is no flash in the pan.

The figures show the boom is a strong one, with manufacturing production on average running 7,6 percent ahead of last year and some sectors showing gains in production of more than 20 percent.

Physical output

This rise in physical output in the final months of 1988, together with other unexpected favourable developments such as the increased demand for coal and base metals and the improvement in agricultural conditions, suggests the rise in gross domestic product in the last quarter could have exceeded the three percent most economists have been forecasting.

Such extra wealth would be welcome.

Government talk about possible tax cuts suggests it is already is planning what to do with it.

The current upturn, which began in the middle of 1986, is one of the longest South Africa has had this decade.

It appears to be more soundly based than the two previous ones.

The 1980-81 boom was the result of the gold price roaring up to $800, which generated euphoria in business circles until the price collapsed.

The 1983-84 mini-boom was the result of a massive injection of government cash into the system.

But after a serious deterioration in the balance of payments in 1984-85 the Government had to stamp heavily on the brakes and forced the economy into recession.

Domestic demand

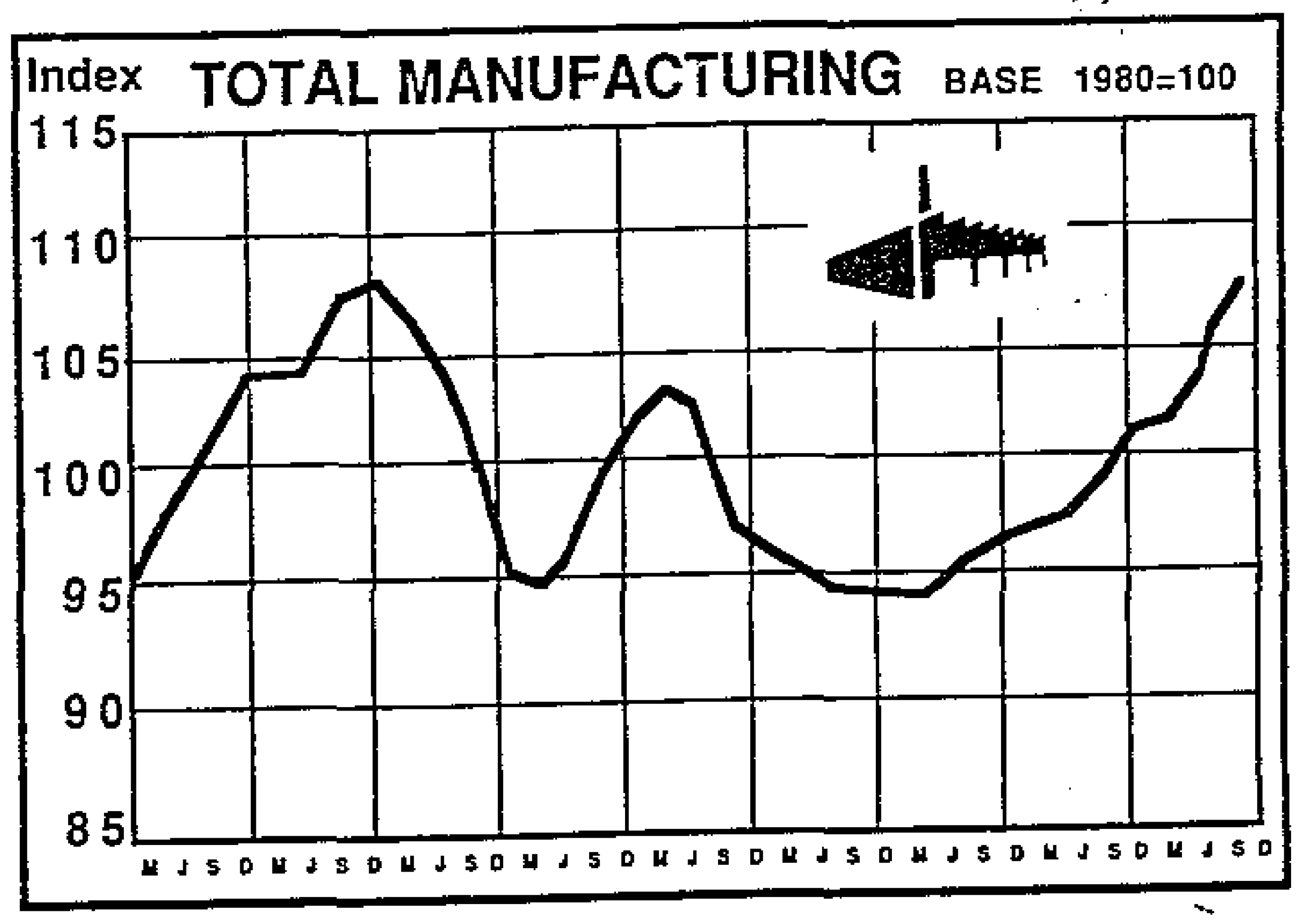
This time round there has been no $800 gold price to tease and then dash down the manufacturing sector.

The evidence is that the upsurge is soundly based on growing domestic demand, stimulated by the devaluation of the rand and the resultant, apparently successful, drive to replace imports and increase exports.

In the light of the R1,2 billion trade surplus in December, it does seem the boom is not being threatened by balance of payments considerations — at least as long as foreign economies remain buoyant.

And with inflation coming down from 16 percent a year ago to around 12,5 percent today, no more restrictive measures than are already in force would seem necesssary.

However, some economists believe growth is likely to slow in the coming months, partly because they expect a downturn overseas, and because the petrol price hike, import surcharges and high interest rates should start slowing consumer demand.



Total manufacturing index — base 1980100 (seasonally adjusted)

Manufacturing output November (Percentage change on year ago)

Non-metallic minerals	26,6
Pottery	26,0
Electrical machinery	24,6
Scientific equipment	24,0
Beverages	22,6
Footwear	21,8
Glass and glass products	20,5
Non-industrial chemicals	17,2
Machinery and equipment	13,9
Other industries	13,2
Motor vehicles, parts	11,5
Furniture (wood)	10,8
Non-ferrous metals	9,3
Wood products	7,5
Paper & paper products	8,6
WEIGHTED AVERAGE	7,6
Rubber products	6,7
Printing and publishing	5,8
Industrial chemicals	5,7
Food	4,1
Plastic products	2,7
Metal products	2,3
Tobacco	0,8
Textiles	0,4
Transport equipment	-1,8
Leather and leather products	-1,9
Iron, steel	-6,5

Threat to SA investments in the US

Star 2/2/89.

180

By Magnus Heystek

Businesses with large investments in the US could be threatened by an anti-apartheid Bill currently before the House of Representatives.

If passed in its present form, the Bill would prohibit SA corporations and individuals from owning five percent or more of any business enterprise incorporated in the US.

The Bill was introduced last week by Congressman Mickey Leland, who argued that it was necessary to close what he termed a loophole in the Anti-Apartheid Act.

Congressman Leland referred to increased efforts by SA companies to raise their stakes in key US industries.

He said SA companies controlled assets of $8,4 billion in the US at end-1988 and continued to increase stakes in key industries.

He cited South African-controlled Minorco as making a hostile bid for Consolidated Gold Fields — a British concern with strategic mineral assets in the US.

Congressman Leland said the use of "apartheid-generated profits produces economic and social stability for South Africa and thus fuels apartheid", and should be eliminated.

If enacted, the Bill would be a blow to companies like Minorco and Anglo American, which at one stage was the largest non-American investor in the US.

Another company to be affected would be the Altron Group, which only last week announced plans to set up a computer company in California to be headed by Punchline founder, Mr Barry Schechter.

Industry still riding the crest of a wave

S Star 8/2/89

By Magnus Heystek, Finance Editor

If the economy is heading for a recession, this danger has not yet been grasped by manufacturers who are showing remarkable optimism in the face of gloomy forecasts made by some economists.

This emerges from the latest findings of the Federated Chambers of Industry (FCI) which, in its monthly *Industry Outlook* shows a continuation of the buoyant conditions experienced by the manufacturing sector.

As the largest contributor to gross domestic product (GDP), this is bound to have a positive effect on economic performance this year.

According to *Industry Outlook*, which was released yesterday, the manufacturing sales index rose to 144, the second-highest level since the beginning of the survey last July.

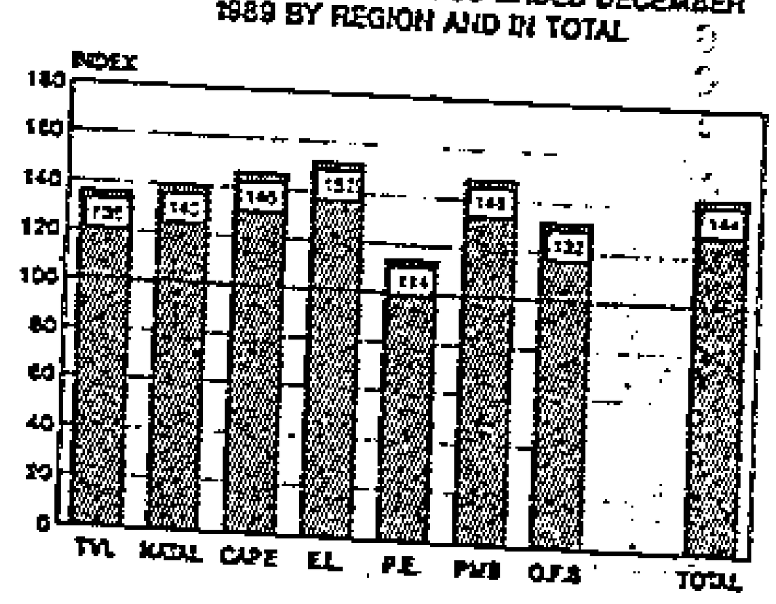
Monthly basis

The survey is conducted by the the FCI on a monthly basis, and gauges members' views on both current and expected economic conditions.

As the survey is done with the help of modern communications technology, it probably represents the most timeous information available on trends in the volume of sales, orders received, capacity utilisation and other key indicators.

The survey was done in the last week of January and is considered by the FCI to be an up-to-date assessment of the current mood among manufacturers. In January the index for future manufacturing sales reached 144, compared with 142 in December, and is only two points below the peak of last August.

This remarkable level of business optimism among manufacturers is ascribed by Mr Roelof Botha, economist for the FCI, to a surge in import replacements and to an increase in gross domestic fixed investment (GDFI), which was rising by an annualised eight percent in the final quarter of last year.



INDEX OF EXPECTED MANUFACTURING SALES FOR THE 12 MONTH PERIOD ENDED DECEMBER 1989 BY REGION AND IN TOTAL

Boom attributed to import replacements B/Day 8/2/89 (180)

Industrial optimism has risen to new levels

LESLEY LAMBERT

FURTHER growth in the level of optimism among industrialists has been indicated by the Federated Chamber of Industry's (FCI) latest *industrial opinion index*.

This provides additional confirmation of a manufacturing boom which has been attributed largely to import replacement.

The FCI's index — a measure of the actual performance of the sector, its monthly expectations and a forecast of future sales — shows that optimism has grown since December to levels close to those achieved in September when manufacturing production volumes showed dramatic growth.

The index of expected sales for the 12 months to January 1990 put the level of optimism at 44 points above the 100-point border between optimism and pessimism — the second highest level since the FCI first began conducting the survey in June last year.

Highest

Data for the latest survey, completed at the end of January, was collected from about 400 large and small companies operating in the major industrial sectors in seven areas of the country.

Samples from East London and Maritzberg showed the highest degree of optimism while Port Elizabeth was least optimistic, although it still registered 14 points above the dividing line.

FCI's predictions of 7% growth in manufacturing production volumes for the three months to November 1988 was in line with the trend reflected in official statistics.

This growth was considerably stronger than that of the economy as a whole and one to two percentage points higher than growth in retail and wholesale sectors, suggesting that more goods were being manufactured than sold.

While this could have been attributed to an increase in stocks or the export of manufactured goods, FCI industrial consultant Gad Ariovich said growing response to import replacement opportunities which had arisen from a combination of rand depreciation and surcharges was more likely to have boosted volumes.

Industry leader slams price hikes

180

'Profiteering is threatening building trade'

BD 9/2/89

TANIA LEVY

MANUFACTURERS who had introduced unnecessary and exorbitant price increases had endangered the future growth of the building industry, Masterbuilders Association (MBA) outgoing president Robert Giuricich said at the association's annual meeting in Johannesburg yesterday.

Recent petrol price increases would add fuel to the fire, but hopefully cost increases for 1989 should not exceed 16% for the year, he said.

● GIURICICH

Stabilising economic and political factors in recent weeks had signalled, at worst, a levelling off period for the industry and a modest upturn towards the middle of 1989.

However, Giuricich warned that the industry would be unable to survive any form of recession. It had been unable substantially to increase its meagre profits, build up reserves or replace plant and vehicles during the mini-boom last year.

Over the past year workloads had improved, in spite of hurdles like rising interest rates, a potential chronic shortage of artisans and inflated building material price increases.

Giuricich said that manufacturers in the protected and quasi-monopolistic fields were guilty of taking advantage of the improvement in the building industry to push up prices.

"We don't deny manufacturers a decent profit but their exorbitant price increases are inevitably blamed on the builder or sub-contractor, but why must we contend with increases in basic commodities such as clay bricks, whose price has escalated between 40% and 60% in the past 18 months?" he asked.

Certain plumbing products had escalated by between 50% and 100%.

Rather than putting the cost of their products onto the shoulders of the building industry, the cement industry cartel should take advantage of the devalued rand to export, in order to maintain their plants and justify investments, said Giuricich.

Trading in the cement industry had recently been sanctioned by the Competition Board but it seemed unable to use its muscle to disband monopolies or cartels, he added.

Protected industries and quasi-monopolistic sectors had grown by leaps and bounds due solely to a lack of competition, while the rest of the building industry ambled along at nil or low profits.

The Competition Board should counter this by creating more competition among local manufacturers though lower import duties on products subject to monopolistic conditions, Giuricich said.

Stock exchange gains R16-bn in one week

180 Star 13/2/89

By Derek Tommey

The JSE is booming. Share prices surged last week after heavy institutional buying and rose overall by 4,8 percent to boost the market value of listed shares by R16 billion to R346 billion.

This is a continuation of the steady rise which has added R43 billion to share prices since December.

Only investors in Hong Kong and Britain so far this year have fared better, as the accompanying graph shows.

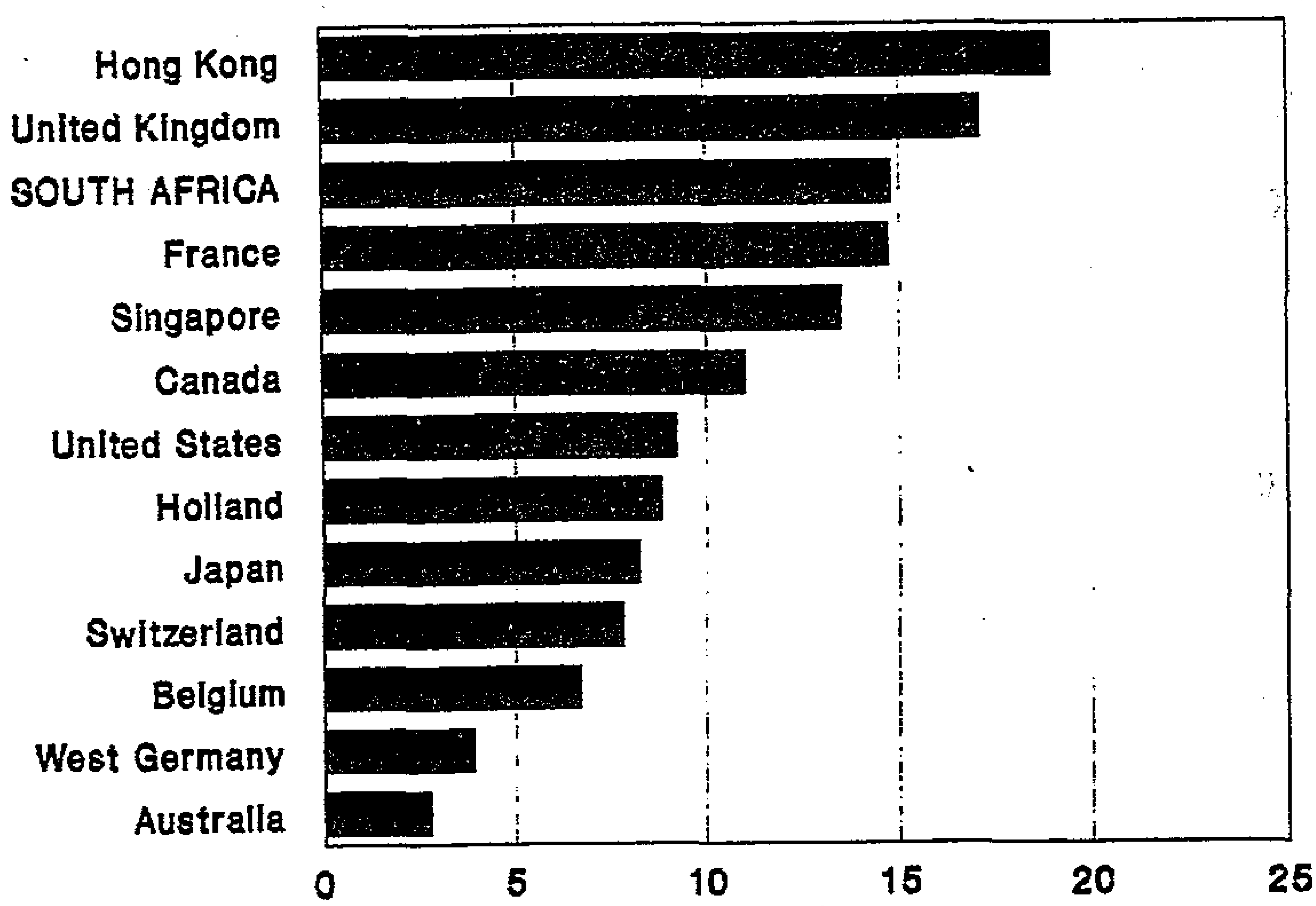
Last week's frantic buying boosted turnover to R475 million, giving brokers their most active week since the October 1987 crash.

Brokers attribute the buoyant market conditions to the better-than-expected performance of the economy and to companies reporting unexpectedly high profit increases.

Some of the percentage increases in earnings a share reported in the past week are: (annuals) SA Eagle 83, Afex 55, Conafex 44, Metalco 34, Chemserv 31, Didata 28 and Stanbic 20; (interims) Kudu 269, MS Spitz 89, Wooltru 42, Impala 32, Micor 23 and Klipton 20.

A feature of the results is that virtually all sectors of the economy appear to be doing well.

This was reflected in share movements last week when coal, diamond, metal and mineral, manganese, platinum, financial and industrial shares all gained more than four percent.



Share gains since December (percent)

With the gold price sinking below $390 at the weekend, gold mining is not doing as well.

Nonetheless gold shares managed to rise 5,5 percent, indicating that even under current conditions, investors believe these shares are offering value.

After last week's gains many investors will obviously be wondering whether to take profits.

Most economists expect a growth rate this year of two percent — which means that profits will continue growing, but perhaps not at the current rate.

This suggests there is no reason for profittaking at this stage.

An analysis by Mike Brown, of Davis Brokum and Hare, shows that dividend yields offered by the leading sectors are still some way above their 1987 October peak and November slumps, which shows that earnings have kept pace with share price growth.

Percentage dividend yields offered by the major sectors last Friday and, in brackets, those at the end of August, 1987 were: Tobacco and match 1,9 (0,9), platinum 4,5 (3,3), diamonds 2,5 (1,7) insurance 3,6 (3,0), food 2,8 (2,2), mining houses 3,2 (2,5), motors 4,6 (2,6), all gold 5,5 (2,3) and banks 5,6 (3,9).

Natsel beats Indsel results for half-year

BDay LIZ ROUSE 15/2/89

NATIONAL Selections (Natsel) achieved slightly better results on its investment portfolio than Industrial Selections (Indsel) in the six months to December.

Also, while Natsel directors predict satisfactory growth for the year to June 1989, Indsel directors expect moderate growth. Both companies will pay higher dividends.

Natsel's taxed profit rose to R18,6m in the six months from the 1987 half-year's R15,7m, equal to earnings of 8,08c a share (6,81c a share).

The interim dividend has been raised to 5,5c (4,2c). Directors forecast that the final dividend should not be less than the interim, which means that Natsel will pay out 11c against last year's 9c.

Natsel's dividend income growth to R18,4m (R15,5m) was not impressive but that is partly due to the irregular pattern of dividend declarations by private companies.

Sappi

180

However, net asset value at market value climbed by 49% to R502,6m (R337,6m), equal to 218c a share (147c a share). The transaction in which Natsel acquired 3,46-million Sappi ordinary shares in exchange for its interest in Saiccor and cash was finalised in the six months under review.

Indsel's interim taxed profit amounted to R18,6m (R18,2m), equal to earnings of 6,79c a share (6,65c). The interim has been raised to 4,5c (3,8c) and the year's total payment should not be less than 9c (8c).

Dividend income of R18,5m (R18,1m) showed little growth. However, Indsel's nat asset value, based on market value, rose by 51% to R554m (R366,8m), equal to 202c a share (134c a share).

Indsel acquired 4,79-million Sappi shares in exchange for its interest in Saiccor. In addition, 261 425 Fedvolks shares were taken up in terms of a rights issue and a sub-underwriting of the issue.

Sanlam sinks R2 bn into development

(180) Star 16/2/89

Over the next five years, Sanlam will be making R2 billion available for application as development capital by its wholly-owned subsidiary, Sanlam Investment Corporation (Sankorp).

This announcement, made in Cape Town by Dr Fred du Plessis, Chairman of Sanlam and Sankorp, is an imaginative step to encourage job creation.

"At the same time, Sanlam and its policy-owners will derive considerable benefit, in the longer term, from investments envisaged as a result of this action," said Dr du Plessis.

This investment will enable Sankorp, the company controlling Sanlam's strategic investments in mining, industry, finance and trade, to create new enterprises and to help existing, viable undertakings in need of financial aid to expand. This should make a substantial contribution to the development of South Africa.

Dr du Plessis said the lack of investment in recent times had been cause for some concern.

Dr Fred du Plessis

"By making this large sum of investment capital available, Sanlam and Sankorp will make an even greater contribation to job creation and economic growth — both so essential for the stability and progress of the country."

He pointed out that this step was the continuation of a policy that Sanlam had been following for decades: to create and expand new enterprises and not merely make safe investments in established undertakings.

Good examples from the past are the founding of Federale Volksbeleggings in the forties and the subsequent establishment and development of Federale Mynbou and Gencor.

Historical trend

More recently, this policy was expanded further with th establishment and development of many subsidiaries in the group. According to Dr du Plessis, a typical example of this is Sappi, which produces paper and pulp products and earns large amounts in foreign exchange for South Africa.

"These enterprises in the Sanlam group provide work for thousands of people and yield excellent investment returns for Sanlam's policy-owners. The whole country therefore benefits," said Dr du Plessis. — Sapa

COMPANIES

Marshalls to widen base through its new division

(180) BDay 17.2.89

Own Correspondent

DURBAN — Marshalls, already involved in property, motors and agriculture, is to widen its base by creating a confirming and indent financing division on the nucleus of R4,5m which it made from property sales last year.

Marshalls had a 19% increase in turnover (from R23m to R28m) and a 31% increase in group profit (from R3,4m to R4,4m) in the year to end December.

Earnings a share at 21,7c were 43% up on 1987 and a final dividend of 8c a share has been declared to make 15c for the year against 12,5c in 1987.

The group expects to make use of its property portfolio, which was revalued to R40,6m (R32,3m in 1987) and which has only R5,6m in mortgages outstanding. It should be able to borrow to finance its new business.

The Prospecton property was sold in July and the Milner Street property in October.

The Pinetown-based properties have performed well in 1988 with the Murray Square property contributing for a full year. While there are some vacancies the attraction of the modest R14/m² rentals against R40/m² in newer developments in the area should attract tenants.

Shortages

The directors note that the occupancy rate in their properties has beeen "very high" and that it is anticipated that the demand for leased premises will be sustained in 1989.

The motor and agricultural division traded better in 1988 than in 1987 in spite of the double effect of rising prices and the shortage of certain classes of new vehicles.

The new financing division, to be based in Durban, is seen as important for importers who have to meet import surcharges and cope with changes in exchange rates.

The directors consider the results reflect a satisfactory increase in turnover and profit with rising expenses well contained and, "with the group's low gearing, the rise in interest rates has been absorbed without a material adverse effect to earnings a share".

Results at pyramid Marcons reflect the earnings from Marshalls with EPS at 10,2c (3,20c) out of which dividends of 7c (3,75c final) were paid against 2,75c for 6,5 months in 1987.

Weight of funds enough to support market, says broker

180

Star 17/7/87.

By Magnus Heystek

The outlook for industrial shares on the JSE for the rest of 1989 is still considered to be favourable, despite the rise in equity prices since the market bottomed out in February last year.

One factor, in particular, will underpin the market, says economist John Banos of stockbroking firm Simpson Mckie, and that is the huge institutional cash flow that has been growing at an annual compound rate of 27 percent since 1978.

Cash flow

Institutional cash flow is estimated to grow by another 23 percent to more than R13 billion this year, of which about R5,6 billion could potentially be invested in the equity market.

Added to this, is the historically high level of discretionary cash reserves held by private pension firms, estimated at R5 billion.

Liquidity levels of life assurers are reckoned to be similar.

Since the 1987 crash, new listing activity — which always tends to absorb huge amounts of capital — has tailed off significantly. However, rights issues in 1988 have continued at roughly the same pace as in 1987.

Overall, Mr Banos estimates that the potential institutional cash flow into equities will exceed the demand for capital from rights issues and new listings by R2,6 billion this year.

The sharp rise in equity prices in the first six months of 1989 was largely ascribed to a massive buying spree by leading financial institutions, which, it seems, suddenly woke up to the good value offered by many blue chip.

The improved economic outlook contributed largely to this flight of capital into equities after earlier forecasts had painted a rather gloomy growth scenario for 1989.

The downturn in the gold price has kept institutions on the sidelines since last Friday. But yesterday brokers noted several institutions back in the market.

Brokers say equity prices were driven higher as a result of the lack of sufficient scrip of blue chips in the market.

At one stage last week, amid scenes reminiscent of the peak of the bull market in 1987, institutions went on a panic buying spree for blue-chip industrials, as one broker puts it.

Other brokers agree that SA's closed-shop environment could engender a hot-house effect, with vast amounts of money chasing a limited number of shares.

The low tradeability of SA equities, compared with other international markets, tends to reinforce this effect.

However, some economists warn that the excess supply of institutional cash flow into equities has in the past been alleviated by net foreign sales of JSE equities.

Although such sales have been insignificant this year, the threat remains.

In the latest client letter of stockbroking firm PLJ Van Rensburg and Partners, analysts David Meades and Gerhard Lampen, come to a similar conclusion, basing their arguments on the surplus on the current account of the balance of payments that SA is forced to maintain.

Total capitalisation

They point to a remarkable correlation between the total market capitalisation of the JSE and the the balance of payments.

With SA currently under international pressure to maintain a surplus on the current account of the balance of payments, coupled with other control measures over the flow of foreign exchange, this should contribute to upward momentum on the JSE, they say.

B/Day 20.2.89 (180)

Sasfin achieves impressive results

TANIA LEVY

SASFIN has underlined its recent move to the JSE main board with an impressive set of results for the six months to December.

The trade and equipment finance group achieved a 148% increase in attributable profit to R936 000 from R377 000 the previous year.

An increased number of shares in issue dilutes this slightly to an 118% rise in earnings to 8,32c (3,82c) a share.

Sasfin moved to the JSE's banks and financial services sector in December 1988 after a year on the DCM.

MD Roland Sassoon foresees excellent prospects for the year to June.

He said: "The BTI's recently announced surcharge exemption on approved counter-trade transactions should provide significant benefit to us and our clients."

About half the group's profits are earned by overseas subsidiaries providing a rand-hedge element to the share.

Sasfin's export business has again contributed to a low tax rate of 2,1% (3%) through tax concessions applicable to overseas subsidiaries.

Because Sasfin's gearing ratio is low at 2:1 compared with a potential 5:1 for finance houses, there is a high potential for growth and development.

Sassoon said the group's steady growth during the reporting period was fuelled by the synergy between Sasfin's domestic trade finance and its export and import confirming and shipping services.

Cullinan raises profits by 12,5%

By Ann Crotty

Cullinan shareholders who have probably become accustomed to solid performances from the group will be a little disappointed by the 12,5 percent improvement in earnings per share reported for the six months to end-December.

A 35 percent increase in turnover to R233,5 million (R173,2 million) was reduced to a 17,4 percent advance at the earnings level from R9,1 million to R7,7 million by an increase in interest payments, a higher tax charge and, most significantly an increase in minority interests from R1,5 million to R2,4 million.

The high level of minority interests reflects management's decision in to change their accounting policy relating to partnerships and joint ventures.

The improvement at the per share level was reduced to a 12,5 percent from 58c to 65,3c because of an increase in the number of shares. The dividend was raised to 17c (15c).

The directors note that in general the group performed well during the review period but that the refractories division suffered from some production and industrial relations difficulties. This is reflected in a drop in the earnings contribution from refractories to 10,6 percent from 16,7 percent of group total.

Cullinan boosts profits by 30%

CAPE TIMES 23/2/89

JOHANNESBURG. — Cullinan Holdings has reported after-tax profits of R11,48m for the six months ended December, a 30% increase on the same period last year.

The technology-based industrial group has posted a 12,6% increase in earnings with the board declaring an interim dividend of 17c per share, 13% up on the same period in 1987.

Group turnover rose to R233,5m — up 35% from R173m in the six months to end December 1987.

Executive Chairman Neil Cullinan said the group continues to perform well from a high base.

"All operating divisions report full order books and the prospects for the rest of the year are encouraging. I anticipate the group will perform ahead of last year's record when earnings per share rose to 127,6 cents," he said.

Cullinan said a pleasing aspect of the group's financial results for the six months was the continuing good performance of businesses in the electrical field.

Cullinan's operations in this sector contributed 60% to earnings after posting a 16,7% increase to 46,9c a share.

The directors said setbacks to the profitability of the refractories division early in the reporting period had been successfully overcome.

"Three of the refractory division's continuous process kilns were temporarily out of service during the period, resulting in production falling below budget levels.

"The division was also affected by prolonged wage negotiations with the Building, Construction and Allied Workers Union."

Cullinan said the group has embarked on a R34m capital expenditure programme to modernise and expand operations in both core and developing operations.

By Udo Rypstra

Demand for factory space leaps

(180)

S Times 26/7/89

SOUTH Africa's major cities are experiencing a strong demand for industrial space. If supply is not stepped up, rents in prime locations could rise sharply.

The demand in Johannesburg, Durban and Cape Town is strong for premises under 5 000m² and particularly so for less than 500m².

The reason, say property brokers and economists, is continued economic growth, more new businesses and motorways and the improved mobility of black workers and their urbanisation.

Research

Many inquiries are for a small amount of factory space are not being satisfied. As a result, some manufacturers are buying land and building factories and warehouses for their own use under lease-back agreements.

Research by Map Studio, co-publisher of the 1988 Industrial Guide, indicates that on the Reef alone, 3 000 businesses have opened in 45 newly proclaimed industrial areas in and around Johannesburg and on the West Rand, primarily extensions of existing suburbs.

The 1984 glut of industrial space has been taken up. Only in the old industrial areas, which present severe parking problems — Booysens in Johannesburg is one — is demand slack.

Rents that hovered around 1983 levels are beginning to move in prime areas. Other rents are holding steady.

For large space in Spartan, R5,50/m² seems to be a good average, but for a smaller area it could be as high as the R11/m² charged on the West Rand.

Property brokers JH Isaacs, Landmark and Old Mutual Properties (OMP) say 1988 demand for industrial premises was huge and there is little indication of a decrease this year.

Old Mutual Properties says that in the past 18 months it let more than 120 000m², of which 45 000m² was for units smaller than 5 000m². Demand is continuing to grow.

However, industrial landlords report that prospective tenants still demand low rents, believing that the economy could dive soon. Fears that 1989 will be a tough year and the expected 20% increase in building costs have scared off many developers.

OMP manager for the Witwatersrand Ian Watt says industrial building costs are R600/m², partly because of inflation, and partly because the office space requirements in factories and warehouses have increased in the past few years.

He believes rents on the Reef will have to rise to about R7/m², and more to make new developments profitable.

In the Western Cape, Annenberg Real Estate forecasts that the average rent this year will be between R5/m² and R6/m².

"They have been achieved in Cape Town's southern suburbs, Old Mutual's Industrial Park in Maitland and Sanlam's Industrial Park in Parow."

Assocom team to probe business ethics

B\Day 27/2/89 (180)

BRENT MELVILLE

AN INTENSIVE investigation is to be launched by Assocom into business practices and the issue of public and private sector ethics.

Legal manager Ken Warren said the probe was warranted by the recent spate of bribery and corruption allegations brought to light by the Harms Commission and the media.

He added a special group would be formed to see how dependent the private sector was on the public sector. The more inter-dependent the two were, the greater the opportunity for corruption.

"We will not condone bribery and corruption and have committed ourselves to assessing the scope and magnitude of the problem, and taking steps to eradicate it," he said.

The group would examine "the systems and environment which promote unethical behaviour, and the extent to which inflationary pressures and taxes, which affect the standard of living, undermine ethical norms which the private sector would otherwise prefer to uphold."

Assocom, which represents about 25 000 businesses, would, in the light of a code of ethics drawn up by the group, be able to take punitive action against companies that infringed it.

SA as a whole might, however, find itself having to adopt an unconventional means of trading depending on international attitudes and pressures, especially in terms of sanctions, said Warren.

Analysts see slowdown in industrials' profit growth

Star 27/2/89

(180)

By Derek Tommey

Interim and final results for 1988 released by non-mining companies are still extremely good.

But there are signs that the growth in profits started to slow down in the second half of last year and unofficial reports suggest that this trend has continued into the present quarter.

While profits are still expected to rise fairly steadily for the rest of the year, this change into second gear in profit growth is leading share market analysts to forecast a period of consolidation for the industrial market in the next two or three quarters.

The 16 companies reporting their full 1988 figures last week certainly gladdened the hearts of their shareholders because between them they had a combined profit of R461 million, which was an increase of 32,9 percent on the R347 million they earned in 1987.

Turnover rose 27 percent from R5,1 billion to R6,5 billion, while working profit increased 36 prcent from R614 million to R839 million.

Tax payments rose even faster, jumping 47 percent from R194 million to R285 million.

Shareholders benefited from their companies' good fortune, with dividends rising from a low 20 percent to 100 percent in the case of Blue Circle.

However, an analysis of the interim figures for the six months to December, published last week, show that the profit trend tended to be weaker towards the end of the year.

The 27 companies to report last week had combined distributable profits of R305 million — an increase of only 25,5 percent on a year earlier.

This selection might not give a completely accurate picture of current profit trends.

But businessmen are starting to talk of a drop in consumer spending and and say profits for the six months to March might not show the same growth as those for the six months to December.

The industrial share price index closed at 2258 on Friday, only seven points below its record high of 2265 reached in October 1987, just before the market collapsed.

With so little distance to go, one can expect the industrial index to break through its 1987 peak in the next few days or so.

But analysts are expecting some of the steam to go out of this sector.

Dee Ashton of Mathieson and Hollidge said at the weekend that industrial shares could enter a consolidation period, which could last two to three quarters.

She expected profits to continue to grow. But industrial companies were finding the going more difficult and the latest rise in bank rate and prime rate would also affect many firms, she said.

Consequently she did not expect the industrial market to continue advancing much longer.

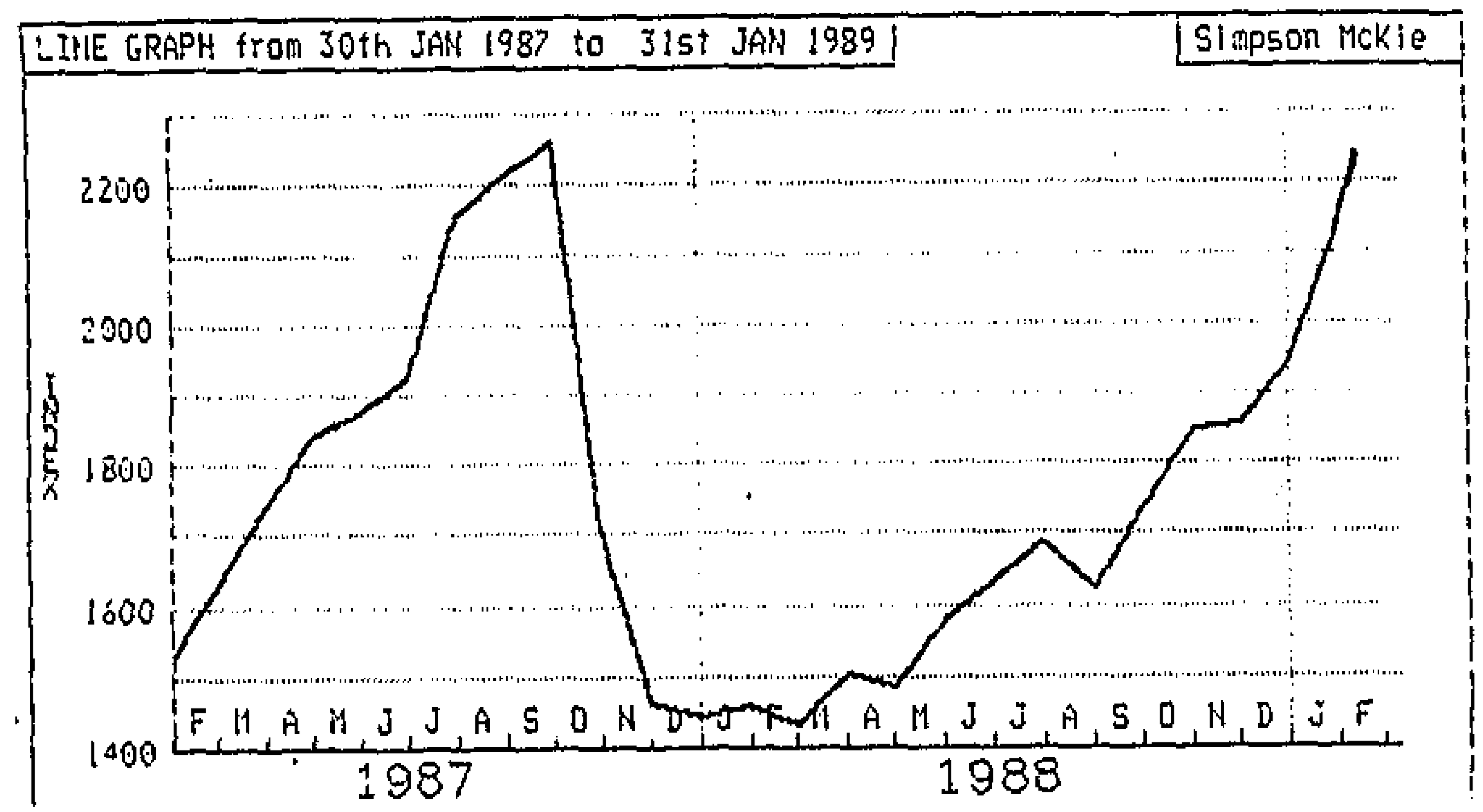
An analysis of the industrial market's behaviour helps bear this out.

Since the end of September last year, when the good first-half year results started to become known, the industrial index has risen 32 percent, so it would seem that industrial shares have reacted fairly fully to the 1988 profit increases.

As a result, the market now requires a further stimulus before growing again.

But for some months this stimulus is unlikely to be forthcoming.

INDUSTRIAL INDEX



Industrial share prices have rallied strongly in the past 12 months, rising only 60 percent, to recover most of the ground lost in the October 1987 market collapse. Rising company profits and restored investor confidence played a major part in the upturn.

Swiss trade with SA rises

Star 28/2/89

The Star's Foreign News Service

BERNE — Switzerland's imports from South Africa jumped by 102 percent last year because of a sudden surge in uncut diamonds.

The government disclosure was made in Parliament yesterday in reply to a Socialist MP who asked about media reports of growing trade with SA — in particular the purchase of diamonds.

Some Swiss business journals have reported that Switzerland is replacing London as the focal point for SA's uncut diamond sales.

The government confirmed that Swiss exports to SA last year rose by 16 percent to R700 million, but said that earlier exports had declined every year since 1982, except for 1984.

Imports from SA — excluding gold, which never appears in public trade figures — rose by 102 percent last year to R1,1 billion.

Of that, 70 percent was in the form of uncut diamonds.

Business confidence index shows decline

Star 28/2/89

180

By Magnus Heystek

The decline in Assocom's Business Confidence Index (BCI) in February is seen as a pointer to a downturn in economic activity later in the year.

Although there is still considerable momentum in the economy, business sentiment is adjusting to a number of adverse developments, which have materialised in the first two months of the year.

The BCI fell by nearly two points from 96,7 to 94,8, a level last seen in March last year. It signals a clear adjustment in business sentiment to current economic realities.

Assocom says the negative influences include the steep decline in the dollar/gold price, a further weakening of the rand exchange rate, a fall in merchandise imports and exports, an upturn in inflation and last week's increase in Bank rate, precipitating a general increase in interest rates.

Retail sales figures for January show a small decline, while building plans continue to decline.

Positive factors going against the trend include a strengthening of the JSE overall market index, a rise in new company registrations and a decline in insolvencies.

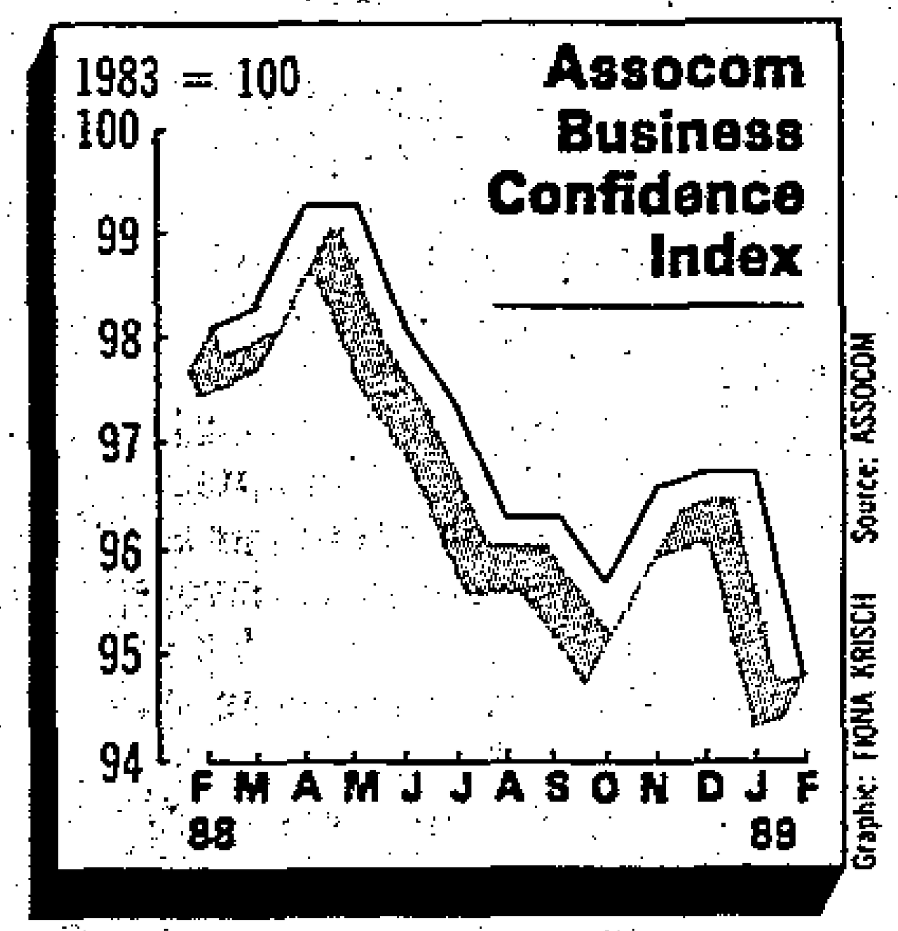
Assocom says: "The decline in the BCI in February is not unexpected. Business confidence is an integral part of a changing economic scene. Although there is still considerable momentum in the economy, business sentiment is being adjusted to the current slowdown, the weak gold price and the latest tightening of monetary policy."

Assocom adds, however, that the decline in the February BCI does not yet reflect widespread pessimsim in industry and commerce, but rather an adjustment of the business mood to current realities.

On next month's Budget, Assocom says the Minister of Finance, Mr Barend de Plessis, does not seem to have much room to manoeuvre.

"If the fiscal and monetary policies are to operate in tandem, then the very best that business can expect is a neutral or perhaps a slightly restrictive Budget on March 15.

"What will be important to business confidence now is whether in 1989 the economy is allowed to make a 'soft landing'. A small mistake in policy could forfeit a soft landing, whereas timeous action of the right kind could avoid a drastic slowdown in the second half of 1989."



Business mood on the decline

BDay 1/3/89

180

SYLVIA DU PLESSIS

BUSINESS confidence is is on the decline, with the mood for February at thelowest since June 1987.

Assocom's composite business confidence index now stands at 94,8 — a decrease from January's 96,7 and 2,7 less than the average for last year.

The chamber says, however, the decline suggests a modification of business sentiment to current economic realities rather than widespread pessimism in industry and commerce.

It says although there is still considerable momentum in the economy, business sentiment is being adjusted to the current economic slowdown, the weak gold price and the latest tightening of monetary policy.

Despite the "fairly rosy" attitude of firms in relation to the future expansion of their business, there have been "clear sign-posts" that the economy might not be decelerating quickly enough to remove concern about the level of net foreign reserves, Assocom says.

Many businessmen do not see the Minister of Finance having much room to manoeuvre in the Budget as "SA needs to rebuild its foreign exchange reserves this year so as to be able to tackle its foreign debt negotiations in 1990 from a position of strength".

Homemakers adapts well to period of rapid change

Star 1/3/89

180

By Ann Crotty

Homemakers has reported a sterling improvement in turnover and an excellent increase in operating income for the 12 months to end-December.

The 25 percent increase at the earnings per share level which was at the lower end of analysts' expectations reflects the impact of a number of non-operational developments from a group that has undergone considerable changes during the 12 months under review.

Chief executive Hilton Nowitz refers to the issue of incentive shares to executives and staff throughout the group, noting that while it dilutes eps in the short term, the longer-term motivational impact should increase eps.

In addition developments at the JD group (which was created with effect from beginning July) saw a phasing down of the World operation during the six months to December. Although World was found to be making an unacceptable contribution to JD's profits, traditionally it s strongest profit period is the three months to end-December so the phasing down of this division meant that Homemakers didn't enjoy World's usual earnings kick in the last three months.

According to Mr Nowitz, in the absence of this development eps might have been slightly higher.

The JD deal complicates analysis of the figures.

The JD figures are consolidated for the six months to end-December which means that although World and Bradlow are included for the full 12 months, the Joshua Doore (as opposed to JD) figures are only included for the six months to end-December.

Turnover surges

Turnover rose 69 percent to R507,2 million from the 1987 pro forma figure. Operating profit surged 93 percent to R72 million (R37,2 million), reflecting a sharp improvement in margins from 12,4 percent to 14,2 percent.

The consolidation of the JD operations led to a massive 142 percent hike in the interest payment to R10,7 million (R4,4 million). An increase in the tax rate to 28,8 percent, meant that taxed profit showed a 74 percent surge to R43,7 million (R25,1 million).

Outside shareholders (primarily the minorities in JD) took R9,1 million compared to the previous year's R213 000 leaving attributable earnings ahead 39 percent to R34,5 million (R24,9 million) which, on the increased number of shares in issue, was equivalent to a 25 percent improvement in eps to 18,6c (14,9c).

The balance sheet has been considerably changed by the JD deal. The group's liabilities are down sharply and deferred tax has dropped from R17,4 million to R7 million. This reflects the fact that the furniture interests (now combined in JD) are treated as an investment. Gearing is down to 13,6 percent from 31,8 percent.

Looking to 1989, the directors are forecasting a real growth in earnings.

Volatile outlook for capex growth

Star 2/3/89

(180)

By Sven Lünsche

The Deputy Governor of the Reserve Bank, Professor Jan Lombard, has made a powerful plea for positive real interest rate levels, against the background of a volatile outlook for capital expenditure growth over the next few years.

Opening the 1989 Capital Expenditure Prospects Conference yesterday, Professor Lombard said that the weakening contribution of capital expenditure to the growth of output and employment was undermining economic development.

"It has undermined the capacity of the economy to attract savings from within and capital from abroad and to provide the growing domestic population with the chance to earn a decent income," he said.

Outlining the reasons for the decline in capex, Professor Lombard told delegates that it could largely be ascribed "to the low and negative levels of interest rates maintained in South Africa for such a long time, coupled with the overvaluation of the rand."

"In such an economic system profits may be made from capital formation aimed at the replacement of manpower, rather than the production of a larger output.

"The net result of all this for the economy is a drop in employment, rather than a contribution to GDP, the opposite of what the people of South Africa require," Professor Lombard told delegates.

Instability

Capital expenditure has been recognised by economists as the volatile element in the roots of the cyclical instability of domestic output and judging from the forecasts for capex in the various economic sectors over the next ten years it could once again contribute to the serious instability of South Africa's economic performance.

Speakers at the conference outlined the growth prospects for their industries and while a few were optimistic, the general outlook for most appears rather volatile.

Eskom for one indicated that it would be cutting back its annual average capex during the 1990's to about half of its current level of just over R3,2 billion, following on last year's decision to "mothball" several power plants.

The group's chief general manager finance, Mick Davis, explained: "The cut-backs in our expansion programme were not the result of past imprecise planning but rather a careful reassessment of the nation's future requirements."

The prospects for the engineering industry look a bit brighter and capex could rise above the current annual level of R1,5 billion, but Dorbyl CE Dawid Mostert pointed out that further investment will be on a selective basis.

He adds, however, that the mining industry and the motor industry, two of the biggest sectors in the country, are set to raise capex substantially.

Projects in the mining industry until the year 2000 will involve new capital expenditure of up to R7 billion (1988 prices), he said.

Commenting on the motor industry, he said that the change from mass-based local content specifications to a value based one, would have far-reaching implications. "Indications have been given that the motor component industry is expected to double in size over the next nine years," Mr Mostert said.

These wide ranging and varying developments support Professor Lombard's call for a more stable economic background for capex in the form of positive real interest rates.

As Professor Lombard pointed out to delegates: "It must be recognised that investment decisions in market economies are guided by market prices and the profit motive."

It is only when the particular economic system ensures that profits realised from investments exceed the cost of inputs that market forces will automatically protect the productivity of capital expenditure, he said.

Pref share move hobbles deals

BDay 2/3/87

180

KAY TURVEY

MULTI-MILLION rand deals have had to be re-financed, after the disruption of the corporate-financial community by government's retrospective crackdown of preference shares redeemable in three years.

At least one planned R40m management buyout of a listed company is having to be restructured.

More than R120m of redeemable preference shares in the giant FSI group are also being renegotiated.

Fresh deals will have to be struck for about half of banks' estimated R500m exposure to redeemable preference shares.

The proposed legislation, which will result in dividends on preference shares redeemable within three years being taxed as interest in the hands of the recipient, has been criticised for blocking an avenue of capital funding.

Financiers believe the legislation will drive up the cost of borrowings.

Dividends paid on short-term redeemable shares vary from about 63% to 75% of the prime rate and if re-negotiated for a longer period, shareholders will expect a return equal to prime or 1% below prime, says Finansbank MD Hennie van der Merwe.

Banks which have taken up preference shares with an escape clause providing for a change in legislation, will be protected as they will be able to get out of the deal.

FSI financial director Neville Cohen says the group is negotiating to convert its redeemable shares on a six month and yearly rollover to longer term prefs with no security.

The legislation is also aimed at shares subject to a put option or guarantee.

However, Cohen says this will make little difference to the group's funding and will not affect bottom line performance. The group has about R600m unutilised bank facility.

He estimates, given balance sheet considerations, banks participation in preference shares roughly match their shareholders capital, which for the banking sector is R500m.

A financier says short-term preference shares as a form of financing management buyouts of listed companies will no longer be possible.

AVI remains on growth track at the interim stage

B/Day 2/3/89 (180)

LIZ ROUSE

ANGLOVAAL Industries (AVI) remained on its strong growth track with interim earnings up 22% to R79,9m (R65,7m), equal to earnings of 321c (264c) a share.

All the group's sectors returned improved pre-tax profits, reflecting the economic surge in the second half of 1988.

ANGLOVAAL GROUP

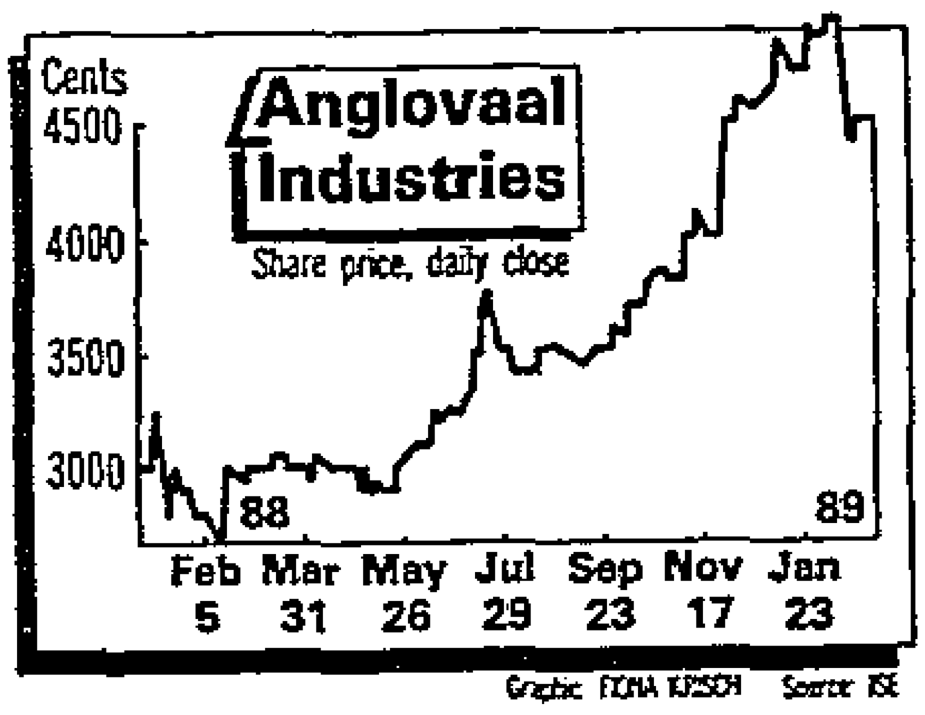
AVI directors say while the full year's earnings to June are expected to surpass the 1988 mark, the growth rate may not match the one reported now.

Consolidated turnover rose by a robust 25% to R2 228,3m (R1 784,5m), while operating profit increased to R226,1m (R182,6m).

After adding sharply higher investment income of R17,8m (R5,5m) and deducting interest charges of R17,3m (R9,7m) — brought about by increased borrowings and higher interest rates — pre-tax profit was up 27% to R226,6m (R178,4m).

Net current assets increased to R708,4m (R492,5m) with net asset value up at 2 919c a share (2 317c). In spite of a rise in borrowings to R282,7m (R198,6m), the debt:equity ratio remained a prudent 23% compared with 20% this time last year and at June 1988.

Not included in the results were extraordinary items covering an additional R15,9m of earnings, consisting mainly of a R17,6m surplus from the sale of Avbak Food Holdings' wheat milling, bread and cake-making business in October, less R2,8m goodwill written off.



Avbak also increased its Pleasure Foods' holding by 7% to 70% and has since added another 5% to this total.

In addition Grinaker Holdings subsidiary, Siltek, has bought — subject to certain conditions — 41% of M & PD Electronics' equity for R53,2m; Grinaker iteself sold its 51% holding in Claude Neon Lights to AVI; and Irvin & Johnson (I & J) bought 18% of Natal Ocean Trawling's equity. This entitles I & J to distribute Natal Ocean's entire seafood production.

AVI's capex during the half-year totalled R67,2m (R76,3m) with commitments at the end of December amounting to R62,5m (R39,9m). AVI has unused borrowing facilities of R1,36bn.

Ratios

AVI paid a higher annual dividend of 100c for the year to June 1988 compared with 1987's distrbution of 75c. The dividend was covered 5,6 times by earnings in line with group policy to finance capex without increasing debt.

AVI shares at the current level of R45 are on a PE of 8, about the average for the industrial holding sector but its historic dividend yield of 2,2% is well below the average of 4,8%. Its PE ratio is the same as Barlows', but Barlows is a more generous dividend payer and the stock's historic yield is 4%.

AVI's price shot up to a year's high of R49,50 on February 10 and its short-term trend appears to be down, with an upturn expected in the medium-term.

The Star Finance

AVI maintains solid growth in all sectors

(180)

Star 2/3/89

By Derek Tommey

Anglovaal Industries (AVI), one of the country's biggest industrial conglomerates, maintained its outstanding record for growth in the six months ended December. It also made a structural change which suggests that it might be starting to reorganise its operations.

Interim profit figures released last night show that the group, which has a wide range of major investments extending from construction to electronics and packaging to food production, earned R79,9 million equal to 321c a share in the six months ended December.

This was 22 percent above the R65,9 million (264c a share) earned in the previous year and, highlighting the group's solid growth, almost three times the 111c earned in the same six months three years ago.

The sustained economic growth resulted in all the group's sectors returning improved pretaxed profits.

Consolidated turnover rose 25 percent from R1,78 billion to R2,23 billion, while operating profit rose 23,8 percent from R182,6 million to R226,1 million, suggesting a slight narrowing of margins.

Investment income trebled to R17,8 million, interest payments almost doubled to R17,3 million, tax increased 29 percent to R103 million while minority interest rose 30 percent to R48,3 million.

Looking ahead, AVI's directors say that the growth rate in the six months ending June may not match that for the first half of the year.

Their forecast is supported by the narrower margins mentioned above. This could indicate that the group is beginning to experience less easy business conditions.

Capital expenditure in the six months ended December was R67,2 million against R76,3 million a year ago. Capital expenditure commitments at December 31 were R62,5 million (R39,9 million).

Borrowings at December 31 totalled R282,7 million (R198,6 million) giving a debt equity ratio of 23 percent.

Earnings up 22% to R79,9m

AVI retains strong growth track record

CT Times 7/3/89 (180)

By LIZ ROUSE

JOHANNESBURG. — Anglovaal Industries (AVI) remained on its strong growth track with interim earnings up 22% to R79,9m (R65,7m), equal to earnings of 321c (264c) a share.

All the group's sectors returned improved pretax profits, reflecting the economic surge in the second half of 1988.

AVI directors say in today's interim report that while the full year's earnings to June are expected to surpass the 1988 mark, the growth rate may not match the one reported now.

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Not included in the results were extraordinary items covering an additional R15,9m of earnings, consisting mainly of a R17,6m surplus from the sale of Avbak Food Holdings' wheat milling, bread and cake-making business from October last, less R2,8m goodwill written off.

Avbak also increased its Pleasure Foods' holding by 7% to 70% and, since the end of the half-year, added another 5% to this total.

In addition Grinaker Holdings subsidiary, Siltek, has bought — subject to certain conditions — 41% of M & PD Electronics' equity for R53,2m; Grinaker iteself sold its 51% holding in Claude Neon Lights to AVI; and Irvin & Johnson (I & J) bought 18% of Natal Ocean Trawling's equity. This entitles I & J to distribute Natal Ocean's entire seafood production.

AVI's capex during the half-year totalled R67,2m (R76,3m) with commitments at the end of December amounting to R62,5m (R39,9m). Healthy AVI has unused borrowing facilities of R1,36bn.

AVI paid a higher annual dividend of 100c for the year to June 1988 compared with 1987's distrbution of 75c. The dividend was covered 5,6 times by earnings in line with group policy to finance capex without increasing debt.

AVI shares at the current level of R45 are on a PE of 8, about the average for the industrial holding sector but its historic dividend yield of 2,2% is well below the average of 4,8%. Its PE ratio is the same as Barlows', but Barlows is a more generous dividend payer and the stock's historic yield is 4%.

AVI's price shot up to a year's high of R49,50 on February 10 and the stock's short-term trend appears to be down, with an upturn expected in the medium-term.

Picprop beats turnover dip, doubles EPS

BI Day 3/3/89

180

BRUCE ANDERSON

AGAINST a 2% drop in turnover, Picardi Properties (Picprop) posted an impressive 95% rise in after-tax profit and doubled earnings a share for the six months to December after benefiting from income earned on investments.

Earnings a share rose from 6,1c a share to 12c a share and taxed profits increased from R478 000 to R933 000.

Picprop MD Peter Day said yesterday the main reason for the improvement in results was higher income from investments, especially the R16m invested after the sale of Picbel Parkade in Cape Town to Southern Life at the end of March last year.

Day said the income from investments was in the form of R807 000 in dividends, mainly from preference shares in URD Beleggings.

Budgets

Picprop, whose holding company is Pichold, is an investment holding company involved in property and the manufacture of leisure garments, sports equipment and luggage.

A slight drop in turnover, from R13,2m to R12,9m, was due to loss in income from rent after the sale of the Picbel Parkade.

Improved results from the manufacture of luggage and sportswear also contributed to the increase in earnings, Day said.

Directors say each of Picprop's divisions are meeting budgets and they are confident earnings per share for the full year could exceed 26c (17,1c).

Another factor that boosted the interim results was a drop in interest paid (from R411 000 to 384 000) and a decrease in the tax bill from R378 000 to R142 000.

Rex stays true (180)

Longmile sets a hot interim pace

B/Day 3/3/89 (180)

CHARLOTTE MATHEWS

A SATISFACTORY 41% rise in attributable profits is announced in Longmile's interim results released today and the company is confident of achieving forecasts for all divisions this year.

For the first time the group declared an interim dividend, 3c a share, covered 5,7 times.

At the end of the last financial year total distribution was 5,8c a share.

Earnings jumped 41% to 17,2c a share against 12,2c in December 1987. Attributable income profit rose to R8,6m (R6,1m).

Directors say the projected level of annual earnings per share will comfortably exceed those of the previous year.

Listed in 1987, the group's interests are spread over tyre manufacture, distribution and retreads, silencers and towbars, industrial fasteners and four clothing divisions. Well-known brand names include Mastertreads, Silencer Services, Utility Fasteners and Raoul.

A seasonal build-up of stocks of raw materials and finished products before factory shut-downs in December caused interest paid to double to R5m, but the directors say this situation is conventionally reversed in the second half of the year as cash flows improve.

Profit margins fell slightly as the 40% rise in turnover compares with a smaller percentage rise of 37% in operating profit to R27,7m (R20,2m).

The directors report that the group has begun exporting "a promising volume of products" which are expected to play a more important role in the future.

The company is already benefiting from a fall in the tax rate to 43% from 46% in 1987 as a result of export marketing allowances.

Longmile's earnings and dividend yields of 16,3% and 4,7% respectively are well above the 9,4% and 2,7% averages for the industrial holdings sector.

The shares are trading at 185c against a net asset value of 95c.

Joffe's Bidcorp forecasts earnings of 73,8c a share

B/Day 3/3/89 (180)

BRUCE ANDERSON

BRIAN Joffe's new venture, Bid Corporation (Bidcorp), is forecasting earnings a share of 73,8c for the year to June 1989 based on expected earnings of R3,9m after announcing its first reported results today.

● JOFFE

The company has declared its results for the two months to December: taxed profit is R1,1m on turnover of R30m. Earnings a share are 20,8c. No interim dividend has been declared.

The results announced today are Bidcorp's first since the company entered the retailers and wholesalers sector in January through a transmuted listing of the Iclef cash shell.

Although the results are for the six months to December, chairman Joffe said yesterday that because Bidcorp had minimal income from July until October last year, the results only reflect the earnings of the Chipkins group, Bidcorp's only operating subsidiary, for the two months to the end of December.

Bidcorp was a cash shell until it acquired the businesses of Chipkins and Sea World on November 1. Consequently, comparative figures for the period under review were meaningless, Joffe said.

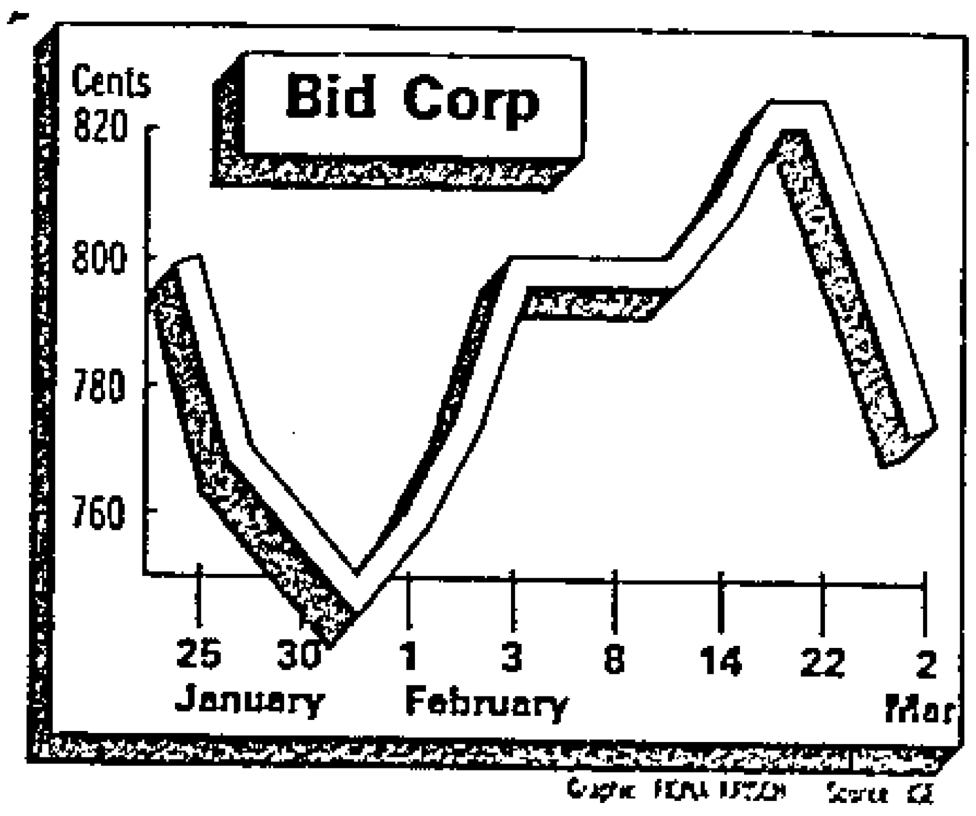
Joffe said he thought the forecasts of Bidcorp's earnings for this year were conservative and he was very confident of meeting the forecasted earnings.

Bidcorp's share price dropped from 800c to 775c yesterday ahead of results.

A loss of R350 000, shown as an extraordinary item in the results, consists of costs incurred for the acquisition of trading assets and group reconstruction, directors say in the interim statement.

Commenting on the fact that the company had not declared an interim dividend Joffe said: "Obviously it is our intention to declare interim dividends but it would be a little silly to declare one after two months."

Bidcorp has purchased Currie Motors (Curries) for about R24m through the issue of 1,5-million Bidcorp shares and the cash payment of about R15m.



Curries assets comprise primarily cash and near cash of approximately R40m.

It is intended that Curries will make an acquisition in due course, say directors.

Computing sole distribu- locally devel-

More Quantim users

IN BRIEF

ABS 1

Star 6/3/89 (180)

Tax bonanza for restructured M&A

Bottom Line

MICHAEL MENOF

Mystery surrounds massive tax losses available after major restructuring at Mathison and Ashley last year.

In July 1987 the Business Forms Division was sold and Woodmot became a wholly-owned subsidiary of M&A. Property-owning subsidiary Planmöbel was sold in October 1987.

In June 1988, M&A's office furniture division and Anglo Dutch office furniture (Afcol) merged under Kallenbach-Hendler (Pty) Ltd which is now jointly owned by M&A and Afcol.

M&A, which has managerial control, collected R10 million in cash, was paid R15,38 million in goodwill and made a handsome profit of R24,15 million on the merger.

Suddenly there is a R23 million tax loss available in M&A subsidiaries to reduce taxes. A year ago the tax loss was only R1,9 million so where did the enormous difference arise as M&A made profits in 1988 and paid tax.

Perhaps they were sitting in Kallenbach-Hendler, the company selected as the vehicle for the merger, where these losses are available. The annual report reveals nothing but was this the reason for the merger? The tax losses mean R11,5 million savings in cash flow and greater earnings for shareholders.

It is too early to judge whether chairman Winky Ringo's statement that the merged operation constitutes the largest manufacturer and distributor of office furniture with potential turnover in excess of R70 million — 1989's trading results will provide the litmus test.

Turnover was constant at R39,02 million (1987: R38,42 million) but operating profits increased to R7,88 million (1987: R5,26 million). Sales appear to be stagnating but with price increases could volumes have declined? Interest expense was an insignificant R214 000 (1987 R396 000). Tax totalled R3,87 million (1987: R2,08 million).

The effective tax rate increased to 50,5 percent (1987: 42,8 percent) without making use of any tax losses. The bottom line was R3,79 million (1987 R1,97 million) giving 135,2 cents (1987: 70,2 cents) earnings per share. Below the line, shareholders received a R8,09 million bonanza extraordinary gain from the R24,15 million surplus on the sale of office furniture businesses to K&H, less the goodwill payment.

This extraordinary gain boosted the retained income for the year to R10,46 million (1987: R1,32 million). Dividends for the year totalled 50 cents (1987: 23 cents).

The trading results were achieved without the continued stationery and printing division but incorporated all of Woodmet. Office furniture operations accounted for around 90 percent of sales and pre-tax profits.

Office equipment

The group's office equipment arm reflected a fourfold improvement in profits, according to Mr Ringo. However, in actual terms based on the percentage given, the office equipment arm produced only R145 711 of pre-tax profits (1987 — R63 210). Small by comparison with office furniture.

The merger with Afcol's office furniture will yield synergistic benefits with Dashing, Woodmet, Anglo Dutch and Offex operating independently but competing as "friendly rivals".

There is little doubt that M&A not only eliminated a competitor but now has R10 million in cash and R23 million in tax losses in K&H (to save cash flow). The cash, says Mr Ringo, "will enable the group to seek and enter into further significant business ventured in due course."

Net asset value has jumped to R6,23 compared with R2,41 a year earlier. Total shareholders' funds increased to R29,26 million (1987: R10,8 million) at end June 1988. Debt is a mere R3,66 million (1987: R4,89 million). Working capital improved dramatically to R27,46 million (1987: R8,34 million) which includes R13,1 million cash resources.

Mr Ringo's new board of directors is intriguing — two Wits Graduate School professors, Dr Bill Venter and Neill Davies from Altech, three other non-executive directors and apart from himself, only two other full time employees. Not an ideal scenario for full time employees to aspire to.

However M&A is owned 73 percent by listed Investors Club which in turn is controlled by the Ringo Family Investment Company.

Another successful year lies ahead, predicts Mr Ringo. The key unanswered question is whether the office furniture equipment industry has become saturated. Perhaps the merger insulated both parties against harming each other but can the economy yield the increased sales and profits envisaged.

Safren benefits from all-round performance

BDay 6/3/89 (180)

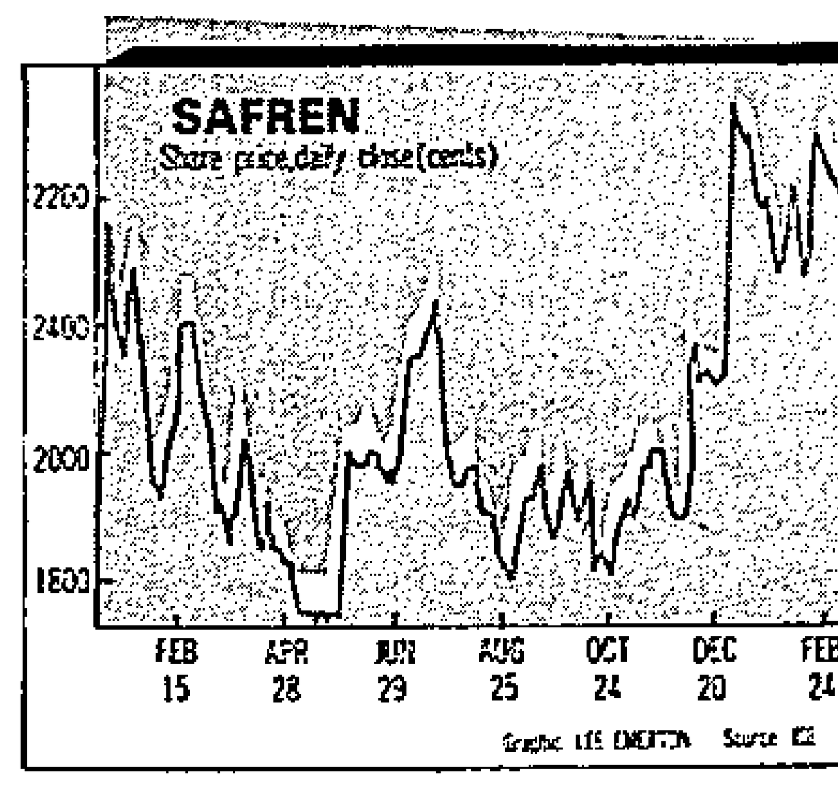
LIZ ROUSE

SAFREN posted a 39% rise in attributable interim earnings to 172c (124c) a share and lifted its interim dividend to 45c (36c).

Directors are satisfied with this advance, taking into account the tax rate rose to 34% from 23% in the previous half-year.

All divisions performed well in the six months to December and "satisfactory profits should be earned during the next six months".

The group's turnover increased by 37% to nearly R1,7bn (R1,2bn), while operating profits before depreciation advanced by 48,4% to R346,5m (R233,5m). Operating margins improved to 20,8% from 19,2%.



A healthy balance sheet reflects long-term borrowings reduced to R604m (R716,4m) and net interest charges were lower at R12,4m (R15,1m).

Both Safmarine, the shipping fleet, and Rennies, the clearing, forwarding and container division, had boom conditions as imports and exports flourished.

Kersaf (76% held by Safren) contributed a smaller percentage to Safren's attributable profit of R90,6m (R65,3m) before extraordinary items. The group's effective 32% investment in Transkei International Sun (Transun) contributed 9,8% to attributable profits.

Safren shares have held up well at R24 since the Transkei affair, but Kersaf shares have fallen to R13,10 (a large special bargain was transacted at R12,36 on Friday) from their year's high of R16,50, while Transun shares at 190c appear to be falling to their year's low of 160c.

Industrial index hits a new high

Star 8/3/89.

By Sven Lünsche

South Africa's financial markets are in a buoyant mood as the JSE's industrial index hit a record high and gold rose by about $4 on the back of a stronger platinum price.

But the rand has continued to decline and closed yesterday almost 2 cents down at R2,526, its lowest level against the US dollar in over a year.

After fighting shy of the old record for some months, the industrial index surged yesterday past the 2265 level it recorded the day before the October 19 1987 stockmarket crash to close 40 points ahead at a record of 2303 in heavy volume trade.

Since the beginning of the year industrial share prices have risen by 17,4 percent and they are now a massive 66 percent ahead of the low of 1393 reached in February last year.

The market's good performance was largely due to the strong performance of good quality shares like Barlow Rand, SA Breweries and Rembrandt, as cash-rich financial institutions are looking for safe and profitable returns on their money.

Gold shares have been rising, despite the volatile performance of bullion recently. Gold yesterday rose by $4,50 to $392,25 in New York, on the back of an $8 increase in platinum to $445 in London. In Hong Kong today gold opened at $393.

180

Big business urged to help fledgling firms

Star 8/3/89

By Paula Fray

A directory which lists small entrepreneurs and which should help encourage larger firms to contact small suppliers was launched recently by the Small Business Development Corporation at a function in Pennyville, near Johannesburg.

Speaking at the launch of "Contactmaker", Mr James Scott, regional manager of the SBDC, said the aim of the book was to act as a catalyst in forging fruitful relationships between businesses by "creating awareness and acting as a shop window to display the business goods and services of our clients".

He said many small businesses struggled to break into major markets dominated by big names.

For this reason he believed it was esential for fledgling enterprises to "do business with their larger brethren".

Mr Ian Hetherington, managing director of Job Creation SA (Pty) Ltd, said the idea of large firms sub-contracting to small entrepreneurs was not new, although South Africa was reluctant to follow the rest of the world.

Star 8/3/89

He urged the business sector to "get on with the job of doing business" and advised them to use the "Contactmaker" to do business.

Star 8/3/89 (180)

Columbia solid and capable

Sharespot

LYNNE PEACH

Since its listing two-and-a-half years ago, Columbia has done a lot to establish itself as a solid, asset-based company capable of producing the goods. Particularly remarkable is the fact that its net asset value (NAV) has increased more than sixfold during the period.

The latest disclosed figure is 153c, and this is expected to increase to at least 165c by the end of this month. CE Gordon Polovin adds that if the market value of the group's listed investments is used in the calculation, then Columbia's NAV is actually higher than its current share price of 235c.

Columbia is an investment holding company with carefully selected interests in, first and foremost, the field of financial and management services. Interests in this category include holdings in Don Gray, Crulife, Pride Consultants and Concorde Travel.

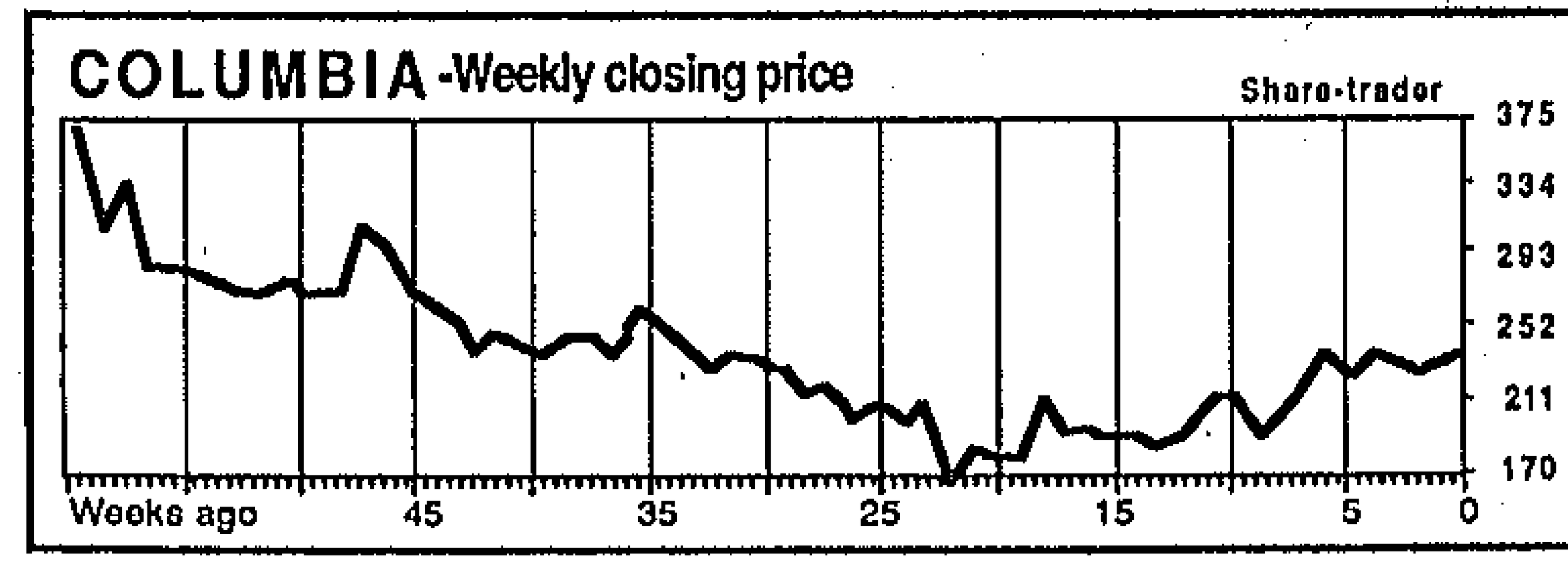
Mr Polovin says that the official renaming of Don Gray to Management Services Corporation (Mancor) will probably take place early in April. At this time, the listing will be transferred to the mainboard, probably to the Banks and Financial Services sector.

The recent sale of Colfin, Punchline Columbia Training and 30 percent of Concorde Travel to Don Gray has given Columbia a 34 percent stake in this company. Mr Polovin expects major benefits from this restructure to start flowing in financial 1990.

The group's secondary focus, namely interests in commercial ventures, has emanated from Columbia's close contact with its clients over many years in investment banking. Interests include a stake in Milstan, Trimtex, Supalek, Toco, Markinor, and Technihire.

Columbia's income statement for the six months to September 1988 revealed a "good news" 25 percent rise in operating profit and a "bad news" eight times escalation of the interest bill. Fortunately, the tax rate was drastically reduced, from 40 percent to 27 percent. This saved the day and, even after a much higher payment to outside shareholders, earnings increased by 20 percent, from 19,5c to 23,5c.

The higher interest expense was due to a marked deterioration in the interest-bearing debt-equity ratio, from 24 percent to 43 percent. Mr Polovin comments that no increase in the latest level is anticipated, and at a later stage measures may be taken to reduce group debt.



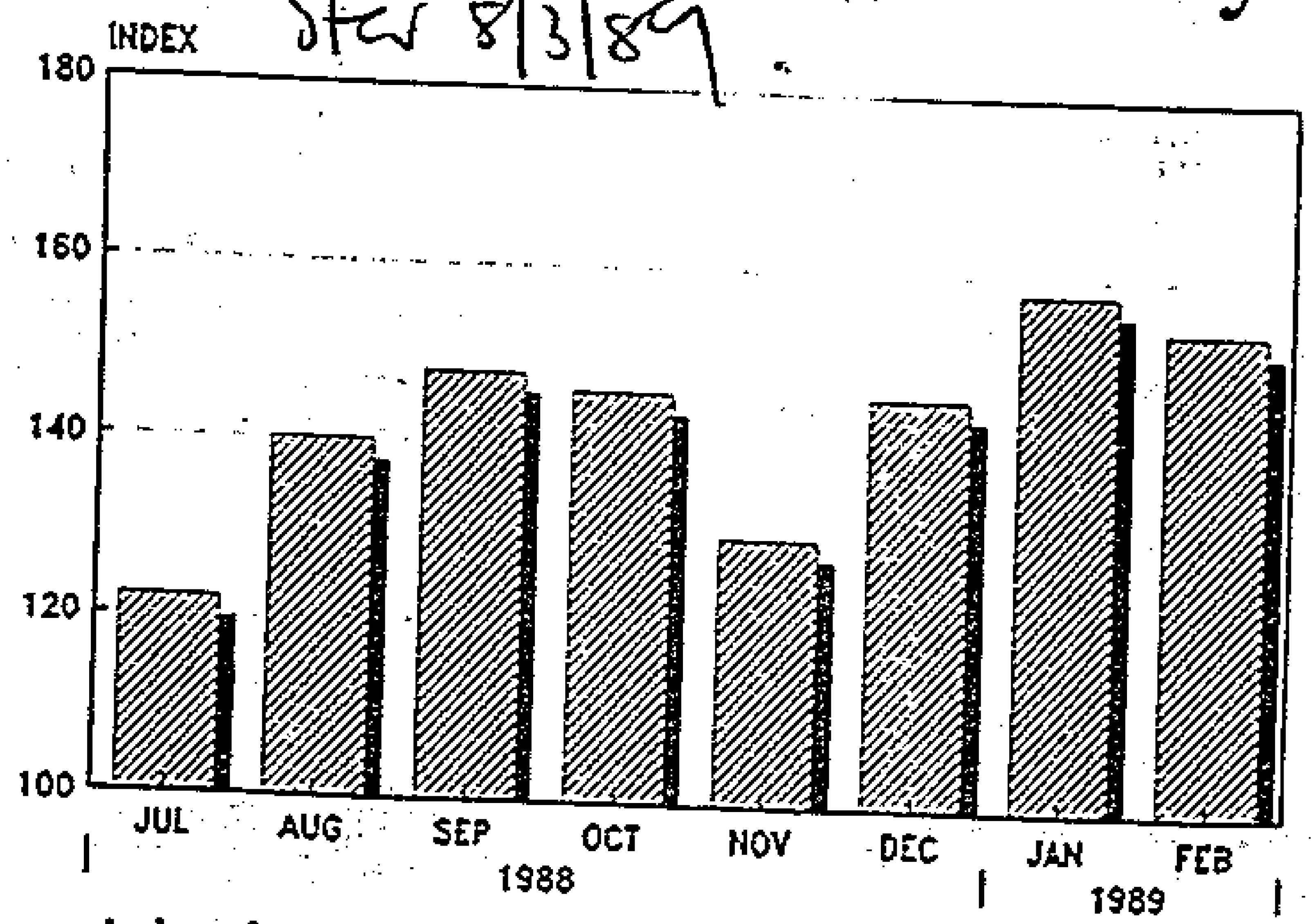
Columbia's share price trend looks more promising than it has for some time. About two months ago the price rose strongly from below 200c, to the current level of 235c. This is significant in so far as the charts now confirm the start of a bull trend.

Measures taken may include a rights issue. He also pointed out that interest cover remains a very acceptable nine times and the group is not highly geared compared to many other companies.

Earnings for the full year to March 1989 are expected to be in the vicinity of 50c, compared with 42,2c earned in the previous financial year. The dividend is projected to be close to 18c. These projections place the share, priced at 235c, on a forward price-earnings ratio of around 4,7, and puts the prospective dividend yield at 7,6 percent.

Less optimistic outlook for manufacturing activity (180)

Star 8/3/89



Index of expected production over the next 12 months.

Finance Staff

Manufacturing activity as reflected by optimism amongst industrialists showed a slight decline in February.

Announcing the February results of their survey, the Federated Chamber of Industries and the Steel and Engineering Industries Federation showed that the survey, based on orders received and sales performance, declined to [illegible] compared with January's 158.

However, the total index for the twelve month outlook still recorded its second highest value since the launching of the survey eight months ago.

Commenting on the results, FCI economist Roelof Botha told a press conference that approximately 30 percent of the recent increases in interest rates had been discounted in their survey, and possibly accounted for February's slight decline.

The Cape Peninsula recorded the highest production activity, while the lowest was reflected in the Orange Free State.

The Star Wednesday March 8 1989

Tax, Govt spending cuts crucial – FCI

180

By Michael Chester

Dramatic cuts in taxation levels and new curbs on Government spending should be made the priority targets of the 1989 Budget, the powerful Federated Chamber of Industries said yesterday.

The FCI has spelt out the grave dangers of the growing burden on taxpayers as a result of State overspending, in a special dossier sent to Finance Minister Mr Barend du Plessis, to the Treasury and the Department of Inland Revenue.

It presses the Government to supply individuals and companies with at least six months' notice on the date to be fixed for the introduction of VAT.

FCI chief economist Mr Roelof Botha said spiralling levels of taxation and Government expenditure had become the major concern of industrialists.

The federation had launched a special exercise to list the advantages of lower taxation levels in order to accelerate more savings and investment by manufacturing companies.

Mr Botha said the entire industrial sector was cautious about commitments to new fixed investment because of the tax penalties on setting cash aside for expansion projects. There was growing concern about whether increases in interest rate levels were now approaching over-kill proportions in Government efforts to cool down the economy.

Negotiations were in progress with the Board of Trade and Industries on the possibility of special tax concessions to encourage the introduction of double-shift working and even round-the-clock production schedules in factories to cut unemployment queues.

The results of nationwide surveys into the attitude of employers about multiple-shift work schemes were expected by May. Special efforts were being made to recruit the support of trade unions.

FCI industrial consultant Dr Gad Ariovich said the manufacturing sector had won "Springbok colours" as the best performer of all behind the 3,2 percent improvement in overall economic growth last year.

B|Day 8|3|89

IB Joffe beats effects of inflation and fire

180

ZILLA EFRAT

I B JOFFE — the camping and outdoor equipment and leather goods manufacturer, wholesaler and retailer — has hiked up its earnings a share by 80% for the year to December in spite of the effects of inflation and a fire at its Telek plant.

Earnings climbed to 16,7c (9,3c) a share, outstripping prospectus forecasts of 12,7c a share.

An annual dividend of 5c a share has been declared.

In October, a fire put 60% of the recently acquired Telek plant out of commission, but MD Peter Joffe expects the plant to be be fully operational by the mid-1989.

He attributes the 84% increase in turnover to R25,9m (R14m) to an average increase turnover from each division of 30%.

Telek added a fair slice to sales and Sunhopper, acquired early in 1987, made a full year contribution to turnover for the first time.

Operating margins, which declined to 14,5% (18,7%), were affected by inflation and losses incurred by the fire at the Telek plant, Joffe said.

The interest bill increased to R182 000 (R63 000) because of the Telek acquisition and reduced cash flow from the Telek plant being out of commission.

Pre-taxed profits rose 39% to R3,6m (R2,6m). The group's tax rate fell to 29% (45%) because of export incentives and tax relief from some subsidiaries.

Taxed profits rose 80% to R2,5m (1,4m), but an extraordinary item of R752 000 relating to the Telek fire affected growth in attributable earnings, which rose 27% to R1,8m (R1,4m).

The 46% increase in net asset value to 70,2c (48,1c) accounts for goodwill of R1,6m written off against existing non-distributable reserves.

Joffe says the group has export orders on hand that are in excess of 1988's export turnover.

He expects turnover to rise to between R36m and R40m after the Telek plant becomes fully operational again.

Manufacturers still feeling optimistic

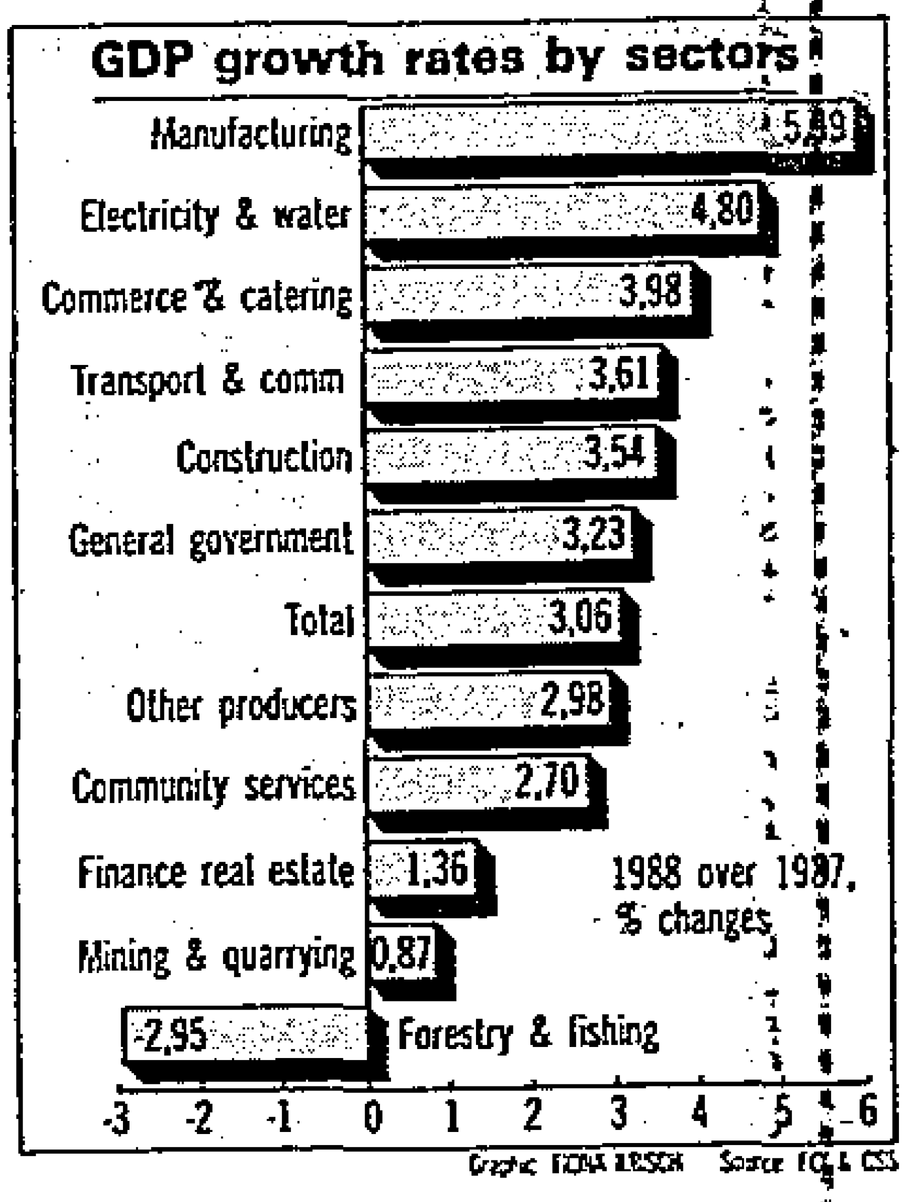
180 BD 8/3/89

HELOISE HENNING

ALTHOUGH the Federated Chamber of Industries (FCI) confidence index for manufacturers dipped to 154 in February from its highest point of 158 the previous month, the sector's mood remains buoyant.

The consistently high level of optimism among manufacturers is borne out by recent Central Statistical Service figures showing the sector was by far the largest contributor to the higher-than-expected 3,2% GDP for 1988.

The manufacturing sector grew by 6% in real output last year, compared with its nearest contender, electricity and water supply, at 4,8%.



Devaluation

FCI consultant Gad Ariovich told a news conference the reason the manufacturing sector had outperformed others was the strong export-led demand for ferrometals — beneficiated chrome, manganese and vanadium.

Another reason was a major shift to import replacement. The rand was not only battered by the more than 20% drop in exchange value but also by the variable import surcharges, putting the effective rand devaluation on imports in 1988 at between 30% and 40%.

FCI economist Roelof Botha said he believed the decline in the February index was a response to higher interest rates. The test of whether it would develop into a trend would come in March when industrialists responded to the Budget.

Since last July FCI has been measuring manufacturers' expectations for orders each month and the coming 12 months. It has consistently revealed optimism (100 being the border between optimism and pessimism). For historical reference the index has been linked to the well-established Seifsa index, which is compiled on a similar basis. Seifsa's index is now at a seven-year high.

The survey, also conducted on a regional basis, showed that the most optimism in manufacturing was experienced by Cape-based industries. FCI Cape executive director Colin McCarthy said most of these industries were manufacturing consumer products, particularly clothing and footwear. Tourism was also providing for a consumer boom, with hotels being 98% occupied.

The survey showed that the Free State manufacturers were the least optimistic, with their index for February at 100, but they were more confident about prospects for the year as a whole.

Blue chips pile on the points

180

Industrials surge to a record high

B|Day 8/3/89

MERVYN HARRIS

BLUE chip shares surged on Diagonal Street yesterday to sweep the JSE industrial index up 1,7% to a record high of 2 303 points.

This easily surpassed its previous peak of 2 265 points set just before the collapse of share prices in October 1987 and represented a gain of 59,7% since the index bottomed at 1 442 points exactly a year ago.

In another buoyant trading session fuelled by another sharp decline in the value of the rand, the JSE overall index rose 1,3% to a new post-crash peak of 2 359 points.

The rise lifted the gains in the overall index to 50,8% from its low of 1 564 points exactly a year ago but the index is still well below its peak of 2 804 points reached on the day before the crash.

Helped by a huge demand for De Beers shares on its excellent results, the volume of shares traded doubled from 7,5-million on Monday to 15,15-million yesterday while the value of shares jumped from R65m to almost R100m.

Dealers said the uptrend seemed more controlled than during the height of the boom. The market was soundly based on the back of large institutional cash flows with smaller investors still mainly on the sidelines.

Analysts believed the market could be set to move to higher ground as the gold price rebounded from early lows of $385 in Europe to a high of $392 in New York last night.

The rise came in the wake of buying by a managed fund account and local traders amid speculation that crude oil prices could jump to new contract highs.

Dealers said once crude oil made a convincing penetration of the contract high of $18,88 a barrel it could go beyond $19 a barrel.

Reuters reported that precious metals were also boosted by a rise in platinum prices which touched $558 in New York.

● To Page 2

Industrial blue chips surge to record high

B|Day 8/3/89

180

● From Page 1

The metal closed in London at $551,75.

The gold price rise came too late to affect trading on the JSE but gold shares held up well, aided by a weakening in the commercial and financial rands.

Erosion of the value of the rand from just below R2,5100 to the dollar to R2,5260 lifted the rand price of gold R15 to R986,91. This is its highest level so far this year after falling to below R940 in February.

The lower rand gave a fillip to rand hedge stocks on the JSE with most of the 28 shares reaching new highs yesterday and likely to benefit from increased earnings flowing through from overseas interests.

● See Page 12

Demand for rand-hedge stocks buoys market

Star 9/3/89

180

Percentage change in JSE sectors from 1987 highs.

Steel and allied 122,8
Tobacco and match 80,9
Manganese mines 72,8
Fishing 66,2
Copper 41,9
Investment trusts 34,9
Paper and packaging 34,9
Tin 22,6
Transport 18,9
Coal 12,8
Insurance 9,0
Food 8,8
INDUSTRIAL 3,2
Pharm and medical 0,8
Financial and industrial 0
Industrial holding -0,1
Diamonds -2,5
Print and publishing -4,0
Metals and minerals 4,2
Engineering -4,5
Sugar -6,1
Financial -7,9
Retail wholesale -10,6
ALL MARKET -13,6
Motor -15,4
Platinum -17,5
Mining houses -18,1
Beverages, hotels -20,3
Mining financials -21,4
Other metals -23,0
Banks and others -24,9
Property trusts -26,2
Build construction -26,8
Cloth and footwear -32,9
Mining holdings -31,4
Chemicals and oils -36,5
ALL GOLD -38,9
Property -36,9
Klerksdorp mines -37,3
Electronic -40,0
Furn and household -41,3
West Wits -29,3
Evander mines -51,4
Rand mines -52,6

By Derek Tommey

The Johannesburg Stock Exchange advanced over a broad front yesterday, aided by the higher gold price and the news that the Government had decided to give priority to maintaining economic growth and had put its fight against inflation on the back burner.

The prospect of continued high inflation of the order of 15 percent or more leading to the steady erosion in the value of money is expected to alarm many investors. At the same time they are likely to be encouraged by the prospects of further rises in industrial profits that the continue growth in the economy should bring.

Together these developments are believed to have been behind much of the buying of the "non-rand hedge" industrial counters yesterday — and also of the rand hedge stocks as well.

The continued high level of inflation and the high level of imports that are likely to be needed by the growing economy is expected to put further pressure on the rand.

This has already dropped 6,3 percent against the dollar in the past 10 weeks and is expected to fall substantially more as the year wears on.

"Rand heges" are shares of companies which have overseas markets or overseas investments. Therefore their profits rise whenever the rand declines. They are also benefiting from the strong economic conditions in the United States, Western Europe and the Far East.

Rand hedges

An analysis of share market movements since the crash in October 1987 shows that it is these rand hedge shares that have had the biggest gains. Although the recovery in the Industrial index this week to above its 1987 peak has been hailed as a sign of a resurgent stock exchange, it should not be overlooked that most of the gains have been generated by the rand hedge shares.

The two sectors to show the biggest gains since October, 1987, are Steel and allied industries (122,8 percent) and tobacco and match (80,9 percent).

Both technically are industrial sectors. But the Steel sector is dominated by Highveld whose recent excellent profits in the main come from exports, while the tobacco and match sector is almost entirely the Rembrandt group which also derives much of its profits from overseas.

Other 'industrial' sectors to propel the industrial index along were fishing (66,2 percent growth) and paper and packaging (34,9 percent).

But the fishing sector also generates much of its pofits from exports and the paper and packaging sector is dominated by Sappi which is successfully exporting large quantities of paper overseas at steadily rising prices.

With the economy expected to remain strong and the rand low these industrial rand hedges should have another good year.

One important group of rand hedge shares which have not done well in the past 15 months have been gold shares.

But it seems that their time might be arriving and that gold shares might be on a bull tack. One of the features of yesterday's trading was the interest shown in the small marginal mines.

The rise in the gold price to $395 an ounce last night, together with the drop in the rand-dollar exchange rate, boosted the rand gold price to R987,50 an ounce, its highest since December and some 5 percent above its low of R939 on February 15.

Falling rand

The expected drop in the rand should boost the gold price further, which should help the mines in the short-term. But unfortunately the resultant inflation will gradually erode any benefits.

However, the recovery in gold from a London closing price of $380,40 on February 17 has raised hopes that the bullion price could continue rising, and help gold shares to recover at least some of their heavy losses of the past 15 months.

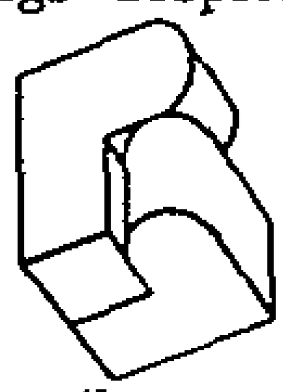
COMPANIES

Interest pummels Pichold

B | Day 10/3/87 (180)

ZILLA EFRAT

PICARDI Holdings (Pichold) and Picardi Investments (Picbel) have recorded paltry earnings despite improved turnover and operating profits because of a high interest bill, especially from subsidiary Picardi Appliances.



Director Jan Pickard says the group funded growth internally and is experiencing the costs of borrowing.

Pichold increased its earnings by a mere 2% to 127,8c (125c) a share, while Picbel — which has as its main investment a 63% shareholding in Pichold — increased its earnings by 1,5% to 109,5c (107,9c) a share.

No interim dividends have been declared in line with the policy of both companies.

Pichold's turnover jumped 29% to R313,7m (R243,7m). All divisions contributed to the 33% rise in operating profits to R30,8m (R23m) as margins rose slightly.

The interest bill of Pichold, which holds Picardi Appliances, Picardi Properties and Union Wine, soared 123% to R15m (R6,8m).

Its taxed profits were up 5% to R9,7m (R9,2m), while earnings attributable to ordinary shareholders rose 2% to R7,7m (R7,6m).

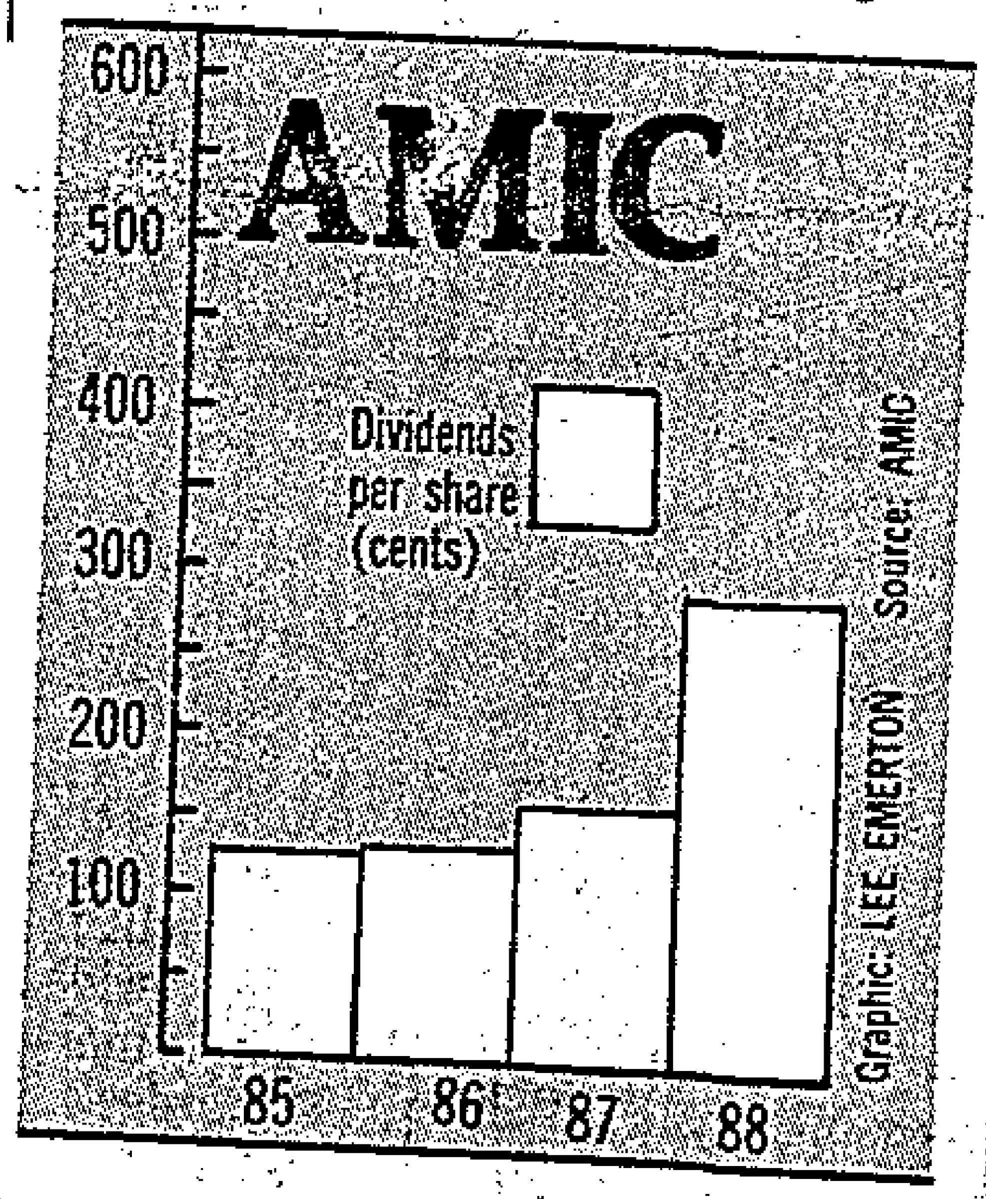
Pickard says despite the present uncertainty in the economy the group expects to maintain its market share.

Record earnings rise for Amic

8/Day 10/3/89 (180)

LESLEY LAMBERT

ANGLO American Industrial Corporation (Amic) has achieved a record 47% increase in attributable earnings to R517m for the year to December.



Earnings a share exceeded analysts' expectations, advancing 43% to 963c. The increase in EPS was reduced by a larger share base.

A final dividend of 205c has been declared, bringing the total to 290c, a 29% increase. Dividend cover increased from 2,9 to 3,3 times.

Chairman Graham Boustred said the results were largely a reflection of a strengthening SA economy and the continuing resilience of world economies which stimulated strong export growth.

While 85% of earnings were contributed by AECI, Boart, Mondi, Scaw Metals and Highveld Steel, Boustred said every company in the widely-diversified group recorded growth in operating profits.

● To Page 2

Record 47% earnings jump for Amic

8/Day 10/3/89 (180)

● From Page 1

Highveld Steel achieved record production of more than one-million tons and turnover exceeded R1bn for the first time. Attributable earnings increased by 114% to R121m, or 171c (80c) a share.

Higher pulp and paper production and higher export prices enabled Mondi Paper to increase attributable profit by 56% to R162m, while Boart International achieved 54% growth in attributable earnings to R97m.

The group's major associate, AECI, boosted earnings by 20% to R255m, reflecting firm demand in the plastics, speciality chemicals, fibres, explosives and paints divisions. The Tongaat group continued to build on its strong recovery and in the year to March increased earnings by 90% to R119m.

During the year Amic significantly reduced net borrowings from R976m to R720m. At year-end debt:equity had fallen to 25% compared with 47% last year and 71% in 1986.

The share gained R3 ahead of the results to close at a new peak of R80. It has doubled in value over the past year.

CAPE TIMES 10/3/89 (180)

Amic boosts earnings by record 47%

Own Correspondent

JOHANNESBURG. — Anglo American Industrial Corporation (Amic), has achieved a record 47% increase in attributable earnings to R517m for the year to December, with major contributions coming from four operating subsidiaries and associates which account for the bulk of earnings.

Earnings a share exceeded analysts expectations of about 950c, advancing 43% to 963c. The increase in EPS was reduced by a larger share base.

A final dividend of 205c was declared, bringing the total dividend to 290c and reflecting 29% growth. Dividend cover was further increased from 2,9 to 3,3 times.

Amic chairman Graham Boustred said in his annual review that the results were largely a reflection of a strengthening South African economy and the continuing resilience of world economies which stimulated strong export growth in both volume and value.

While 85% of earnings were contributed by AECI, Boart, Mondi, Scaw Metals and Highveld Steel, Boustred said every company in the widely diversified group recorded growth in operating profits.

Highveld Steel achieved record production in excess of one million tons of steel and turnover exceeded R1bn for the first time. Attributable earnings increased by 114% to R121m, or 171c (80c) a share.

Higher pulp and paper production and higher export prices enabled Mondi Paper to increase attributable profit by 56% to R162m, while Boart International achieved 54% growth in attributable earnings to R97m.

Although Scaw Metals was affected by the depressed state of the heavy engineering and transport industries, earnings for the year, including the equity accounted earnings of an investment in Haggie Limited, increased from R56m to R62m.

The group's major associate, AECI, boosted earnings by 20% to R255m, reflecting firm demand in the plastics, specialty chemicals, fibres, explosives and paints divisions. The Tongaat group continued to build on its strong recovery and in the year to March, increased earnings by 90% to R119m. Good results were maintained in the six months to September and the group has forecast earnings of at least R147m for the full year.

The Ventron group continued to prove a rewarding investment with a 25% increase in its contribution to Amic earnings, while Dorbyl increased earnings in the year to September by 36% to R78m.

Samcor benefitted from the strength of the new vehicle market last year, declaring a maiden dividend of which the Amic share was R3,4m in December.

The McCarthy group also benefitted from the buoyant vehicle market. Following its excellent performance in the year to June when attributable profits increased by 51%, earnings in the half year to December increased by 93% compared with the corresponding period in 1987.

During the year, Amic significantly reduced net borrowings from R976m to R720m. At the year end, the debt/equity had fallen to 25% compared with 47% last year and 71% in 1986.

The share gained R3 ahead of the results to close at a new peak of R80. It has doubled in value over the past year and its rating relative to the industrial sector is no longer low. At the current level, analysts regard the share as slightly overpriced.

Tollgate on road to other avenues

(180) J/Times 12/3/89

By Ian Smith

A TRAUMATIC year has resulted in the transformation of Tollgate Holdings from a transport company to a diversified industrial holdings conglomerate.

Shareholders have barely had time to draw breath between announcements in the year since fast-moving Duros took control.

Tollgate's interim results — due in a few days — are expected to show that the Tramways operation's contribution to earnings in the six months to December is only 25% of the total.

"We have set out on the diversification road," says managing director Hennie Diedericks, who moved to the fledgling conglomerate from Volkskas last August.

"We are pleased with our progress through acquisitions in different fields, but we still want a broader-based portfolio."

He says it is the restructured group's intention that no single area of operation will contribute more than 25% of earnings.

Single

The share price of 325c is midway beween the high and low of the past year, probably reflecting some investor confusion about the disparate nature of the acquisitions and, perhaps, concern about debt.

But Mr Diedericks is confident that the half-year results will go a long way to reassuring them on both scores.

"We believe they will prove to investors that what we have set out to achieve is attainable."

Even with the spate of acquisitions, debt:equity ratio is still below 50%.

Consumer

Duros, which controls 68% of Tollgate, is determined to position the group in bearings business growth sectors which are closely related to mass consumer markets.

Tollgate now has 100% of Tramways Holdings which is heavily into urban transport for the masses. It owns 58% of vertically integrated textile and clothing manufacturer Arwa, 100% of leisure, travel and sports promotions group Entercor, 28% of the Gants food processing and agricultural equipment empire, and 65% of engineering group Drivetech.

Gants stands out because it is the one investment in which Tollgate does not have control. Mr Diedericks says he is keen to increase Tollgate's stake.

"When you are the major shareholder with 30% or 40%, you still take the blame when something goes wrong. We like to show our faith and put ourselves in the firing line with an outright majority stake wherever possible."

Core

In Drivetech, the original core bearings business was sold because it did not fit Tollgate's drive to mass markets. Drivetech is now sitting with R17,2-million in cash and the Multitech bus-building and engine-rebuilding division, which fits well with the group's other transport interests.

If Tollgate has its way, it can be expected that Gants agricultural equipment operation will also be hived off.

For the rest, Mr Diedericks is bullish. He says the Entercor group dominates the sports promotion and public relations business in SA. Sports sponsorship is estimated to be worth R140-million a year and the coach-touring operations are benefiting from the tourism upsurge.

Arwa has grown from its original pantihose base into an integrated textile and apparel group. It has moved into the fast-growing leisure-clothing field where it has strong brands, including Hang 10.

Hedge

Gants will benefit from the general expansion of the food-processing industry, and there is opportunity for the group's brands to increase market share, says Mr Diedericks.

In addition, Gants' traditional exports can be expanded, providing a useful rand hedge.

Both Gants and Arwa are operating with full order books, says Mr Diedericks.

Drivetech is doing well, and the Tramway operation has been restructured to improve efficiency and performance.

HENNIE DIEDERICKS

Mr Diedericks says that 35% to 40% of bus revenue is related to Government subsidies, but the group is working to reduce its reliance on them.

With the first phase of Tollgate's restructuring complete, the group will consolidate.

The four-man head office will concentrate on overall policy and focus the operating companies on their markets while the line managements get on with day-to-day operations.

"At head office we attach critical importance to budgets and cash flow," says Mr Diedericks. He recalls Punch Barlow once saying to him: "If your run out of cash, you run out of business."

Big shots care the most

S Times 14/3/89

(180)

SOUTH Africa's most successful companies are much more concerned about the future than their lesser rivals.

When it comes to looking ahead, the big shots are more outward looking and focus more closely on factors over which they have little control, such as political and social changes.

Successful companies, in addition, are long-term oriented in their strategic thinking and are more concerned with their ability to adapt to the changing SA environment.

In short, the top companies are not taking the Ostrich Option or hoping merely to muddle through the changes that confront them.

These are some of the findings of a study of successful strategic-making companies undertaken by University of Cape Town (UCT) Graduate School of Business and industrial relations consultancy FSA-Contact.

In all, 119 listed SA companies took part in the questionnaire phase of the study. Of these, 22 were listed in the 1987 Business Times Top 100 companies and they were used as the sample of successful companies.

UCT researcher Dave Mohr says the findings were an eye-opener.

"The successful companies' assessment of strategic issues is significantly different in at least 14 respects. These differences suggest a blueprint for all SA companies to follow."

In the case study phase of this investigation, both the opinions of business experts and the 1987 Business Times 100 listings were used to select the 20 most successful companies. The strategic decision-making processes of eight companies were studied in depth.

The companies were Gencor, SA Glass, a PG SI subsidiary, JCI gold division, Pick 'n Pay, SA Breweries beer division, Sappi, Suncrush and Toyota SA.

Information collected from these companies in 34 interviews was collated with the questionnaire findings to produce a practical model for strategic decision making in SA business.

UCT researcher Di Soutter says the model differs in important ways from all previously published approaches.

"It extends the established process, but simplifies it. It highlights the role of organisation culture in strategy formulation. We believe this model provides a practical framework for SA managers."

(180) S Times

12/3/89.

Manufacturers moving slowly into computers

JONATHAN HARROD

By Ian Smith

COMPUTER firms are studying tentative moves by the manufacturing sector into computers.

If the moves turn to a stampede, they will herald a second era of growth for computer hardware and software distributors and suppliers of back-up services and peripheral equipment. Growth in the overall computer sector is expected to slow to 25% or 30% this year.

Previous high growth has, admittedly, been from lower bases and the sector is now in a more mature stage. But, a major move by secondary industry, which has generally lagged behind in the race to computerise, could give the whole sector a second wind.

The first drive to computerisation was led by financial services and, to a lesser extent, commerce.

A general swing by manufacturers to computerised information management and, further down the line, computer-aided design and process control will open the door to a huge market for small and medium business applications.

Some of SA's best industrial operations are already reasonably advanced in computerisation.

Jonathan Harrod, chairman of the Information Transfer Group (ITG) says: "Generally, the manufacturing sector is notorious for its lack of investment in computer technology.

"There are indications that there is a shift in attitude to computerisations in this industry."

A survey by Business & Marketing Intelligence of sales of softwear, consulting and training services shows that manufacturing now lies second to the financial sector with 18% of the market.

Appeal

Computer manufacturers have prepared for change by concentrating on new ranges which will appeal to industry. In recent months TSM and CDS have brought powerful minicomputers to the market. ICL has introduced an upgraded Elf286, which will appeal to small and medium businesses.

The first evidence of a swing to computerisation by industry comes from research by ITG, the seven-company group which specialises in industrial and business studies.

Mr Harrod says that analysis of gross domestic fixed investment in SA shows a steady decline from mid-1980 to late 1986.

In 1987 and from 1988 and into 1989 there has been a distinct increase. Investment by manufacturing industry has mirrored this revival.

"The 1988 recovery reflects a sharp rise in computer spending relative to other sectors, and this trend is expected to continue this year," says Mr Harrod.

"The growth is particularly high in small factories. Many are becoming major information technology users. The net effect is that manufacturers will account for 19% of the computer market this year, up from 16% in 1987."

He says manufacturing has been slow to boost productivity through computerisation because of the small size of the SA market, the availability of cheap imports and relatively low-cost labour.

Mr Harrod says: "This situation has changed dramatically. South Africa has to shift its emphasis as a supplier of raw materials to a supplier of value-added products to survive.

"In the face of increased sanctions we will be forced to use computerised manufacturing techniques to increase productivity and cost efficiency to remain competitive on world markets.

"We have to become export driven."

Encouraging

More optimism about the place of computers in the manufacturing sector stems from a study of the type of equipment which is being bought.

"Most of the investment has been in information management, an encouraging sign when one analyses the evolution of computerisation in other industries," says Mr Harrod.

"Research shows that any industry's flirtation with computerisation usually begins with information management.

"This is particularly important in a rapidly changing business and economic environment such as ours.

"Once these systems are in place, there is usually a move to use the information elsewhere — in process and customer control and management techniques."

Steady

The banking industry is a good example. As one of the first to appreciate that knowledge is a facet integral to success it has become the largest user of computer technology in SA.

"I believe we will see a steady increase in computer spending by the manufacturing sector.

"The cumulative effect is that manufacturers are increasingly thinking of efficiency in terms of computers. It is only a matter of time before this attitude and the technology move throughout industry."

Cash-strapped Joe Berardo is doing a deal

S Times 12/3/89

(18)

Business Times Reporter

JOE Berardo's Johannesburg Mining & Finance and subsidiary Egoli will be on a sound footing if a deal comes off.

Financial director Don Grant-Hodge — in the absence on holiday of Mr Berardo — says that although JMF and Egoli have liquidity problems, there is no need for a rescue.

"The companies continue to operate, though we shall probably have to raise money one way or another."

Mr Grant-Hodge says the pending deal will strengthen the group. He will not comment on whether the transaction involves a takeover or whether a foreign investor is involved.

Mr Grant-Hodge would not disclose the whereabouts of JMF and Egoli founder and chairman Berardo.

At the end of September 1988, the top company had total debt of R62-million against shareholders' funds of R253-million. Debt rose from R8,2-million in December 1987.

Attributable profit in the six months to September was R2,8-million compared with R14-million in the nine months to March 1988. There was only R4,3-million of debt in Egoli, holding company for the mining operations.

Mr Grant-Hodge says there are problems at Wit Nigel, but otherwise the gold mining and dump treatment operations are fine.

The company's major mistakes were in the industrial area.

"We acquired a large plywood factory, Ply Products, Natal. We had to sink a lot of capital into it. We had a similar problem at Tempo Engineering, which does specialised work. We are virtually out of both now.

"There will be capital losses, but at least we won't have to continue absorbing losses. The problem was that we never had a managing director for our industrial operations."

Mr Grant-Hodge says Wit Nigel's problems do not affect the rest of the group.

"It is an investment in Egoli and Waverley. Negotiations are under way. This week we reduced staff numbers.

"When we took over, we found a lot of arrear debts that had to be paid. There was debt for the company's pension fund contributions and amounts were owing for PAYE."

Mr Grant-Hodge says JMF is not trying to sell its splendid new head office on the corners of Fox, Simmonds and Commissioner streets, Johannesburg.

Mr Grant-Hodge hopes JMF and Egoli will be able to make further announcements soon, "but documentation and technical formalities have a habit of delaying things, so I cannot be sure".

Focus goes shopping

INNOVATIVE retailer Focus Holdings is off again on the acquisition trail. Its latest deal could boost earnings in the current year by 35%. (30) / 292

It has taken over the retail operations of listed Cashworths Fashion Holdings for R4-million. Cashworths manufacturing operations are not included in the deal.

Details will be announced tomorrow, but the addition of Cashworths' 28 speciality women's clothing stores to the Focus chain of men's clothing and bedding stores will strengthen the group. S Times 12/3/89

There will be 76 stores in the retail division, with forecast sales of R60-million in the year which began on March 1.

If the deal had been in the place for the last financial year earnings would have increased from 8c to 10,5c a share. Now it looks as if Focus will earn 13c in the current year fully diluted and assuming a full tax rate.

Restructuring transforms Tollgate

180

13/3/89

By Ann Crotty

Tollgate's interim results for the period to end-December highlight the major restructuring that the group has undergone. The restructuring has transformed Tollgate from a transport company to an industrial holding company whose activities are focused on the mass consumer segments of the market.

Turnover was up 188 percent to R246,2 million (R85,4 million) while operating profit rose 131 percent to R32 million (R13,8 million). After allowing for depreciation and interest payments, the profit figure showed a 52 percent advance to R13 million (R8,5 million). A sharp drop in the tax rate from 53 percent to 21 percent lifted the after-tax figure to show a 154 percent advance to R10,2 million (R4 million).

Attributable earnings were up 126 percent to R9 million (R4 million) which was equivalent to 24,2c (16,8c) a share on a 57 percent increase in the average number of shares in issue. The dividend was held at 10c a share.

The results include the earnings of Arwa and the equity accounted earnings arising from the stake in Gants.

The directors note that the group's increased earnings reflects the contributions made by the companies acquired which are all trading in accordance with expectations. The divisional contributions to earnings before interest charges and tax are: textiles 23 percent; tourism, leisure and communication 5 percent; engineering 29 percent; transportation 32 percent and food processing 11 percent.

Tollgate profits soar by 154%

Cape Times 13/3/89

By BRUCE WILLAN

THE 128-year-old Tollgate Holdings has turned its acquisitions and investments of the past nine months into money spinners for the group.

The interim results for the six months ended December 31, 1988 announced reveal a massive hike of 154% in after tax profits to R10,211m on an increase of 188% in turnover to R246,244m.

Attributable earnings went up by 126% while earnings per share increased to 24,2c per share compared to 16,8c for the same period the previous year.

Although the interim dividend declared remains the same as the previous year at 10c, the number of shares in issue has increased by 57% to 37,854m.

The group has come a long way since it was first established as a passenger transport company.

The diverse range of companies within the group has changed Tollgate into an industrial conglomerate and to this end all the companies are geared to the mass consumer market.

This diversity is reflected in the interim results by the contribution made by each operation; transport 32%, engineering 29%, textiles 23%, food processing 11% and entertainment/leisure 5%.

The active acquisition phase and transformation Tollgate has experienced is over for the time being.

All that there is left to do is refine the group says MD Hennie Diedericks.

Part of the transformation is the transmuted listing of the holding company to the Industrial Holdings sector of the JSE as of March 20, 1988 under the new identity of TGH.

The refinement process will take place with internal restructuring and a commitment to organic growth he says.

The internal restructuring has already started and is evident in the interim results.

Certain properties and land holdings as well as parts of Drivetech were disposed of during the six months under review.

Interestingly goodwill on consolidation for the six months has been written off against shareholders funds.

Diedericks points out that to help investors, it is the planned to have all the companies within the group listed.

Arwa, Gants and Drivetech are already listed and it is hoped that the entertainments division Entercor will be listed via a reverse takeover of DCM listed Deale- & Huth (51% owned by Entercor) soon.

Tramway Holdings is also earmarked for a listing shortly.

The listing of all the companies will aid investors says Diedericks by giving them the opportunity to invest in either the holding company or any of the individual operations.

Prospects for the group look good indicates Diedericks with all divisions contributing to the success of Tollgate.

Further acquisitions are not planned as part of the growth of the group but should they arise, will be looked at individually and based on merit.

The position of the group is strong says Diedericks, the pro forma balance sheet has a more manageable debt-equity ratio of 50% and any funding which the group may require can easily be facilitated through the group's own resources and borrowings.

AAF enjoys dispensation from LSE

Star 14/3/89

180

By Ann Crotty

AAF, the London-based subsidiary of W&A which currently has just over R27 million in cash, has reported earnings per share of 28,1p (after extraordinary earnings of 14,2p) and has declared a dividend of 6,5p for the 12 months to end-December.

As management points out, the review year saw the restructuring and repositioning of the company as a principal vehicle for FSI's international expansion. This involved the sale of AAF's SA assets and the subsequent sale of its investment in Beatson Clark.

LSE regulations usually require automatic suspension of a cash shell. It appears that AAF has been granted a special dispensation because the sale of the Beatson Clark investment (which resulted in AAF becoming a cash shell) was the result of a deal arranged independently of AAF management. In this instance the view is that to suspend AAF would unfairly prejudice the AAF shareholders.

The dispensation must enhance FSI's acquisition strategy.

Industrial board due for a 'well-deserved' correction

(180)

Star 15/3/89

By David Canning

DURBAN — The industrial board of the stock exchange is showing signs of overheating and a "well-deserved" correction is on the cards.

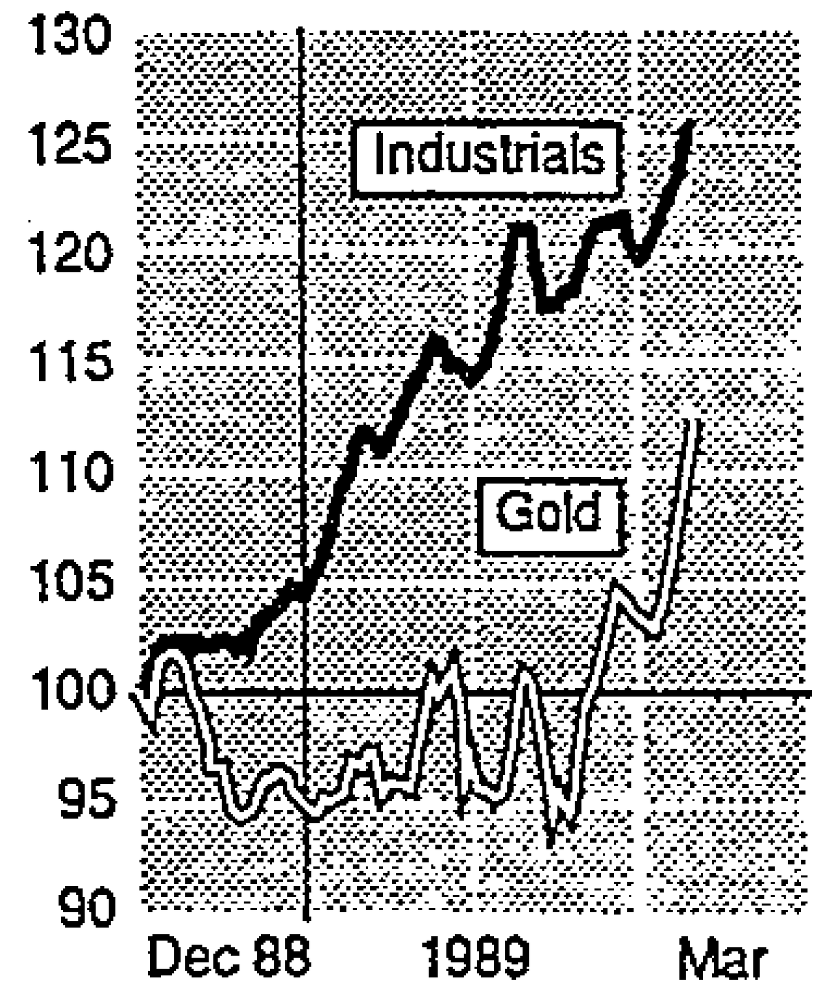
This is the view of investment specialists and stockbrokers who attended a seminar held in Durban by Russell Marriott and Boyd Trust (RMBT).

RMBT director in charge of portfolio management, Ken Burns, said there was a fair degree of uncertainty in overseas and local markets. South Africa was into an economic slowdown, with an overheated stock market.

He foresaw gold at $420 by November, with the commercial rand sliding to 37 US cents (R2,70 to the dollar) by then. Inflation could leap to 18 percent — two percent higher than the prime overdraft rate of 16 percent.

All this pointed to stagflation over the next year "leading us to conclude we have a fairly overheated stock market at this time".

However, the huge institutional cash flow and the shortage of scrip could limit the fall. He thought there would be a 15 percent drop in the industrial index so long as the gold moved between $380 and $430.



Industrial share prices have outperformed golds over the last three months. Both the all-gold and industrial index have been indexed to 100 at the beginning of December. *Source — Financial Times.*

He said the present market "euphoria" was not supported by the fundamental weakness in the dollar/gold price.

Mr Burns said international inflation and interest rates could rise faster than expected but he did not expect this to happen in the next year.

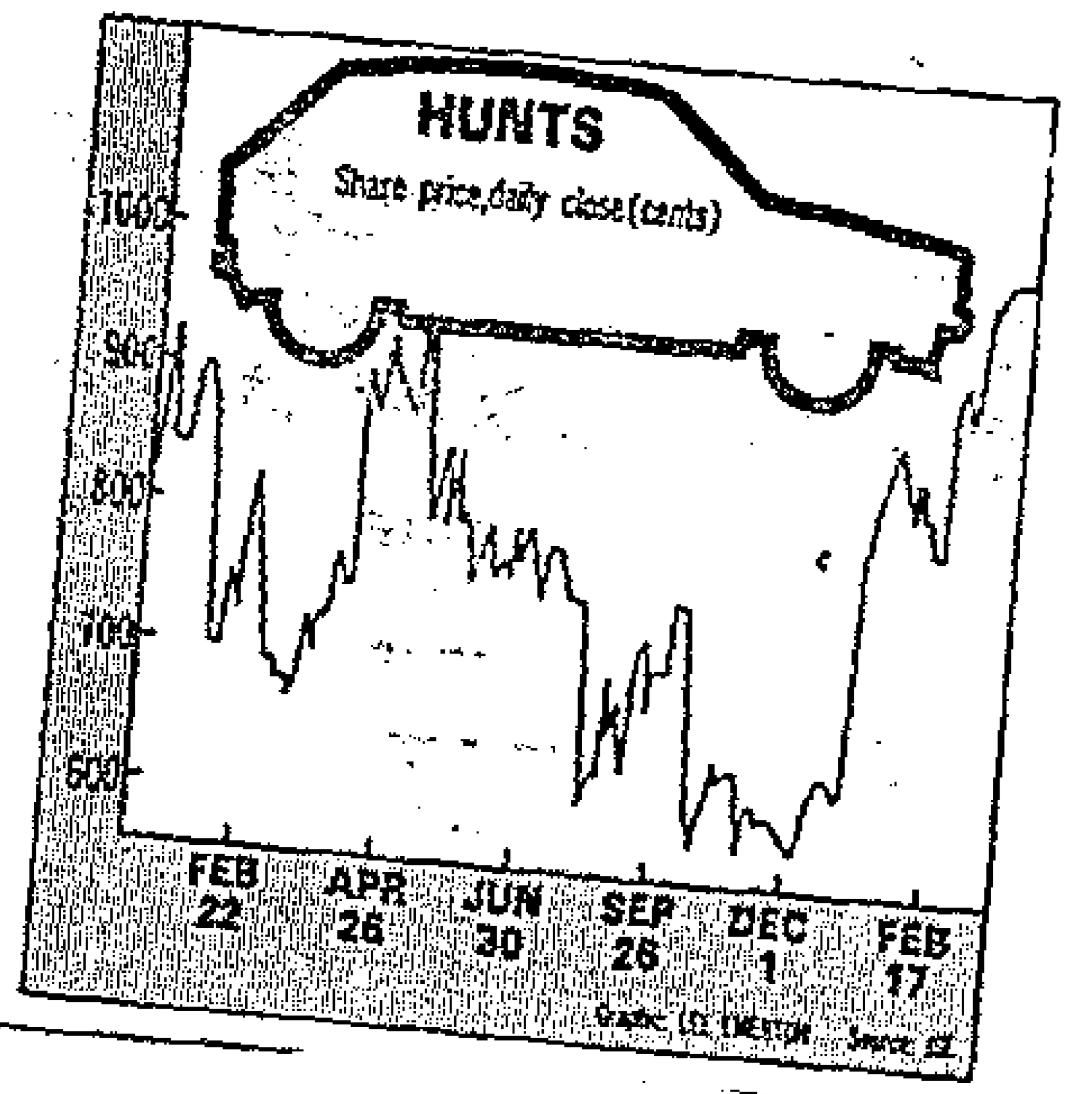
He believed the South African economy had already started slowing after the recent jump in the prime overdraft rate to 19 percent; rocketing money supply figures in the last quarter and expectations of a heavy-handed Budget.

"Aggravated by the low gold price, by higher interest rates and taxes, by the continued outflow of our reserves on capital account, our economy is headed for a fairly sharp slow-down."

However, these negative developments could be cushioned by lower interest rates in the second half of the year, some pump-priming of civil servants salaries ahead of the next election and by increased money supply targets.

Turning to portfolio strategy, he said an investor should not hold more than 10 to 20 percent cash liquidity at this time.

"Ideally one should invest new cash over a period every time there is a market weakness, holding some liquidity back for contingencies."



Hunts' profit stumps sceptics

B|Day 15|3|89

LESLEY LAMBERT

THE performance of newly-enlarged industrial holding company Hunts has proved market sceptics wrong. Attributable earnings have grown 85% to R36,9m, exceeding profit expectations by 15% for the year to December.

As the company begins to benefit from internal restructuring, part of a major reorganisation of its parent FSI, directors forecast further substantial growth with attributable profits exceeding R65m by the end of 1989.

When the group was restructured last year the share market responded with scepticism, arguing it would merely grow through acquisition. Hunts' share price plunged from 900c to 650c before the restructuring announcement in April.

From a trough of 580c in December it has risen steadily to its year high of 1 000c. Ahead of results yesterday, the

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● To Page 2

New-look Hunts stumps the sceptics

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share held steady at this level, while its parent companies W & A and FSI maintained their recent peaks of R57,50 and 810c respectively.

On turnover of R1,1bn, operating profits rose by 135% to R121m, boosting margins from 9,4% to 11%. Earnings a share rose 60% to 197c. Dividends on ordinary shares rose 40% to 56c and a dividend of 13,35c for preference shares was declared.

Key objective of Hunts' restructuring was to acquire well-managed operations dominating growing markets. In June the group acquired 78% of National Bolts, and Burhose hosiery and Hygenia leisure products divisions of W & A.

Much of the growth was attributed to these acquisitions but, with Burhose and Hygenia achieving forecast operating profits of R25m, record results were achieved by the major operating companies, with Gentyre Industries reporting 41% EPS growth, Tarry 28%, Natbolt 29% and Aurochs 68%.

If Hunts had owned the new acquisitions throughout 1988, and issued the preference shares and debentures with which it funded them on January 1 1988, its EPS before extraordinary items would have been 150c. This *pro forma* figure gives shareholders a better idea of the underlying trading performance.

Directors say on a fully-diluted basis — if payment had been made in shares — "earnings a share before extraordinary items would have exceeded those of 1987, while net asset value would have risen to 796c (794c) a share and net tangible asset value to 537c (435c) a share".

Hunts' balance sheet remains strong but acquisitions took a toll. Finance charges on the purchase considerations sent overall finance charges soaring 522% to R27,4m, reducing interest cover from 11,7% to 4,4%. Between July and November, charges on these considerations were credited to FSI and W & A.

Long-term liabilities soared from R18,9m to R105,5m, and current liabilities from R75,9m to R183,6m, to push up gearing (after writing off tangible assets) from 10% to 39%.

CASH-FLUSH AAF TO SEEK SUITABLE ACQUISITIONS

BDay 15/3/89 MERVYN HARRIS 282 180

IN ITS first full year as member of the FSI group, London-based AAF Investment Corporation has been restructured and, with £27m cash on hand, is seeking investment opportunities internationally.

The restructuring generated extraordinary earnings of £2,4m, lifting total earnings to £4,8m, or 28,1p a share. A final dividen of 4p brought total dividends to 6,5p a share.

Results reflect the performance of operating subsidiaries which were sold during the year and are not an indication of the future potential of the company, which is debt free.

In July, AAF sold all its SA assets for £16,2m in cash, and subsequently its investment in UK glass manufacturer Beatson Clark for 375p a share.

Shares representing about 10,7% of the equity of AAF held by and under option to a company connected with a former director were placed with European investors, thus broadening the shareholder base.

Inherited cross-holdings have been eliminated and new advisers appointed. Since the year-end, merchant banker Peter Greenhalgh assumed the post of CE.

The company says AAF's corporate strategy will follow that of its highly successful parent, which has concentrated on acquiring companies in basic industries and in business areas in which it can achieve strong market positions.

The Star Finance

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Businessmen urged to take initiative

No time to wait, says Sanlam's van der Walt

Businessmen owed it to themselves and the country to take the initiative in putting South Africa back on the track to economic growth and progress.

This appeal was made yesterday by Dr Tjaart van der Walt, Sanlam's new chairman, in his address to the group's 70th annual general meeting in Bellville, Cape Town. Dr van der Walt referred to the process of economic impoverishment which had lasted, almost without interruption, for the past 15 years. He said that in South Africa the process was not uniform in its effect and the unequal distribution of income and wealth was on the increase.

This created a breeding ground for social and political unrest, Dr van der Walt said.

"The business sector must do its bit to counteract this situation. We can no longer wait until the who, when, why and wherefore of political negotiation have been pronounced upon — we shall have to take the initiative ourselves if we want to succeed in building a new South Africa."

POSITIVE ACTION

According to Dr van der Walt, positive action had to be taken which would ensure that more people became involved in the production of more prosperity, and to ensure that people increased their productivity.

New opportunities had to identified for black entrepreneurs, who had to be given the opportunity to develop their full potential.

Dr van der Walt said it seemed logical to him that existing businesses with expertise in the area of retailing, transport and housing should take the initiative in making alliances with black entrepreneurs in these sectors.

"The solution will not be a simple one. Money alone is definitely not the answer.

"Expertise must be passed on, people must be trained and the discipline of time and money must be instilled.

"But, before they begin, the parties must decide together what will produce the best results," Dr van der Walt said.

PRODUCTIVITY

He also considered it essential that businessmen ensure that productivity improved significantly in their own undertakings and that they stood together in their negotiations with the Government to ensure "that there can be no doubt as to what is expected of the authorities in successfully launching these actions".

According to Dr van der Walt there was just one way to effect a successful redistribution of income and wealth — businessmen had to take the initiative to ensure that the cake to be cut up became bigger.

Sanlam had shown the way by making available R2 million over five years to its wholly-owned subsidiary Sankorp as development capital. — Sapa.

The Star Finance

Malbak silent on huge goodwill paid

(180)

Bottom Line

MICHAEL MENOF

Malbak's task during 1988 was to organise the takeover of Gencor's industrial companies into logical business units. Five divisions have been created — paper and packaging, consumer products, construction supplies, engineering and development/investments.

While good investment data statistics are furnished to satisfy shareholders that chairman Grant Thomas and his team are making strides, unfortunately nothing is said about the enormous R72 million goodwill paid for Gencor's industrial companies shown well below the net income line.

The financial highlights also omitted the goodwill disclosure.

Net income for the year after extraordinary items was only R71 million (1987: R53 million) despite sales soaring by 167 percent.

Mr Thomas says Malbak has striven to "instil recognition that businesses need to earn sufficient profits to sustain themselves into the future and adequately remunerate shareholders."

Although dividends were increased to 25c during 1988 (20c) this is hardly the way to reward shareholders — less than a three percent yield on the current JSE price of around 870c is poor when current gilt-edged investment interest rates are around 15 percent — some 500 percent better!

Abercom has been selected as the vehicle for expansion abroad. The sale of its Davidson fan division realised £9,5 million.

These funds together with additional cash from Malbak resulted in Tawneydown, a UK unlisted public company formed for the purpose of making a recommended cash offer for the ordinary shares of London Stock Exchange listed M Y Holdings; involved in packaging with a consumer goods division.

It has a good earnings and dividends track record and sound balance sheet structure, says Mr Thomas, without disclosing any numbers.

The consolidated income statement included the sales, income and expenses of eight listed subsidiaries — Abercom, D & H, Elleriness, Haddons, Kohlers, Protea Chemicals, Tedelex, Standard Brass Iron and Steel Foundries, other unlisted subsidiaries, plus four listed associated companies — Blue Circle, Carlton Paper, Haggies and Kanhym and other unlisted assocites.

Impressive sales of R5,23 billion (R1,96 billion) produced operating income of R500 million (R161 million). Deducting interest expense R83 million (R35 million) and tax of R147 million (R46 million) left a bottom line of R270 million (R80 million).

But after deducting outside shareholders' portion of profit R90 million (R18 million) earnings attributable to ordinary shareholders totalled R180 million (R62 million). Earnings per share were 104,3c (65c).

This was not the end of the story as R66 million extraordinary write-offs (mainly goodwill) reduced earnings to only R114 million (R70 million).

When all is said and done shareholders will really only be interested in the net asset historic cost value of 528c per share (456c) at end August 1988 which rises modestly to 567c per share (769c) if the market value or directors valuation of investments is taken to account. The current JSE price is around 870c — a fair rating. Gencor and pyramid Malbak control a hefty 90,5 percent of the share capital.

The balance sheet shows little change beteen years. Permanent captial ordinary and outside shareholders' funds, deferred tax and convertible instruments) has increased to R1,36 billion (R1,05 billion) at end August 1988. Borrowings are up at R467 million (R302 million). Working capital including current borrowings has improved to R678 million (R429 million). Tax losses available remain virtually unchanged at R260 million.

Mr Grant Thomas feels management is equal to any obstacles ahead and can meet any challenges. He anticipates earnings will again improve in real terms.

My only criticism of the impressive advertising package is the lack of information about MY Holdings and comment on the huge amount paid for goodwill written off as an extraordinary item and left out of the financial highlights.

As is usual in annual reports, management prefers to be seen in a good light so why feature any negatives or divulge future plans in case they may turn sour. Sanctions may be a sensitive issure but everyone knows what's going on so what's all the secrecy about?

certain to benefit most from the move are the blue chips that ... persuade the institutions of the ... suggests a greater divergence in returns.

Market analysts unimpressed

Star 16/3/89 (180)

By Derek Tommey

Share market analysts have little good to say about yesterday's Budget. Comments ranged from "bland" to "stingy" to even worse.

It is only the change in working wives' tax, which effectively gives the higher paid ones a 15 percent pay rise, and the prospects of what they would do with this money aroused any enthusiasm.

By including all married women in "SITE" their maximum marginal tax rate has been lowered from 35 percent to 25 percent. This means they will now take home 75 percent of their income as against 65 percent in the past. Also of great importance is that they will not have to pay in any tax at the end of the tax year.

The general impression among male analysts was that much of the extra take-home pay was likely to be spent, much of it in clothing stores catering for the women's market. (This view was also confirmed by a number of working wives!)

This suggest that good times could lie ahead for middle and upper market fashion chains such as Truworths, Foschini (which recently reported excellent results), Woolworths, Garlicks and Edgars.

The up-market fashion stores Stuttafords and Greatermans would also seem destined to benefit, but even so would make only a minor contribution to the profits of their parent company Tradgro.

However, other retail businesses could be in for a lean time. The Govenment's failure to adjust the income tax rates for inflation and the increase in GST means that this year most families, unless they contain a working wife, will have to pay more tax and have less to spend.

In the run-up to the Budget, some of the heavyweight blue chip gold mining shares were in demand on hopes that the Government would lower gold mining taxes to encourage the establishment of new mines.

But although a small reduction in mining tax, which was likely to cost the Government some R31 million a year, was announced, analysts regarded this as insignificant. However, if the blue-chip mines were to slightly increase their grade, their taxed profits could show a worthwhile increase, one said.

The sharp increase in defence expenditure (20 percent on last year's Budget figure and 13 percent on actual expenditure) should also be a market factor.

But South African companies are not allowed to divulge defence contracts so an investor hoping to cash in on Government spending has to work in the dark.

Brokers suggest that blue-chip electronic companies are possible bets as could be listed heavy engineering and motor assembly companies.

Overall, it seems that yesterday's budget will direct investors away from consumer-oriented companies.

UK, SA budget have little in common

Star 16/3/89

By John Spira

The British Budget, presented on Tuesday, bears a marked similarity to yesterday's South African Budget insofar as neither granted meaningful relief to taxpayers.

Both the British Chancellor of the Exchequer, Mr Nigel Lawson, and the Minister of Finance, Mr Barend du Plessis, considered that tax reductions would exacerbate inflationary pressures. There, however, the similarity ends.

Mr Lawson's goalposts were planted in an economic playing field where inflation is 7.5 percent (against SA's 13.3 percent) and the surplus is pretty hefty (in contrast to SA's large deficit).

Significantly, too, Mr Lawson's decision not to announce tax cuts follows a year in which he slashed income tax rates, cutting the top band from 60 percent to 40 percent. These moves contrast sharply with a SA taxpayer who, for the past decade, has experienced no more than minimal relief.

MACHINERY VALUATION 180

What's it worth?

Manufacturers have misjudged the impact of import surcharges by over-insuring industrial plant and machinery, says a leading valuer.

He adds that the question of surcharge exemptions is still causing confusion in industry.

David Read, director of the plant and machinery division of valuers Richard Ellis-Dunlop Heywood, says cost increases caused by surcharges are not as high as predicted.

Read says some insurance advisers took an extreme view after the surcharge was introduced and encouraged clients to increase insurance sums substantially.

"Predictions regarding the increase in factory machinery costs were as high as 20%. Our research shows they have risen between 1,5% and 7%.

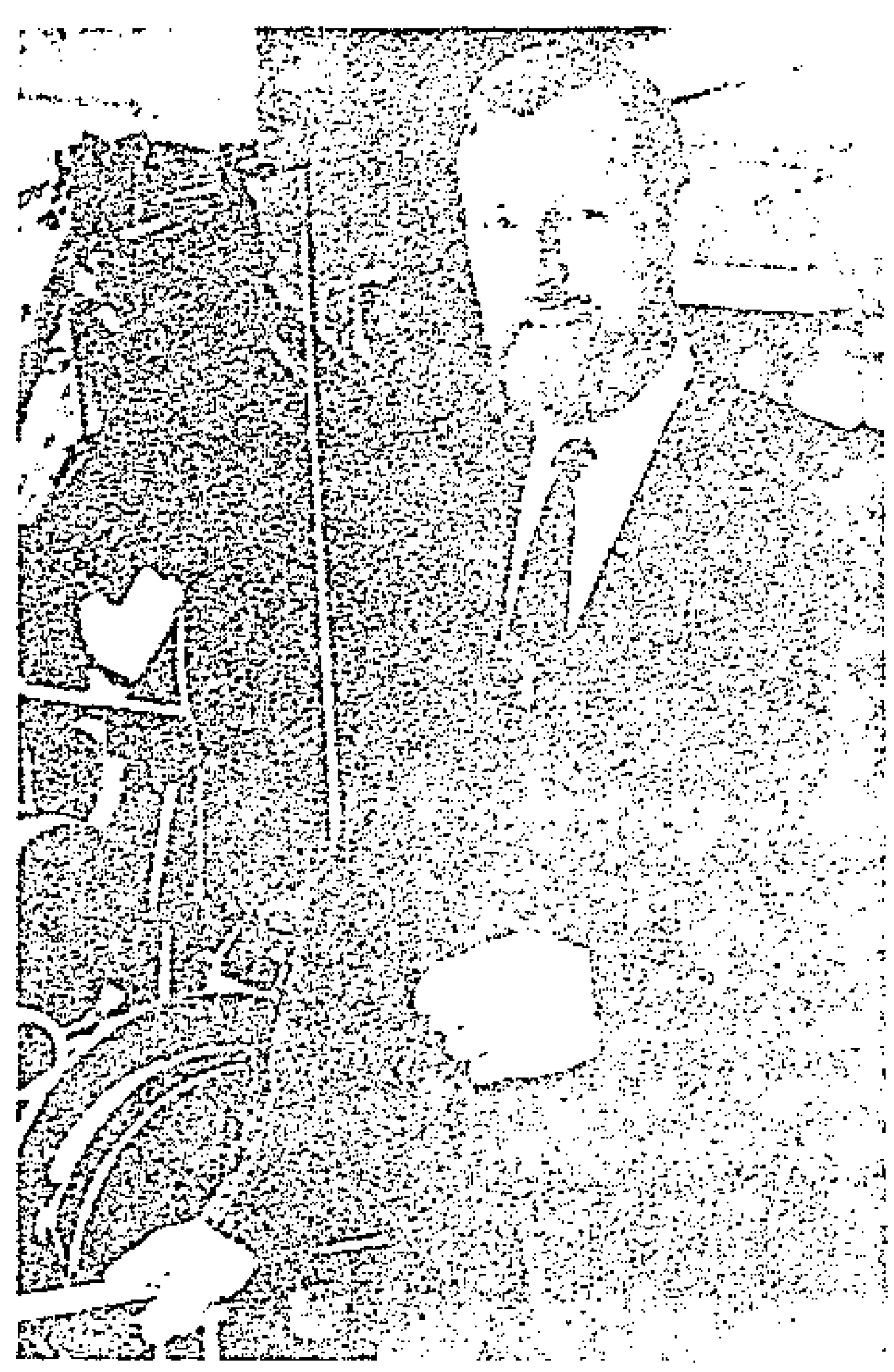
"A much greater increase in costs has occurred due to the rand's fall in value and local inflation. These two factors have raised factory plant costs by between 5% and 10% since the imposition of the surcharge."

Although a clearer picture is emerging, he says many uncertainties remain — particularly regarding the Board of Trade & Industry's (BTI) attitude to surcharge exemptions.

"Although the provisions governing exemptions are well known, their administration does not always appear consistent."

He points out that, in general, machinery directly engaged in production may be granted exemption whereas service, maintenance and laboratory equipment, even though essential to the production process, is usually not.

"By implication, jobbing machinery is also liable for surcharge, which is ironic because among the jobbing manufacturers are the producers of import replacement machinery. Unfortunately, they are among those most severely affected by the surcharge."



Read ... uncertainties abound

180 FMNL 17/3/89.

Read says that in the event of an insurance claim, the insured should apply for surcharge exemption for every item to be replaced. This will avoid otherwise exemptible items being disqualified through being grouped with items which do not qualify.

"It also seems far easier to obtain exemption if the machinery is imported with ownership passing directly from the overseas manufacturer to the user rather than through an agent."

He adds that there is still uncertainty about items purchased from stocks already held in the country and on which surcharge has been paid. "The picture with respect to refunds is not clear."

Although such refunds are possible, there is a considerable backlog of applications. Read says his company knows of no one who has yet received a refund, although many users are expecting them.

He adds that in some cases, the new regulations can result in reduced costs. For example, equipment which was formerly surcharged 10% with no exemptions, may carry a higher surcharge today but also has the prospect of exemption. ■

FMNL 17/3/89

W & A turns in good results

(180) B|Day 20|3|89

MERVYN HARRIS

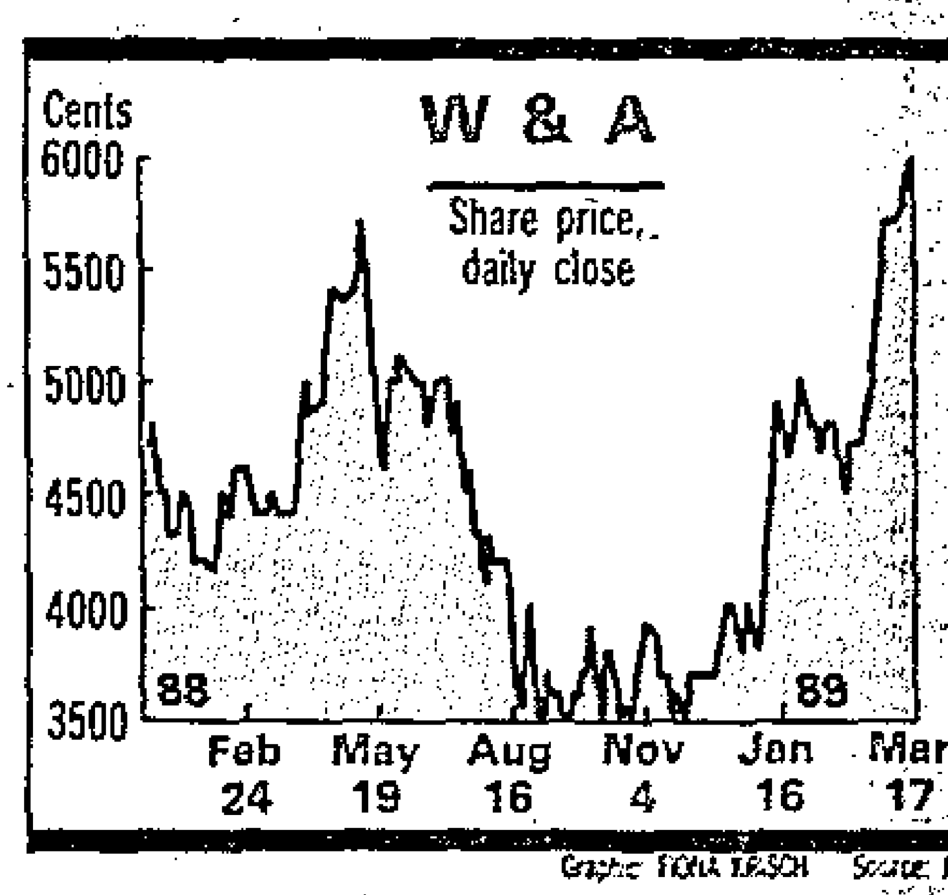
ENLARGED W & A Investment Corporation has established itself as a major industrial group with strong growth potential after posting better-than-expected results for 1988.

Profit attributable to ordinary and preferred ordinary shareholders of R53,9m was 20% above management's forecast of R45m and 44% higher than the R37,5m earned in the previous year.

The results vindicate the business acumen of FSI boss Jeff Liebesman who was criticised for overpaying when he bought the group from Mannie Simchowitz just before the stockmarket collapse of October 1987.

Liebesman is forecasting continued growth this year and has announced expansion of W & A's distribution activities through the acquisition of interests in two retail groups — John Craig men's outfitters and Kappa Holdings — serving fast-expanding sectors of the market.

Record results from major operating companies lifted earnings a share from operations by 56% from 609c to 953c after taking into account a 10% rise in the weighted number of shares in issue to 5,6-million.



Graphic: FIONA FRESCH Source: JSE

W & A's strong balance sheet and positive cash flow enabled directors to raise the final dividend by 50c to 250c to boost the total payout for the year 30% to 350c a share.

At the current price of R60, W & A shares are on a historical dividend yield of 5,8%. This is in line with the average for the industrial holdings sector but above the yields of 3,5% or less for blue chip stocks in the sector.

The profit rise came on the back of a 75% jump in turnover to R1,45bn with the quality of earnings enhanced by the corporate restructuring, strategic ac-

● To Page 2

W & A vindicates Liebesman's acumen

B|Day 20|3|89

● From Page 1 (180)

quisitions by operating companies and the ending of the historic reliance on share dealing.

Share dealing, which comprised 17% of 1987's overall earnings of 731c a share, declined to a marginal 0,4% of last year's earnings in line with FSI policy of focusing on manufacturing and distribution activities worldwide.

Operating margins improved from 11,6% to 12,2%, while the balance sheet shows that gearing was held at 35% in spite of an increase in long-term liabilites from R49,3m to R251,7m.

Waicor, whose sole investment is a controlling 51% stake in W & A, lifted earnings 34% to 385c a share. A final dividend of 108c boosts the total payout for the year by 40% to 147c a share.

Strong growth boosts W & A profits

Star 20/3/89 - (180)

W&A Investment Corporation of the FSI group achieved an attributable profit of R53,7 million in the year ending December 1988, an increase of 72 percent over the previous year's figure of R22,4 million, the company announced today.

Earnings per share, based on an enlarge number of shares in issue, rose 56 pc to 953 cents from 609 cents in the previous year. A final dividend of 250 cents per share has been declared from 200 cents previously, bringing total dividend distribution to 350 cents per share, an increase of 30 pc on the previous total of 270 cents.

Turnover for the year was up 75 percent to R1,450 billion, from R830 million previously and operating profit increased to R176,6 million, representing an increase of 89 percent from R93,2 million in the year to end-December 1987.

The directors said in their commentary accompanying the results that W&A's profits were enhanced by the restructuring which followed its acquisition by FSI Corporation in September 1987, as well as strategic acquisitions by operating companies and "implementation of strategies that enhance the on-going organic growth in the operating companies".

Looking ahead, the directors said that given stable operating conditions they expect earnings per share to "Show growth in excess of the rate of inflation".— Sapa.

Star 21/3/89 180

Markets restricted – Numsa

By Mike Siluma, Labour Reporter

The South African economy was in the grip of a severe structural crisis which had led to an attack on the living standards of workers by employers and Government, the National Union of Metalworkers (Numsa) said at the opening of the metal industry wage talks yesterday.

In a statement to the industry's industrial council, Numsa, the biggest metal union, said most industrialists, including many in the metal industry, had not realised that the country's economic crisis could not be resolved without a political solution.

The union said the crisis had been occasioned by "an investment strike" by business since 1978, with the failure to invest in job creation having a "far more significant effect (on employment) than sanctions and disinvestment".

"Increasingly, investors in South Africa are choosing to invest overseas. We have recently seen the creation of a number of offshore investment vehicles by Rembrandt, Gencor, Liberty Life and we are now witnessing the struggle by Minorco for Consolidated Gold Fields," said Numsa.

In addition, the South African economy was faced with a restricted market in that it was unable, for political reasons, to export into its logical market – Africa, while the internal market was limited by "the drastic imbalance in the allocation of wealth and resources".

BUSINESS

B|Day 22/3/89 (180)

SA's way back through trade

HELOISE HENNING

IN government's efforts to overhaul its industrial policies of the '60s and '70s and turn SA into an exporter of manufactured goods, it has brought the talented Helgaard Muller into its ranks.

Muller's career so far has been devoted to promoting the concept of international trade for SA. He was head of the Stellenbosch Business School for 13 years, and wanted to see SA trading its way into Africa and the rest of the world.

Now Muller, 52, as deputy chairman of the Board of Trade and Industries (BTI), has been put in charge of developing policies for several non-steel industries identified by government as "sunrise" industries, and with the brief to identify more.

The so-called "structural adjustments" which BTI is studying and proposing — the first was for car makers — involve a new export thrust for manufactured goods. BTI considers the move to be as important as fiscal and monetary policies.

Government recently adopted — but has not yet published — a policy document on a strategy for development and structural tariff adjustments in industry. The report took more than three years to compile. Pivotal in the approach is an export policy for manufactured goods.

Instead of capping the use of foreign exchange because of the current strain on the balance of payments, government is telling industrialists to manufacture more, add value to local products and earn as much foreign exchange as they can.

● MULLER

Soon to be announced are the "structural adjustments" for the textile, clothing and footwear manufacturers.

While Muller was pursuing his dream of building an international business school at Stellenbosch, with the express purpose of attracting African businessmen, his efforts — and international contacts — were noticed by the BTI. He was asked to make a broader contribution to business in SA by helping government's policy making through the BTI.

Muller has formal contacts with the Paris Chamber of Commerce and members of the European Parliament, eight European business schools and American universities. After completing a business degree at Harvard, he taught at the University of Minnesota and University of Austin, Texas.

He believes a "strategic industry" is one which will survive if protection and boycotts disappear. The sun should rise on industries that, instead of growing dependent on tariff protection, will be competitive on international markets within 10 years.

The BTI has brought rival companies together to develop export strategies that will stimulate local value-added manufacturing.

"My main philosophy is that SA's way back to the international community is through trade with Africa," says Muller.

Good PR pays off for Tollgate

180

Star 27/3/89

Diagonal Street

ANN CROTTY

The Tollgate share price has advanced from 325c just ahead of the release of results at the beginning of last week, to a current level of almost 400c.

The improvement in the share price was the result of a number of factors including the strong performance reported for the six months to end-December. The transfer of the listing from the transport sector to industrial holdings last Monday may have enhanced investors' perception of the share.

But perhaps the single most important factor behind the stronger price trend has been the recent attempts by management to explain to the investment community the group's strategy and its longer term growth plans.

Ahead of these presentations to the investment community, the performance of the share price was constrained by the perception that management was on a massive acquisition trail of an indeterminate nature. The only type of activity that appeared not to attract too much attention in this trail was transport — the group's core business.

Adding to investors apprehensions was the fact that Tollgate's management team was relatively new, both to Tollgate and the market.

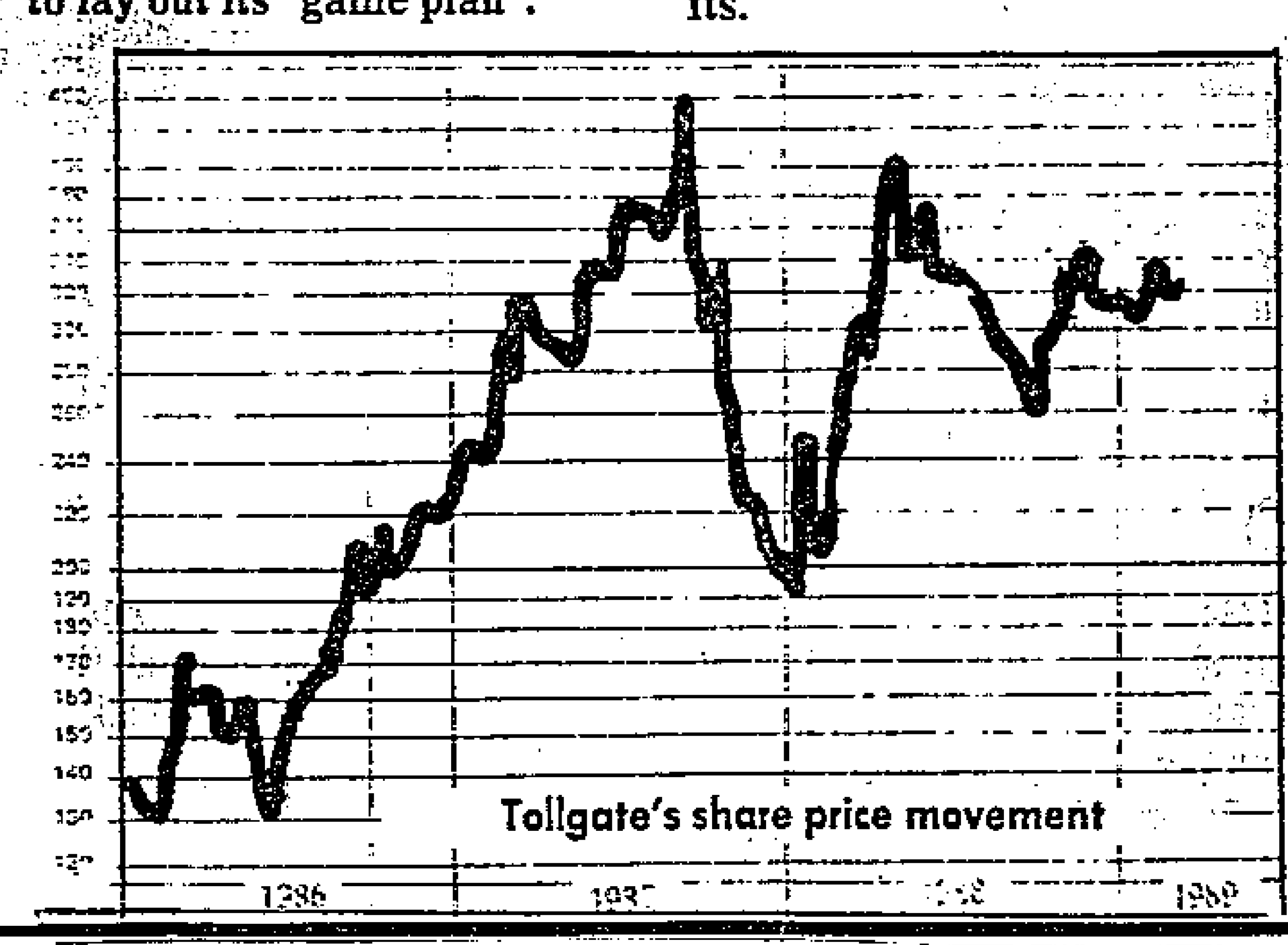
With the release of the interim figures management made a concerted and obviously, successful attempt to get to know the investment community and to lay out its "game plan".

A significant aspect of the plan was the transfer of the listing to the industrial holdings sector. This helped to emphasise the fact that Tollgate is no longer a transport group, it is a holding company. The common thread in all of its subsidiaries is that they are focused on the mass consumer market.

The group now has five divisions: textiles which contributed 23 percent of operating profit in the 6 months to end-December; tourism, leisure and communication contributing 5 percent; engineering with 29 percent; transportation with 32 percent and food processing with 11 percent.

Management's long-term objective is to get 20 percent contribution from each of these divisions. In the shorter term it wants to consolidate the assets that it has taken on-board during the past 18 months. There may be one or two more acquistions in the foreseeable future.

Continued appreciation in the share price may be constrained by the markets' need to see benefits of having the current wide range of assets under the same head office management team. This will probably require a number of years of good profits.


Tollgate's share price movement

D&H dividends get a 33% boost

CAPE TIMES 22/3/89

JOHANNESBURG. — Darling and Hodgson's results for the six months to February reflect a 31% increase in shareholders earnings.

Earnings per share increased to 30c from 23,1c for the comparative period last year. The construction supplies group has declared an interim dividend of 8 cents, representing a 33% increase, and in addition a further special dividend of 4,5c has been declared, which represents Blue Circle's special anniversary dividend.

Turnover at the halfway stage was R239m (R163,4m), an improvement of 46%. This provided an operaing income of R36,8m (R28,6m).

After interest of R4,58m (R5,3m), pre-tax income was up 39% at R32,2m (R23,3m).

Managing director Richard Bruyns expects earnings in the second half to be ahead of the first six months and that existing conditions will be maintained for the rest of the financial year. In such an event, earnings will exceed those of the previous year. — Sapa

FSI looks impressive after reorganisation

Star 23/3/89

180

By Ann Crotty

The market was impressed.

During the past few weeks, as each of the FSI subsidiaries in turn reported solid earnings growth, most analysts had to revise continually their projections for the top company. Despite these revisions FSI's figures for the year to end-December are at the top end of most expectations.

Earnings per share were up 59 percent to 109,3c (68,8c). A dividend of 30c has been declared.

With W&A's results already in the bag, the market was waiting to see what impact 100 percent held Form-Scaff and the group's overseas operations would have on the FSI performance.

The figures indicate that contributions on both fronts was very strong. Referring to the international side, chairman Jeff Liebesman states: "All areas performed exceedingly well and continued to grow. Their earnings contribution to the group benefited from the weaker rand."

Adding these divisions to what W&A brought home gave FSI a turnover of R1,9 billion and operating profit of R249 million.

The extent of the changes effected in the group since October 1987 (when control of W&A was acquired) is so great that it makes comparison between financial 1987 and 1988 fairly meaningless.

In 1988 finance charges took a hefty R70,8 million, reflecting the cost of carrying the W&A acquisition for much of the year.

The group's effective tax rate was up from 22,8 percent to 28,5 percent. Looking ahead, Mr Liebesman is expecting the tax rate to settle at around 29-32 percent.

Taxed profit was R127 million and attributable profit was R46,6 million. After stripping out R120 000 which represents profit from share dealings, the group's profit from operations are R46,5 million. In 1987 the group showed profit from share dealing of R2,3 million, chiefly attributed to dealings at W&A.

Comparison with 1987 is pertinent at the per share level where FSI has turned in a sterling 59 percent advance from 68,8c to 109,3c.

A significant aspect of the earnings per share performance is that, according to the directors, "had the group reorganisation that took place during 1988 been effective throughout the year, and the 6,7 million preferred ordinary shares in FSI been issued on January 1 1988, earnings would not have been less than the 109,6c shown for 1988."

This suggests that the financial impact of the reorganisation of the enlarged FSI group last year and which involved a re-distribution of the cost of the W&A acquisition, was neutral to FSI at the earnings level.

Thus the carrying cost of the debt used to fund the acquisition was matched at the earnings per share level by the dilution effect of the additional 6,7 million preferred ordinary shares used to fund FSI's part of the reorganisation.

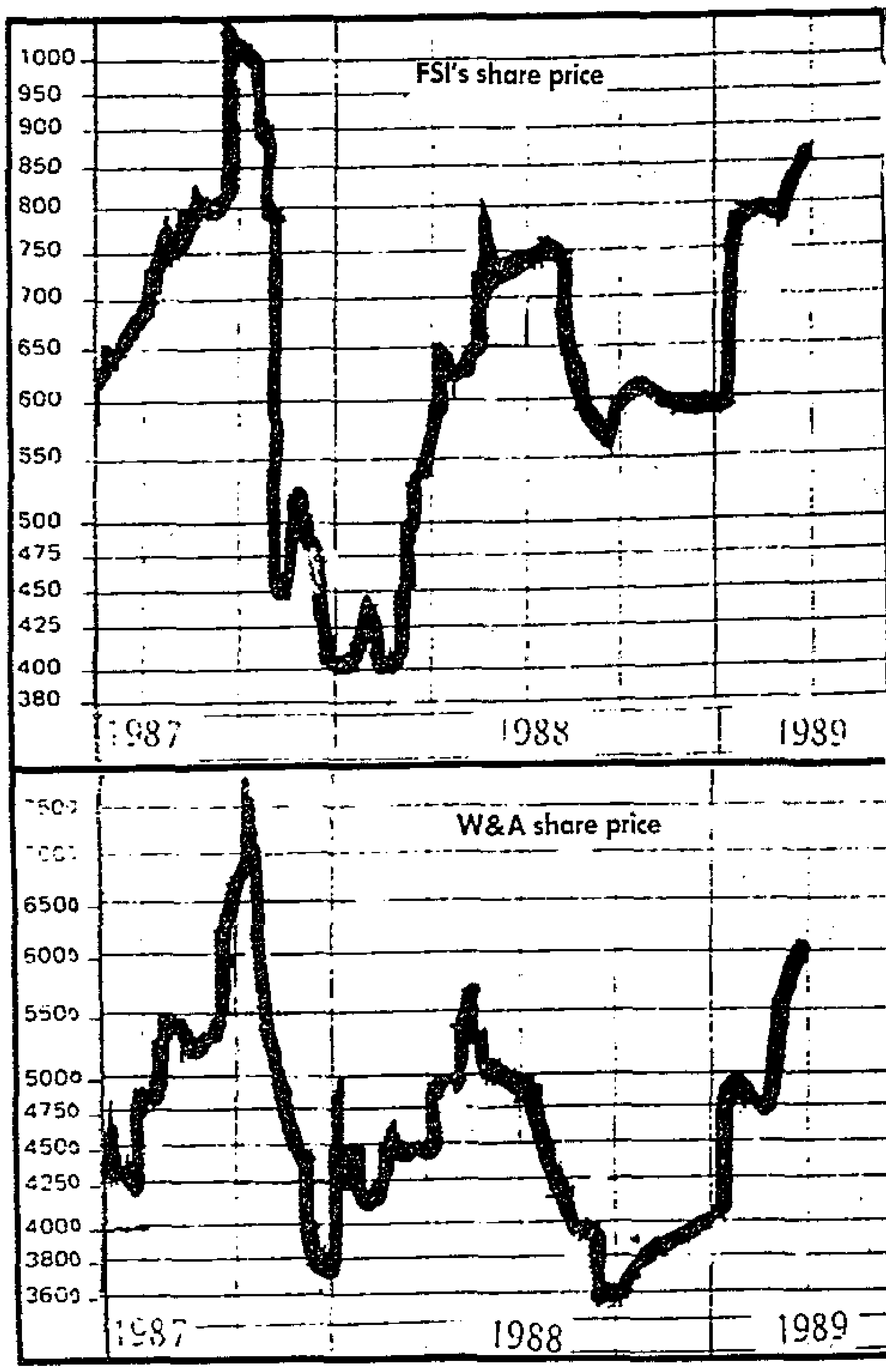
By contrast the impact of the reorganisation at the Hunts level resulted in a significant dilution in earnings per share although even on a diluted basis Hunts managed to show a good improvement.

Natbolt

The performance of Natbolt compared with the price that Hunts paid for Natbolts has caused some concern in the market.

The 1988 performance at Natbolt was not too impressive but management stresses that the group has excellent growth potential and, following re-orangisation at FS-Team is well placed to take advantage of consumer spending patterns in the years ahead.

In addition any increase in capacity utilisation at National Bolts' operations will strongly impact the bottom line, particularly if this stems from exports.



Both these developments will benefit the Hunts' shareholders in the near future.

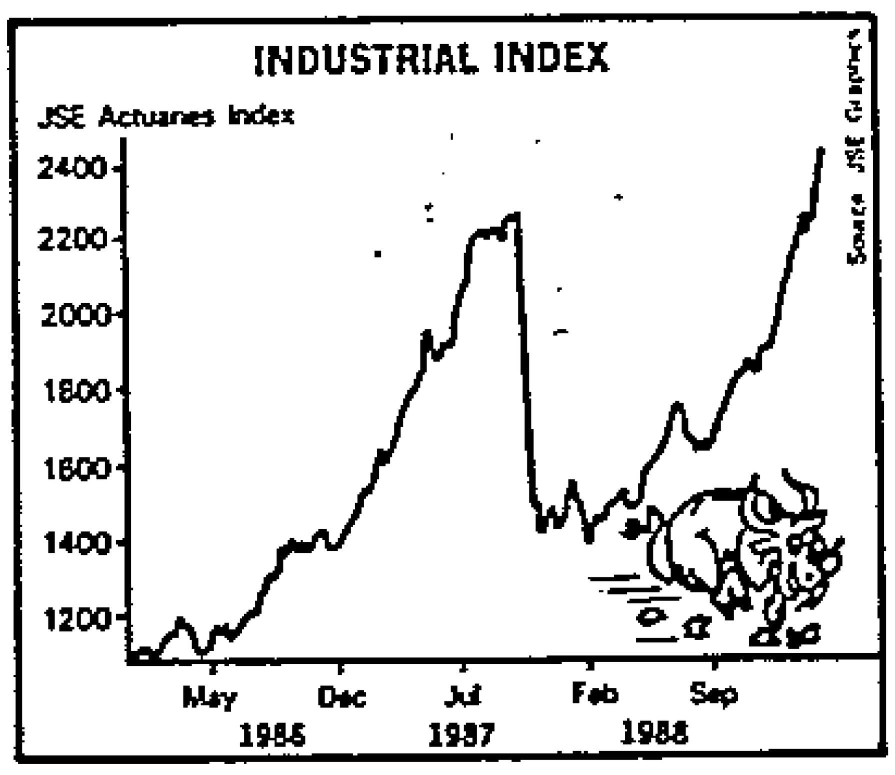
One significant aspect of the results is that W&A accounted for about 46 percent of FSI's earnings. So Form-Scaff and the overseas operations accounted for the remaining 56 percent.

This highlights the fact that although judgment of FSI's performance has tended to be dominated by the W&A acquisition, there is in fact considerably more to FSI than just W&A.

This breakdown does put the the W&A contribution into perspective and no doubt for financial 1989 the market will pay considerably less attention to the W&A deal.

Looking ahead, the group's policy of moving into industry in SA; becoming dominant in that industry; moving into import replacements as well as exports and; then going for direct international investment, looks a winner. If pursued as efficiently as it has been to date, then continued strong earnings growth is on the cards.

But despite these considerations, at its current level the share does look fully priced.



Out of the depths to higher yields

S/Times 26/3/89

180

THE Dow Jones industrial index at 2 292 is still 15% below its 1987 high of 2 722, whereas the JSE's overall index at 2 555 is only 9% under its previous high of 2 804.

The JSE Actuaries industrial index peaked at 2 265 points in 1987, fell to below 1 400 and has now surged to 2 440 points, eclipsing its previous best by 8%.

But more important is the level of yields offered by today's index compared with 18 months ago. Then the dividend yield was a slim 2,5% and the average price-earnings ratio more than 15.

Now the dividend yield is 3,3% and the average price lower than 11 times earnings.

A comparative study by stockbroker Simpson McKie concludes that today's share market offers much better value than it did in October 1987 — "because nominal profits and dividends of the dominant non-gold mining, financial and industrial companies have continued to grow at a very healthy rate".

Manganese and coal have been the best-performing sectors of the JSE since the October 1987 crash. The manganese index was 1 722 points then and is now 3 164. Coal stood at 1 286, and is now 1 724.

But the all-gold index, which had waned even before October 1987 from its August peak, is now 1 640 compared with 2 429. The gold-share market has rallied on the back of an upturn in the gold price, which in turn reflects changing opinions about the course of American inflation.

BURNT

But the study warns that a cool head is a prerequisite — if one is to avoid burnt fingers in the volatile gold share market.

The average dividend yield on gold shares in October 1987 was 3,8%, and is now 4,8% — hardly generous considering the way operating costs continue to rise. But sentiment always governs.

Simpson McKie recommends using the buoyant market to upgrade the quality of one's investment portfolio.

It says: "The apparent opportunities offered by the smaller capitalised companies — which have substantially lagged the recovery of the blue chips — should be treated with circumspection at this mature stage of the business cycle."

Best buys are high-quality shares offering historic earnings yields of not less than 10%, which in most cases will translate to an attractive earnings yield of 12% on a prospective 12-month view.

The study tips mining houses to provide a high-value, balanced hedge against a slowdown in the world mining boom. The mining house index has risen by 11% since the study, dated March 10.

Anglo American will be helped by De Beers, Rustenburg Platinum, Highveld and Mondi.

Gencor will reflect fine performances from Samancor, Sappi and Malbak.

RAND

Fundamentals have changed. The gold price is $90 lower at about $390, but in rand terms it has gone from R977 an ounce to R1 007. The rand has declined from about 203 cents to the dollar to 255c.

The 90-day banker's acceptance rate has jumped from 9% to exceed 16%, and long-term gilt rates have risen by nearly two percentage points to 17%.

Inflation in 1987 was 15,5% and falling. Now it is 13,3% and rising. Politically, October 1987 was a time of growing sanctions fears, now it is in a fluid pre-election phase, according to the study.

The graph shows how shares have risen in almost identical fashion from mid-1986 to October 1987 and then to now. The major difference is that everyone was half expecting a crash in equities in 1987, but nobody even mentions the possibility of one today.

Duros (180)

DUROS Group points out that the Company Round-Up entry in Business Times last week showing that its pre-tax profit for the half-year to December 31 fell by 37% is misleading. 4 March 1976

"As an investment holding company Duros earnings must be calculated in terms of operating income and attributable income from subsidiaries, and not merely operating income," says director G L Mackintosh. "The more meaningful figure is the total income for the year before extraordinary items and after tax, which has increased by 93%."

Manufacturing sector outlook improves slightly

MARC HASENFUSS

THE outlook for continued growth in the manufacturing sector had improved in spite of the latest round of price increases, Stellenbosch University's Bureau for Economic Research (BER) survey of manufacturing conditions found.

BER's survey, undertaken during the first quarter of 1989, showed perceptions regarding the performance of the economy had changed slightly for the better in recent months with 90% of respondents — in sub-sectors such as textiles, paper, leather, rubber, basic metal products and transport equipment — expressing satisfaction with prevailing business conditions.

The improved sentiment was attributed to a perception of an improvement in internal political and social conditions.

Manufacturers were more bullish in their forecast of business conditions for the next 12 months but they expected real investment in machinery and equipment to increase during that time.

The BER report said the improved outlook originated from a low level of optimism and coincided with the recently introduced monetary measures aimed at curbing spending.

First, open the economy

BDay 22/3/89

HARRY OPPENHEIMER, national chairman of the SA Institute of International Affairs

THE FIRST problem that faces us is the economic one. Without a rapidly growing economy, unemployment will increase, living standards will fall and we will not be able to afford the steps which should urgently be taken to close the dangerous gap between the living standards of black and white in SA. If we cannot tackle the problems of poverty and unemployment, there will be continuing and increasing violence, and that in turn will lead to still more repression by an understandably nervous government.

The national income is now growing at a lower rate than the population. That is an intolerable situation. But what can we do about it?

There is obviously much room for improving productivity in both the private and public sectors. And in particular much of what we read about the state of the civil service must, rightly or wrongly, give ordinary South Africans reasons for grave anxiety. But however hard and efficiently we work we cannot hope to pull ourselves up by our bootstraps within the time which is available to us.

SA desperately needs to see normal economic and financial relations restored with the world outside. We need to import foreign capital and in normal circumstances our national resources would certainly attract sufficient investments from abroad. We can't afford to continue indefinitely to export capital as we are now being forced to do each year. The export of capital is the function of the developed countries, not of a developing country like SA.

We can't afford, either, to divert a substantial part of our savings away from new investments in order to buy out, even at prices which may seem attractive, the businesses of the foreign companies who are leaving SA. Normal relationships with the major economic powers are clearly a prerequisite to the solution of our economic problems and the creation of the conditions in which our social and political problems can be successfully tackled.

Fortunately, in America and Europe, after two years' experience, doubts about the sanctions policy have grown. This in no way implies any less determination to pressurise SA to bring apartheid to an end. It does mean, however, that an effort is being made by sensible people to find more practical and humane ways to attain their objectives.

There is likely, I believe, to be a switch away from legislative to adminstrative action in handling SA. This is important and desirable from our point of view, because action by an administration is, in its nature, more flexible and adaptable to changing circumstances than action by a legislature.

I am afraid that in the new black countries of Africa there is still a majority which believes that national freedom is in some way tied up with a socialist economic system. And too many people in SA are inclined to feel the same way. Yet nothing could be further from the truth.

In the developed countries of the Western world, and nowadays perhaps even in the communist countries, there must be very few people indeed who believe economic growth is to be sought along the path of na[...] centrally-controlled econom[...] both theory and experience [...] that what is needed is indiv[...] dom of choice.

Obviously, however, black[...] not going to accept the priv[...] tem unless they are enabled [...] in the great benefits which [...] that is certainly not the cas[...] diate need, therefore, is to o[...] in a fair and equal way to all [...] race and colour. That calls, [...] for the repeal of the Gro[...] reform in the vital fields of [...] ownership of property, pa[...] and the active encouragem[...] owned businesses.

Such social and economi[...] touch directly on the ultima[...] tion on equal terms to bring [...] cal dispensation in which po[...] on fair terms. But I have [...] that social and economic r[...] honestly and energetically, [...] to political change and prov[...] of constitutional reforms b[...] peacefully.

☐ Extract from a recent a[...] London branch of the Ins[...]

REVIEW

DURING their brief heyday, Austra-

and, even when interrupted by

Rationalisation will cost R43,2m

AVI set to delist five companies

180 B/Day 28/3/89

TANIA LEVY

ANGLOVAAL Industries (AVI) is to delist five of its subsidiaries in a R43,2m rationalisation.

The listings of South Atlantic, T W Beckett, Globe Engineering, Avbak Foods and Steelmetals will be terminated if the proposed restructuring — details of which are published today — is accepted by shareholders.

The reorganisation was prompted by government's moratorium on stamp and transfer duties in respect of group restructures.

AVI will buy out minority interests in Beckett, Globe and Steelmetals and swap AVI shares for South Atlantic ordinary shares for a total of R41,8m.

South Atlantic, Beckett and Avbak cumulative preference shares will be redeemed at a total cost of R1,4m.

The scheme is expected to be in force before the moratorium expires on June 30.

In the terms of the deal:

- Globe's shareholders will be offered R26,50 a share, equivalent to a 65,6% premium, taking into account the non-payment of a dividend for this year;
- Tea and coffee distributor T W Beckett will offer its minorities R13,25 a share. Based on the market price, the offer is equivalent to a 32,5% premium;
- Steelmetals shareholders will be offered R4,25 a share. This is equivalent to a 11,8% premium based on Steelmetals' JSE price on March 22.

AVI's consolidated result will not be affected by the moves in the short term but substantial operating and administrative cost savings are expected to accrue in the long term.

In the share swap with South Atlantic, AVI will offer shareholders 90 AVI shares for every 100 held. South Atlantic shareholders will in effect receive a premium of 11,3% for their shares.

Although pro forma dividends are expected to decrease slightly, the underlying net asset value will be 47,5% higher.

As it is already the beneficial owner of 76,9% of South Atlantic's ordinary equity, AVI will have to issue another 2,8-million ordinaries.

Redeemed

South Atlantic shareholders will not receive a dividend for this financial year but their AVI shares will rank for AVI's ordinary dividend for the year to end June.

South Atlantic will also redeem its outstanding 6,5% R2 redeemable cumulative preference shares and its 8% R1 redeemable cumulative preference shares. The former will be redeemed at R2,25 each and the latter at par.

After allowing for AVI's own holdings of these shares, the redemptions will cost R320 544.

With the AVI group holding 71,2% of T W Beckett's shares, R23,2m will be

To Page 2

AVI to delist companies in R43,2m move

180 B/Day 28/3/89

From Page 1

needed to settle the offer. The offer to minorities takes into account that no dividend will be paid this year.

The Beckett 6% R2 cumulative preference shares will be converted into redeemable preference shares and redeemed at par on June 30. This will be equivalent to a redemption premium of 167% on the last market price and will cost R250 000.

Avbak proposes to convert its 5,5% R2 cumulative preference shares into R2 redeemable preference shares and then redeem them at par at a cost of R800 000.The redemption gives a premium of 199% on the last traded market price.

After allowing for the 83,8% of Globe shares owned by the AVI group, the offer will cost R15m.

Because the AVI group owns 73,6% of Steelmetals' equity the total cost consideration will be R3,6m. Based on Steelmetals JSE price on March 22, the offer is equivalent to a 11,8% premium.

Steelmetals has bought Dorr Trading Co Limited and Dorr Trading Co (Alrode) with effect from July last year for R4m cash. This improved forecasts for this year's earnings to 36c a share and reduced net tangible asset value to 433c from 512c a share.

sensitive work Vermaas was involved in, nor did he question Vermaas about it.

The commission's chief investigator Frank Kahn pointed out to Malan that Pretoria Receiver of Revenue Dries Vil-

The auction — attended by hundreds of people, some of whom had flown in from overseas — raised almost R1m, a record amount for an auction at the time.

De Beers share price powers to record

BDay 22/3/89

● From Page 1

De Beers's own production, which amounts to about 10% of the world total.

The record share price lifts De Beers's market capitalisation — the total value of all its ordinary shares on the JSE — to R22,9bn. Anglo American — which has a 32,5% stake in De Beers — was boosted by the De Beers's rise. Anglo rose 125c (1,5%) to R84,75c, lifting its market capitalisation to R19,9bn.

The average 15,5% price rise will be effective from the March 28 sight. The CSO has 10 sights annually and imposed a 13,5% average increase at its May sight last year.

The rise in the CSO diamond price follows a year of record trade figures (to end-December 1988) in every respect: the total value of CSO sales figures rose by $1,1bn, or 35%, to a record $4,2bn; De Beers's attributable earnings (in rands, excluding share of retained profits of associates) were more than double, at R2,1bn (R1bn); total dividend distribution was almost double the previous year, at 200c a share (110c).

Frankel Kruger Vinderine analyst Keith Bright said the price rise may be "a little premature in view of the fact that the high retail diamond prices in the Far East could well be a result of the recent restriction in supply rather than a clear indication of much increased consumer demand".

De Beers withheld diamonds from the market at the November and December sights last year, in view of the illness of Japan's Emperor Hirohito. The CSO feared a decline in demand on Hirohito's death, as the Japanese considered it inauspicious for couples to become engaged — and buy diamond engagement rings — during the three-month mourning period which followed.

Nevertheless, Bright said the impending reduction in Japanese value-added tax, from 15% to 3%, would ameliorate consumer resistance to the increase. Japan is the world's second biggest market for diamonds, at about 27%-28%.

Huge write-offs halve Abercom's reserves

S. News 26/3/89

(180)

Bottom Line

MICHAEL MENOF

The good news according to Abercom's chairman Peter Beningfield was that sales improved by 50 percent, gross margins by 70 percent and pre-tax profit by 81 percent.

The bad news, not mentioned, is that after the sale of the Davidson Fans group, which recouped £9,5 million, was the massive extraordinary write-offs totalling R27 million which crippled the income statement and knocked 50 percent off the reserves.

Net asset value per share has fallen sharply to only 284c (1987 431c). In addition, with R22 million assessed losses brought forward no tax was paid so earnings of 50c per share should have been halved under normal circumstances. With the tax losses almost used up tax will be payable from 1989 onwards so 1988's earnings might be difficult to beat.

Abercom was one of the first companies to divide its trading results into continued versus discontinued operations in an attempt to help management justify poor results. Then the big drive was in favour of foreign earnings.

I find it difficult to justify Abercom's London Stock Exchange listing as only four percent of its shares are held outside South Africa. From the Sankorp stable it has recently been transferred to Malbak to concentrate on developing that group's foreign operations.

Subsequent to year-end Abercom and Malbak acquired UK listed MY Holdings, engaged in packaging, as a springboard to foreign operations. Why management converted the 35 million ordinary shares of 30c each into shares of no par value and created a further 450 million ordinary no par value shares on May 25, 1988, was not explained.

Bad habit

Abercom is following the bad habit of other companies in annual reporting — extraordinary items are featured well down the income statement. The fact that they are shown as extraordinary does not mean they have nothing to do with the current year's trading.

Extraordinary write-offs may not be related to the normal business activities. However, they do feature in the income statement and affect the bottom line.

Despite losing R18 million in 1988, Abercom has paid an unchanged dividend, possibly to maintain investor interest. Plans for 1989 are vague and shareholders are left in limbo while Malbak decides its foreign strategy.

To coincide with holding company Malbak's year-end, Abercom has submitted a 14-month income statement but comparatives for 1987 are for 12 months.

Sales totalled R101,61 million (R245,67 million) with pre-tax and interest income R9,33 million (R9,83 million). After interest received of R850 000 (net interest expense in 1987 was R2,01 million) post tax income totalled R10,18 million (1987: R7,82 million).

Tax losses

The enormous tax losses of R19,7 million brought foward meant no tax for 1988 so after-tax profits were, effectively, R10,18 million (R8,23 million) giving earnings per share of 50c (40c).

Before shareholders get excited, massive extraordinary losses of R27,76 million, loss on disposal of subsidiary companies R19,63 million, fee payable on cancellation of long-term property leases R9 million less R868 000 surplus on disposal of assets — resulted in a R17,58 million bottom line loss for 1988 compared with the R8,23 million profit in 1987 — a swing of 300 percent.

Unchanged dividends of 15c meant a further R3,05 million wiped off reserves — a total of R20,63 million for the year. This explains why retained income of R42,3 million in 1987 has suddenly dropped to only R21,89 million a mere 14 months later.

Following the sale of Davidson Fans, the balance sheet is leaner. Shareholders equity declined to R57,66 million at end-August (end-June 1987 R87,6 million). Total debt is R11,63 million (R29,4 million) and working capital R49,11 million (R65,54 million). The sale of Davidson has boosted cash resources to R42,68 million (R8,6 million).

The current R4,8 million tax losses will be absorbed in the 1989 year so the income statement will be hard pressed to equal the 50c per share earnings reported in 1988 which had no tax to bear. Mr Beningfield anticipates a slow-down in economic growth and warns that this will affect the growth in pre-tax profits which nevertheless is budgeted to rise further. No bottom line prospects are given.

Management is obviously hoping that the purchase of MY Holdings PLC will help Abercom. The percentage owned by Malbak and Abercom is not given, save that Abercom's cash resources were used principally to finance the deal. The last sentence by Mr Beningfield that "it is the policy of the Board to expand the group's activities in the UK" appears rather hollow.

Management should not hide behind the sanctions barrier. The foreign operations strategy needs to be stated. Let's hope Malbak and Abercom are more successful than Barlow's Bibby, which found overseas operating vastly different from things back home.

AVI to pay out R41,8-m cash to minorities

STAR 28/3/89 (180)

Finance Staff

As part of a major rationalisation scheme Anglovaal Industries (AVI) intends to terminate the listings of its subsidiaries TW Beckett, Globe Engineering, South Atlantic, Steelmetals and Avbak Food.

In terms of the deal AVI will pay-out R41,8 million in cash to minority interests in TW Beckett, Globe and Steelmetals and will institute a share swop of AVI shares for South Atlantic's ordinary shares.

In addition it will arrange for the redemption of South Atlantic's cumulative preference shares as well as those of TW Beckett and Avbak at a total cost of R1,4 million.

Commmenting on the deal, AVI directors said that its group structure was too complex and that some of its subsidiaries' activities currently cut across the lines of the group's investment holdings.

This will be corrected by the rationalisation of the investment holding structure and it is expected that substantial, enduring operational and administrative advantages will result.

COST SAVINGS

The R43,2 million required to buy out the minorities and to redeem the preference shares will be provided from the AVI group's own resources.

"In the short-term, AVI's consolidated results will not be affected significantly by the moves. but it expects that substantial operating benefits and administration cost savings will accrue in the longer-term," the directors said.

South Atlantic ordinary shareholders will be offered 90 AVI shares for every 100 held. This means that AVI will have to issue 2,8 million new shares.

Because the scheme is expected to be in force before June 30, South Atlantic shareholders will not receive a dividend for the current financial year.

South Atlantic will also redeem all of its outstanding 6,5 percent 200c redeemable cumulative preference shares and its eight percent 100c redeemable cumulative preference shares on June 30.

TW Beckett will offer minorities R1 325 in cash for every 100 shares held, which puts the total sum needed to settle the offer at R23,23 million.

TW Beckett's minorities will not be receiving a dividend for the current year, but the offer price takes this into account.

Globe is to offer R2 650 cash for every 100 globe shares held, which will cost R15,03 million, after allowing for the 83,8 percent owned by the AVI group.

In the case of Steelmetals, the offer will be R425 cash for every 100 ordinaries. Because the AVI group owns 73,6 percent of Steelmetals' equity, the total cost consideration will be R3,57 million.

Avbak proposes to convert its 5,5 percent 200c preference shares into 200c redeemable preference shares and then redeem them at at par. This will cost R800 000.

AVI's deal looks beneficial for all

Star 29/3/87

180

Diagonal Street

ANN CROTTY

One significant factor highlighted by the rationalisation plan set out by AVI yesterday is the apparent dearth of investment opportunities around.

If the scheme is successful then AVI will be paying out just over R43 million in cash, not to acquire control of new assets but to buy up a larger portion of its own group's earnings stream.

Some years back it seemed fashionable for large companies in overseas markets to buy up their own equity in the market place and thereby secure a larger portion of the earnings than their own management and assets were able to generate.

The major implication of this trend was management's underlying belief that the replacement cost of the assets being acquired was likely to be significantly higher than the cost of buying those assets in the market.

For the same sort of reasons Amic is unlikely to be in a rush to get a listing for Mondi just as Barlows would probably be quite happy if it could buy out minorities in a subsidiary like Reunert.

Although there are limits to the use of "replacement cost" pricing of equities, it is a consideration that could underpin even further upward movement in blue chip prices on the JSE, despite institutional squeeling that dividend and earnings yields are now becoming too tight. (If Mr Hersov's team sees value in Becketts on a 10,7 times price/earnings rating, was the market being too cheap?)

The offers to the various minority shareholders involved in the AVI scheme are attractive. But AVI controlling shareholders should not be accused of extreme generosity as consideration should be taken of the likely replacement costs of the assets that they are acquiring as well as the rationalisation benefits to be achieved.

All-in-all (at this stage) it looks like one of those deals in which all the parties benefit.

In an attempt to guarantee the necessary level of acceptance, each of the offers to the five sets of minority shareholders was well above the market price; with the exception of Steelmetals, each offer was well above net asset value and; each offer is well above the share's 12 month high.

From AVI's point of view, the offers to minorities are reasonable. Longer-term earnings will be lifted by the benefits of rationalisation. (For example in Becketts case this could involve a significant reduction in overheads by sharing the overheads of another AVI subsidiary.) There could be some scope for AVI to make the cash offers to minorities tax efficient. In addition there is the important arguement about the replacement cost of the assets.

News that five listings were likely to be terminated did not cause much sadness in the market. The general feeling among brokers is that each of the shares was so tightly held that trading in them was minimal and therefore there will be very little loss to the broking community.

A 15 percent increase in the number of AVI shares in issue will make little difference to the tradeability of that share because almost 77 percent of the new shares fall into the hands of the controlling shareholders.

Analysts felt that it was difficult to justify the previous structure and most believe that there is considerable scope for similar schemes to further tidy up the group's organisation chart.

Some analysts expressed concern that the move would lead to even less disclosure from a group that is, at best, very publicity-shy.

FCI urges govt spending probe

B/Day 29/3/89 (180)

HELOISE HENNING

THE Federated Chamber of Industries (FCI) has called on government to launch an urgent investigation into government spending, and for the establishment of effective budgetary controls.

This was one of the recommendations FCI made in its post-Budget submission to the Joint Parliamentary Committee on Finance.

It also presented its recommendations to Director General of Finance Chris Stals and to Receiver of Revenue Clive Kingon in Cape Town last week.

Commenting on the recommendations, the leader of the three-man delegation and FCI chief economist Roelof Botha said yesterday: "If a government expenditure/GDP ratio of about 20% was officially regarded as excessive and dangerous less than a decade ago, surely it has become a matter of urgency to reverse the trend, which has now reached almost 30%."

He said that while the public demanded government cut its spending, it was effectively powerless. The country needed a legislative system that would hold senior government officials accountable for their department's expenditure.

"If they fail, some form of disciplinary action should be instituted against them. This approach is followed in many other countries.

"It is all very well for government to budget within percentage point rises, but we need to establish effective controls to limit spending. The way government departments go about their work is to overspend through additional appropriations.

"Private companies and even private households know how to curb expenditure when resources are not available.

● To Page 2

FCI calls for probe into govt spending

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● From Page 1

But government is apparently incapable of this type of discipline. Legislation is needed to make overspending an offence."

Botha said he told this to parliamentarians and department heads.

The FCI delegation, which included the chairman of the FCI fiscal policy working group Bob Cole and vice president Mike Getz, also called for cuts in personal and company tax. They said government should investigate the beneficial, indirect effects of tax cuts.

FCI also called on the Finance Department to become more actively involved in supply-side policies. "The cornerstone of this approach is massive deregulation and not the piecemeal progress we have seen thus far," Botha said.

Cit 30/3/89. (180)

Another good year for manufacturers forecast

By Sven Lünsche

The manufacturing industry is likely to have another good year in 1989, but the growth in demand for its products will fall substantially from last year's buoyant levels.

This is the finding of a manufacturing survey by the Bureau for Economic Research at Stellenbosch University (BER) and is supported by the latest government statistics on the industry.

Manufacturing companies had an exceptional 1988, with the industry benefiting from the surge in consumption expenditure and the higher level of fixed investments.

According to Central Statistical Services' figures released yesterday production capacity in 1988 reached a seven-year high of 85,3 percent in the fourth quarter of last year.

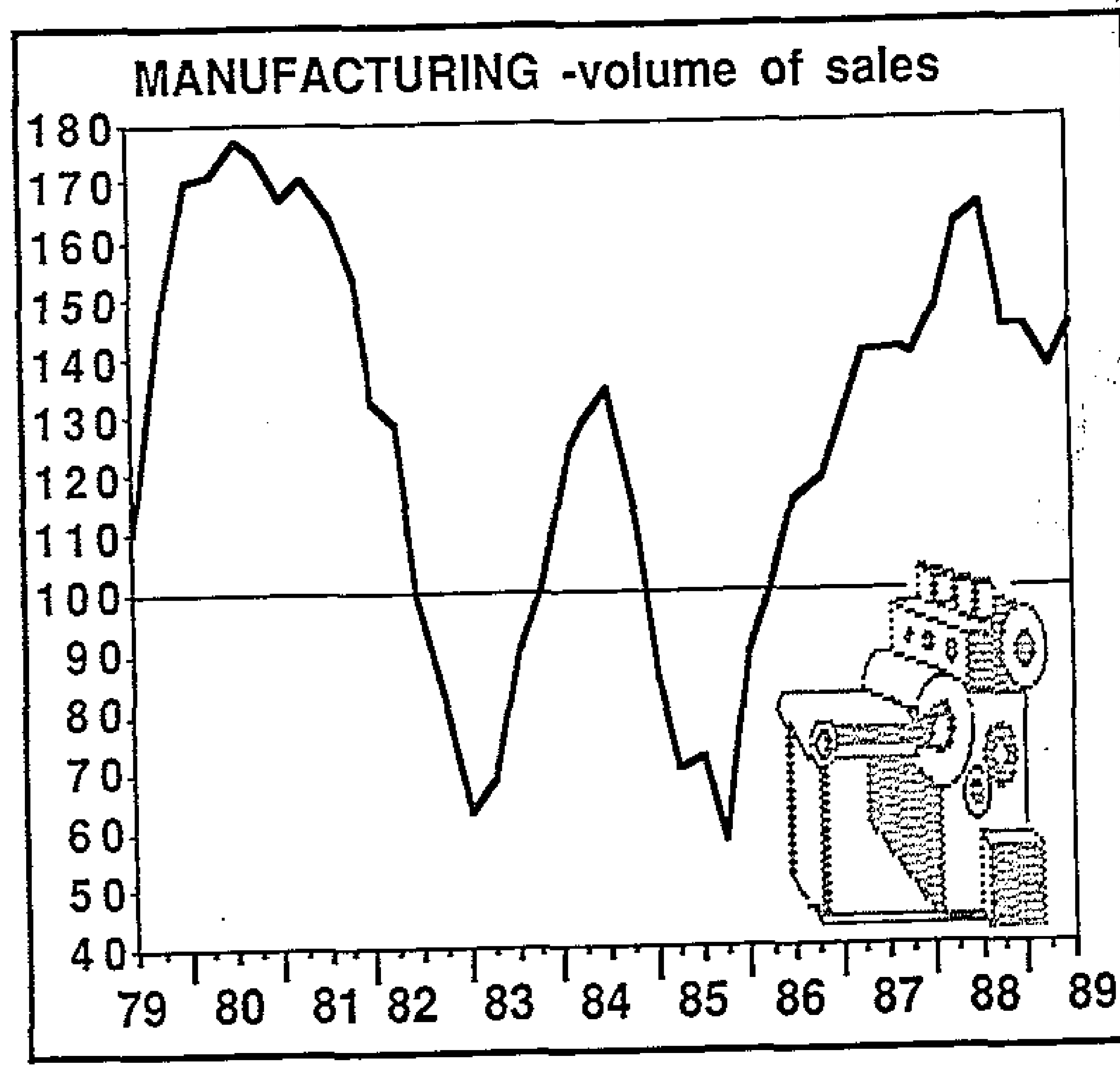
For the year as a whole manufacturing capacity was 83,6 percent with 22 of the 27 manufacturing sectors reporting an increase. The largest sector, the car industry, reported a 18,5 percent rise in capacity utilisation. Further rises to about 86 percent are expected in the first quarter this year.

The CSS also reported that manufacturing production volumes last year increased by 5,8 percent in real terms compared with 1987, while sales were provisionally estimated to have risen by five percent, also in real terms.

However, there was some evidence of a slowdown towards the latter half of 1988 as the restraining measures introduced by the authorities took effect.

The BER survey found that the tempo of activity in the manufacturing sector showed signs of slackening in the second semester last year and to a lesser extent in the first quarter of 1989.

Reasons given include the increases in the price of petrol and imported goods, which led to higher costs for the manufacturing sector. During the first quarter this year the rate of price rises was expected to accelerate.



However, the Stellenbosch academics add that the latest survey results show that overall business conditions have again become more buoyant.

In some subsectors an average of more than 90 percent of the respondents expressed satisfaction with their prevailing business conditions.

The Bureau said the improved sentiment may be in part be ascribed to a perception of an improvement in internal political and social conditions.

BER added that growth at a lower level could be maintained in the immediate future, which is in line with the views expressed by the respondents.

The outlook for the three months from April to June, however, is mixed with most analysts and industry sources fearing that a further clampdown on spending would slowdown sales dramatically.

Respondents to the BER survey were of the opinion that business conditions would remain stable during the quarter, but they did indicate that the tempo was likely to slacken somewhat.

Should consumer spending be curbed succesfully by the monetary authorities, sales of manufactured goods may decline and this will put profit margins under pressure, the Bureau reports.

This view is shared by analysts at stockbrokers Irish & Co, who argue in their latest *Economic Report* that the significant squeeze on the discretionary power of individuals could result in private individuals spending as much as 18 percent less on durable goods than in 1987.

"Coming on top of the sharp fall in growth of retail sales and building plans passed, recent trade and money supply statistics corroborate the view that the economy is losing momentum," the brokers say.

Further constraints hampering the activities of the manufacturing sector revolve around the shortage of skilled labour, but the industry might gain some benefit from measures aimed at curtailing imports and expanding exports.

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Manufacturing sector achieves 85,3%

Production capacity at seven-year high

BDay 30/3/89

HELOISE HENNING

USE of production capacity in the manufacturing sector during the last quarter of 1988 reached 85,3%. This was a seven-year high, since the 85,5% reached in the first quarter of 1982.

The figures, released by the Central Statistical Service (CSS) this week, bring the annual average production capacity for 1988 to 83,6%.

Major contributors to the activity, such as plate glass, chemicals and iron and non-ferrous metals, had strong export orders, while the best performer, footwear, indicated the strength of the black consumer market.

The Federated Chamber of Industries (FCI), which conducts monthly surveys among industrialists, estimates production capacity in the manufacturing sector in the first quarter this year at between 85,5% and 86%.

The last time production capacity beat this level was in 1981 on the strength of a strong gold price, said FCI consulting economist Gad Ariovich. The difference this time was that manufacturing capacity had increased in spite of a weak average gold price for 1988.

Sentrachem

Footwear (95,5%), glass (94,7%), paper (91,7%), printing (89,1%), basic iron and non-ferrous (88,8%), chemicals (88,4%) and wood (88,3%) were the top seven performing sectors. Of these, footwear was the only labour-intensive industry. Following closely were furniture (88,3%), textiles (88,1%) and clothing (87,9%).

Fergusson Bros analyst Richard Price said Sentrachem had indicated that its three plants producing artificial rubber had reached an average 70% capacity in the last quarter of 1988, compared with 35% in the first quarter.

One division was functioning at over 100% capacity. More than 70% of the synthetic rubber produced was used in tyres, which had become an important export product, Price said. Other strong export-led products were ferrous and non-ferrous metals, chemicals and glass, as well as paper and packaging.

Analyst Arlene Rosenberg said the labour-intensive footwear industry was one of the sectors that showed low concentration, with small industries being established in homelands, where there were pools of non-unionised labour. The strength of this industry was that its low-cost products sold in the local black consumer market.

CSS said in its summary that increases in production usage occurred in 22 of the 27 major manufacturing groups. The largest increase — 18,5% — was in the motor vehicle sector.

It said the under-utilisation of 14,7% in November was attributed to the shortage of raw materials in the food, beverage and metals industries (2%) and insufficient demand in the basic steel industry (9,8%).

Star 31/3/89 (180)

Budget helps boost business confidence

By Chris Moerdyk

Following a drop in the Assocom Business Confidence Index in February this year (94,8), it rose again in March to 95,6 — still a point below January and two short of the 1988 average.

When compared with the previous month, positive influences on the index, according to Assocom, were the slight increase in the dollar price of gold in the first half of the month, the significant upward trend of the JSE overall index, a recovery in car sales and seasonally adjusted retail prices and the decline in unemployment.

In addition the number of building plans passed increased while insolvenies declined.

Negative influences included the continuing adverse trend of the rand/dollar exchange rate, a weakening in imports and exports, a decline in the volume of manufacturing production and increases in the CPI, BA and prime interest rates.

Assocom believes that the slight improvement in business sentiment "is largely due to a feeling of relief in many business circles that the Budget on March 15 was not as tough as expected."

This, coupled with continued momentum in the economy and a strong JSE had helped to keep business confidence oscillation within a narrow band.

Although there were signs of a levelling off in the economy, both industry and commerce still appeared to have a positive view of current business conditions.

Assocom concludes that taken as a whole, it appeared as if the business sector currently believed that the chances of a "soft landing" for the economy in 1989 were good with an expected GDP real growth of about two percent as the most probable outcome.

Uncertainty

At the same time, Assocom was able to detect a "note of uncertainty" in the business mood stemming from a vague awareness that things could still go wrong as a result of:

- Doubts as to whether South Africa is succeeding in building up its net foreign exchange reserves sufficiently to remove concerns about balance of payments. Doubts reinforced by the continuing weak gold price.
- A Budget which in terms of its net impact on the economy, may be unable to avoid yet another rise in interest rates.
- Fears of a renewed upward trend in the inflation rate.

Assocom believes however that "it could well be that South Africa is trading more bouyant business conditions in the short term for an increased risk of sterner action later."

Trouble-lashed Unidev slashes annual dividend

B/Day 31/3/87 (180)

LIZ ROUSE

UNIDEV has slashed its 1988 dividend to 12c from 22,5c a share, although the group's earnings drop was mild considering the troubles at Milly's Stores and Prestige Group.

● GRYLLS

Good performances in some areas of the Cape-based investment banking house mitigated large write-offs for troubled Milly's and Prestige and the earnings decline was limited to 10% or 54,9c a share on a larger issued share capital in the year to December 1988 from 61c a share in 1987.

However, the interest bill shot up to R4,95m from 1987's R1,9m and the balance sheet has been tattered with current liabilities at R63,8m outstripping current assets of R62,8m.

The sharp increase in the dividend cover to 4,5 times from 2,7 times reflects not only the liquidity problem but also a change in direction by Unidev.

Commenting on the increase in dividend cover, Unidev chairman Geoff Grylls says that as a significant proportion of the group's investments has been made in developing companies, equity accounted earnings were generally invested to fund further growth.

"This has obviously resulted in a deferral of positive cash flow and because of the likely continuation of this trend, coupled with high interest rates, we have decided to retain a larger portion of our earnings."

Rising interest

The need to provide additional funding to group companies for expansion and working capital also led to the increased interest bill.

Unidev is considering the whole question of borrowings with a view to reducing these substantially, says Grylls. It is also reviewing its activities.

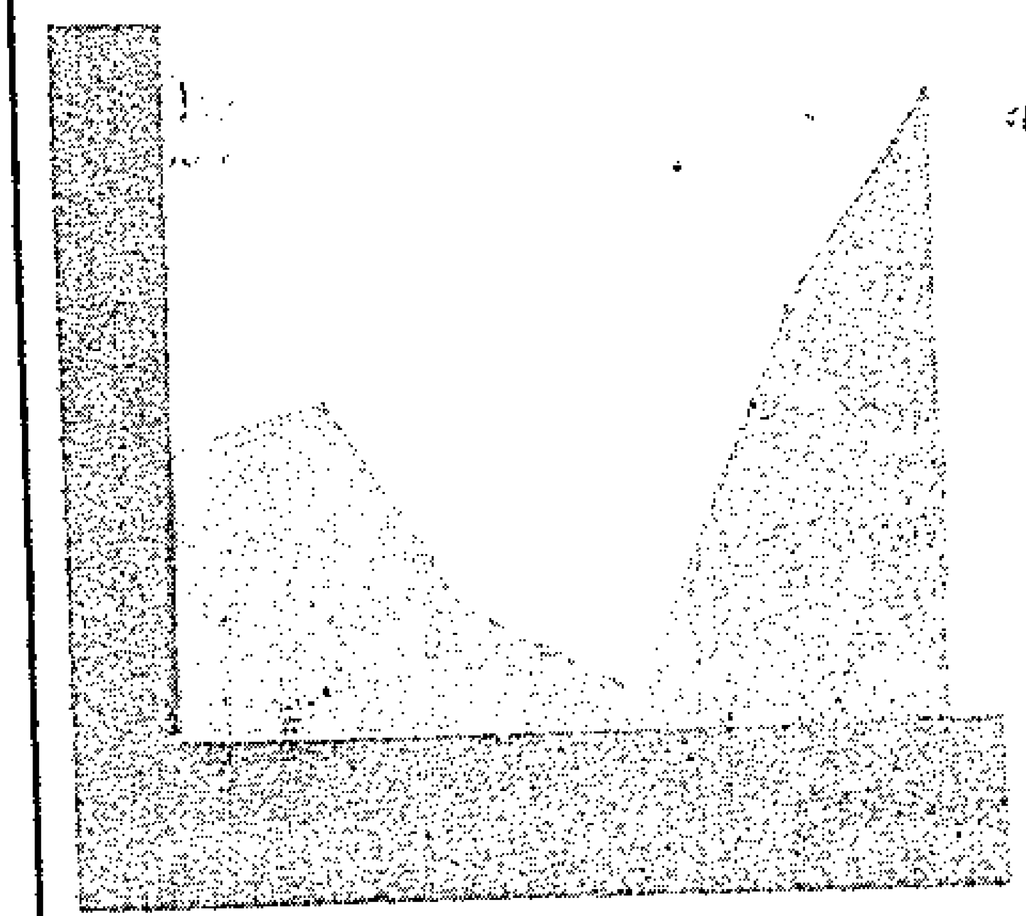
"Although the stock market crash in October 1987 had no discernible material effect on the group, we do believe that the DCM sector has lost a lot of its attraction as a platform for the launching of emergent companies."

The 1988 preliminary results reflect the drastic cutting already accomplished. Although Unidev achieved a R1,5m rise (12%) in operating profits to R14,5m in the year to December and its share of taxed profits of associate companies was up at R2,41m (R632 000), the Milly's write-off knocked off over R2m while the closure of the kitchen cabinet division of Prestige took away R524 000.

Grylls says the closure of Prestige's loss-making division should enable the company to produce more acceptable earnings this year while the benefits of the proposed restructuring of Milly's should materialise in the medium term.

Prestige has declared a 1,5c final dividend from earnings of 7,4c a share (11,5c in 1987). The operating loss from discontinued operations amounted to R870 000, which together with the extraordinary loss of R524 000 from discontinued operations, depressed attributable profit to R1,6m from R2,4m.

Unidev shares stand at 155c, near the year's low of 150c, while Prestige shares are languishing at 25c.



Real private fixed investment up 16%

B/Day 31/3/89 KAY TURVEY

REAL private fixed investment rose 16% in real terms last year, after 3,4% growth in 1987, as import replacement demand burgeoned, says the latest Reserve Bank Bulletin.

The bulletin said fears of increases in the prices of imported capital equipment mounted as the rand depreciated, further spurring fixed investment.

Rising degrees of capacity utilisation

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Real private fixed investment up 16%

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of existing production facilities unleashed pent-up replacement demand as climbing company profits and improved business confidence enhanced the investment environment.

The marked rise in SA's real merchandise export performance, particularly in the second half of the year, also provided a foundation for further strengthening private sector fixed investment demand as it buoyed manufacturing.

The bulletin said strongest sectoral investment growth was in manufacturing, which was 19,6% up on 1987 levels. However, real fixed investment in private manufacturing, which reached R4,1bn, still did not fully match the level of depreciation allowance and, therefore, resulted in further shrinkage of the manufacturing industry's real fixed capital stock.

Gains in the manufacturing industry were explained by the unexpectedly firm levels of aggregate domestic demand as well as by the renewed upswing in exports, excluding gold, which rose 15% in seasonally adjusted rand terms for the year.

Sanlam economist Johan Louw said the rise in fixed investment was welcome news as it was a major driving force in longer-term economic growth.

He said import surcharges and a weakening currency which drove up the price of imports would also have encouraged the growth in fixed investments.

However, the increase in gross fixed investment, including government and public corporations, rose a more modest 6,4% in 1988.

Things could go wrong if interest rates rise

Better Budget led to more confidence

BDay 31/3/89

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SYLVIA DU PLESSIS

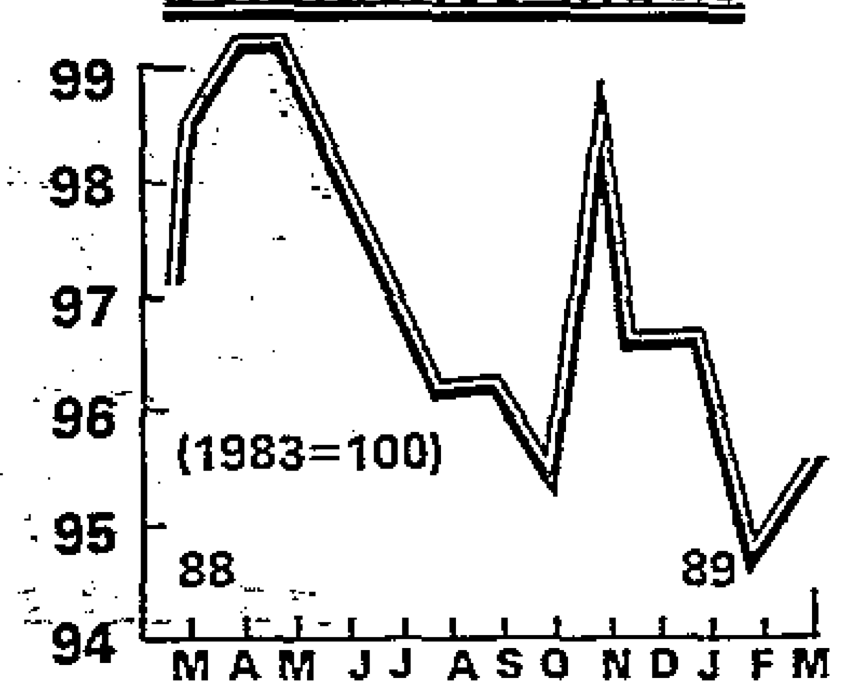
A BETTER-than-expected Budget, with consequent relief in many business circles, was the most likely reason for the recovery of the Business Confidence Index (BCI) from 94,8 in February to 95,6 this month, Assocom reports.

But the association warns in its latest Index — a monthly barometer of business sentiment measured against the movement of economic indicators — that things could still "go wrong" if interest rates rise.

There is also uncertainty in the business mood as to whether SA is succeeding in building up sufficient net foreign exchange reserves to remove concerns about the balance of payments, while renewed inflation has still to be adequately addressed.

However, Assocom predicts short-term business sentiment is likely to remain fairly stable if the economy's present momentum is maintained.

Assocom Business Confidence Index



Graphic: LEE EMERTON Source: ASSOCOM

The business sector believes the *chances of a "soft landing" for the* economy in 1989 are good, with an expected GDP real growth of about 2% as the most probable outcome, says Assocom.

Positive influences on the business confidence index included a strong JSE, a decline in the number of registered unemployed and the slight increase in the dollar price of gold in London until Easter.

Seasonally-adjusted retail sales at 1985 prices showed a small increase over last month, while the number of cars sold also recovered.

In addition, the value of building plans passed increased, and the number of insolvencies of individuals and partnerships declined.

Negative influences were the continued adverse trend of the R/$ exchange rate, weakened imports and exports and a decline in the volume of manufacturing production and number of new companies registered.

The consumer price index increase, the rise in interest rates — including the three-months Bankers Acceptance rate and the rise to 19% in the prime lending rate of the commercial banks — were other factors impacting negatively on business sentiment.

Inside Out
Ann Crotty

Small is not so bountiful

Star 11/4/89

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HE REASON why the blue chip counters hog so uch of investor buying interest was probably driven ome quite forcefully yesterday with the release of isappointing results from many of the market's maller companies — certainly not the sort of figures tat are likely to precipitate a major rush into the smaller counters.

At last something happened at Mooiriver. After months of widespread speculation that there was going to be a change of control, interspersed with one or two cautionary statements, the share was suspended yesterday at 750c. This may have taken the local management team as much by surprise as it did the market because indications from that source (as late as Thursday evening) suggested that they did not know how long the negotiations would take or with whom they were being conducted.

Myles reckoned this was either a ploy to deter media hounds or reflected a fairly high-handed attitude on the part of the Dutch parents who have been negotiating the sale of Mooiriver with a number of parties since as far back as 1981. Apparently over the years the rand price they've demanded has moved up steadily to counter the fall in the exchange rate.

And typical of the bind that South Africans are caught in, as the rand depreciates there seems to be a proportionately greater increase in the degree of desperation with which they want to acquire assets.

There's talk that the deal has been struck at around 850c which does seem high on the basis of historic earnings but there's currently a lot of smart money trying to corner the SA textile industry and, with the control issue out of the way local management may be able to produce better earnings.

Sechold has issued a cautionary and speculation is that it involves a deal with Rand Merchant Bank and Cape Investment Bank about the future of the National Discount House.

Vanadium shares shot up late in the week, on the back of news of vanadium price increases. A lot of the less professional investors were caught short by the profit-taking that brought the shares down yesterday morning.

According to Myles there are reports that Chris Ball is setting up a European bank in London with the backing of a Swiss consortium and Barclays Bank.

On a related issue ... his Mum somehow managed to swing an invitation to view this afternoon's implosion — the third biggest in the world.

She hopes the guys who are doing it are as professional as the IRA whom she says were one of the first to use this method — back in 1965 when they removed Nelson's Column from the centre of Dublin late one summer's night. In fact, as Myles points out, they weren't that professional 'cos they left the sailor's booted feet on the pedestal.

According to Myles the cautionary that Marlin released some time ago, related to plans to pyramid the company. It seems that nothing is to come of these plans because of JSE regulations requiring the company to have been listed for two years.

Also on the mining front, there's talk of a new company coming to the exploration sector. Myles thinks its going to be called something like Digoco and that it's involved in diamonds and granite.

No news yet about what's happening on the Mightymeat front but it seems that most of the details have been finalised and that something should be announced in the very near future.

Conshu and Phoenix Rubber have issued a joint cautionary. Myles wasn't able to get any gen but reckons that it could be significant that SAB has a major holding in Conshu (as does Sankorp) and that Phoenix supplies materials to many sectors of industry including shoe manufacturers.

There was a lot of trade in Dashaus towards the end of the week, on a weaker price.

Allied continued to attract lots of attention with the latest speculation relating to a deal with Liberty.

Playtime changes the game plan

(180)

Star 4/4/89

Diagonal Street

ANN CROTTY

Last Friday saw a rush of companies releasing results for the 12 months to end-December. In most instances two features stood out: the companies were small and the results were bad.

According to regulations, companies have to release their figures within three months of the end of the period under review. So last Friday was the last day that they could report without getting special dispensation.

Playtime Holdings was one of the companies that released figures on Friday — it is a small DCM company and its figures for the 12 months to end-December were bad.

On a turnover increase of 20 percent the group reported an operating loss of R1,4 million. After finance charges and an extraordinary item, the attributable earnings loss rises to R2,3 million.

But, in what seems to be something of an unusual departure from normal reporting practices, management uses financial 1987's earnings of R745 000 to reduce the 1988 loss to R1,5 million.

This is equivalent to a loss of 11,6c a share and compares with the previous year's earnings of 5,9c and the prospectus forecast for 1988 earnings of 7,9c.

As recently as last September, with the release of interim results, shareholders were encouraged to expect earnings of 7,9c for the year.

Another unusual feature of the presentation of the figures is that profits are shown in brackets and losses are shown without brackets.

The more common format is to state losses in brackets and profits without brackets. However there are no strict guidelines on this front apart from a general encouragement to make the presentation of figures as understandable as possible.

Chairman and MD, Martin Seehoff states that the presentation was intended to make for easier reading "without all the brackets".

Playtime was listed on the DCM in November 1987 at an issue price of 50c, it briefly touched a high of 55c but in the past 12 months its top level was 32c. It is currently trading at 19c and looks expensive at the level in view of the operational problems that it is obviously suffering.

In addition the problems that became apparent during financial 1988 have seriously eroded the asset base, knocking shareholders' funds from R4,5 million in 1987 to R1,7 million. The result in terms of net asset value was a sharp drop from 26,3c a share to 10,2c.

The group's problems are attributed to the previous management and control situation which was changed last November.

The new management under controlling shareholder, Mr Seehoff (the previous joint MD) is hopeful that internal reorganisation and implementation of new management systems will improve margins.

Unit trusts see lower growth in share prices

Star 4/4/89

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By Sven Lünsche

Share prices on the JSE will continue to rise during the course of 1989, albeit at a slower rate than last year, says Roy McAlpine, chairman of the Association of Unit Trusts.

Writing in the latest issue of the Association's annual yearbook, Mr McAlpine points out that the financial and industrial indices in 1989 will not reflect last year's strong growth rates of 10,9 and 35,4 percent respectively.

During 1988, financial and industrials formed the bulk of unit trust holdings with 41 percent of total assets being invested in this area. Liquid assets were second at 18 percent, mining financials at 17 percent, other minings at 12 percent and gold at 10 percent.

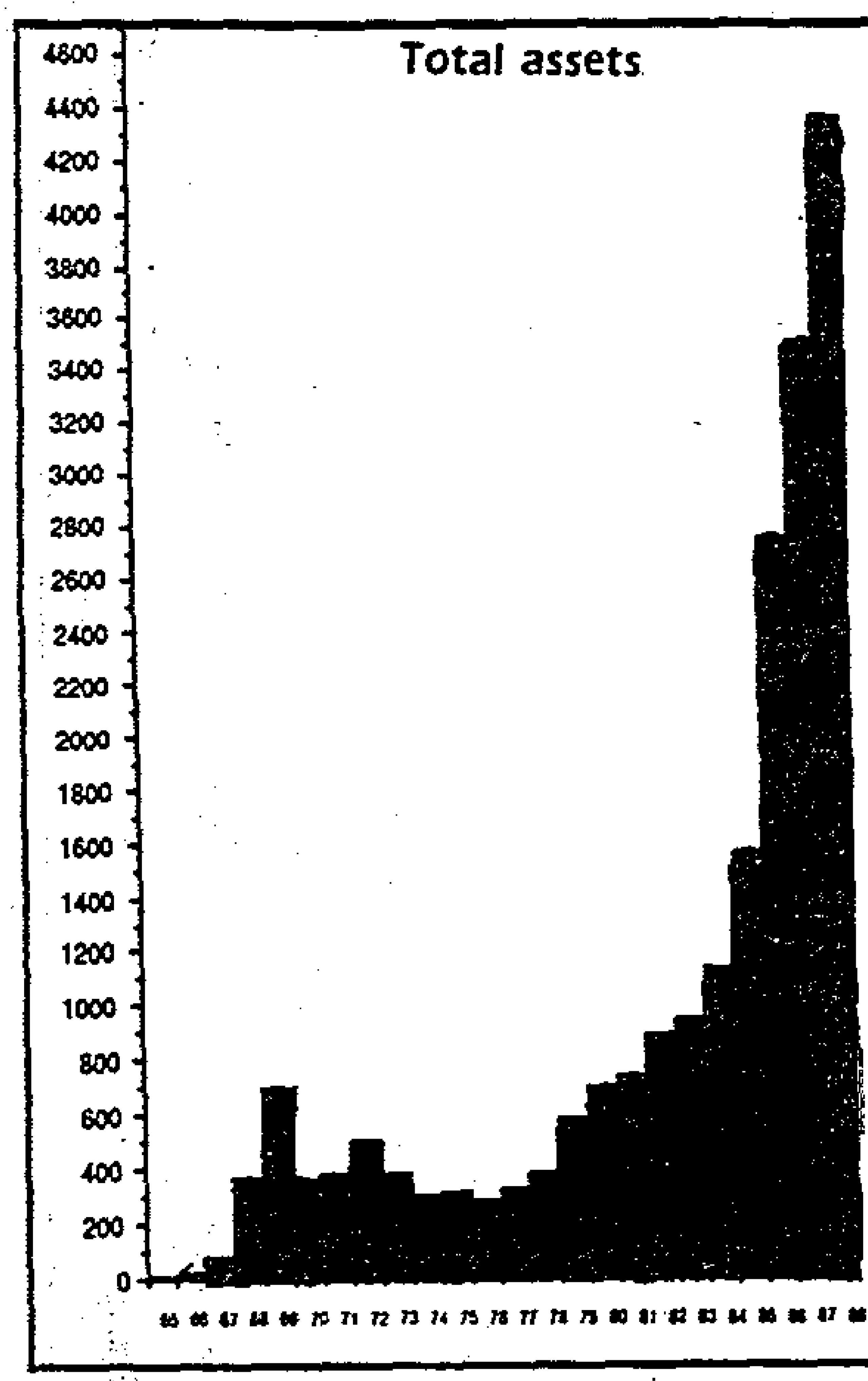
The decline in the gold holdings of unit trust can be ascribed mainly to the disappointing 26,7 percent decline in the JSE's all-gold index.

Mr McAlpine bases his forecast of a lower growth rate in share prices this year, on the assumption that GDP growth will not reach last year's level of three percent.

"The very high interest rate pattern which currently prevails must inevitably have an adverse effect on the level of consumption expenditure in 1989," he writes, adding that this would inevitably impact negatively on growth.

"South Africa as a developing country cannot sustain for any meaningful period of time a very high interest pattern, such as exists at present, without creating permanent damage to the economy.

"Accordingly, it is hoped that the economy will cool off sufficiently to allow interest rates to be lowered towards the middle or latter half of the year," Mr McAlpine says.



During 1988 the total value of unit trust assets rose from R3,4 billion to R4,4 billion, an increase of 29,4 percent. The yearbook points out that the market value of unit trusts was now only 10 percent lower than at the peak in 1987.

These funds represent the savings of 490 000 unitholders, with 1988's new inflow amounting to R394 million, comprising sales of R787 million and repurchases of R393 million.

Commenting on the industry's performance, Mr McAlpine, says: "The unit trust capital index rose by 17,2 percent over the year and the income index by 28,8 percent, but it must be recognised that the performance of this index was adversely affected in 1988 by the inclusion of the specialist trusts which, in general, did not perform as well as the general trusts."

The report says that the reasons for the climb in the index were a higher level of liquidity than in 1987 and the subsequent benefits received from higher interest rate levels, and higher dividend declarations by most equities held by the funds.

Matthews brothers take major stake in UK company

The Star Bureau

LONDON — Two South African brothers, who are joint chairmen of the JSE-listed industrial holding group Klipton, are to join the board of UK-based SW Wood and aim to expand the company through acquisitions.

A group of investors headed by Robin and Nigel Matthews has bought 26,7 percent of the company from a family trust controlled by Jeremy Taylor, currently SW Wood's non-executive chairman. Robin Matthews will become executive chairman in his place.

SW Wood specialises in metal trading, aluminium smelting and property developmet.

The brothers said on Monday that the acquisition programme would focus on private companies in fields similar to Klipton's — in particular the manufacture, marketing and distribution of industrial products.

Since 1987 the company has improved from profits of £182 000 before tax in 1986/87 to £1,51 million in the year to March 1988.

Wood is forecast to make about £2,2 million before tax in the year just ended. Mr Taylor will remain as a director and continue to hold a 10 percent stake in the company.

Trusts controlled by the Matthews brothers will hold about 35 percent of the 2,09 million shares bought. Institutional investors, such as Schroders and Foreign & Colonial Investment Trust, have picked up the balance.

Wholesale and retail sales show continuing buoyancy

Star 7/4/89

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By Sven Lünsche

Wholesale and retail sales continued at buoyant levels in the first quarter of the year, according to a survey by the Bureau of Economic Research at Stellenbosch University (BER).

These findings are confirmed by latest figures released by Central Statistical Services this week, which indicate that expected retail sales for March at R4,37 billion are 2,6 percent higher in real terms, compared with March 1988.

At current prices the increase is 17,1 percent.

The respective monthly rises from February to March were 0,5 percent and 2,2 percent.

In the first quarter of the year sales reached R12,57 billion, a 2,2 percent rise in real terms on the first three months of 1988.

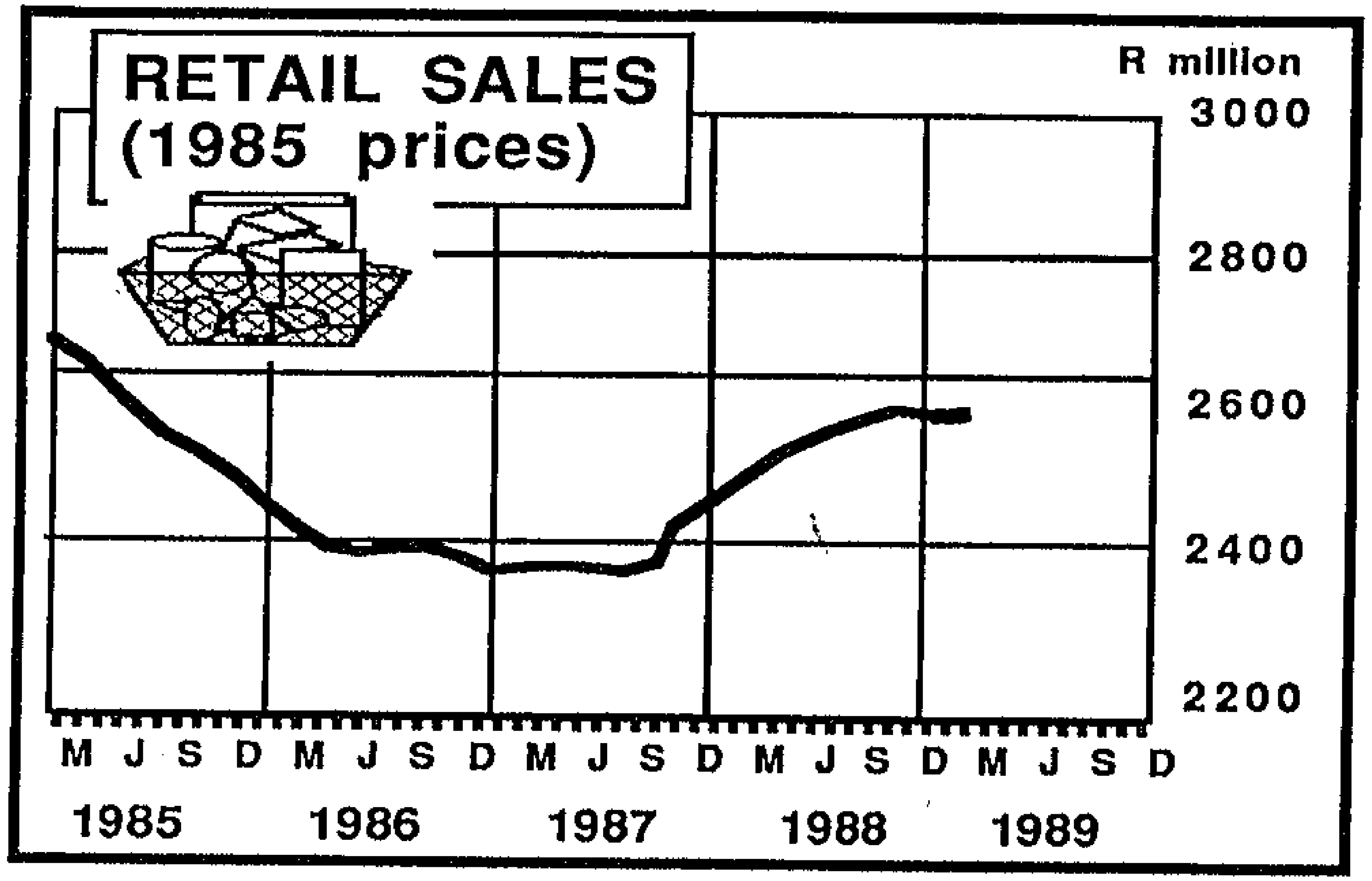
Last year proved to be an incredibly successful one for retailers and wholesalers.

Retail sales alone surged by about seven percent in real terms to a record R50 billion.

The trend seemed to continue in the first few months of 1989.

Retailers surveyed by the BER reported first-quarter sales volumes surpassing their expectations by far. They forecast a repeat performance of these conditions in the second quarter.

Retailers do suggest, however, that second-quarter business conditions will be somewhat less buoyant, but nevertheless better than those of a year ago.



"The keen demand forced the retailers to place more orders than was originally intended, and they expect the value of orders placed will remain at the same level," the BER reports.

Motor delaers, the largest subsector of the retail industry, were also very satisfied with business conditions and the level of confidence was high, according to the bureau.

New and used cars are in short supply, which means delivery periods will be long and car prices could rise further, the survey says.

At the wholesale level the picture looks similar, with the volume of first-quarter sales once again overshooting expectations by far.

"In the previous survey the wholesalers suggested that demand could level off somewhat, but the demand actually remained on a par with that of last year's fourth quarter," the BER says.

Wholesalers expect a further improvement to occur in the second quarter, albeit at a slower rate.

However, only a small number of wholesalers said business conditions were better than those of the first quarter last year, whereas three-quarters of the participant retailers found conditions better than in the first three months of 1988.

While the industry as a whole is fairly optimistic about business conditions, consumers remain pessimistic about the near-term future of the economy.

The BER says, however, that only a small majority predicted a worsening of the situation and expected an easing in their financial situation over the next twelve months.

The findings by the BER on a national level were confirmed by the Pretoria Chamber of Commerce in a survey of business conditions there, reports Roy Cokayne.

More than a third of the respondents reported that they were carrying larger stock levels than in the last quarter of 1988. The same percentage envisaged increasing stock levels in the short term.

Almost 50 percent of respondents reported improved sales over the past four months.

About 68 percent predicted higher economic activity in the short term.

UNIHOLD

Some solid foundations

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■ The bullish outlook for engineering shares makes Unihold well worth watching

A recovery in fixed investment, booming consumer spending and rising exports by the manufacturing sector are reasons why a number of engineering shares have recently reached new highs. The market has recognised that certain basic industries have become attractive investments.

Unihold's share price has yet to reflect such prospects fully — but the group does appear to be looking towards bullish profits. And there is more behind the pickup than active markets. After the group was created as Unihold Superite at the end of 1984 out of the merger of Quinton Hazell Superite (QHS), with Jimmy Haslam the CE and the controlling shareholder, large losses followed in several group companies.

There were operating losses of R6,9m in 1984 and R3m in 1985; debt soared, pushing gearing to more than 150%, and the group made a net loss of R8,3m in the year to end-December 1985. The way out involved substantial closures and disposals.

A major QHS division, Walro Safeway, specialists in electrical cable and seatbelt manufacture, was closed in mid-1985. About six months later the Superite Automotive and Mr X-haust/Mr Tyre divisions — about a third of the group's assets — were sold to a competitor for R10,2m.

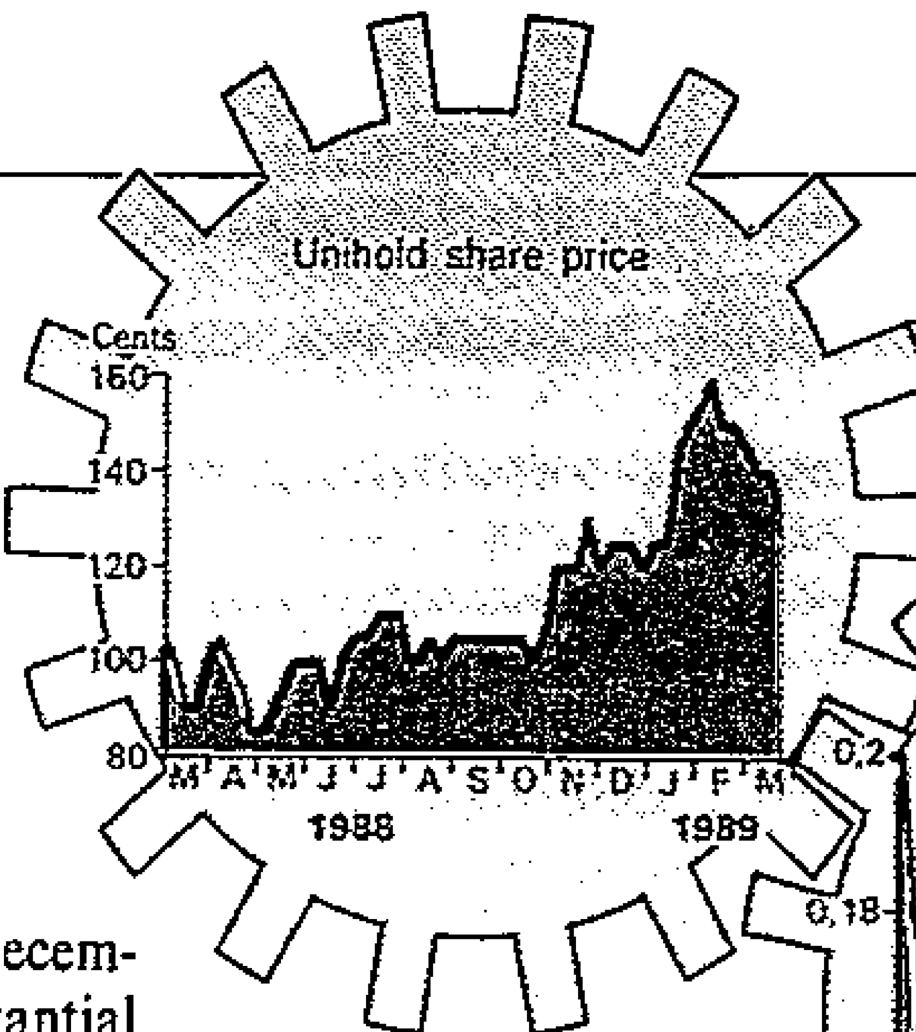
This enabled repayment of debt and changed the profile of Unihold's activities, one effect being to reduce the exposure to the automotive industry. Profits have continued to rise since earnings moved into the black in 1986, when EPS were 6,4c against the 1985 loss of 26,3c per share. In the 1988 year EPS grew to 36,9c, to give a return on equity of 37,4%. Resumption of dividends in 1986 brought a pay-out of 6c, up to 9c last year, offering a yield of 6,7% on the 135c price.

Operating income climbed last year by 48% on a 39% turnover advance to R116,7m and an increase in margins from 10,5% to 11,2%. Total pre-interest income of R13m came from three divisions: foundries (R5,89m), engineering (R5,1m) and electrical (R3,2m).

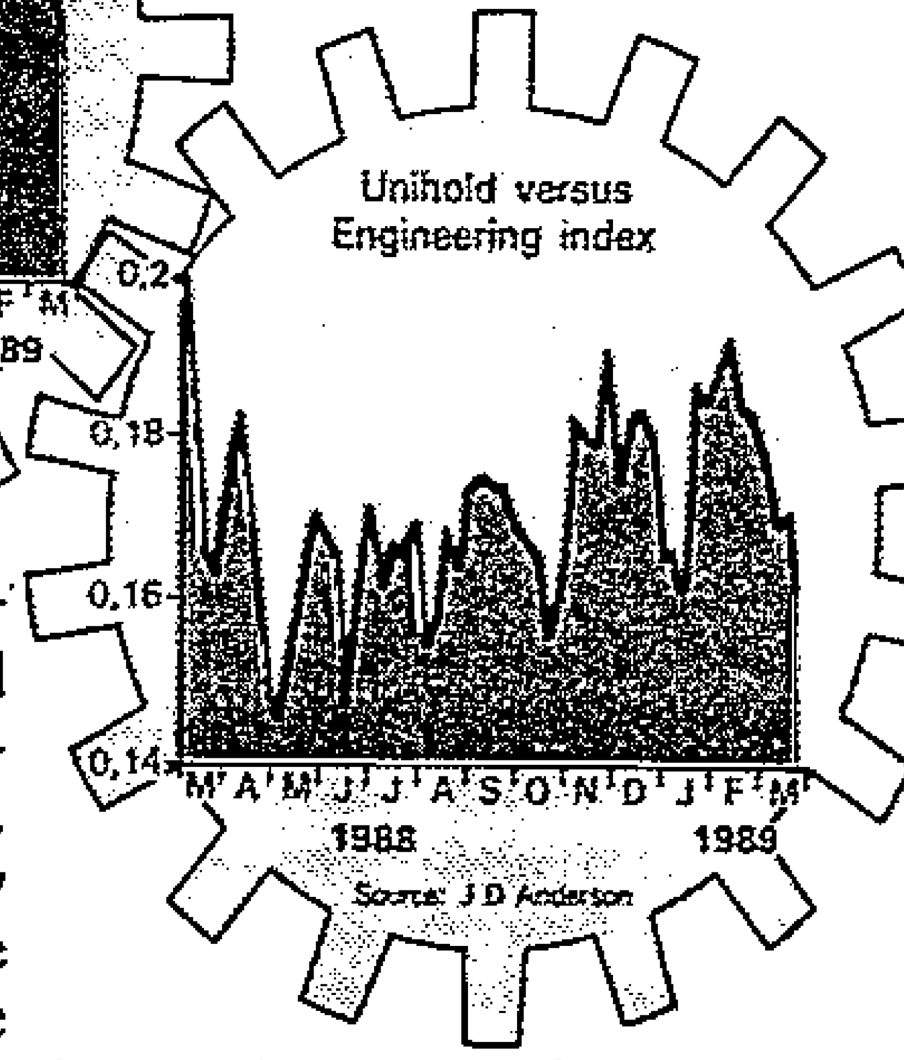
Foundries remained the most profitable, with a margin of 15,2% on turnover of R38,8m, followed by engineering with a margin of 13,1% on turnover of R38,9m. Least impressive was the electrical division — the area CE John Butler thinks has the big potential — where the margin was 7,4% on turnover of R43,5m.

What helped EPS to rise so rapidly was the fact that virtually no tax was paid in the last two years. Losses available for offsetting against tax have run down, and financial director Graham Crimp expects the tax rate to jump this year to a maximum 30%-35%. Haslam, now chairman, says this will inevitably mean a drop in EPS, but is nonetheless expecting an increase in the dividend in 1989. Main reason for optimism is that management believes higher margins and profitability will be achieved. In 1989 the group is targeting a pre-interest return on average total assets of 25% against last year's 20,3% and a pre-interest margin on turnover of 12,5% (11,1%).

The prosperity of Unihold's foundries contrasts with the results of some other large groups which have large foundry activities. Unihold's foundries, says Butler, not only supply markets which are generally stable, but capacity expansions have been needed to meet demand. After completion last year of an extension to the Boksburg Foundry, local and export demand continued to grow to the extent that a further expansion was started and is due for completion by June 1989. Boksburg Foundry produces manganese steel and high-chrome iron wear resistant castings used in milling gold and platinum ores and base minerals.



Higher ground



Rely Precision Castings makes precision investment castings and high-alloy sand castings at Boksburg, and makes precision stainless steel and high alloy sand castings at Chamdor. A centrifugal cast facility installed at Rely's Chamdor plant recently started production; and, to accommodate demand for investment castings, a major extension to Rely's Boksburg plant was completed last month.

Rely's Boksburg plant produces high technology products. Its growth has been fuelled by import substitution and by exports, both believed to have more potential.

The engineering division comprises three companies, much of whose output is linked to the mining industry. Wilco produces snatch blocks, incline shaft rollers, mono rope conveyors and other mining consumables. Unique Engineering makes process equipment, slurry pumps, stainless steel wedge wire hydraulic mine props and tube fittings. Wilflo Pumps makes and distributes a range of pumps and tank cleaning equipment.

Rationalisation and acquisitions in the engineering division will influence its performance in 1989. Acquisitions have included the pump and process division of Joy Manufacturing for R2,3m from March 19 1988; and the trading assets of Unique Engineering were bought for R2,9m with effect from January 1 1989 from Standard Brass. Activities of Bitcon Industries were sold or closed because they were considered unable to meet the targeted return on assets.

Activities of Unique, Denver Orion and Malvern Wedge Wire are being consolidated at Lilianton and will trade under the name of Unique Engineering. The Jetin SA division is being merged with the specialist pump division of Wilco Howard, creating a new division to trade as Wilco.

Butler points out that the hydraulic mine props produced by Unique absorb products made by Rely's new spun casting facility. Unique is new in the prop market, and is having to work hard for market share, but the group believes it is offering latest technology in a prop that could see growing demand because of its cost effectiveness. Success has come in areas like platinum mines.

While the divisional return on average total assets managed (ROAM) last year was the lowest in the electrical division at 11,9%, this figure was almost triple the previous year's level of 4,4%. Butler is forecasting the division's ROAM will reach 20% in 1989 and the target is 30%. In particular, substantial growth is expected at Walro Automotive in Port Elizabeth, which supplies wiring harnesses to Volkswagen and Delta Motor Corp.

Walro has been helped by the increase in new motor sales in SA and the larger market share enjoyed by the Port Elizabeth motor companies. There are also big hopes for Walro Flex, a producer of industrial flex.

"We have identified world markets we want to get to," Butler says. Some R3m has been committed for expansion of the company: the first phase is aimed at domestic demand, with a further phase for exports. In the electrical division, Zumtobel, a 50%-held managed subsidiary, makes and distributes sophisticated lighting equipment. Exports are a small but growing element in Unihold's sales. The plan is to lift these to 5% of group turnover. Part of last year's capex is expected to enhance 1990 export sales.

Another aim is to continue investing in assets: last year capital spending on replacement and expansion totalled R5,8m and will be somewhat higher this year. Butler says that expansion will be confined to the three core divisions — after the traumas of a few years ago, management wants to stay with its areas of expertise. However, the stock market may see a negative in the group's debt:equity ratio — it rose in 1988 to 0,42 (0,31), an above-average figure for industrial companies these days.

Overall, the management approach appears tight, conservative and profit orientated. Haslam, now living in the UK, still has 46% of the equity but the local directors, who themselves own 10,2%, say he is not considering selling at present. However, some analysts think a sell-out may well be a possibility in the longer term. Southern Life, whose investments' GM Des Bradford is a director of Unihold, is believed to have a significant involvement via the automatically convertible debentures. These are due to be converted or redeemed by May 1991.

At 135c, the share stands 36% above net worth of 99c. If the group can achieve the profitability targets being set by management then a higher price should be seen over the next year. What Unihold does not have in its favour is an established track record and it may take time to build up a good enough record to impress the market. Meanwhile the company is worth watching. *Andrew McNulty*

Inside Out

Ann Crotty

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Star 8/4/89.

The outer limits

WELL ... Myles didn't get it exactly right. The Mooi River deal wasn't with Romatex and the R11,50 was significantly above the 900c that he stressed (emphatically) was the upper limit. "Wouldn't pay more than 700c myself" was Myles' comment earlier this year.

I let him know that this sort of thing did severe damage to his street cred. He whinged a bit and pointed out that even the guys down at Mooi River hadn't known what was going on. I pointed out that at least they hadn't gone around letting on to everyone that they did know.

Myles then said that as far as he was concerned the AVI/Mooi River deal so stretched the bounds of credibility that he could not be held responsible for being "a little off the mark".

The speculative investors who had moved into Mooi River ahead of the deal seemed to be pouring out of it after the announcement. Myles said that it was almost as if they couldn't believe their luck and wanted to get the money in case AVI changed its mind. Yesterday the share was trading at R11.

According to Myles, the big game in the market for most of the week was trying to identify the next possible AVI acquisition. As Myles saw it:"At this stage AVI is beginning to make FSI look steady and boring — imagine FSI only paying market price for W&A back in October 1987."

Talking about FSI, it seems that the FS-Team deal should be announced week after next or thereabouts.

The pharmaceutical sector appears to be attracting some positive attention, with all sorts of talk about deals being done, particularly about Noristan. It's probably inevitable that FSI got a mention in the list of possibles involved.

Punchline came in for a bit of a battering during the week. The share closed at around 130c, down from 200c last week. It seems that the market is expecting disappointing figures from this company, reflecting the difficult trading conditions in Punchline's market.

Trimtex, which supplies the clothing industry, had a good week with some institutions involved in a large book over on Wednesday. On Friday the share had reached a high of 160c.

On the mining front, Myles couldn't give me any good reason (not even a good guess) as to why the Sankorp/Impala/Messina deal was taking so long. "They probably don't like to rush into things".

On Thursday I got the impression that Myles was going through another one of his identity crises. (Public holidays have that sort of effect on some people.) Initially he seemed reluctant to talk but eventually he opened up. Said he was sick-to-death at what he feels is becoming Johannesburg's favourite sport — "broker-bashing".

Seems he read on the KNOW Reuters screen that scientists in Sydney (Australia) are using stock-brokers instead of rats in their experiments.

"Why?"

"Three reasons: there are more stockbrokers than rats; the experimenters don't get emotionally attached to the stock-brokers and; there are some things that even a rat won't do."

I told him that sort of talk was scandalous and promised not to repeat it.

But it seems his Mum thought it was quite funny. He told her the story, expecting considerably amounts of sympathy, forgetting that at the best of times she's fairly insensitive. She only stopped laughing when he threatened to make her watch reruns of Diagonal St.

More news on the mining front - there was a lot of attention around Knights which is expected to declare reasonably good dividends in the current financial year. And it seems that Southwits is about to make an announcement about a successful prospect. Myles was a bit vague about what exactly had been discovered — gold, coal, platinum, chrome ...

On Friday evening his Mum was expecting to hear about her £16 full cash offer from Minorco for her Consgold shares.

Inside Out
Ann Crotty

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Star 19/4/89

Caution prevails

IT WAS a rough week for Myles' Mum. The offer from Minorco wasn't quite what she'd expected but she'd probably have gone along with it. Now it looks as though she may not even get the chance to do that.

She spent the week watching the Consgold price slide down from R100 to R91, and just as she thought things couldn't get any worse news came through of the petrol price hike which she decided was also the fault of the Americans: "The sooner the Japanese put manners on those people the better. Shouting the odds all over the place just cos they happen to owe more money than anybody else."

There were a number of interesting announcements during the week. Spectrum issued yet another cautionary and it seems that shareholders might be told what's going on at the end of the month. As Myles always says, there's nothing like a cautionary to get people interested.

The market decided that the Metro-Jazz announcement related to negotiations for Metro to buy out the Jazz minorities. This would give Metro much more lee-way to sort out Jazz' problems.

It seems that investors are expecting Metro to display the same sort of generosity as AVI did some weeks back — Jazz moved up 33c following the announcement.

Tradegro's Donald Masson wouldn't comment on what was going on but did indicate that something might be announced around the middle of next week. Myles reckons that anyone who is looking for a generous offer could be disappointed.

Talk is that Gomma Gomma's announcement relates to a change of control and it seems that it won't involve one of the big players such as Afcol or Homemakers. Myles has heard that it could be two guys who are new to the market and that the deal could be pitched at 45c-50c a share which is below NAV but seems fairly good considering the company's recent operating performance.

There have been two big book overs in Trimtex recently with institutions on the buying end and probably Columbia (which has/had 37 percent) on the selling end. Myles says that the share price has been doing quite well and thinks there may be a big deal in the offing.

His Mum wants to know if she can sue Rudloph Agnew for instigating the US court action and thereby prejudicing her chances of making a killing on the Minorco deal.

Myles reckoned that her *locus standi* might be undermined by the fact that she only has 10 shares but it didn't seem to discourage her. By the end of the week he was getting pretty fed up with her whinging and was talking about arranging to get her into an Austrian nursing home.

Platinum shares did very well this week. Impala did particularly well and there was talk that the court had found in favour of Gencor in the dispute with the Bafokeng tribe. Talking about Bophuthatswana, there's speculation that Sol Kerzner may be keen to increase his stake in Sunbop and swop his other Sun International interests to do this.

Myles says that a cash offer for Cashworths could be announced next week and that it could be pitched at 70c-75c.

Malbak has managed to lift earnings by 35 percent for the six months to end-February. Talking about Malbak, that old rumour about a deal with Arban has resurfaced but again without any clear details.

Latest on the Brokers saga is that a Hong Kong firm might be taking control of the troubled company.

Punchline had another bad week in the market but Myles says he detected some buying pressure yesterday and reckons that some-one who has taken a big short position at 100c could get squeezed.

Gilt market fundi Gillian Raine is reported to be moving to UAL but is apparently not severing all ties with Frankel, Kruger, Vinderine and several other names. She will actas consultant to the broking firm.

Sage trusts' results mirror market recovery

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SYLVIA DU PLESSIS

SAGE Fund Unit Trusts' investment strategy during the past quarter reflected increases in a number of holdings, including De Beers, Allied Group, Barlows, Remgro, Sasol and Sappi prefs.

However, the holding in Randfontein was reduced, while Cons Gold,, Doornfontein, Libanon, Ofsil, Amgold and Minorco were disposed of. A new holding was established in Walhold.

The Fund's performance for the year to end-March mirrored the recovery in equity markets, and the overall return to unitholders for the period — capital plus income — was 46,4%.

3/6/1/11/6/89

Investment activity in Sage Resources Fund was reflected in additions to the holdings in De Beers, Lydenburg Platinum, Fedfood, New Wits, Sentrachem and Vogels.

New holdings were established in Messina, Highveld and Union Steel.

The total holdings in Southgo and Western Deep were disposed of, while the exposure to Lebowa was reduced.

The total return to Resources Fund unitholders for the year under review was 41,6%, with the top 10 holdings including Sappi prefs, De Beers, Gencor, Samanco, Genbel and JCI.

Sector creates 25 000 new jobs

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Exports keep manufacturers' optimism high

B/Day 11/4/89.

HELOISE HENNING

EASTER holidays in March resulted in a marginal decline in confidence among the manufacturing sector, but exported goods kept optimism in the sector high.

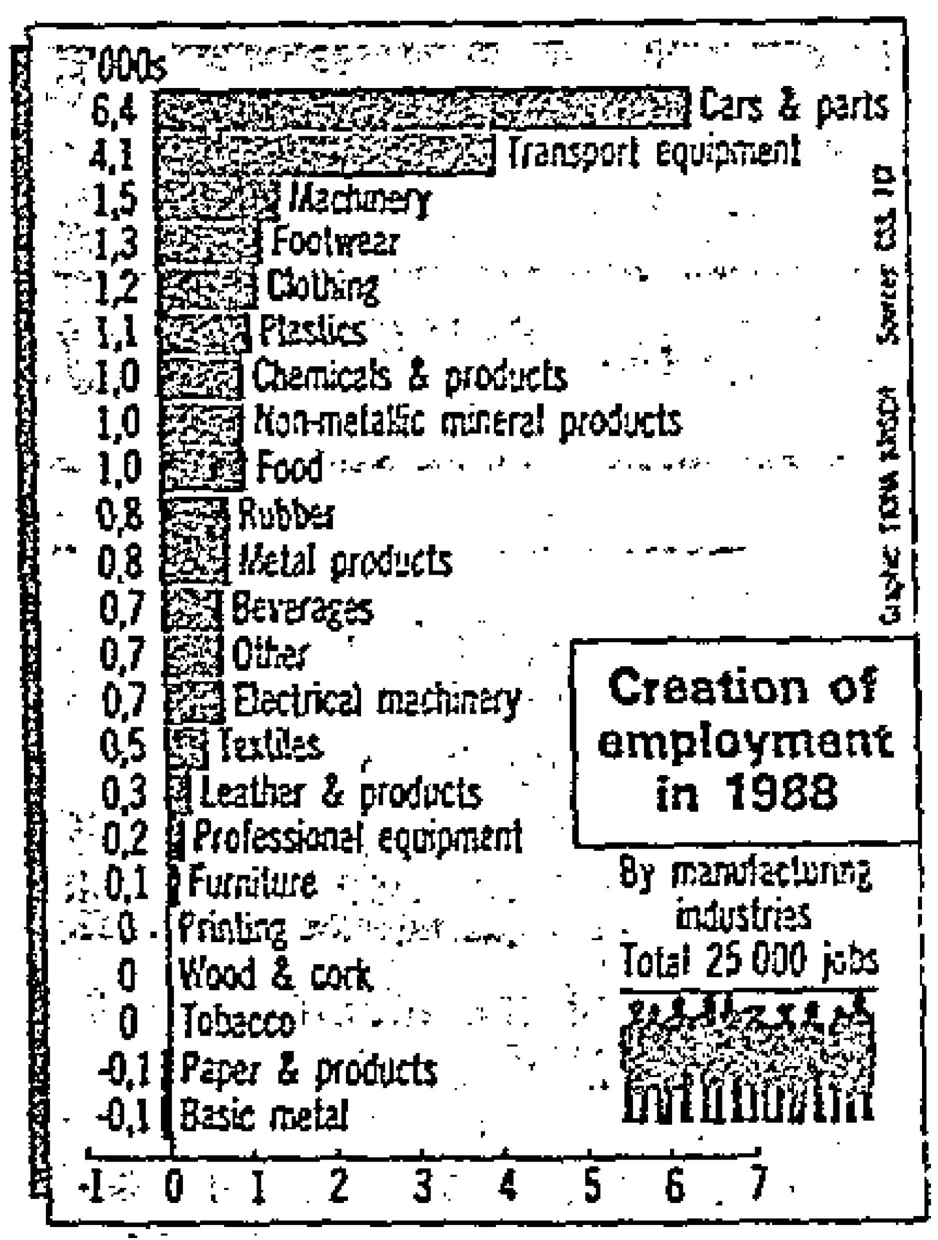
The SA Federated Chamber of Industries' (FCI) monthly index, rating manufacturers' confidence on the strength of their order books for the month and coming year, fell to 140 in March from 146 in February, but remained strongly above 100 — the line of pessimism.

Other reasons for the decline were the discounting of the interest rate rise in late February. Their responses were also measured days after the delivery of the Budget in early March.

FCI chief economist Roelof Botha said he did not expect the downward trend to strengthen, especially not after the election announcement, as this could have stimulatory effects on spending.

FCI's economic consultant Gad Ariovich said official statistics for 1988 released recently confirmed the strength FCI had been measuring. The manufacturing sector created 25 000 jobs last year, according to the Central Statistical Service. Most of these were in capital intensive and high-tech industries.

"If you take into consideration the feeder workshops and smaller formal industries that service the larger industry, we deduce that at least another 25 000 jobs, or 50 000 in total, were created in the First World Western standard manufacturing sector."



The best performing metropolitan areas in March were Maritsburg (168), Port Elizabeth (160), East London (148) and Transvaal (146).

FCI executive director Ron Haywood pointed out Martitzburg was in the midst of the wood-processing industry and its score showed it to be performing well in the export industry. The city had also been zoned for decentralisation benefits.

Southern Transvaal chamber president Evert Groeneweg said there was a clear sign of tiredness in the local durable consumer goods market and that export industries were "going like a rocket".

Manufacturers step up export drive

Star 11/4/89

180

By Michael Chester

South African manufacturers are planning to crack the sanctions blockade and create more new jobs with far stronger export drives, according to the Federated Chamber of Industry.

FCI executive director Mr Ron Haywood believes the renewed export offensive will more than compensate for any shrinkage in consumer demand on the home market in the next few months.

Mr Haywood said yesterday that manufacturers were laying out strategies for still deeper penetration of overseas markets to counter-balance the chances of a decline in domestic business caused by the 1989 Budget and the impact of higher interest rates.

The industrial sector was also aware that it carried responsibility for being the biggest avenue for new job creation in the country to cure unemployment problems.

FCI economist Mr Roelof Botha said that although the March barometer of activity inside the manufacturing sector had been nudged off a record peak touched in February, allowance had to be made for seasonal factors.

All in all, the confidence of manufacturers about the outlook for total sales over the next 12 months — with home and overseas markets combined — was still heavily on the optimistic side of the scales.

On an FCI index of expected production levels over the next year, the latest reading still stood at a national average of 140 — down from an unprecedented 158 three months ago but still well above the 100 mark that measured the balance between pessimism and optimism.

The brighter outlook for overseas sales was confirmed by Mr Evert Groeneweg, president of the Southern Transvaal branch of the FCI and financial director of the vast Barlow Rand industrial conglomerate.

Mr Groeneweg said: "South African consumer demand for durable goods may be showing signs of tiring — but exports are going like a rocket. That's where the action is at the moment.

"The outlook is strongly positive. And we still have lots of spare industrial capacity lying in reserve to increase the pace of the export tempo."

Mr Haywood said a number of major companies were now laying out plans to insist on at least 30 percent of industrial products being shipped to overseas markets. Optimism had also been inspired by government outlines of new export incentives to be introduced on April 1 next year.

What price assets?

Star 11/4/89 (180)

Diagonal Street

ANN CROTTY

Recent deals struck by Anglo Vaal Industries (AVI) have drawn attention to the notion of valuing equities according to the cost of replacing underlying assets.

The R78,2 million paid for Mooi River was stated to be reasonable in view of replacement costs estimated at R149 million (including R24 million for land and buildings). By contrast, on the basis of historic earnings performance, the price of R11,50 a share put the deal on a P/E rating of a 15,4 times.

If the notion of replacement valuation gained general acceptance, share prices would soar to dizzy heights,in most cases leaving behind any reasonableness in terms of of earnings and dividend yields.

Although there may be grudging acceptance of the wisdom of the AVI/Mooi River deal, there is great reluctance to accept "replacement valuation" of equities. A leading institutional players says :"Ultimately assets are only as good as the earnings they can produce."

A move to revalue assets at replacement cost would make the current earnings performances look quite paltry in terms of return on assets.

Cash investment

In the year to December 1988, Mooi River earned R5 million, representing a 3,3 percent return on the replacement valuation of assets. If the R78,2 million price is used, the R5 million reflects a more respectable 6,4 percent return. If the approximate R500 000 (after tax) management fee is added to earnings, the R5,5 million reflects a 7 percent return on AVI's cash investment.

Assuming the deal can be made tax efficient, the return to AVI begins to look almost reasonably attractive, and this is before any allowances are made for a pick-up in earnings that could result from an improved performance under local ownership and/or an improvement in trading conditionsy.

If shares had been used to fund the deal, the picture would look quite different.

Institutional investors say the use of replacement valuation can only be used in exceptional circumstances. These include a change of control and the prospect of a considerable enhancement of earnings.

Another institutional player says: "Our investment strategy is based on forecasts for the earnings that can be sweated from assets and not so much on the value of the underlying assets. If the assets cannot be worked, they are not attractive at any price."

The notion of replacement value is not entirely bullish for share prices as it draws attention to the prospect facing every company of having to make sufficient investment to ensure that plant and equipment are kept up-to-date.

Because of the depreciation of the rand, existing assets will have to be replaced at higher cost. With many companies close to full capacity, this investment will have to be undertaken in the not-to-distant future and is likely to coincide with a time when growth in earnings may not be as strong as it is currently.

It is significant a leading analyst's view that as a result of low capital expenditure over the past several years, Gentyre needs spen at least R100 million over the next three years "to restore it to a solid capacity and technology footing".

Gentyre chairman Terry Rolfe believes if the necessary assets are to be bought on the open market, the bill could top R100 million. But he says that because of a situation of "reverse engineering" in the local tyre industry and because of Gentyre's ability to adapt technology and assets that are more cheaply available to it, the same effect can be achieved for R50 million.

It is difficult to estimate to what extent this strategy is available to other industries, but the depreciating rand does make replacement costs look daunting.

Draft Bill on futures tabled

180 CHRIS CAIRNCROSS

CAPE TOWN — Major draft legislation paving the way for formalised trading in financial futures contracts, options and gilts outside the stock exchange was tabled in Parliament yesterday by Finance Minister Barend du Plessis.

The Financial Markets Control Bill flows from recommendations by the Stals and Jacobs committees appointed to investigate the development of financial futures transactions in SA, and the market for gilts.

The Bill provides for the appointment of a Registrar of Financial Markets; a Financial Markets Advisory Board to co-ordinate the financial markets, advise the Registrar and make recommendations to the Minister of Finance relating to financial markets and stock exchanges; the licensing of financial markets; and an appeal board to adjudicate disputes.

These structures are designed to promote the development of a financial markets industry in SA on the principle of self-regulation within a statutory framework.

The Bill amends the Stock Exchange Control Act, doing away with a provision which stipulates that 30 or more persons are necessary to apply for a certificate authorising the issue of a stock exchange licence.

Instead, the draft legislation gives the Registrar discretionary power to consider any application from fewer than 30 persons.

B Day 11/4/89

JSE markets will still be subject to the provisions of the Stock Exchange Control Act of 1985.

The detailed Bill sets out the terms of reference of the Financial Markets Advisory Board; spells out the restrictions which still apply to the carrying on of business of a financial market or of buying and selling financial instruments of any kind; the circumstances whereby a licence to run a financial market will be authorised; the rules of a financial exchange; and undesirable practices against which action will be taken.

LESLEY LAMBERT reports that the new legislation adds an official stamp of approval to the opening of new derivatives markets like the SA Futures Exchange and the JSE's traded options market, both of which are scheduled for later this year.

Unidev making moves to restore the market's faith

(180) BDay 12/4/89

STEPHEN RICHTER

THE problems which surfaced at Milly's reflect poorly on Unidev management and continue to affect investor confidence towards the investment trust. But Unidev is involved in some promising areas which must not be ignored in assessing its future potential.

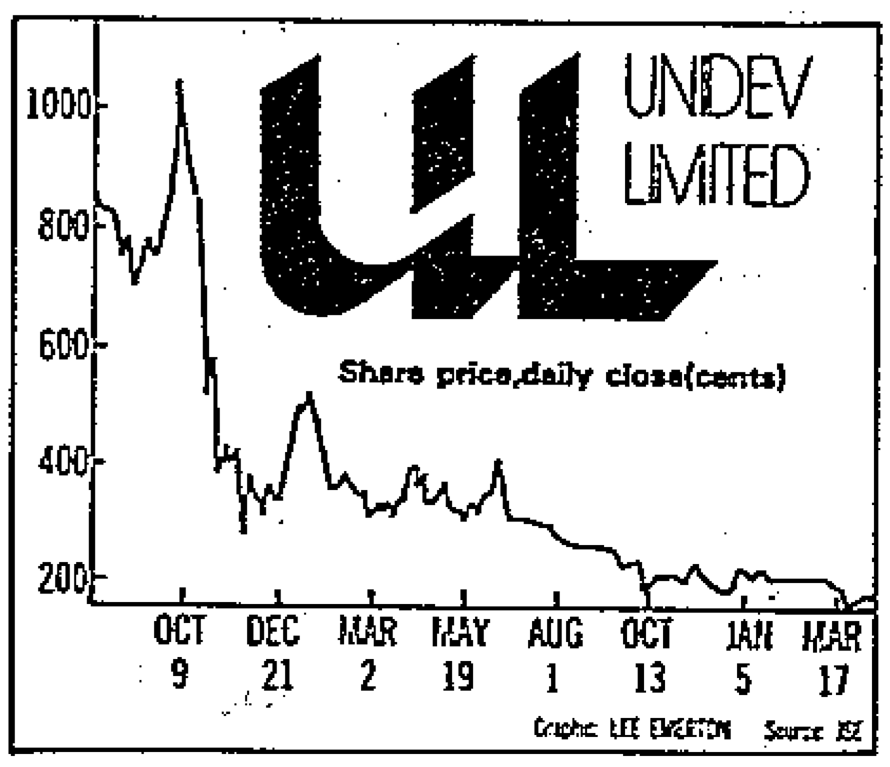
Unidev's price began to slip badly from the June 1988 peak of 400c just as the problems at Milly's became public knowledge. These problems are clearly reflected in the latest set of accounts. Unidev's income statement contains an abnormal R2m write-off of its Milly's investment. To add insult to injury for shareholders, a further extraordinary expense amounting to R524 000 relates to the closure of Prestige's kitchen cabinet division. Consequently, earnings fell to 53,5c (61,0c), while the dividend was chopped to 12c (22,5c).

More support

The balance sheet is also looking weaker. The directors explained in their preliminary financial report that "a number of group companies required additional funding for expansion and working capital, some of which was provided by Unidev by way of increases in shareholdings and loans. This resulted in an increase in interest bearing debt and a consequent rise in interest payable". Interest paid during 1988 jumped by 156% to R5,0m (R1,9m).

While long-term liabilities only rose to R11,3m (R10,7m), the increase in the current liabilities figure to R63,8m (R29,5m) indicates that short-term debt must have jumped substantially, causing the current ratio to fall unimpressively below 1,0.

This whole episode has lowered management's rating in the eyes of many investors and it will be up to them to restore the market's faith in their ability to satisfactorily steer Unidev in the right direction. Chairman Geoff Grylls says: "Unidev's stake in Milly's was purchased based on the figures presented



by management and supported by the auditors, which later turned out to be vastly incorrect". This showed the problems of investing in companies which have inadequate accounting controls.

Grylls claims that this mistake has taught Unidev's directors a very important lesson, which results in a change in strategy relating to future acquisition candidates. The emphasis is shifted from smaller, developing companies to more mature businesses requiring less hands-on management.

The group had been moving in this direction already as is evident from its purchase of Control Data, which has been renamed Corporate Data Control and is a major player in the computer industry. This move led to the reorganisation of Unidev's computer and electronics interests which are all being grouped under the Cortech banner.

To reduce borrowings, Unidev plans to dispose of its holdings in various smaller companies as well as virtually all of its property assets with the exception of property developer Equikor. Equikor, along with Medicor, which develops and manages hospitals, performed extremely well last year, while the results flowing from Unidev's financial services division remained at healthy levels.

Easing pressure

Provided the proceeds from the abovementioned sales can make a significant dent in Unidev's borrowings, this will reduce interest costs, thereby relieving some of the pressure on bottom-line profitability, and the balance sheet should return to a healthier state.

But before investors take a serious look at Unidev, management must clearly prove that they are capable of avoiding any further trouble.

At 175c, the share trades at a substantial discount to net asset value of 351c. Unidev's earnings and dividend yields of 30,6% and 6,9% respectively make the share cheap in relation to the average industrial counter.

Old Mutual fund achieves record distribution

LIZ ROUSE

OLD Mutual Investors' Fund has declared a record distribution of 42,46c for the six months ended March 1989, an increase of more than 60% over the previous distribution and bringing the total for the year to 78,41c.

During the past quarter substantial inflows from investors and the strength in the equity market resulted in a R274m increase in the market value of the fund, now totalling R1,5bn. This fund is by far the largest in the SA unit trust industry.

During the quarter the repurchase price of units in the Investors' Fund rose by 20% and by 16,8% in the Mining Fund.

"The Investors' Fund has yielded excellent returns for investors," said Stuart Fish, AGM marketing. "On March 31 a R100 a month investment yielded 47,9% after one year, 22,8% a year after three years, and 29,3% a year after five years. In all cases dividends were re-invested."

Old Mutual Mining Fund benefited from the strength in the gold and mining counters, with the market value of the fund increasing by almost R30m to R156m.

Commenting on market trends, Investors' Fund portfolio manager Rowland Chute said the March quarter saw the JSE industrial and all gold indices appreciate substantially by 25,5% and 22,7% respectively.

"The industrial index was supported by very good dividend and earnings growth and the all gold index moved strongly in spite of a decline in the dollar gold price and a flat rand gold price.

"The recent strong gains in both the industrial and gold markets seem to indicate that unless the fundamentals improve, the recent period of strength could suffer a setback."

The Investors' Fund experienced a quiet trading quarter, the only acquisition being an initial purchase of Barprop. The 10 largest holdings in the fund are Anamint/De Beers, Richemont, Rembrandt Group, Safren, Anglos, Sasol, Gencor, JCI, Anglovaal Industries and Driefontein.

The Mining Fund was a net buyer with the action centred mainly on good-quality gold shares such as ET Cons, Elandsrand and Unisel. The fund also added to its Anamint, De Beers and PGA holdings.

As a result of the buying activity and better share prices, liquidity was reduced to 16,1%. The 10 largest holdings in the fund are Anamint/De Beers, Gencor, Anglos, Sasol, Driefontein, Amcoal, Samancor, GFSA, Witbank and Western Deep.

Futures industry says new Bill too tough

180 BDay 12/4/89

LESLEY LAMBERT

THE futures industry says provisions regarding insider trading and private investor protection from unscrupulous brokers in the newly tabled Financial Market's Control Bill are too tough on the market.

The new legislation, which amends the Stock Exchange Control Act, paves the way for futures trading and provides for the regulation and control of all SA's financial markets.

In line with the general movement towards self-regulation within a statutory framework, the draft legislation calls for the establishment of self-regulatory associations (SRAs), like the existing SA Futures Exchange and the Bond Market, to govern each of the financial markets.

Once the legislation is promulgated, the SRAs will be licensed by the financial authorities and all companies or individuals offering a service in futures will have to become members of an appropriate SRA and abide by its rules.

The futures industry generally supports attempts to protect private investors and thereby maintain the credibility of the market. But it feels one of the provisions, which will enable investors to demand their money back within five days if an investment agreement was entered into as a result of an unsolicited call, is overprotective and may prohibit some brokers.

"The legislation is trying to protect private individuals from unscrupulous brokers, but it may also lay brokers, who are acting in good faith, open to unscrupulous investors," says Safcom MD Stuart Rees.

Brokers argue that, with the law on the

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Futures industry says new Bill too tough

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private investor's side, it will be easier for clients to prove an investment was unsolicited than for brokers to prove it was not. "With this legal uncertainty, many potential brokers may feel it is not worthwhile to enter the market and this may affectfuture growth and liquidity."

Rees says the market had hoped the authorities would be satisfied with the SA Futures Exchange's rule that all clients be registered with the exchange and sign risk disclosure forms ahead of an investment.

The SA Futures Industry Association (Safia), which proposed brokers present new clients with a brochure informing them of the risks of trading futures as well as a risk disclosure form, has also expressed concern about the provision.

The market is also concerned about a provision which prohibits the creation of artificial prices or price fluctuations. "Our concern with this provision is the difficulty in defining an artificial price and proving that someone has manipulated the market," says Rees.

The exchange will present a draft of its official rulebook to the Registrar of Financial Institutions by the end of April.

his contribution to nature conservation.

Govt Bill will give protection to firms

B/Day 12/4/89. (180)

CHRIS CAIRNCROSS

CAPE TOWN — Government has decided to afford protection to firms which may be vulnerable to having licence agreements with foreign concerns either withdrawn or cancelled as a result of pressure or intervention of a political nature by foreign governments.

The nature of this protection is contained in the Protection of Businesses Amendment Bill tabled in Parliament yesterday by Economic Affairs and Technology Minister Danie Steyn.

In an attached memorandum, it is noted that where such cancellations do or can take place, the business in question is vulnerable and liable to legal steps being taken against it by the licenser concerned, should such a business continue with the activity which was originally authorised by the lawful licence agreement.

The Bill proposes investing the Minister with the powers to determine by notice the conditions under which particular licence agreements may be allowed to expire or may be suspended or cancelled, and constitutes an effort to neutralise to some extent any sudden foreign intervention.

It also empowers the Minister to determine the basis for calculating any amount of compensation, if any, payable by a licensee to a licenser in the case where a licence agreement is terminated.

Issues listed as falling within the ambit of this legislation include: ownership of a trade mark, whether registered or not; ownership of a design; ownership of a plant breeder's right; ownership of a patent; ownership of a copyright; proprietary interest in respect of a particular trade know-how or confidential information of economic value.

□ MARC HASENFUSS reports that Assocom said while it did not favour legislative interference with contractual arrangements, it acknowledged the special economic and political factors which made the draft legislation necessary.

It said the exceptional circumstances stemmed from the urgent need for SA to enlarge its industrial capacity to export, and to counter the potential loss of access to technology resulting from foreign intervention.

4 561 — 1988 figures — Naamsa

JSE is outperforming most world markets

Star 12/4/89 (180)

Finance Staff

Although share prices have dropped slightly over the last few days, the JSE outperformed virtually every other world market in the first quarter of this year, according to the *Financial Times*.

Its FT-A world indices show that the JSE bettered the world average by 17 percent in dollar terms.

Commenting on the news, Lex, the paper's columnist, says that on the face of it, it seems scarcely logical.

"The gold price was low, interest rates high and inflation comfortably into double digits and rising. And in a one-commodity town like Johannesburg the first of those factors alone might have pushed the market well down the league tables."

He points out that half the index is precious metals stocks, which seem to have been bought on the principle that anything as low as that could not get much lower.

"Never mind that a large chunk of the country's production is unprofitable at the current gold price. Investors seem to have thought it time to get ready for a recovery. Though there is evidence they still think so, it is difficult to argue that gold shares should go much higher now."

Hothouse economy

He adds: "Industrials have had a better excuse: a hothouse economy growing unseasonably quickly despite the Government's best efforts to slow it, high corporate profits, strong balance sheets and low P/E ratios.

"The danger is that the Government, unable to restrain growth by more subtle means, will have to throttle it or face impossible debt-repayment problems.

"All that probably means that the market has done its outperforming for the moment, and possibly for the rest of the year. New investment limits for institutions could upset that by boosting demand for equities. But bad fundamentals can hold off the weight of money any day."

Local analysts have in recent days expressed concern about the overheated state of the market, expressing sentiments that the market is due for what they term "a welcome correction".

Mr Ronnie Masson, investment chief at Sanlam considers industrial blue chips "pricey" at current levels, referring to the reverse-yield gap between the BA rate and the average dividend yield, which is currently very high.

For this yield to reduce, interest rates either have to come down or dividend yields have to rise.

Against the background of a slowdown in economic activity, Mr Masson considers it unlikely that dividend yields will suddenly start rising. On the contrary, he expects the slowdown in the economy to start affecting dividend growth quite soon.

Dividend yield

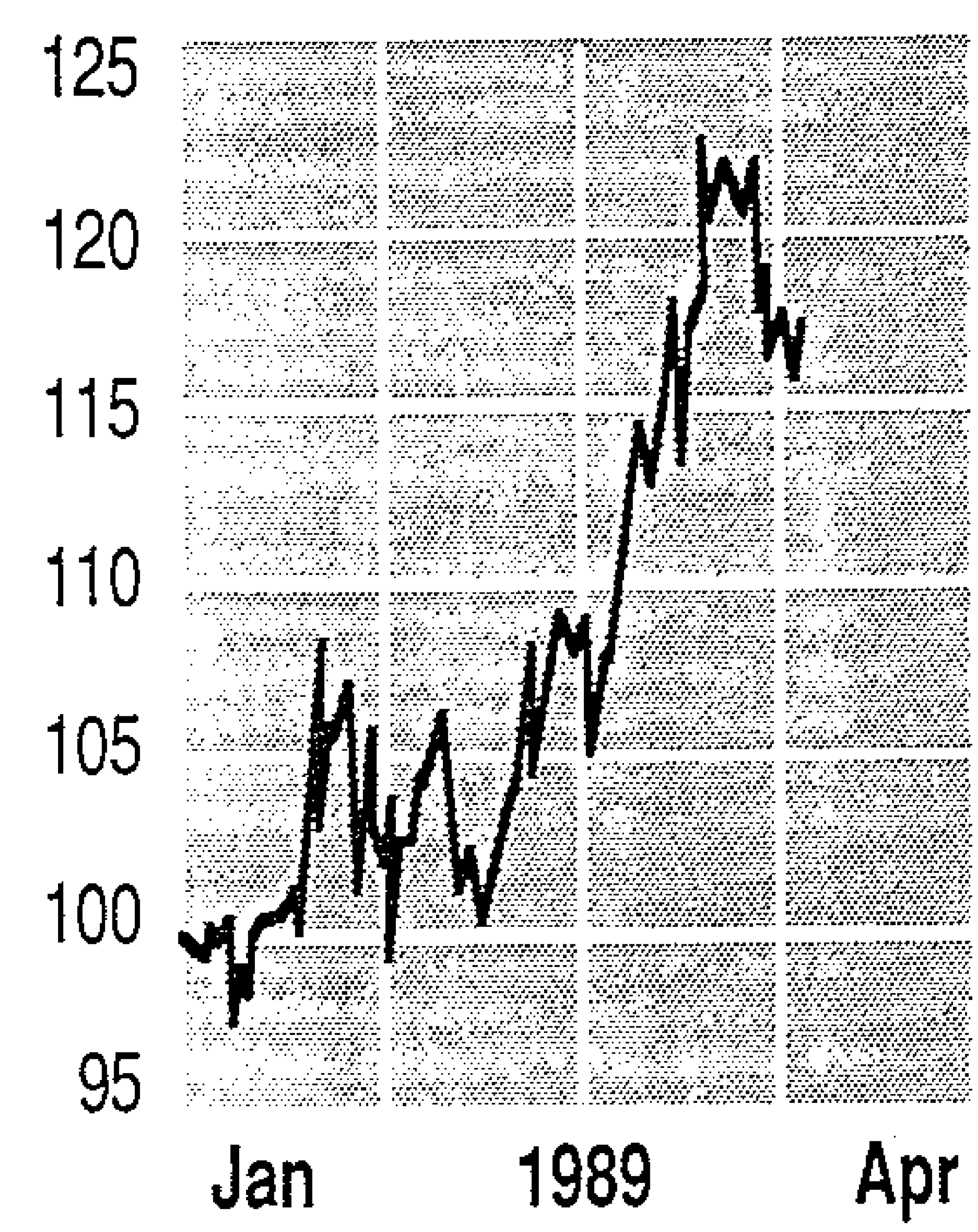
At current levels the average dividend yield on the JSE is 3,4 percent, which is significantly below the average of five to six percent over time and much lower than the yield obtainable at the end of previous bear markets. This yardstick also suggests that at current levels industrial share prices are expensive.

Mr Roland Chute, unit trust fund manager at Old Mutual says the March quarter saw the JSE industrial and all gold indices appreciate substantially by 25,5 percent and 22,7 percent respectively.

"The industrial index was supported by very good dividend and earnings growth and the all gold index moved strongly despite a decline in the dollar gold price and a flat rand gold price.

"The recent strong gains in both the industrial and gold markets seem to indicate that unless the fundamentals improve, the recent period of strength could suffer a setback".

JSE Overall Index relative to FT-A World Index in $ terms.



180

Historic congresses meet

By CHIARA CARTER

THE proposed merger of the two largest clothing workers' unions in South Africa will be decided by two historic special union congresses this weekend.

Should the merger between the 75 000 strong Amalgamated Clothing and Textile Workers' Union of South Africa (Actwusa) and the Garment and Allied Workers' Union (Gawu) which has 112 000 members, go ahead, this would create a new, super union for clothing workers under the umbrella of Cosatu.

The congresses are the culmination of weeks of intensive discussion about the merger by workers in both unions.

Actwusa has moved its national congress forward from July to discuss the merger and over 400 Actwusa shopstewards from around the country will be attending the congress in Jacobs, Durban.

Actwusa's Durban regional secretary, John Eagles, said indications were that workers strongly supported the merger.

Over 200 delegates will attend the two-day Gawu special congress at the Good Hope Centre.

On the agenda is both the merger question and affiliation to Cosatu. Sunday will be devoted to debating the future direction of the union.

Gawu and Actwusa have been meeting to discuss unity since De-

The committee met last month with Actwusa's national co-ordinating committee which is made up of worker representatives, regional secretaries and national office bearers.

The two groups agreed over financial control, affiliation to Cosatu and general approaches to the merger, but differed over the new union's structure and policies, which were the topic of a subsequent meeting between the unions' national executives.

Actwusa general secretary Ebrahim Patel said that political differences should not stand in the way of worker unity.

"We in Actwusa see any such differences as matters to be discussed in the new union. They can never be the basis of preventing a merger," he said.

A "yes" for the merger by both unions would have far-reaching implications within the trade union movement and beyond, said Gawu general secretary Desmond Sampson.

The new union would have about 215 000 members, making it the country's second largest union.

Actwusa is already affiliated to Cosatu and a series of meetings by Gawu locals have voted in favour of affiliation, making discussion this weekend a mere formality.

This means that workers who were previously part of the conservative Tucsa trade union tradition have, in just over a year, moved to becoming members of the country's largest trade union federation, which is committed to militant action around issues such as the Labour Relations Amendment

Jubilation: Gawu members at the meeting at the Athlone civic where they voted to join Cosatu

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workers of the Western Cape who have long been divided by apartheid, bosses and a divided trade union movement," said Henwood.

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This in turn has strengthened camcember last year. The meetings were convened by Cosatu and attended by Cosatu general secretary Jay Naidoo and assistant general secretary Sydney Mafumadi.

A Gawu merger committee consisting of a shopsteward from each local, regional secretaries, general secretaries and national ofice bearers was formed after a special national executive committee meeting in Port Elizabeth earlier this year agreed to work towards the July 1 date proposed by Actwusa as a deadline for the merger.

Act, the Living Wage campaign and privatisation.

It also means that the new union will have a strong voice in determining the future direction of Cosatu.

Cosatu Western Cape regional secretary Nic Henwood described the pending national merger as a "major step forward in the implementation of Cosatu's principle of consolidating".

"It will not only strengthen every worker in this sector but all workers nationally.

"Increasingly we have begun to hear unions.

"On the ground and in factories workers are looking for and building unity around demands like wages, worker control, and recognition of worker elected committees.

"In the Actwusa-Gawu merger, this unity is taken further where all clothing and textile workers can unite in one union, one industry.

"For Cosatu Western Cape, the merger not only increases paid-up membership from 70 000 to 130 000 workers, but also unites

The merger has a particularly strong impact on the Western Cape, the centre of the clothing industry in South Africa. More than 54 000 people are employed in the industry in Cape Town.

The gains won by Gawu in the past year, which include the highest-ever wage package and agreement not to use controversial clauses of the LRAA, have meant that workers in the region, long regarded as among the least militant in the country, have a newfound confidence.

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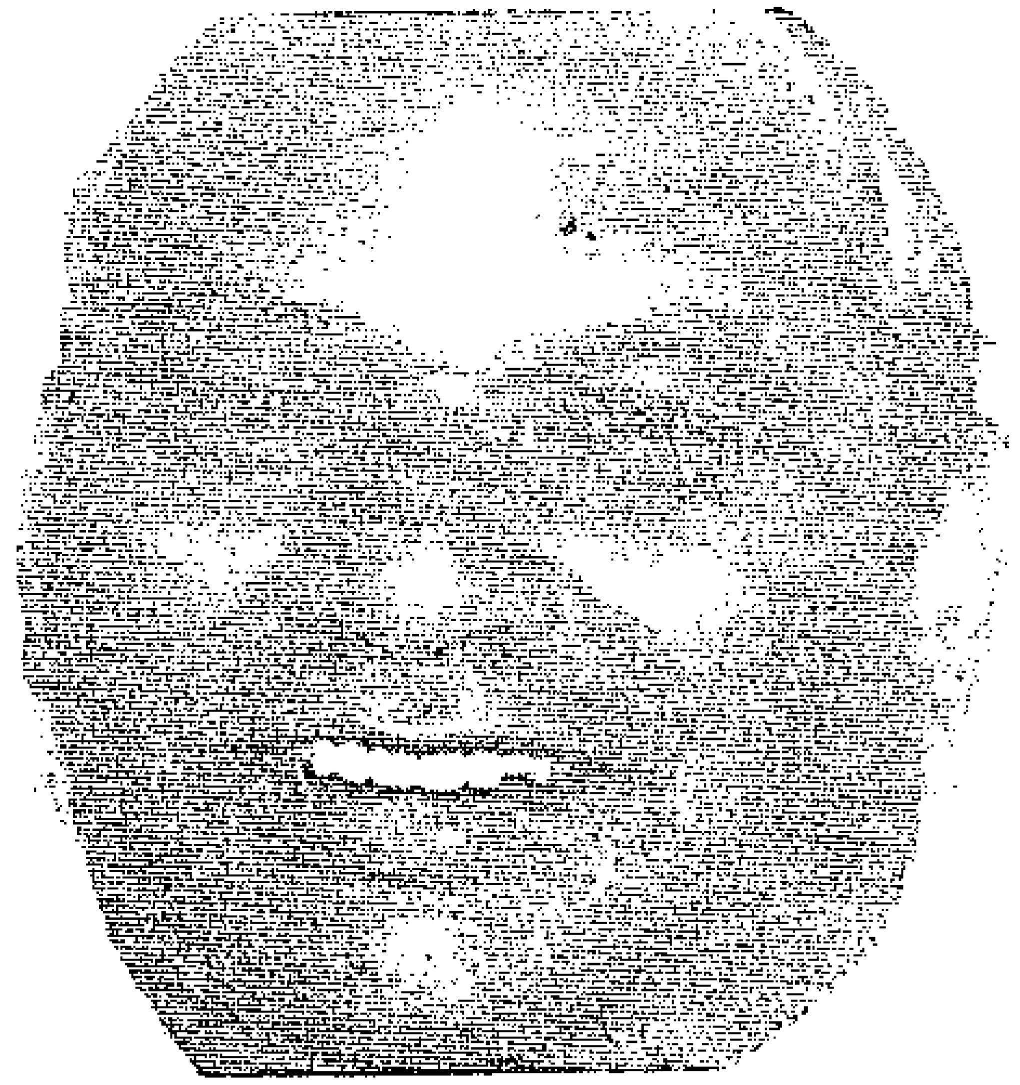
Mr C McCarthy, secretary of the Cape Clothing Manufacturers Association, said the "new" Gawu had meant employers had to adjust to a new "democratic" trade unionism.

However, employers were not prepared to interfere with workers' choice of trade unions.

He said the more demanding trade unions became, the more employers would respond similarly.

Cosatu Western Cape secretary Nic Henwood



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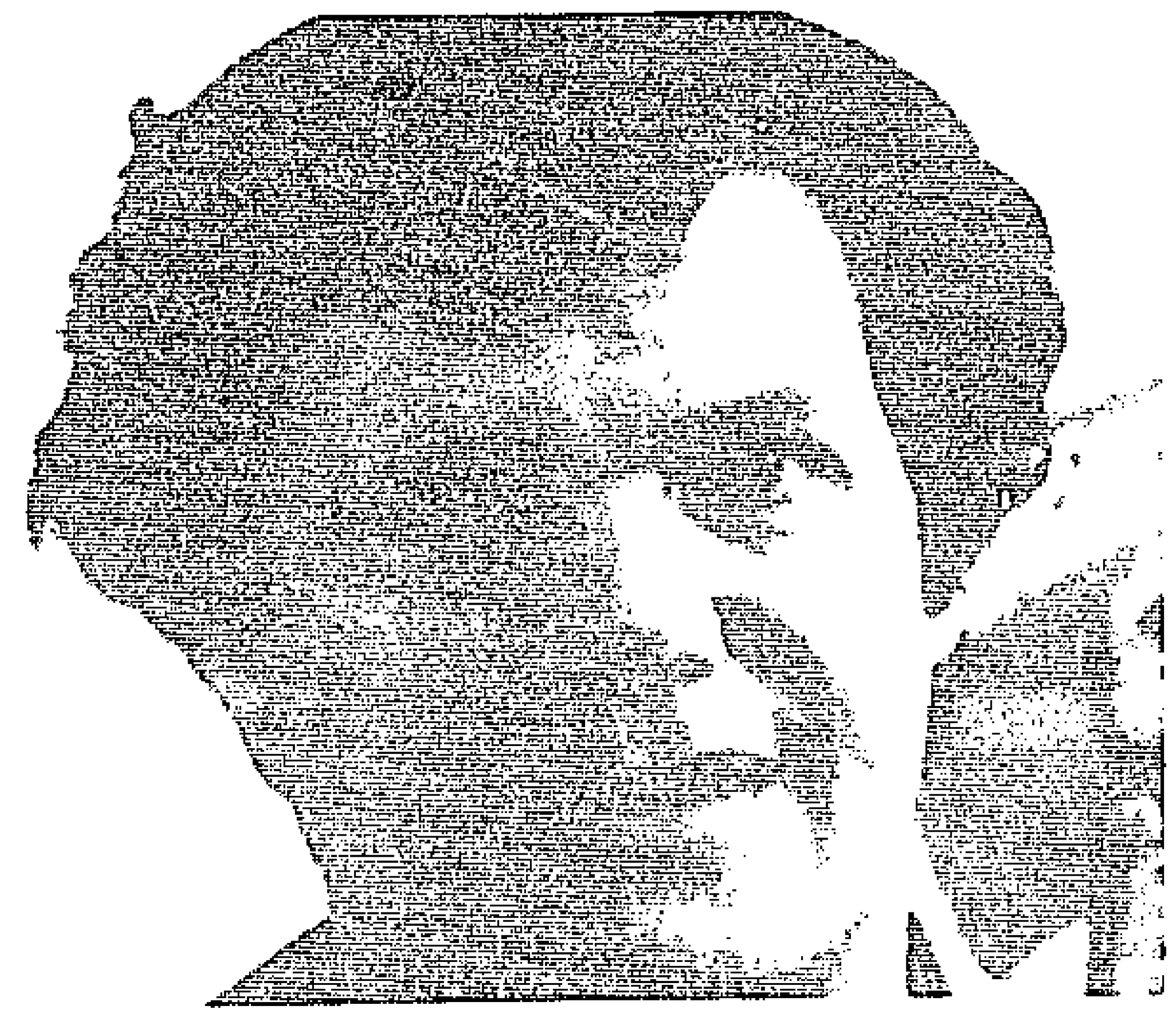

Actwusa general secretary John Copeland

Advocate Dullah Omar

Workers to play greater role in struggle - Omar

THE transformation of Gawu, which had led to the union seeking affiliation with Cosatu and the proposed merger with Actwusa, had "significant" implications not only within the labour movement but also on the political front.

This was said by advocate Dullah Omar, Western Cape president of the National Association of Democratic Lawyers.

"The entry of clothing workers into the political scene has the potential of bringing to an end the ethos of armchair politics.

"The vast majority of Gawu-Actwusa workers are classified 'coloured'. In past decades the union leadership kept thousands of clothing and textile workers out of the arena of political struggle.

"The entry of a merged Gawu-Actwusa into Cosatu will therefore be of tremendous importance on the political and civic front.

"On the 'coloured' front, intellectuals have constituted the dominant force for decades. They were the pacemakers, direction-givers in political struggles.

"The impact of Cosatu and worker-community struggle orientation will challenge this domination.

"With the arrival of progressive unionism for garment and textile workers, working-class politics will assume the dominant role.

"Whether this potential is realised or not is dependant on the success of Wiehan strategy - the depoliticisation of unions and consigning of workers and unions to factory-floor issues.

"This is not in the hands of the government but of workers and leaders.

"I think, however, we are going to live through very exciting times, with workers exerting themselves on the political and community front.

"This will give leadership to students and youth

"I am confident that workers will play a greater role in the political struggle and I hope they will be a leading role.

"The deterioration of living standards, increased poverty, the housing and education crisis will see a mighty alliance between workers, students and the youth, which will channel our struggle into an increasingly militant direction.

"This is indeed an exciting prospect."

said the union would declare another dispute with BP over its refusal to proceed with negotiations.

Warring drivers halted

DURBAN _ Four taxi drivers in KwaZulu's Isithebe industrial park were permanently interdicted against assaulting members of the Amalgamated Clothing and Textile Workers' Union (Actwusa) last Friday.

Over 30 men wielding knives, panagas and knobkerries ambushed national and local organisers Elias Banda and Siphiwe Ngidi and 16 female shopstewards in a combi on February 2.

Banda recognised three Inkatha-affiliated United Workers' Union (Uwusa) officials before he vaulted a two-metre fence to escape men shouting, "Get his head".

The Actwusa unionists, who fought and received industry-wide recognition for about 8 000 workers a month later, had to meet in a combi after the KwaZulu Finance Corporation evicted them.

Union lawyer Craig Tanner said an interdict against Uwusa, postponed when they did not show up in court the first time, had been extended until May 9.

South 13-19/4/89

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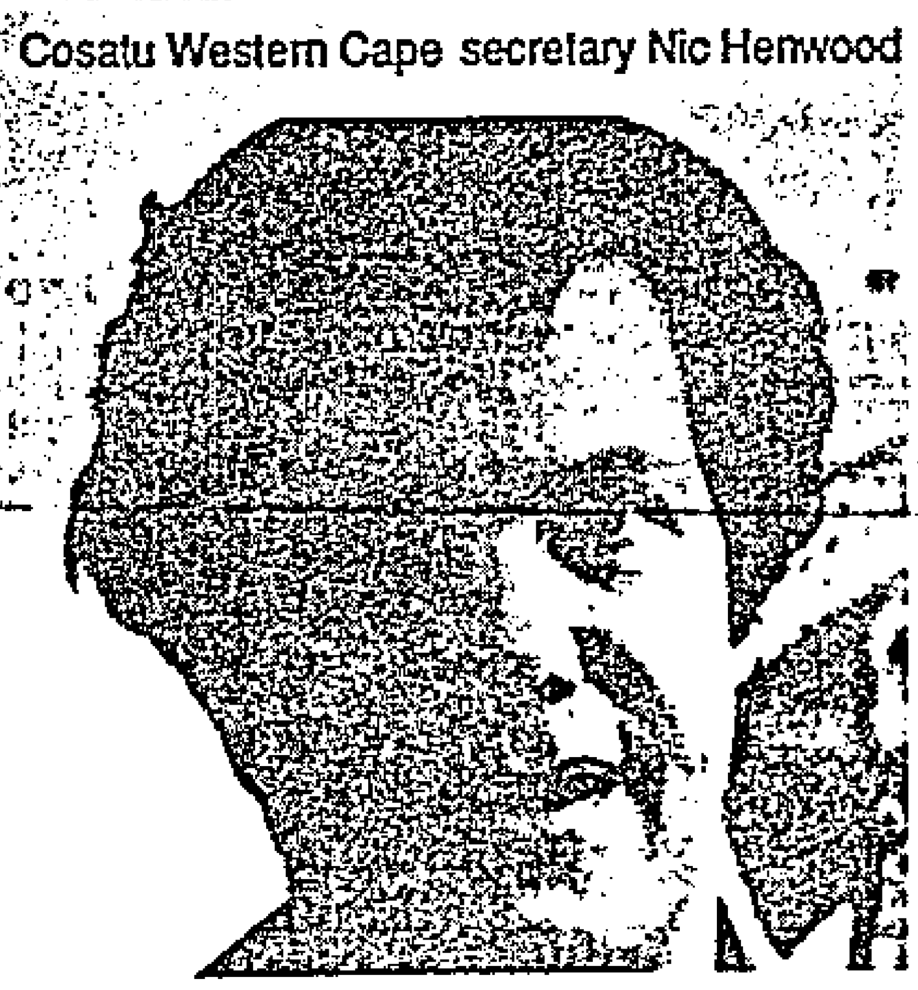
However, employers were not prepared to interfere with workers' choice of trade unions.

He said the more demanding trade unions became, the more employers would respond similarly.

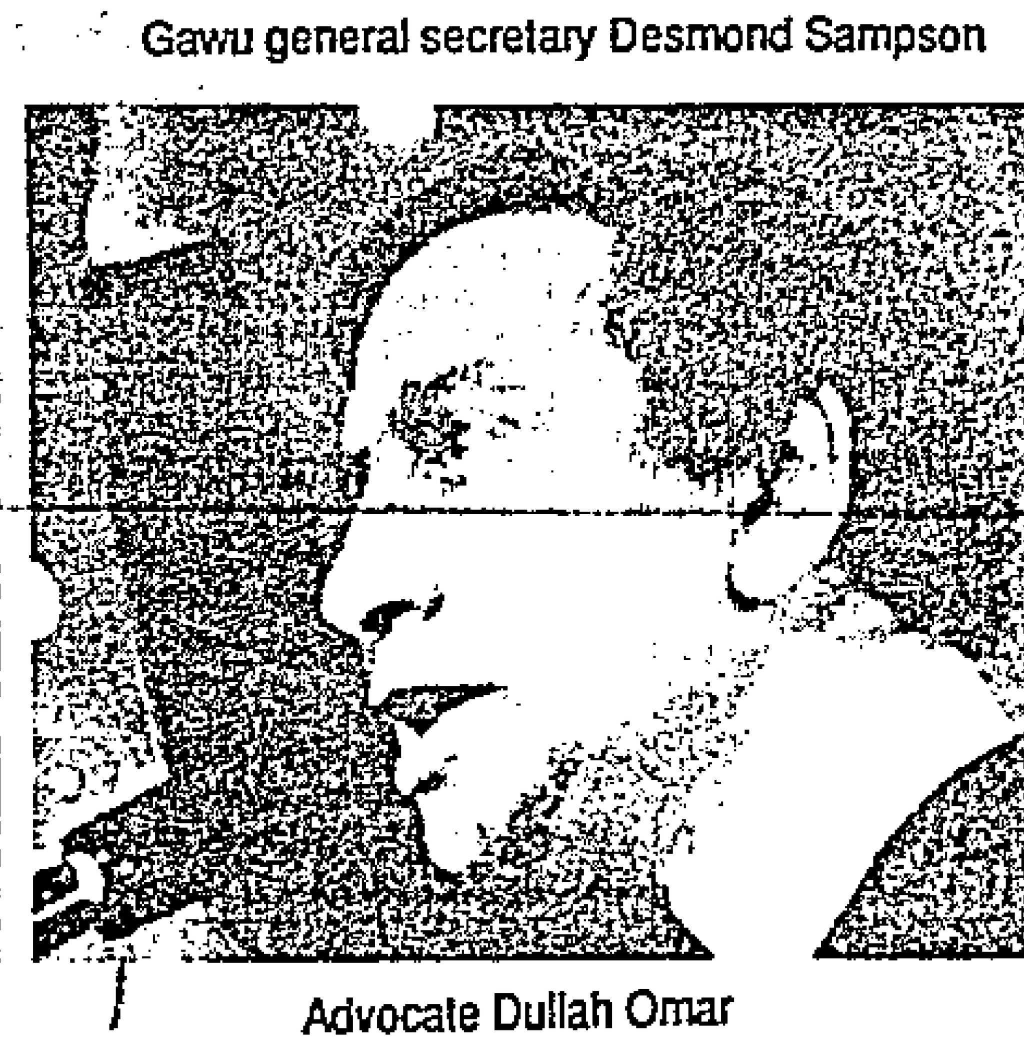
Jubilation: Gawu members at the meeting at the Athlone civic where they voted to join Cosatu

Cosatu Western Cape secretary Nic Henwood

Gawu general secretary Desmond Sampson



Actwusa general secretary John Copeland



Advocate Dullah Omar

Workers to play greater role in struggle - Omar

THE transformation of Gawu, which had led to the union seeking affiliation with Cosatu and the proposed merger with Actwusa, had "significant" implications not only within the labour movement but also on the political front.

This was said by advocate Dullah Omar, Western Cape president of the National Association of Democratic Lawyers.

"The entry of clothing workers into the political scene has the potential of bringing to an end the ethos of armchair politics.

"The vast majority of Gawu-Actwusa workers are classified 'coloured'. In past decades the union leadership kept thousands of clothing and textile workers out of the arena of political struggle.

"The entry of a merged Gawu-Actwusa into Cosatu will therefore be of tremendous importance on the political and civic front.

"On the 'coloured' front, intellectuals have constituted the dominant force for decades. They were the pacemakers, direction-givers in political struggles.

"The impact of Cosatu and worker-community struggle orientation will challenge this domination.

"With the arrival of progressive unionism for garment and textile workers, working-class politics will assume the dominant role.

"Whether this potential is realised or not is dependent on the success of Wiehan strategy - the depoliticisation of unions and consigning of workers and unions to factory-floor issues.

"This is not in the hands of the government but of workers and leaders.

"I think, however, we are going to live through very exciting times, with workers exerting themselves on the political and community front.

"This will give leadership to students and youth

"I am confident that workers will play a greater role in the political struggle and I hope they will be a leading role.

"The deterioration of living standards, increased poverty, the housing and education crisis will see a mighty alliance between workers, students and the youth, which will channel our struggle into an increasingly militant direction.

"This is indeeed an exciting prospect."

Producer prices increase sharply

8 [Day 13/4/87]

(180)

KAY TURVEY

PRODUCER prices have accelerated sharply with the index moving up from 299,8 in January to 305,4 in February, giving a monthly increase of 1,9%.

Central Statistical Service figures yesterday showed the production price index (PPI) rose 14,9% in the year to February, up from the 14,6% corresponding rate recorded for January, and the highest since May 1987 when the rate was 14,6%.

The 1,9% monthly rise translates to an annual rate of increase at 24,9%, indicating considerable momentum in the inflationary spiral and providing strong evidence of an upward turn in the Consumer Price Index (CPI), which has been widely predicted by economists.

Nedbank economist Edward Osborn said the figures revealed pressure on prices was growing.

Imported commodities rose 15,2% for the year to February, while locally produced commodites were up 14,8% for the year.

B/Day 13/4/89

(180) 20

Firm to aid black business

HELOISE HENNING

A COMPANY specialising in matching big business buyers with small black business suppliers is to be launched next month.

Matchmaker Services grew from the annual Matchmaker exhibition, in an attempt to bring black business goods and services to the attention of big business.

The fourth Matchmaker exhibition will be held at Nasrec from April 26 to 29. The US Embassy initially sponsored the event but it will be self-funded this year.

It has attracted 115 exhibitors, 20 of them buyers exhibiting the requirements they suggest could be contracted to black businesses.

Most of the black businesses are service-orientated, such as advertising, marketing research and personnel agencies, but they also include printing and packaging services.

Two major commercial banks will have stalls to enable them to finance any deals and offer advice.

US commercial councillor Ben Brown said yesterday the formation of the company was necessary to maintain the "matchmaking" throughout the year.

Founders

Matchmaker Services' three founder members are: the American Chamber of Commerce (Amcham), the Get Ahead Foundation and the Witwatersrand Chamber of Commerce and Industry.

The soon-to-be-formed company was funded through debentures sold to big businesses like Dresser Industries, JCI, Rand Mines, Anglo American, Standard Bank and First National Bank.

The US Commercial Service will provide it with office facilities and a secretariat for a year.

Brown said the success of the Matchmaker exhibitions can be seen in the effect they have had on some small black businesses which are not returning to the exhibition because they have grown sufficiently.

The concept was also adopted by the Cape Town and Western Province Chambers of Commerce which will be holding their third Matchmaker exhibition during Small Businesses Week, in October. The Natal Chamber of Industries and the Natal Witness will be holding a similar exhibition in October.

Retco set to revamp its operations

BDay 13/4/89

180

RETCO is to revamp the operations of both itself and subsidiary Premier Consolidated, says MD David Chapman.

Speaking yesterday, he said that now that the group was tax-free and cash-rich, plans for the changes could be implemented.

"Having disposed of its properties and related debentures, our mission is to develop Retco as an industrial holding company. One of our first moves will be to seek JSE permission for reclassification and to give Retco a new name".

He said the new-look group would seek to obtain a controlling interest in medium to large industrial companies with a sound asset base, strong managment and potential for long-term growth. The mininum investment, said Chapman, would be unlikely to be less than R10m. Two propositions were already being considered. Each investment leg would be listed separately.

The immediate target for the more refined investment policy would be Premcon, which owned a mix of companies on the fields of specialised sportswear, material manufacture, marketing research, medical clinics and home-building.

Some of these operations would be moved to the revamped Retco and further acquisitions made to give Premco a cleaner and more indentifiable corporate form.

Chapman said he intended to move Premcon out of the investment trust sector of the JSE. Its final destination would be determined by the nature and identity of further acquisitions and companies remaining within the Precon operation. — Sapa.

INDUSTRIAL STRATEGY

Towards local manufacture

If the Board of Trade & Industries (BTI) accepts the latest proposals of the Business Equipment Association (BEA) for cutting the electronics industry's huge foreign exchange bill, SA could soon be manufacturing — rather then merely assembling — computers.

The association, which represents the interests of computer and office equipment vendors, has presented the BTI with the outline of a strategy which it believes will encourage the local manufacture of microcomputers. The cornerstone of the proposal is a revision of the import tariffs and duties levied on microcomputer parts such as disk drives, monitors, keyboards and power supplies.

Although cagey about the precise changes it wants introduced, the BEA says its suggestions have been accepted in principle by the BTI and a joint working group will now draw up a mutually acceptable and detailed revision of the import tariffs and duties affecting microcomputer products.

Imports of electronics goods are estimated to have cost SA R3,4bn last year, up from R2,8bn in 1987. The strain this spending is putting on the country's foreign exchange reserves has caused the BTI considerable concern. Early this year the BTI returned a report submitted by a BEA committee headed by retiring ISM chairman Jack Clarke (*Technology* February 3) and warned that if it could not come up with a strategy for saving foreign exchange, the BTI would impose its own.

The computer sector is an obvious target. According to market research firm Business and Marketing Intelligence, the computer industry accounts for the largest share, more than 40%, of the country's electronics imports yet it lags well behind the military equipment and telecommunications sectors in investment in local electronics manufacture.

Intervention by the State has played an important role in the development and manufacture of local electronics equipment for the telecommunications and armaments industries. However, computer equipment suppliers are wary of State intervention and would prefer free market forces to determine the future of the local industry. Most of the large vendors have backed the BEA in its bid to stimulate local manufacture through tariff adustments. Import tariffs and duties have long been a bugbear for computer suppliers who complain that they are excessive, inequitable and ill-defined. In addition to the 20% surcharge on imported electronics goods introduced last year, computer products carry a variety of ad valorem and import duties.

The BEA's prompt response to the BTI's threat is an indication of the seriousness with which it is regarded.

Tilman Ludin, MD of the Siltek computer and telecommunications group, warned fellow computer suppliers at the 1989 Capital Expenditure Prospects Conference in Johannesburg last month that the State could well intervene to limit the computer industry's demand on the country's foreign reserves.

"The visibility of the computer industry as a major consumer of forex is now all too evident, and those suppliers who have planned alternatives to imported sources of equipment will have a major strategic advantage over those companies which have no alternative."

The BEA's decision to target microcomputers as the area to begin its drive for greater local manufacture is sound. The sector is growing faster than any other in the computer industry and with increasingly powerful processor and network technology these machines are eroding the domain of minicomputers and mainframes. Most microcomputers are based on a common technology, and parts and components can be sourced from a wide variety of countries, particularly from the Far East.

An estimated 190 000 microcomputers were sold in SA last year.The figure for 1989 could be as high as 260 000. This would represent a market worth R1,1bn. According to Ludin the import bill for microcomputers alone will be R470m this year unless a major programme to increase local content is undertaken.

Most of the leading suppliers of microcomputers, such as ICL, M&PD, TSD and Punch Line, have begun assembling SKD units but have shied away from full-scale manufacture.

According to Max Bayerl, MD of Martech Holdings, the electronics arm of Murray & Roberts Industrial, there is little incentive under the current tariff structure for companies to engage in the manufacture of computer products. Martech is negotiating with Taiwanese electronics giant Mitac to enter into a joint venture to manufacture computer products here.

TSM, the manufacturing subsidiary of the country's largest computer company, TSI, began assembling microcomputers for its sister company TSD last year. The company has also committed itself to producing larger minicomputers for the local commercial market.

TSM MD Hermus Erasmus supports the BEA's approach and believes local manufacture of computers should be encouraged through changes to tariffs rather than, for example, using the State's buying power to entice companies to make computers locally.

A bid by the Standing Committee for Electronics in 1985 to encourage the local production of data terminals by appointing preferred suppliers to government and public corporations was unsuccessful because of an overestimate of the demand for these devices and the inability of the committee to reduce the number of preferred suppliers to fewer than five companies.

"There is heavy investment required to take the local manufacture route," Erasmus tells the *FM*. "In the absence of guaranteed buying and with the relatively small market and the possibility exports excluded, for the short term at least, this investment is justified only if there is some kind of incentive."

It is in the industry's interests to encourage companies to go beyond the current level of SKD assembly and start manufacturing various components, he says, as, besides saving foreign exchange, this would stimulate the manufacturing sector and create jobs.

M&PD Electronics chairman Mike McGrath says increased manufacture of microcomputers would enable the country to develop the export market for computer products.

"It is viable? You've got to front it, but we are exporting and so are some other companies."

SA exports of computer equipment increased from R40m to R55m last year. Much of this increase was derived from locally assembled microcomputers. If the BEA's proposals are accepted and they open the way for investment in the manufacture of computer products, the computer industry could start to become a serious earner of foreign exchange rather than just a big spender. ■

DISINVESTMENT

The lights stay on

NCR's reign as the last US computer company in SA lasted but 14 days.

But it is not a case of last one out switch off the lights. As others have before it — most recently Hewlett-Packard (HP) on March 21 — NCR joined the long list of American computer vendors which have sold their subsidiaries to SA's emerging electronics conglomerates.

NCR SA, which will soon be renamed, joins the former subsidiaries of Xerox and Intergraph in the Fintech fold. Altron subsidiary Fintech acquired these companies from their US parents in 1987 and runs them

Reichmans pays more

Star 14/4/89 (180)

Reichmans had an 84 percent increase in operating income to R15,1 million (R8,2 milllion) for the year to February.

Despite a rise in the weighted average number of shares in issue, it translated into earnings of 35,6c per share (22,8c).

A final dividend of 9,5c (5c) has been declared for a total of 15c a share, compared with the 9c paid out a year ago.

Attributable income, which rose 76 percent to R12,8 million, was boosted by the R1,5 million contribution from its 20 percent investment in the specialist steel trading group, Van Reenen and Nicholls.

Van Reenen and Nichols' attributable income for the 12 months to December rose to R7,4 million.

Financial director Lewis Freidus forecasts real growth again in the 1990 financial year.

But he cautions that it would be unreasonable to expect the company to repeat the outstanding 56 percent increase in earnings again next year. — Sapa.

180

Reichmans posts 76% jump in attributable profits

LIZ ROUSE

LEADING trade finance group Reichmans posted a 76% leap in attributable profits in the year to February 1989 and prospects look bright.

The group has raised the final dividend to 9,5c (5c), lifting total distribution by 67% to 15c on an increased number of shares in issue from the previous year's payment of 9c.

Attributable income before extraordinary items of R346 000 rose to R12,8m from R7,3m, equivalent to an earnings rise of 56% to 35,6c a share based on 36-million shares, from 22,8c based on 32-million shares in issue.

Directors said the greatly improved results reflected an increased demand for Reichmans' services as well as buoyant trading conditions as more merchants made use of the facilities and services of trade finance specialists.

Van Reenen & Nicholls, in which the group holds a 20% interest, again achieved sparkling results. Its attributable income rose to R7,43m from R3,19m in the 12 months to December 1988 and it contributed R1,5m (1988: annualised R638 000) to Reichmans' attributable profits.

With its expanded operations, Van Reenen & Nicholls is expected to continue to make an increased contribution to Reichmans' profits.

Reichmans' financial director Lewis Freidus said there was a substantial increase in accounts receivable. Gearing at five was well within industry norms of eight, and Reichmans still has considerable capacity to take on additional business with no strain being placed on its overhead cost structure and capital base.

With strong and rising demand for efficient and specialised trade finance services, Freidus believes the group's future potential is exciting.

He says while the group is expected to show substantial growth in the 1990 financial year, it is unlikely the 1989 increase will be repeated. "After all, we are coming off a base which is five times the size it was three years ago."

Reichmans' shareholders interest grew to almost R50m in the year to February from R39,5m in the previous year. Its gross assets have risen from R64,9m in 1985 to R298,3m in the year to February 1989, net asset value has risen from 26c a share in 1985 to 139c, while during the past five years the group has achieved an annual compound growth in earnings of 43%.

Reichmans shares at 200c are trading near their high, reflecting investor faith in the prospects of a well-managed group. The sizeable foreign capital adds a measure of rand-hedge attraction to the stock.

Shareholders lose out to the taxman but . . .

Manufacturing sector hits prosperous times

Star 14/4/89 (180)

By Derek Tommey

The manufacturing sector is alive and well and making lots of money, a batch of releases from Central Statistical Services shows.

Although some of these releases refer to events six months ago, and therefore can be classified more as history than news, they are nonetheless of considerable interest.

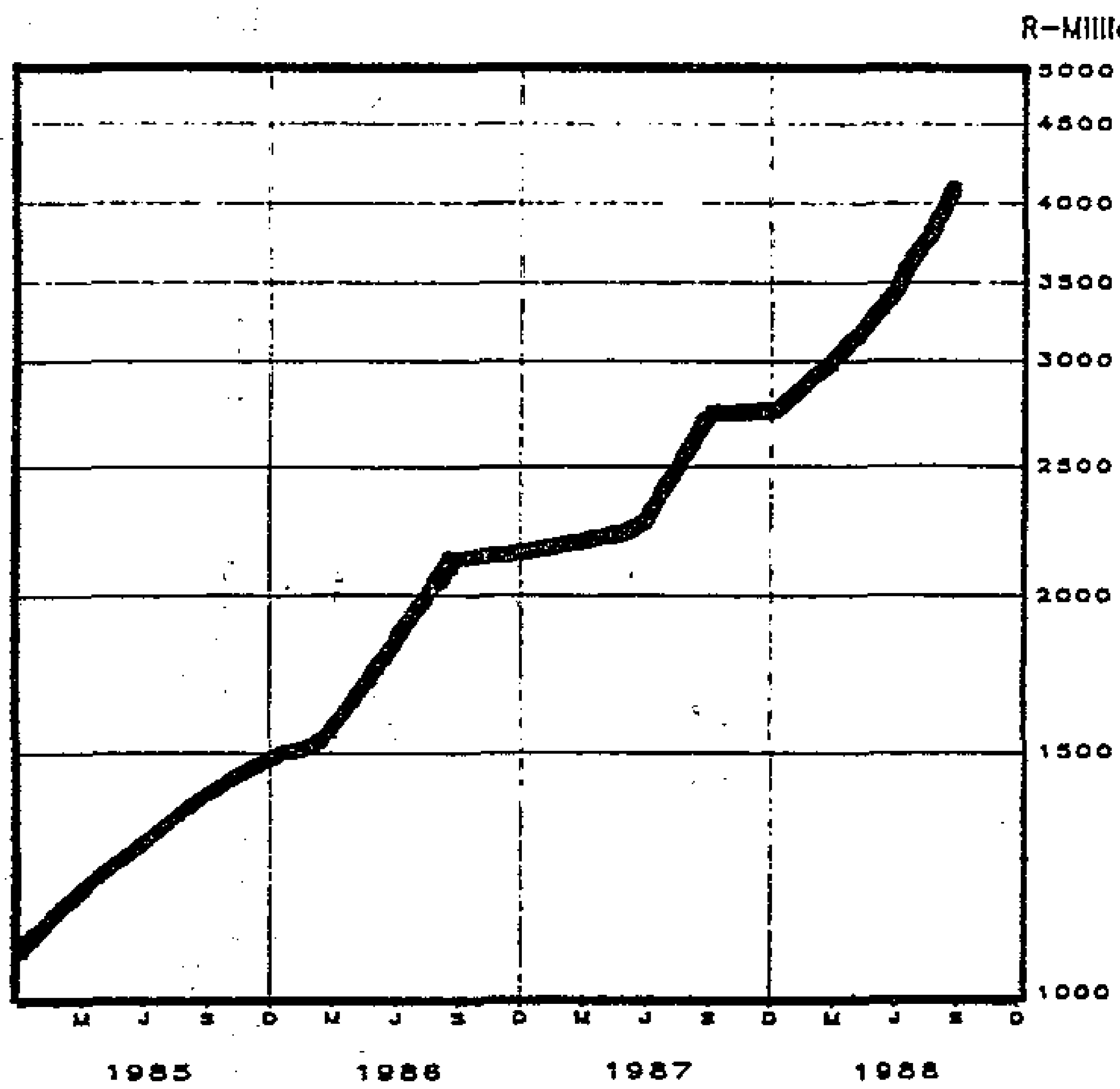
They show, for example, that manufacturing profits in the September quarter, last year, were on average 48,7 percent higher than a year earlier.

Total profits for the 1700 firms covered by the CSS release is estimated at R4,1 billion, against R3,4 billion in the June quarter and R2,75 billion in September, 1987.

The CSS figures show that the manufacturing sector made more profits in the first nine months of last year (R10,5 billion) than it made in the whole of 1987 (R10,0 billion).

However, in spite of this huge increase in earnings shareholders received no extra benefit. Dividend payments, in fact, were reduced by 11 percent from R663 million in September, 1987 to R590,7 million.

Instead, a substantial part of the increased profits went to the Receiver of Revenue. His take increased by 80 percent from R683 million to R1 232 million — double the sum paid to shareholders.



Net profit of manufacturing sector in millions of rands. (Graph is semi-logarithmic).

If the shareholders suffered, suppliers of new equipment had much to be pleased about. Expenditure on new assets rose 26 percent from R1,037 billion to R1,3 billion with R980 million (an increase of 31,8 percent) going on plant and equipment and R156,5 million (up 30,1 percent) on vehicles.

The biggest increase in capital expenditure was recorded by the paper, plastic and printing and publishing industries, CSS reports.

The value of stocks held rose by only 4,8 percent to R22,9 billion, which is a surprisingly small increase, in view of the high level of inflation and the increased volume of business in this sector. These figures suggest that most companies are closely watching their pennies and keeping a clean balance sheet.

Another release shows that by December many sectors of manufacturing were close to their production ceilings.

The average utilisation was 85,3 percent which is about the highest reported since a check has been kept on this aspect of manufacturing. It shows a marked improvement on December, 1987, when capacity utilisation was only 81,8 percent.

Twenty-two of the 27 sectors reported an increase.

Highest plant utilisation was in the footwear industry (95,5 percent) followed by the glass industry (94,7 percent) and paper (91,7 percent).

Lowest utilisation was in the transport equipment (67,6 percent) with beverages (74,1 percent) and electrical machinery (79,6 percent) next.

The average 14,7 percent under-utilisation was blamed on a shortage of: raw materials (2,0 percent), skilled labour (1,1 percent), semi-skilled and unskilled labour (0,3 percent), insufficient demand (9,8 percent) and other reasons (1,5 percent).

The 85,3 percent average plant utilisation is encouraging high.

But industrialists maintain that this level of utilisation cannot be maintained for long without running into production problems, which can be solved only by investing in new capacity.

But while production and profits in manufacturing are soaring, employment in the industry is growing at a snail's pace.

In the 13 months ended January this year, the number of workers in this sector grew by 20 700 or 1,5 percent to 1 353 000.

The number of whites increased by 3 000 to 296 000, Coloureds by 9 300 to 250 000, Asians by 1 900 to 90 400 and blacks by 6 800 to 716 700.

It is food for thought that total employment in manufacturing is still 114 400 or some eightpercent below the peak figure of 1 468 000 recorded in February 1982.

ARGUS 27/4/89

City's autumn beauty seduces Russian visitor

By TOS WENTZEL
Political Correspondent

THE seductive effects of the beauty of Cape Town in fine autumn weather have impressed the chief Russian delegate to the Namibian talks.

Mr Vyachaslev Ustinov, the chief Russian envoy and head of the first official Russian group to visit Cape Town in over 30 years, said it was much like San Francisco or a city on the Mediterranean.

He was driven around the city and towards Camps Bay and Clifton after his arrival yesterday and said afterwards that "it looks very nice.

"The city is clean and the beaches are beautiful."

Speaking in his five star hotel he was in his shirtsleeves and slippers and apologised for his casual appearance.

Mr Ustinov said he was afraid that he would have little time for further sight-seeing, but hoped to walk along the streets for a bit.

"In a car you cannot see enough. If I have time I will visit museums. I like museums."

Angolans and Cubans attending the talks are also curious to do some sight-seeing in and around one of the major cities of a country with which they have been at loggerheads for so long.

One of the higlights of their visit is not only entertainment at night but bus tours around the Peninsula on Saturday.

At least one Cuban was not taking a chance on the rum situation. He got off the Cuban plane which landed at D F Malan airport last night carrying a box of rum.

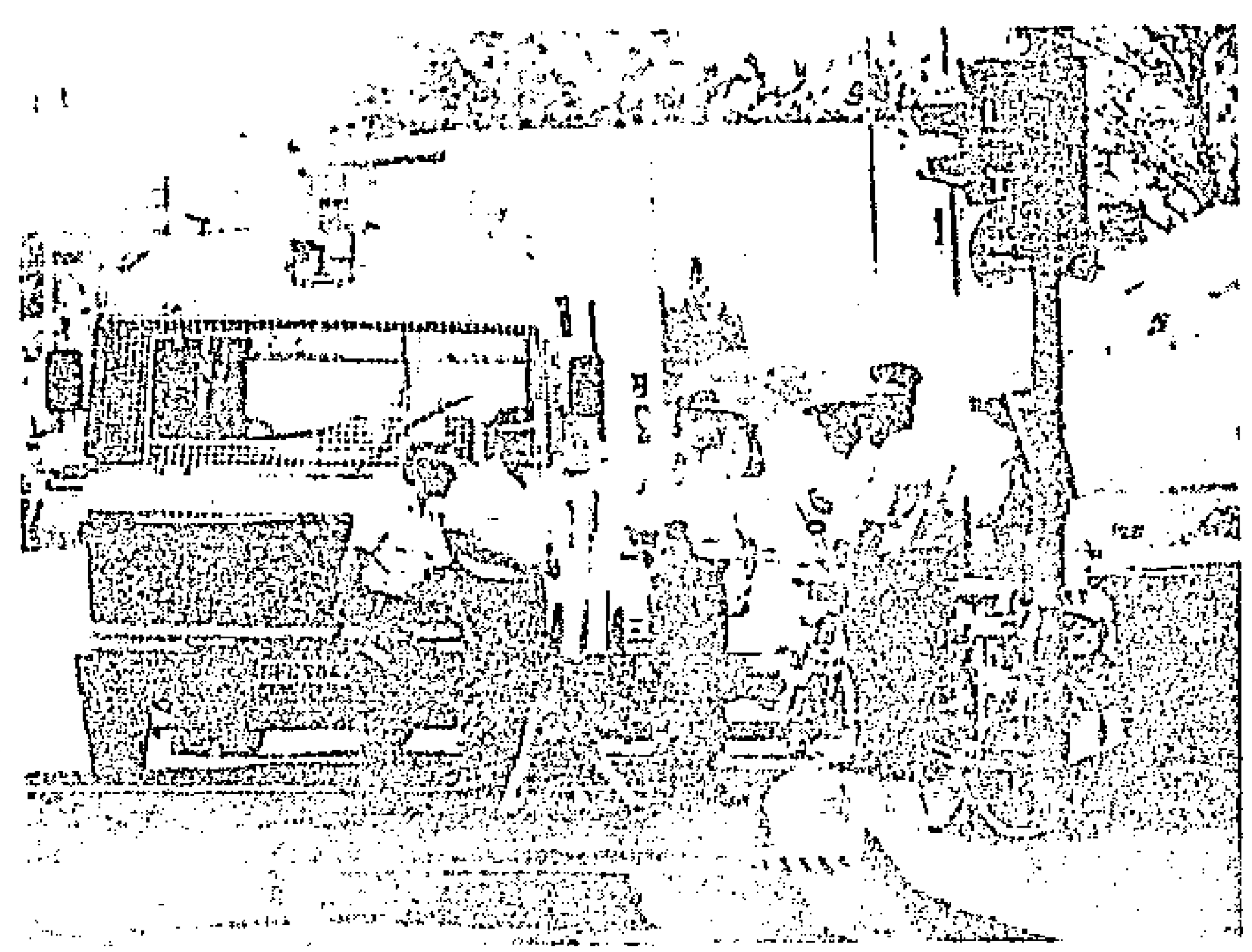
Mr Vyachaslev Ustinov

On this occasion customs officers in the international arrivals hall at D F Malan appeared to look the other way.

Some of the Cubans sported big cigars.

Tonight the delegates will be the guests of Mr Neil van Heerden at a wine tasting and dinner at the Buitenverwachting wine estate in Constantia. Angolan, Cuban and Russian journalists will meet their South African counterparts at another party in Constantia.

Tomorrow night the delegates will be at a braai Foreign Minister Mr Pik Botha will give at his official residence, Newlands House.



CLOSE WATCH: Security was tight in and around the Cape Sun hotel in Strand

Picture: ANDREW INGRAM, The Argus

WELCOME: Foreign Affairs Minister Mr Pik Botha opened the Joint Monitoring Commission at the Cape Sun hotel this morning. Flanking Mr Botha are Foreign Affairs director-general Mr Neil van Heerden, left, and Defence Minister General Magnus Malan. At the end of the table is the head of the SADF, General Jannie Geldenhuys.

Chaos at JMC's 'serious' meeting

By JOHN YELD
Staff Reporter

THERE was chaos at the opening session of the Joint Monitoring Commission's meeting in Cape Town this morning when about 100 journalists, photographers, television reporters and cameramen scrambled for a view of proceedings.

"The circus has come to town," one said as the opening remarks by Foreign Affairs director-general Mr Neil van Heerden were drowned in the noise.

There was a minor stampede akin to a rush by football fans for cup final tickets when security men finally allowed journalists into the second floor conference room at the Cape Sun hotel where South African, Angolan and Cuban delegates were meeting under the eyes of American and Russian observers.

Earlier, reporters and photographers chased each other up and down the escalators as rumours and counter-rumours of a photo-session spread.

At one point the leader of the Angolan delegation, Deputy Minister of Defence, Lieutenant-General Franca Ndalu, was spotted talking quietly to Soviet special ambassador Mr Vyacheslav Ustinov on a first-floor landing.

Within seconds the two men were blinded by a score of television lights and their conversation drowned by the clicking of cameras.

Soon afterwards Foreign Affairs Minister Mr Pik Botha and Defence Minister General Magnus Malan, being escorted from a lift by a harrassed-looking Mr van Heerden, walked straight into a throng of journalists as security men tried to clear a path for them to the conference room.

Inside delegates were seated around a U-shaped table decorated with arrangements of orange, white and blue flowers.

Mr Botha, flanked by General Malan and Mr van Heerden, sat in the centre at the top of the table.

On their left were the Cubans, with the United States observers next to them.

The Angolan delegation sat on the other arm of the table, with

At the open end of the table two translators sat in glass booths, and most of the foreign delegates listened attentively to Mr Botha's opening remarks through headphones.

"This is the most serious of all the meetings the JMC has had so far — I do not underestimate the difficulties in your way," Mr Botha told them.

But he then joked about stealing the Angolan Deputy Minister's pen at a previous session — "I'm not going to give it back but I will replace it," he assured Lieutenant-General Ndalu.

There was a burst of indignant laughter as Mr Botha jokingly told the meeting that the Transvaal was the most important province. He then told delegates the Cape's weather was so fickle they could expect four seasons in a single day.

"I hope for spring and summer in the Namibian issue — good luck," he concluded.

It was Mr Botha's birthday today, Mr van Heerden told the meeting to a round of applause.

Labour policy, education changes needed (180) B/Day 14/8/87.

SA could be another Japan — Samcor chief

PRETORIA — SA was described yesterday as having the potential to emulate Japan.

Samcor MD Spencer Sterling added the change could come provided a radical new approach to education and industrial policy were followed, with Japan as the example

He said, in his inaugural address as honorary professor of mechanical engineering at Pretoria University, big changes in attitudes were needed by industry and goverment in developing new strategies and priorities.

Education was an increasingly important condition for economic growth. Dramatic expansion of education in south-east Asia was an important factor in the region's economies.

Japan spent 50% more of its GNP on education than SA and had almost four times as many men over the age of 25

GERALD REILLY

with tertiary education.

Sterling said SA had the ability to attain a much higher growth rate in industrial production over the next 20 years than during the past 20.

He added economic growth depended on more professional and technical manpower as well as skilled labour.

SA had all the qualities of the newly industrialised countries of south-east Asia plus substantially greater natural resources and a comparable or better infrastructure.

● STERLING

Sterling said that although the growth rate in industrial production of Japan fell substantially during 1975-85, compared to 1965-66, its output increased at a rate double that of SA's.

He added expansion of SA's industrial base would depend on the ability to extend markets for products locally and abroad.

The country, with its abundance of natural resources, smaller population and larger land area, had many advantages Japan never had when it began to overhaul the West after the Second World War.

Sterling said Japan's industrial base was expanded to a point where it contributed more than 33% of GNP.

He added that in SA in the past 20 years the contribution the manufacturing sector to GDP was almost static at less than 25%.

DIAGONAL STREET

180

Platinums grab limelight while golds face pressure

B/Day 17/4/89

PLATINUM shares grabbed the limelight on Diagonal Street last week as golds battled to hold their ground under pressure from a stronger financial rand, which offset the moderate rise in the price of the metal.

Gold rose to above $390 on the back of soaring platinum group metal prices but was unable to hold on to all its gains. The metal got little help from the latest batch of key economic data released on Friday.

The US February trade gap of $10,5bn matched market forecasts, while the 0,4% rise in the March Producer Price Index (PPI) was also seen as positive. Analysts were braced for a 0,6% to 0,7% increase after the PPI rose 1% in the two previous months.

Gold has risen from lows of $381 but needs to establish a platform above $390 to breathe fresh life into the goldboard. Gold shares had been held back earlier by the 4,5% strengthening in the finrand on overseas buying of SA gilts.

However, some analysts believe that once foreign interest in gilts is out of the way, the currency will resume its weaker trend.

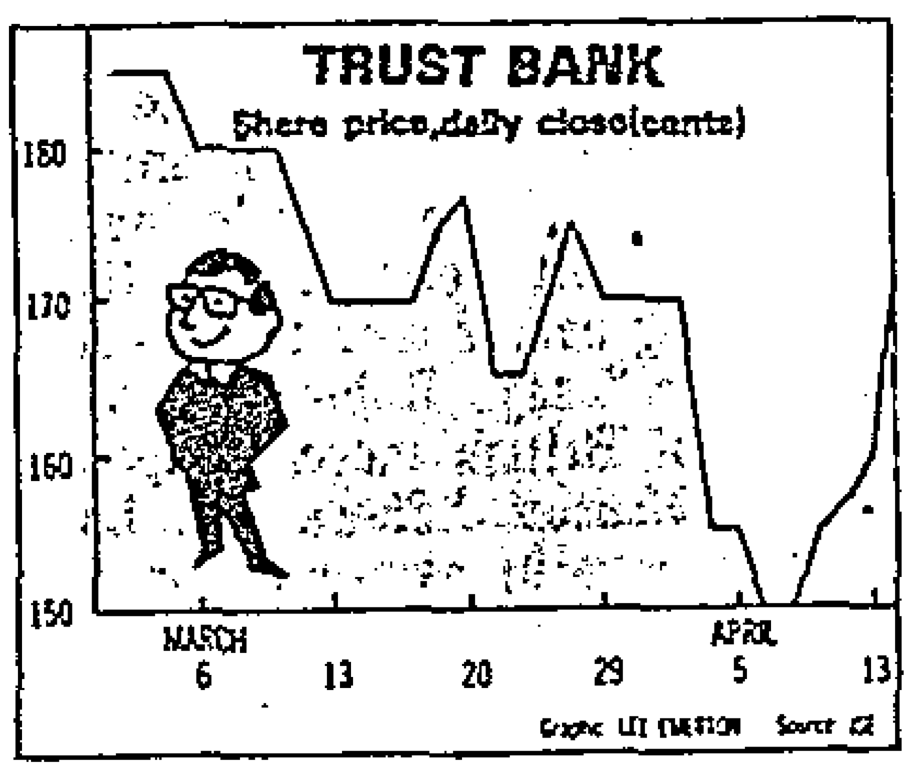
The sharp rise in the free market price of platinum to a four-week high of around $550 has caught many traders by surprise, as the market has recently been following a sideways pattern.

Fundamentals for the metal have been bolstered by the European Parliament's approval of tough new anti-pollution curbs on small cars.

But the price advances generally reflect the strength of palladium and renewed speculative interest.

LEFKO, helped by news that smelting of platinum-rich ore had been successfully tested, was in the forefront of the surge in platinum shares. The price rose 23% to 675c, while Barplat was hot on its heels with a gain of 22% to R16,25.

Nearly all platinum-related stocks moved to higher ground, while on the mining exploration board SOWITS attracted good demand on speculation of an impending announcement on its mine interests.



Sowits recently announced plans to exploit its chrome deposit near Brits before the end of the year.

It also has platinum interests.

The shares rose almost 25% to 116c after falling to a low of 55c.

Leading industrials tended to move sideways. After its 25% surge to a peak of R13,50 the previous week, SASOL gave up ground but was firming again on confirmation of a petrol price increase. The shares, which backtracked to R12,40, were testing the R13 level.

Shares of furniture company GOMMA, which sank to a low of 20c in mid-February after poor results, rose sharply to 45c on news that it was involved in negotiations.

JAZZ shot up 47% to 103c before it was suspended on Friday. The company issued a joint cautionary statement earlier with sister company Metro which was expected to take out the troubled group.

Textile group CONFRAME rose 10c to 660c on Friday on volume of 65 000 shares which represented more than half of its average monthly turnover during the past 12 months of 120 000 shares. Some analysts considered the share cheap as it was trading at a big discount to net asset value.

Among financial shares, Trust Bank steadily regained its losses on news that it should recover most of the money involved in a R47m fraud at the bank.

The shares, which had fallen from 170c to 150c, were back at 170c.

MERVYN HARRIS

'PLANS TO MOVE PLANTS COULD ATTRACT R935m'

180 BRENT MELVILLE

SA could net about R935m in foreign investment by 1991 if plans to relocate some 35 factories to the country are successful.

Alkhan Industrial Consultant (AIC) MD Schalk Coetzee says the preliminary groundwork has been laid to relocate factories from Europe, Israel, Turkey and the Far East. BDay 17/4/89

In addition to providing foreign investment, the establishment of these foreign factories will create up to 11 000 jobs, he says.

Alkhan, which has offices in Taiwan, Italy, Britain, Hong Kong and Israel, has relocated more than 100 manufacturing plants to decentralised industrial development points in SA since its inception in 1983, says Coetzee.

Apart from the incentives of abundant labour and raw materials, SA offers a number of "powerful investment mediums", says Coetzee, including the lure of the financial rand combined with a "moratorium of debt" scheme whereby companies can save 40% of the total cost before start up.

AIC sifts through the tax laws, incentives and allowances in various parts of the sub-continent so it can advise investors on the best locations for their businesses.

Areas that have benefited include Lebowa, KwaZulu, Bophuthatswana, Bloemfontein, Botshabelo, Newcastle and East London.

180

Malbak results may spur its lethargic share price

STEPHEN RICHTER

MALBAK has once again produced impressive results — as earnings a share jumped 35% to 52,5c (39,0c) while the dividend was raised 25% to 12,5c (10,0c) for the six months ended February. Hopefully, this performance will spark interest in the industrial holding giant which has underperformed the market over the past two months.

For some reason, investors have recently been avoiding Malbak shares. On February 9, which was the last time the group established a new 52-week high, Malbak closed at 885c after touching 890c earlier that day, while the industrial index finished at 2 246.

Pleasant reading

By Friday's close, however, Malbak had failed to surpass this peak and closed at 870c. This contrasts with other industrials as the industrial index closed at 2 454 — a gain of 9,3% or 208 points.

Malbak's strong 58% operating-income rise to R277m (R175m), coupled with the 45% jump in attributable earnings to R97m (R67m), makes pleasant reading for shareholders.

But the reasons for Malbak's lethargic JSE performance seem to be evident elsewhere.

The biggest worry on investors minds must be the huge 91% increase in borrowings to R832m (R436m) to help finance the acquisition of UK-based MY Holding and Kanhym. Interest paid for the latest period rose 79% to R61m.

● THOMAS

Malbak's gearing has now jumped to 58,6% compared with only 34,0% at last year's interim stage. While management insists it is comfortable with this level of borrowings, investors may take a different view. With local interest rates remaining at abnormally high levels, this will continue to place pressure on Malbak's bottom line.

This is not to say the group will be unable to handle the situation. Malbak's management team, led by executive chairman Grant Thomas, is highly regarded in the market-place and the latest acquisitions make the industrial holding giant one of SA's largest.

The group increased its Kanhym stake to 85% (37%), while the holding in Tedelex is now 96% (55%). Effective January 1989, a 100% interest in Wiggins Teape Holdings was acquired. This helps explain why turnover jumped 64% to R3,3bn (R2,0bn).

It appears the reorganisation of most of the group's engineering interests under Standard Engineering (formerly Standard Brass) is being favourably received. Shareholders will be paid their first dividend since 1985, and that development helped boost Standard's share price by 90c to 420c last week.

Yields

Whether significant buying interest now develops for Malbak will depend on how confident investors are that the group can generate sufficient growth to cover the debt burden while maintaining its fine track record. A move above 900c will establish a new yearly high.

In spite of the increased interim dividend, Malbak's historic dividend yield is still below the 3,3% return earned on industrial shares. This suggests any advances from current levels should occur only when the market senses the combination of high interest rates and possibly lower economic activity will not hurt Malbak's performance.

Malbak lifts earnings and dividend

180

Finance Staff Star 17/4/89

Malbak shareholders should be pleased with results for the six months to February.

Sales rose 64 percent to R3,3 billion, margins were only slightly down — from 8,7 percent to 8,4 percent owing to a change in product mix — operating income rose 58 percent to R277 million and attributable earnings rose 45 percent to 97 million.

Earnings a share increased 35 percent from 39c to 52,5c and the interim dividend has been raised by 25 percent from 10c to 12,5c.

With interest rates climbing, shareholders might not be too happy with the jump in borrowings by R365 million since the financial year-end last August and by R436 million since February last year to R832 million.

Barlows' sound strategy pays handsome dividend

Buoyant trading conditions throughout 1988, together with improved capacity utilisation, higher productivity and control of costs, led Barlows to yet another year of sound earnings growth, says chief executive Warren Clewlow.

Earnings increased 37 percent, compared with 29 and 30 percent in the previous two years.

From being an SA company with some overseas interests, Barlows is fast gaining a more international flavour, while still retaining firm roots in SA.

About R235 million — 32 percent of attributable profit — was derived from exports or earned in foreign currencies by its offshore subsidiaries.

International division

J Bibby's international division experienced mixed fortunes, with earnings lower than those of 1987.

But it has increased its ability to make further acquisitions, having disposed of its US-based packaging and security printing interests at a substantial profit towards year-end.

What is it that makes Barlows' 11 divisions stand head and shoulders above other JSE listed companies?

They are capable managers of well-established cash-producing businesses, which form the basis for growth, says Mr Clewlow.

Apart from a superb management team of mainly chartered accountants, the men at the helm, Mike Rosholt and Warren Clewlow, have remarkable vision.

New products

Capex programmes, acquisitions, research and development and new products are the main forces that have taken the group to a higher earnings level in the past three years.

With a market price of R38 and earnings per share of more than R4, the P/E ratio is only 9 times. In the US a company of such high standing would be worth at least R100 a share.

Turnover for the year rose by R4,6 billion — 28 percent — to a record R21,2 billion, with operating profit before interest at R2,02 billion (1987: R1,42 billion). Interest paid increased to R303 million (1987: R241 million), with income from investments higher at R221 million (1987: R170 million).

Bottom Line

180

MICHAEL MENOF

The effective tax rate increased to 35 percent (1987: 33,8 percent) with tax of R640 million (1987: R421 million), giving taxed profit of R1,3 billion (1987: R926 million).

After adding income from associate companies of R23 million (1987: R25 million) and deducting outside shareholders' interest of R582 million (1987: R416 million), the bottom line was the highest ever at R742 million (1987: R535 million).

Earnings per share were 408,2c (1987: 297,3c) and the dividends increased to 130c (1987: 100c).

The divisional profit analysis reveals all. Mining and mineral beneficiation increased its profit contribution to R289 million (1987: 234 million).

Significant improvement from coal and base minerals was the main reason.

The strategically important platinum mining interests are set to increase through the acquisition of a substantial interest in Lefko.

Food and pharmaceuticals contributed R89 million (1987: R64 million). Electronics, electrical engineering, computers, earth-moving equipment, motors and appliances, building materials, steel and paint, carpets and textiles and paper and packaging all contributed R314 million (1987: R185 million).

J Bibby's international division made R79 million (1987: R76 million), with property, finance and administration costing R29 million (1987: R24 million).

In the past five years, R4 billion has been spent on capex — in 1988 R1,1 billion alone, with R1,5 billion planned for 1989. Acquisitions and investments cost R656 million in 1988 and another R405 million in additional interests in companies already controlled and managed.

J Bibby's international operations have been disappointing.

However, the sale of the two US-based operations has left Bibby in a strong financial position in a slowing UK economy.

With its new scientific product investment, plus existing materials-handling, paper and converted products and agriculture, the capital base seems ripe for a fifth division in the UK.

Information technology

Eye-catching was the investment in the information technology field — TSI Computers (IBM).

It is investing heavily in local research and development. With sales of more than R1 billion, taxed profit of R75 million, shareholders' equity of R148 million and debt a low R4,7 million, it has good growth prospects.

The balance sheet is superb — total shareholders' interest of R5,42 billion (1987: R4,53 billion) at end-September 1988.

Debt is R2,77 billion (1987: R2,2 billion). Working capital has strengthened to R2,12 billion (1987: R2,03 billion).

The return on shareholders' funds has increased to 29 percent.

Successful trend

Chairman Mike Rosholt predicts the successful trend will continue. "Our budget for the coming year shows a reasonable increase in earnings per share, which has been borne out by continuing strong trading in all divisions."

With a net asset value per share of R15,15 and market value of R38, Barlows' blue-chip status remains intact.

With guts and determination, Barlows has shown just what magnificent leadership is all about.

Increased productivity is apparent. In 1982 Barlows employed 149 800. In 1988 it increased to only 157 500. But over the same period sales rose 350 percent, with earnings up 300 percent.

The interim report, due out shortly, should confirm the impressive earnings trend, which has never faltered.

Shareholders on nine stock exchanges — the JSE and eight foreign ones — can be justifiably proud of Barlows' management and sound strategy.

Old Mutual issues a new unit trust

BDay 19/4/89 LESLEY LAMBERT (180)

OLD Mutual has launched a new unit trust which will give investors a chance to benefit from current high interest rates and allow them to switch into its equity funds if rates decline and the share market strengthens.

With interest rates unlikely to decline in the short term as the demand for money remains strong, the new income fund will offer investors who do not want to put lump sums into equities, optimum capital income and reasonable stability in the medium term, says Old Mutual assistant GM Stuart Fish.

The fund is not ideal for long-term investments because equities tend to outperform interest-bearing investments over the longer term. But, with no exposure to equities, volatility should be lower than that of the growth funds, providing more stability.

By buying units for a minimum investment of R5 000 or R500 a month, at a cost of 2%, investors will be able to participate in the capital and money markets through a portfolio consisting of government and public corporation stock, debentures and money market instruments.

Unit trusts now worth R5,2-bn

SK 19/4/87

180

At the end of the March quarter the total market value of South Africa's 30 unit trusts stood at R5,2 billion.

This reflects a 51 percent increase over the total value a year ago, says Roy McAlpine, chairman of the Association of Unit Trusts.

He said yesterday that a further net R146,2 million had flowed into the industry in the quarter.

"This means the industry has attracted a net inflow of over R440 million in the past year. In addition, in the past six months, over 35 000 new investors have been attracted to unit trusts."

The funds sold a total of R323,8 million new units in the quarter. Repurchases amounted to R177,6 million.

The figures show that the 12 general equity funds, which constitute the bulk of the industry, held assets worth R3,6 billion at March 31.

The general equity funds held six percent of their assets in gold shares, 16 percent in mining finance and 12 percent in other mining.

Industrials comprised 47 percent of the portfolios. The proportion held in liquid assets at 17 percent was little changed from last quarter's 18 percent.

The six funds that have been in existence for the past five years have notched up an average total return of 21,2 percent a year, while the average performance of the nine general equity funds in the past 12 months was 46,5 percent.

The specialist equity funds reflect an average total return of of 18,2 percent a year for the six funds over five years.

Over the past 12 months the average of the 10 specialist funds was 38,3 percent.

The seven high-income funds held assets of R223,2 million at March 31, with the bulk of the portfolios held on the short end. The average performance of six funds for the past 12 months was 13 percent.

Expert says export promotion scheme has failed

180

Govt 'must encourage manufacture'

BDay 20/4/89

A STAINLESS steel industry group is developing a model to demonstrate to government why its industrial policy has failed to encourage the export of manufactured goods.

Group chairman Paul Hatty, who has been seconded to the Board of Trade and Industry (BTI) from Barlow Rand, told the Industry Ahead conference in Randburg yesterday that government's export promotion scheme favoured the export of ferrochrome.

In 1988, SA exported close to R2bn of ferrochrome, only R700m in stainless steel plate and R200m in finished stainless steel products.

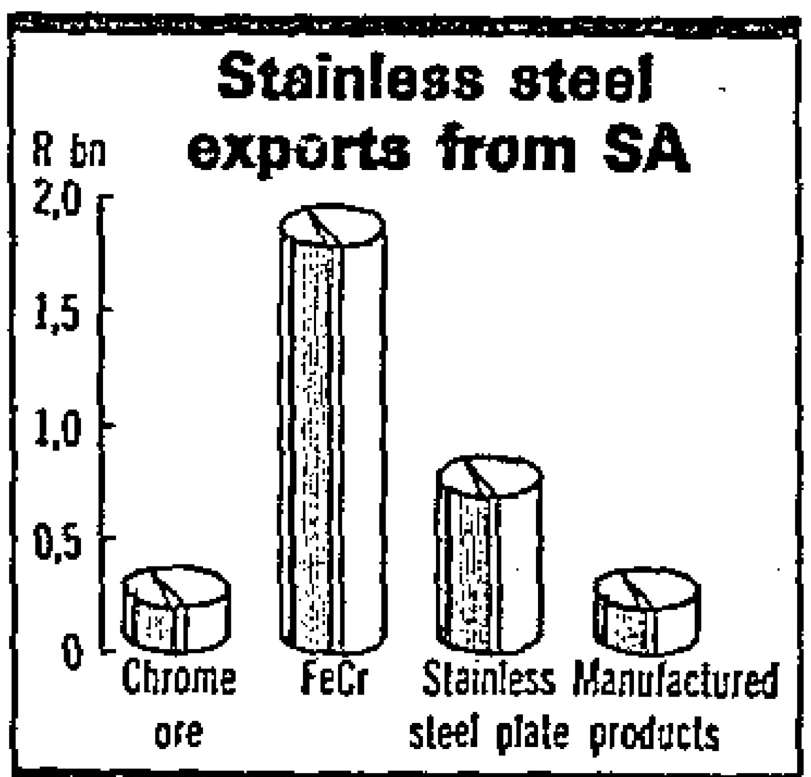
Hatty is doing a "pipeline" study of the stainless steel industry in which chrome represents stage one, ferrochrome stage two, stainless steel plate stage three and manufactured products stage four.

At each stage of the process, the value added to a ton of chrome is:

HELOISE HENNING

R178 as ore, R1 500 if it is converted to ferrochrome, R6 250 if it is converted to stainless steel and R25 000 if it is made into cooking pots.

Hatty said there was no incentive among nickel or ferrochrome producers to "push" their products into a value-added chain for local production. Both products were easily marketed through the LME at excellent world prices without the need for expending effort on establishing an export market.



Graphic: FIONA KRISCH Source: BARLOW RAND

Meanwhile, the exporters of finished products, generally smaller companies than the beneficiators, were having to buy the raw materials at high world market prices. Small companies were also handicapped because their input costs were multiplied by high taxes, interest rates, inflation and risk, making them internationally uncompetitive.

"We would like to show government that if it were to halve taxes on producers and manufacturers, it would be investing in a higher remuneration of employees, the productive use of capacity and eventually increased revenue for itself."

Hatty said there were no firm proposals yet. However, the world trend in trade showed the highest growth area was in finished products, and this had to be the focus of SA's effort.

Generally stages one to three, from ore to steel plate, were vertically integrated by one manufacturer. SA lacked the engineering firms that would convert the steel product, through tooling, coating, moulding and making intermediate components for finished product makers. This was the small business sector that had sparked the Japanese economy.

One possible answer could be vertical integration of the process, to ensure that the beneficiating company passed on the resulting cost savings to the end-product producer.

Hatty felt SA had the capacity to export manufactured goods equal to the rand value of its ferrochrome exports.

McCrystal unveils plans to boost export earnings

Star 20/4/87

180

By Michael Chester

The rand is at least 20 percent below its true value when measured against a basket of currencies used in foreign trade.

Against the Japanese yen, the rand is now under-valued by as much as 42 percent.

These disturbing figures were given by Dr Lawrence McCrystal, chairman of the Board of Trade and Industries in Johannesburg yesterday.

He told businssmen at a Federated Chamber of Industries (FCI) conference that new strategies were planned to streamline the whole industrial sector with the aim of boosting export earnings by billions of rands a year.

Massive overhaul

Dr McCrystal said the key to the strategies was a massive overhaul of the structure of the manufacturing sector.

He expected the weakness of the rand exchange rate to continue as a strong ally of exporters.

And Dr McCrystal assured exporters there was little or no likelihood of any appreciation of the rand exchange rate in the short term — keeping intact their price edge against overseas competitors more than compensated for the burden of domestic inflation.

The aim of new strategies was to ensure that South Africa itself gained the biggest benefits from its mineral riches.

Instead of concentrating on the export of raw materials, it was planned to increase their value dramatically by processing them into finished products.

The master plan revolved around the concept of "industrial pipelines" — starting with the mining of raw mineral ores and steering them into beneficiation programmes to the production of final products.

Dr McCrystal said the strategies were being designed to alter the entire shape and direction of the industrial sector.

The potential was illustrated by Paul Hatty, technical consultant at the Barlow Rand industrial conglomerate.

One example was the wastage in chrome ore, he said.

Last year, South Africa, by far the world's largest producer, exported raw ore at only R178 a ton.

Even to the next stage of conversion to ferrochrome, the added value amounted to no more than R1 500 a ton.

Yet, had the ore been processed all the way to such end-products as stainless steel pots and pans, the added value would have been worth R25 000 a ton.

In fact, export income from stainless steel products last year amounted to only R200 million.

Had the basic ore been steered along the industrial pipeline system from the mines to final manufacturers, the export value would have soared to almost R2 billion.

The exercise — using the added-value of each stage of processing from raw materials to end-product — could also be repeated in a vast range of mineral ores, timber and agricultural and fishery products. Billions of rands were at stake.

Dr McCrystal said a number of industries had been selected for special attention, with possible protection from import competition, assistance with productivity schemes, export incentives and the encouragement of more small businesses to act as sub-contractors.

They included iron and steel products, textiles and clothing, processed foods, footwear, mechanical equipment and electrical products such as cables and transformers.

Electronics sector

Restructuring was already underway or planned in the motor industry and the electronics sector.

The plans aimed at expansion of a robust 12 percent a year in top industries turning out final products — with a doubling of their export earnings in the next four to five years.

FCI executive director Ron Haywood said South Africa was already exporting to as many as 47 African countries.

With peace and stability on the sub-continent, prospects were improving by the day about the creation of a powerful new trade and economic bloc embracing the whole of sub-Saharan Africa.

COMPANIES

B. Day 21/4/89 (180)

Hope in store for Natprop shareholders

STEPHEN RICHTER

NATIONAL Properties (Natprop) shareholders should not despair as it appears Unidev's long promised offer to minorities will finally materialise.

Troubled Natprop was suspended from November 22 1988 when controlling shareholders of Natprop reached agreement in principle to dispose of their holdings to a company controlled by Unidev.

At that time, Unidev was planning a scheme of arrangement which would have resulted in an offer to minority shareholders.

An announcement on February 21 informed Natprop shareholders that Natprop had been restored to solvency. Further assets were to be acquired by Natprop while an application to reinstate Natprop's JSE listing was to follow.

All of this was expected to be completed in March this year, but until Wednesday Unidev had remained silent on the matter.

Natprop shareholders are not alone in their thirst for knowledge about Unidev's next move. The JSE listings department has also been anxiously awaiting further developments, and it seems Wednesday's announcement in Business Day has temporarily soothed their nerves.

Unidev chairman Geoff Grylls confirms that "the delay has been caused by the complicated financial position of Natprop and therefore our company has been waiting for figures from both the reporting auditors and the receivers appointed to handle the S311 scheme of arrangement".

It appears that once Unidev receives confirmation of Natprop's financial position the wheels will be set in motion to reinstate Natprop's JSE listing and present the long awaited offer to minorities.

Unidev is understood to have struck a deal with Natprop's major shareholders at a price approximating 6c to 7c a Natprop share.

Grylls would not confirm whether this figure was correct.

Assuming this information is accurate, minority shareholders can expect to receive a similar offer.

Grylls confirmed that Unidev paid R3,8m to satisfy Natprop's creditors.

Call for Cabinet business council

B Day 21/4/89

(180)

HELOISE HENNING

GOVERNMENT was preparing to remove obstacles to the efforts by business to promote economic growth — and aimed to do so by making quick decisions, Deputy Finance Minister Org Marais said yesterday.

He told the FCI Industry Ahead Conference in Randburg that a Cabinet committee on business matters should be formed with similar powers to those of the State Security Council. It could co-ordinate, facilitate and monitor decisions on the economy.

These decisions were now subjected to consensus politics which took a long time to implement.

Strategy

The State Security Council had the President as its chairman and was served by a strong secretariat. This made it an excellent model as an effective structure. On the other hand, decisions on economic matters should not be made autocratically. But such a committee should have powers to remove obstacles in the economy, to facilitate the free working of the market.

Marais was commissioned by the Cabinet last year to do a study on business strategy — and he is soon to make proposals to it.

He said: "My point of departure is that government must remove any restrictions on the effective functioning of the free market. However, I believe there has to be a certain degree of government participation in industrial development, especially in the field of mineral beneficiation."

Once obstacles were removed, the private sector would have the opportunity to boost economic growth to 5% instead of the expected 2%.

While government had a long-term economic strategy, no number of economic reports and strategies spawned by government could achieve what private enterprise could do in terms of economic growth. And economic strategy could not be seen in isolation and out of context with political and social strategy.

Marais said: "Just as we removed influx control, government wants to remove restrictions on business. While politics is about winning elections, let me assure you the long-term philosophy of government is to see that the restrictions in the way of economic growth be removed."

The priorities of the Cabinet committee would be to co-ordinate, monitor and adapt where necessary government's plan to cut back state spending, or spend revenue more efficiently and address the problems of inflation.

Finance Minister Barend du Plessis was "fighting like a madman" to cut back government spending.

SA BUSINESS PRICES OUT OF THE UN MARKET

CHRIS CAIRNCROSS

CAPE TOWN — SA business is destined to get only a minimal amount of business servicing the various needs of the Untag monitoring forces now gathering in Namibia — for the primary reason it is pricing itself out of the market.

Sources at Untag's procurement offices in Windhoek indicated yesterday their first contacts with SA business indicated the latter was operating under the false belief that because of its close proximity to Namibia it had a geographical advantage which it could exploit in offering goods and services at a premium to Untag.

Needed

180

They said many businesses — from those capable of supplying vehicles to a range of accommodation and office requirements — had been too greedy in pitching their tender prices, to the extent that Untag procurement officers had been instructed to look elsewhere for their needs.

Untag set up procurement offices in Windhoek last October and soon after published a list of "generic" items that would be needed to support the UN monitoring effort.

It was indicated that most of these would be procured from the UN's own resources around the world. Motor vehicle requirements were mostly placed with a Japanese supplier as the prices quoted were more competitive than those obtained from SA manufacturers, even with exemption being given in respect of import surcharges, customs and excise duties.

A similar picture is emerging with respect to other products of an infrastructural nature needed by the Untag forces. All tenders and quotes are being stored on a special data base and are then analysed at UN HQ in New York.

An anti-apartheid demonstrator in clown's dress wields a styrofoam hammer during a confrontation with Dutch riot police near Royal Dutch/Shell research premises in Amsterdam yesterday. Picture: REUTER

Four hurt in Dutch Shell protest rally

B\Day 2\14\89

AMSTERDAM — Four people were injured yesterday when mounted riot police dispersed anti-apartheid demonstrators trying to blockade the offices of Royal Dutch/Shell in protest against its links with SA. (180)

Police and protest organisers said three demonstrators were taken to hospital with broken limbs after being trampled by police horses, and one policeman suffered an arm injury.

Two demonstrators were arrested out of about 3 000 people taking part in the protest outside Shell's research complex.

The activists marched through central Amsterdam as part of a three-day campaign to exert pressure on the Royal Dutch/Shell oil company to disinvest from SA. — Sapa.

FSI buys Citizens Holdings in R2,9m deal

B/Day 21/4/89 6 180

CHARLOTTE MATHEWS

KEN Maude's investment company Citizens Holdings has been purchased by the FSI Group in a R2,9m deal announced today.

An FSI spokesman says the group will waste no time in restructuring the DCM-listed company but it has not yet been announced which company within the group will ultimately own Citizens.

FSI Corporate Services on behalf of the FSI Corporation Group paid 45c a share for the 55% shareholding in Citizen which was held by chairman Maude, now living overseas.

A similar cash offer will be made to all shareholders.

Citizen has been turned into a cash shell in the last few months with the sale of its listed share portfolio and its SA Woodbox investment. Its only investment is now a 20% interest in Crest Holdings.

"Citizen is a listed vehicle for FSI's plans. FSI is negotiating acquisitions on behalf of Citizens and shareholders are advised to exercise caution in dealing with their shares," says the FSI spokesman.

FSI started its development programme in 1981. In 1983 turnover was R22m and pre-tax profit R2m. In 1988 group turnover was R1,9bn and pre-tax profit was R178m.

Citizens director Eric Ellerine says: "We are very happy with the deal and believe a fair price is being offered to shareholders. I intend to stay with the company. I think it could be an exciting ride."

Citizens results for the year to February, which were published today, showed attributable profits rose to R493 000 from R488 000 last year. However, earnings fell to 4,2c a share from 4,4c on a higher share issue.

A dividend of 1,5c (1,25c) a share was paid.

Net asset value rose to 40c (27c). The share closed trading yesterday at 56c, up from 55c on Wednesday.

The idea is to create contact

Sowetan 21/4/89 (180)

A JUBILANT Mr Jacob Nhlapho (extreme right) left the Swop-A-Stamp ceremony R20 000 richer, with half the prize a bonus for having an account at Sales House. In the picture Mr Nhlapho is congratulated by a representative of the clothing shop, Mr Bill Bennett (centre), while TV personality Lunga Williams looks on.

SOWETAN Reporter

A MATCHMAKER fair designed to assist black-owned business to establish contacts and develop increased business skills is to be held at the National Exhibition Centre, Crown Mines, from April 26-29.

Matchmaker Services has grown from the annual Matchmaker exhibition, in an attempt to bring black business goods and services to the attention of big business.

Organiser Mr Zuko Tofile said the matchmaker has attracted more than 170 exhibitors, 20 of them buyers exhibiting requirements they suggested could be contracted to black businesses.

Banks, too

Most of the black businesses were service-orientated, such as advertising, marketing and personnel agencies, but they also included printing and packaging services.

Two major commercial banks will have stalls to enable them to finance any deals and offer advice.

Standard Bank executive Mrs M Maepa said the matchmaker concept, which encouraged subcontracting between big and small business was one way of fostering the economic relationships that were needed to accelerate the development of black business.

180 FMAL 21/4/89.

TEXTILES AND CLOTHING

Much ado about nothing?

The Board of Trade & Industries (BTI) says the restructuring of the clothing and textile pipeline has been greeted with relief — if only because it ends three years of uncertainty.

But neither the clothing nor the textile industry is particularly impressed. They see it almost as a non-event.

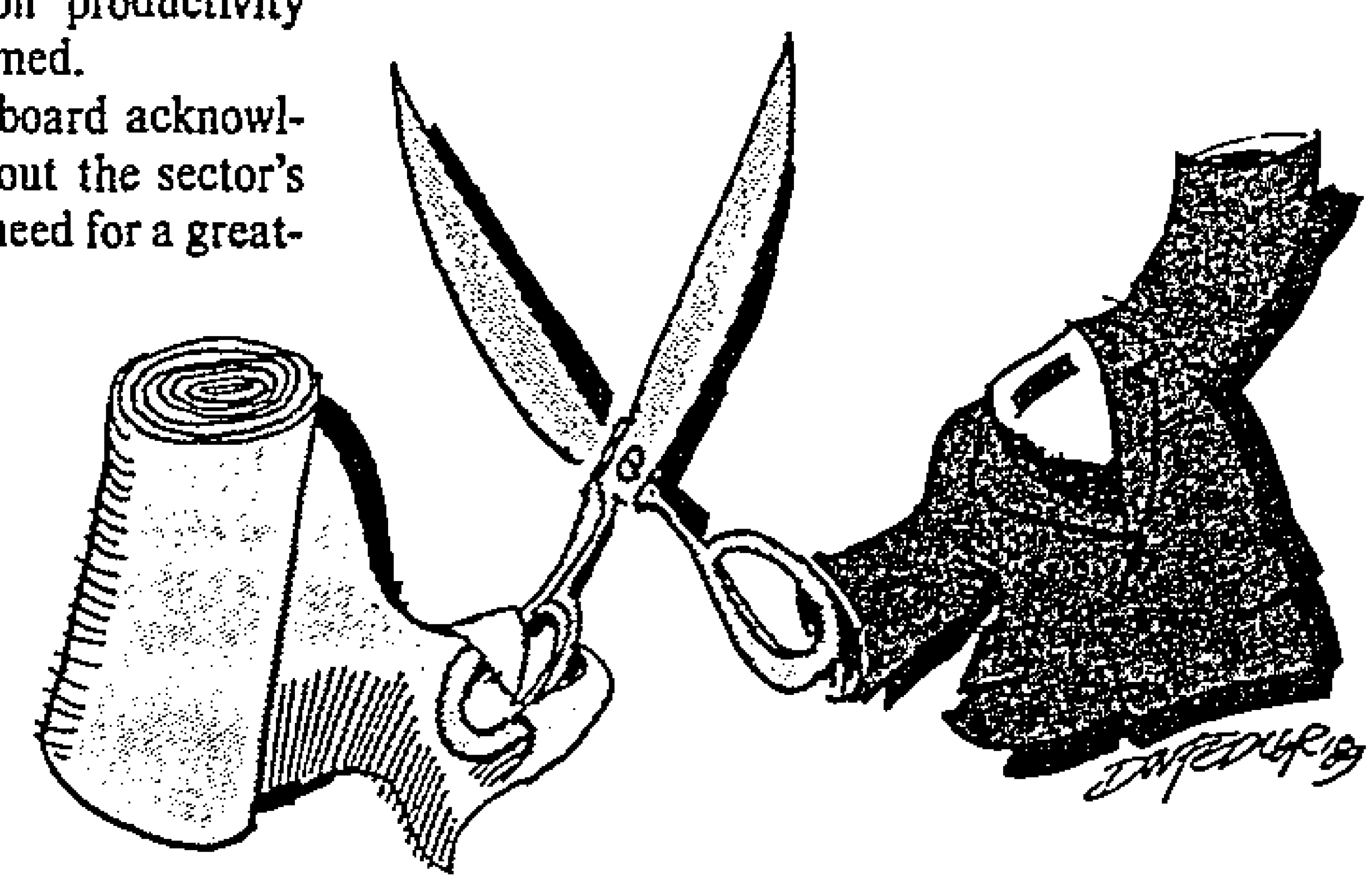
Some officials consider the term "restructuring" to be inappropriate to what they believe to be a minor readjustment.

Some aspects of the report have been welcomed as innovative. They include an interest rate subsidy on working capital, which should turn around the poor investment record in the sector and help the industries' modernisation process.

The BTI's decision to encourage exports, through assistance in trade promotion, and a renewed emphasis on productivity has also been welcomed.

But although the board acknowledges complaints about the sector's inefficiency and the need for a greater degree of foreign competition, it has stuck to well-worn protectionist measures.

There is controversy over the formula duties, ostensibly there to protect the clothing and textile industries from dumping.



The National Clothing Federation (NCF) says, by resorting to formula duties, the BTI hasn't carried out a proper structural adjustment. The capital investment required to create a job in the textile industry is 10 times greater than in the clothing industry. Consequently, it argues, resources should be shifted towards clothing.

Says executive director Hennie van Zyl: "The benefit to be derived for the textile industry through encouragement of the downstream clothing industry, far outweighs the short-term benefits to be gained from formula duties."

For the textile industry, on the other hand, some of the formula duties are too low. In particular, it feels more protection should be granted against Red China which discounts its currency by 40% for exports. A typical polycotton cloth is being sold for US70c/m. With freight costs and duties, this would land here at around R2,00/m. Similar cloth is produced locally for R3,40/m and sold for R3,90/m.

Textile Federation executive director Stanley Shlagman says: "Nobody's being wrapped in cotton wool. We are going to have to learn to become more marketing-orientated in future."

The duty on cotton yarns has been reduced from 20% to 15% or a formula duty of R6,16/kg less 85% of the fob price.

Textile Federation president Ernest Wilson says there is pent-up capital expenditure held back. "Now we have reasonable protection again, we are ready to reinvest."

The retail trade is disappointed that much of the process has been delayed until April 1990. Says Clothing Retailers' Committee chairman Frank Wells: "I've been on committees which resolved to change legislation and duties since 1967 and many of the resolutions haven't been carried out.

"To call this report a 'structural adjustment' is absurdly grandiose. A few duties have been changed but otherwise it's a non-event."

The much-heralded export incentives will also get off to a slow start. Because of lobbying from the TBVC countries and Botswana, Lesotho and Swaziland, clothing and textile manufacturers will be able to import only 5% of domestic requirements duty-free instead of 10% in the original report.

Clothing manufacturers will be able to import 70% of the value of the previous year's exports duty-free. This, though, isn't much of an innovation. Manufacturers are already allowed to import raw materials duty free if they're used for re-export.

The BTI talks about the need to keep price increases below the CPI. Both clothing and textiles have difficulty with this.

Says Van Zyl: "It doesn't take into account union demands. They won't want members' wages to fall behind inflation."

Adds Shlagman: "We can't control a number of input costs. For instance, synthetic raw material prices have increased much faster than the CPI."

Although the report is supposed to be a final one, none of its recommendations is irreversible. Industries can appeal to Deputy Economic Affairs & Technology Minister Theo Alant, who is seen as more sympathetic to the textile industry than the BTI. ■

SASOL FMAL 21/4/89.

Rapid reaction

Sasol expects to cut by more than half its insurance claim arising from last December's Sasol 3 fire in which nine people died.

MD Paul Kruger says three of the four affected reactors were expected to be out of commission until the second half of this year and the fourth until the middle of 1990.

However, three are already in operation and the fourth will come on stream in June. This will not only cut losses, but also slash the original insurance claim estimate from R390m to R180m.

Meanwhile, Kruger denies accusations that corrosion at Sasol 3 has exceeded safety limits.

An engineer at the plant alleges corrosion reduced pipe thicknesses to dangerous levels. Where the explosion took place, he says, pipes were due to be replaced the following week.

Kruger won't comment on the cause of the fire, explaining that the insurance claim is still being adjudicated.

However, he stresses Sasol has never compromised on plant safety, especially as substances handled in chemical or petrochemical facilities are "naturally corrosive and potentially dangerous."

He concedes there must be a trade-off between corrosion resistance and cost. He says plant designers seek a balance between frequency of replacement and the cost of components.

Items are designed and built using materials which will have only a predetermined economic life. For example, pipelines are made of carbon steel with a provision for corrosion, rather than of more exotic materials.

Kruger

Kruger notes that more than 400 contractors from across the world were used in the design and building of Sasol 2 and 3. Fluor, builder of all the Sasol plants, provides constant main-

Anglovaal buys 42% of AA Life

Star 21/4/87

Finance Staff

Anglovaal has acquired a 41,6 percent stake in AA Life Assurance Association in a surpise move announced yesterday.

This makes Anglovaal the largest single shareholder in AA Life; the other shareholders being the consortium which, a year ago, bought out Kirsh Industries' interest in the company. They are Volkskas Merchant Bank, the management of AA Life and the Automobile Association.

The purchase will set Anglovaal back by about R30 million which will be financed by means of a rights issue, of which Anglovaal will take 95 percent.

This is the first time that Anglovaal has invested directly in the South African financial services sector andmeans that within the last 12 months AA life has received capital injections totalling over R50 million — the first R20 million came from a rights issue shortly after the consortium took over the Kirsh interests earlier last year.

Commenting on the deal AA Life managing director, Dr Brian Benfield said: "The challenging new circumstances in which we find ourselves will most certainly lead to exponential growth enhanced by the Anglovaal association."

SAW 22/4/89

180

Inside Out
Ann Crotty

In the cooler

MYLES reckons that Ellis Park may make it into the Guiness Book of Records as the company with the shortest ever listing. He's heard rumours that this week's suspension of the share was to give the directors time to discuss the possibility of the TRFU buying all the shares and then de-listing the Stadium.

If that is the case then EP will have been on the board for all of 10 months.

Myles didn't hear what price the shareholders would be offered but reckoned it would probably be around 100c — the issue price.

Also about to disappear from the JSE is Jazz which was suspended during the week. An announcement is expected from Metro on Monday and Myles reckons it'll give details about the buying out of minorities but again he couldn't provide too much information about the price.

Says it could be a bit more than the 103c at which it was suspended, perhaps about 120c, which would be fairly generous in terms of recent operating and share price performance but won't seem too generous if you happen to have bought it at 200c over a year ago.

Myles mum phoned on Monday night. She wanted to know if everybody in the investment community got R200 000 a year ... she'd read something about it in the newspaper.

Myles thought this was a bit rich 'cos usually the only thing she believes from the papers is the TV guide. But she apparently took to rifling through his pockets at every opportunity in search of some evidence of this sort of immense wealth.

He finally managed to persuade her that his pay is closer to the sort of figure that the NUM is quoting as a "living wage". This proved to be the wrong defence for someone in the investment community. It was all the proof she needed ... she'd reared a moron!

The Punch Line results were a bit sad. Myles says that by the end of the week Punch Line and Fintech shares seemed to be propping each other up - with the one relying on the other for support. But he reckons that at its current levels Punch Line could be one of the most attractive recovery stocks in the market because the new management will be working off a very clean slate and will have a lot to prove.

Noristan moved back this week. Speculation (unsubstantiated) that it was involved in discussions with Bidcorp had helped to lift the price a few weeks ago.

Talking about the pharmaceutical sector, FSI now has a 20 percent stake in Crest through its acquisition of Citizen Holdings. Myles says that there's talk that Crest is FSI's first move in establishing a footing in the health care industry.

Assuming the usual sort of FSI strategy, it's likely that they will be bringing together a number of the smaller players in the industry (listed and unlisted) to form a reasonably significant power block.

There was also some mention of FSI being involved with Spectrum which is involved in hardware distribution and has made a number of cautionary announcements recently. But Myles points out there's a tendency among dealers to state "FSI" when "unknown" might be more accurate.

Look out for an announcement from FS-Team next week.

Gentyre and BTR Dunlop reported good gains on Thursday. Myles' Mum thought it was probably a delayed response to Monday's report that imported tyres are suspected of spreading yellow fever.

So the Mighty Meat saga is finally over with Ho, the present controlling shareholder agreeing to sell 10 million shares in the company to John Limberopoulos at 3 cents a share for a total consideration of R300 000. Limberopoulos will extend a similar offer to Mighty Meat minorities.

In terms of the proposed restructure, Mighty Meat will dispose of all its subsidiary comapnies to Ho for a consideration of R150 000. In turn Mighty Meat is to reacquire certain assets desired by Limberopoulos for subsequent integration into his Choice Meats operation.

The big action at the end of the week was in textiles. A lot of trading in Da Gama on Thursday and then Frame and Conframe stole the limelight on Friday as, what Myles' terms "smart money", began to move in.

Easy money the 'Insider' way

Star 22/4/87

180

TOM HOOD

"INSIDER trading is probably the easiest and most profitable way to make money on the stock exchange, with the returns often outperforming the market".

This is claimed by writers in a new book edited by a leading analyst, Robin McGregor, The Mechanics of the Johannesburg Stock Exchange, which heavily criticises insider trading.

The writers say this form of trading usually involves the buying of shares by someone who possesses information that has been concealed from the investing public.

They claim that hundreds of listed companies lay themselves open to insider trading by delaying the publication of vital news about dividends, profits (or losses) takeover deals and mergers.

The JSE rules say directors of companies must make the information available to the investing public immediately after the board has made a decision.

However, companies and their publicity agents sometimes view these vital figures as a marketing tool, to be published — sometimes days after — for maximum propaganda advantage, the authors claim.

Insider trading is illegal, widespread and unfair profiteering. But detection and prosecution of offenders is difficult, writes Ciaran Ryan, director of the Stock Market Investors' College.

"Elimination of insider trading altogether has been dismissed as a futile pursuit and impossible to enforce," he writes.

The JSE has sought to eradicate the crime at source and tried to promote the "fairness" of the market by a more aggressive move towards fuller disclosure by listed companies.

Opened the door

"Quarterly reports are required for mining companies but not for industrial companies, which are expected to observe the principle of continuous reporting so that any development which could materially affect the share price should be reported immediately to shareholders."

"If negotiations or developments are unresolved, a cautionary announcement should be issued.

"A large number of companies do not apply this principle which has opened the door for insider trading in the past.

"In view of this, the JSE advocates the formation of a special agency to investigate cases of insider trading."

The JSE, he says, has also called for more adequate, but especially better quality disclosure.

"Factors of major importance to the financial status of the company are frequently buried away in the notes to the accounts in a language so recondite that it renders them meaningless to the average shareholder."

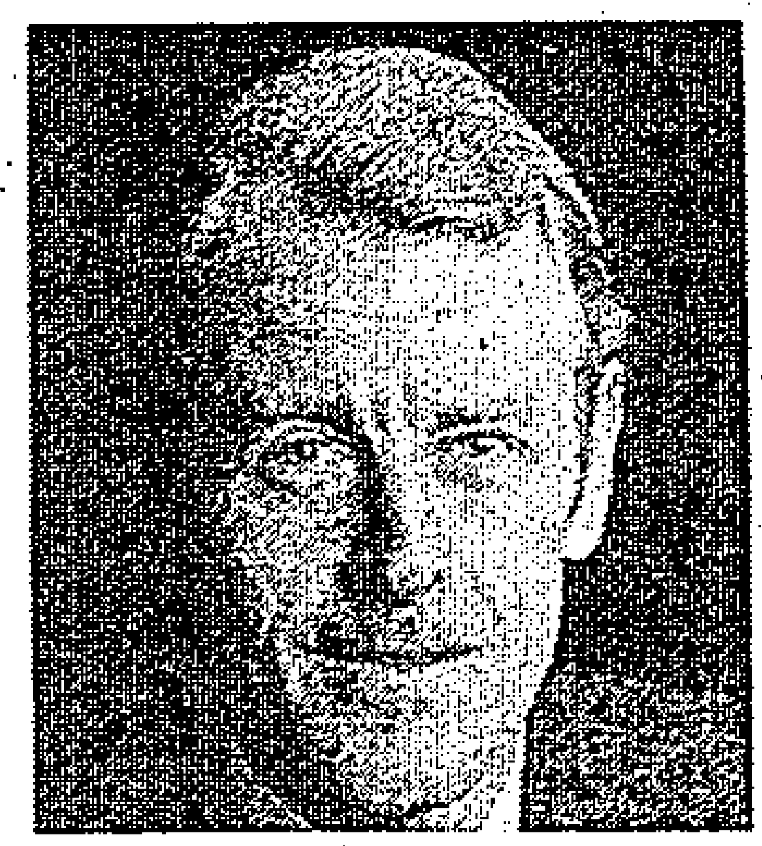
Professor Narendadra Bhana of the Graduate School of Business at the University of Durban-Westville, reports a study of 45 companies in which three or more insiders bought shares in one month and no insiders sold shares.

The study found the returns to the insiders of these companies in the following six months were on average 9,5 percent higher than the return for the stock market as a whole.

Leakage of inside information occurs at "a significant level" in the 15 trading days before a public announcement of a takeover, he found. Substantial insider trading is carried out by third parties to escape detection.

However, abnormal sales volumes can often give the ordinary investor a clue that something important is about to happen.

● **The Mechanics of the Johannesburg Stock Exchange, over 400 pages, is published by Juta at R39,50 plus GST.**



Mr Pat Retief . . . potential for prosperity in SA.

Integration of business in SA

The Matchmaker Fair has been described both as a forum for interchange and as a means of integrating all South Africans as trading partners in business and industry.

The managing director of the Johannesburg Consolidated Investment Company, Mr Pat Retief, said in the current business and economic scenario it was essential that all South Africans develop and foster goodwill and understanding between the different race groups.

"Free enterprise, as exhibited at Matchmaker 89, has the potential to become the non-racial engine for growth and prosperity in this country," he said.

JCI had, in the past two years, been supportive of the ideals and objectives of Matchmaker Fairs because the fairs provided a forum for interchange of business opportunities.

April 24 1989

Big business helps its 'little brother'

Star 24/4/89 180

Matchmaker 89, the business-to-business fair to be held at the National Exhibition Centre in Crown Mines, Johannesburg, from April 26 to 29, is set to open new doors for both big business and emergent entrepreneurs.

This is the one opportunity small businesses have each year of showing the sort of goods and services they offer.

It is also the one time major corporations can display the kind of goods and services they are looking to buy.

Both groups will be there with a common purpose: to sell or buy goods and services and to make new business contacts. Though both seek to benefit financially from the fair, the businessmen (probably unwittingly) are also building inter-racial bridges destined to have far-reaching effects in South Africa.

Spirit of partnership

This year there will be more than 100 stands at the Matchmaker Fair. Some small businesses are veteran exhibitors, others are newcomers. Many who showed their wares at the three previous exhibitions have become established and no longer need exposure. A few have faded away.

Many of the stands are being sponsored by big companies who, in keeping with the spirit of the fair, are "partnering" small entrepreneurs and providing merchandising expertise and support to make the exhibits more effective.

As in the past, the event is expected to draw a steady stream of buyers and visitors.

The first Matchmaker Fair came about almost

Reports by Winnie Graham

spontaneously. Mr Benjamin Brown, senior commercial officer for the US Foreign Commercial Service, had taken a visiting American VIP on a courtesy call to Soweto in 1985, when he was questioned about the US involvement in helping black business in South Africa.

"I was asked if our calls were purely social or if I thought there was some way in which we could get involved to help emergent entrepreneurs," he recalled.

It was a good question. The response was a simple: "Let's do something together."

On April 23 and 24 1986, the Soweto Chamber of Commerce and Industries and the American Chamber of Commerce held South Africa's first major business-to-business show at Nasrec. Its main objective was to assist small, black-owned firms establish contacts and develop business with US subsidiaries and other large companies.

About 50 exhibition stands presented a range of products and services related to the daily needs of the corporations.

The Matchmaker Fair has grown over the years, expanding to include South African and foreign companies.

Last year a number of major corporations decided to mount their own exhibits to invite black vendors to negotiate contracts for supply. The same will happen again this year.

Big Business has finally realised that its "little brother" has a lot to offer and is keen to develop his potential.

Special Report on ...

B/Day 24/4/89 180

BA FUTURES CAN PROTECT YOUR ASSETS

BA FUTURES provide a good opportunity for companies, financial institutions, parastatals and individual investors to protect assets in an increasingly volatile interest rate environment.

Yet while the market has seen slight growth in interest, volumes are still not large enough to ensure its success.

The BA future, based largely on the successful three-month sterling contracts offered on the London International Financial Futures Exchange, is a contract with a set expiry date during which a R1m position is taken in a notional Bankers' Acceptance.

The contract is ideal for people wanting to hedge against or speculate movements in the 90-day liquid BA rate, although reasonable correlation with other money market rates such as non-liquid BA's or prime is also achievable.

Aimed largely at financial institutions like banks for more efficient management of asset-liability mismatches on their balance sheets, the contract is also invaluable for corporate treasurers. By using BA futures, they can lock in the cost of anticipated money market borrowings or protect their money market assets against a fall in yields for periods of up to 9 months.

Similarly, portfolio managers can use the contracts to increase or decrease the level of risk on their exposure.

To trade the contract, investors can approach any market making member of Safex for a price, which is quoted as 100 less the futures discount rate. For example, a quotation of 86 implies a futures discount rate of 14%. Prices are quoted on the Reuters Screen on pages SAFY and SAFZ.

At R1 a contract and R4 a transaction, the cost of trading, excluding the upfront margin payment, is relatively low.

In addition to the trading fees, market makers will also request an upfront margin of at least R3 000. The margin is small in relation to the value of the contract, providing good leverage and efficient financing for hedging and speculative purposes.

If rates move against the buyer, additional margin will be called for. However, if they move in his favour, the margin account will be credited with the profit. At the expiry date when the contract is "closed out", the balance on the margin account is paid to the buyer.

In a paper on the use of BA futures as hedging instruments, Rand Merchant Bank researchers Lindsay-Pierre Collet and Peter Jaeger provide an example to illustrate how BA Futures work.

Suppose that on February 22 1989, a corporate treasurer foresees a rise in the BA rate and wishes to capitalise on this view to hedge against higher interest payments on existing floating rate liabilities. The treasurer acts by selling an appropriate number of BA Future contracts.

A choice could be made between the near contract (May), the following one (August) or a proportion of each depending on the anticipated incidence of the rise. Sale of the May contract would lock in the current futures discount rate for 90 day BA borrowings, starting on the third Thursday of May. An August contract sale would similarly lock in the current futures discount rate for BA's startig on the third Thursday of August.

Assume that the May contract was selected to protect R10m of BA linked borrowings.

EXAMPLE:

90 day liquid BA discount rate	16% pa
Futures dealing date	22/2/89
Futures expiry date	18/5/89
May BA futures bid price	83.25
May BA futures offer price	83,35
Contract size	R1m
Number of contracts sold	10
Change in value per point change in price (tick)	R25

Date	BA Spot discount rate	May BA Futures price		May BA Futures discount rate		Accumulated profit/loss
		Bid	Offer	Bid	Offer	
22/2/89	16	83.25	83,35	16,75	16,65	—
30/3/89	16,08	83,05	83,15	16,95	16,85	2 500
30/4/89	16,05	83,10	83,20	16,90	16,80	1 250
18/5/89	17,30	82,70	82,70	17,30	17,30	13 750

On February 22 with the current BA rate at 16%, the futures market anticipated a rate of 16,75% for borrowings starting on May 18 1989, the latter rate being the one which could be locked in. The futures rate may have been higher, lower or similar to the current spot rate depending on market expectations.

The corporate treasurer sold 10 contracts at a price of 83,25 equating to a May futures discount of (100 - 83,25) or 16,75%. If, on March 30, the May future offer contract price has dropped to 83,15, thereby anticipating a yield of 16,85%, a profit of (83,25 - 83,15) x R25 x 10 contracts x 100 — R2 500 has been made.

At this stage or at any stage prior to expiry, the treasurer may close the contract and take the profit or loss. If instead, he decides to hold the position until expiry, then the profit would be R13 750. To determine the profit for this hypothetical scenario and establish the success of the hedge, the following calculations are necessary:

Profit on futures contract:
(83,25 - 82,70) x R25 x 10 contracts x 100 = R13 750

If it had been possible to issue R10m of BAs starting in May at the May futures rate of 16,75% ruling on February 22, the issuer would receive:
R10m - R10m x 16,75 x 91 over 365 x 100 = R9 582 397

As this would not have been possible, one would have had to issue R10 of BAs on May 18 at the rate of 17,3% then ruling, thereby receiving only:
R10 - R10m x 17,30 x 91 over 365 x 100 = R9 568 685

These figures exclude issue expenses.

The additional cost of R13 719 (R9 582 397 - R9 568 685) is almost exactly offset by the futures profit of R13 750.

What would the treasurer's position have been if rates had not risen as anticipated and the BA spot discount was 16% of May 18 and not 17,3% as suggested above? The position on expiry date would be as follows:
Loss on futures contract:
(84,00 - 83,25) x R25 x 10 contracts x 100 = R18 750

The hedge was taken against an increase in rates above 16,75%, being the rate at which the futures contract was written. BAs can now be issued on May 18 at 16% resulting in a cash flow of:
R10m - R10 x 16,00 x 91, over 365 x 100 = R9 601 096

Effective proceeds would however be R9 582 346, the proceeds of the issue of R9 601 096 less the loss on the futures contract of R18 750. An opportunity loss of R18 750 is therefore incurred, resulting in a cost of borrowing for the period being 16,75%. However, the company succeeded in its original goal which was to ensure that the cost of borrowing for the period starting May 18, would not exceed 16,75%.

The treasurer has thus eliminated the possible loss which would have been incurred if rates had risen as expected in the example. The opposite procedure would be adopted to protect the level of income from an invement linked to a floating rate when it is believed that rates are going to drop.

Hot competition to be top predator

BDay 24/4/89 (180)

MERVYN HARRIS

COMPETITION between Anglovaal and FSI for top spot as the most predatory company on the JSE escalated on Friday on market talk that Anglovaal was mopping up shares in textile group Frame.

Frame attracted most attention on the market in value terms and the shares surged to a new peak of R13 while subsidiary Confram topped the list of largest price gainers, leaping 25% to 875c.

The last big textile group without a controlling shareholder, Frame has been the subject of takeover talk after SA Brews acquired Da Gama and Anglovaal gained control of Mooi River Textiles earlier this year in disinvestment moves by their overseas parents.

Sanlam has a big stake in Frame but speculation was that it was getting out of the shares with Anglovaal the buyer. Frame shares are trading at a discount to its net asset value of R24,75.

Analysts expect good earnings for Frame which puts the shares on an attractive forward p:e of seven to eight. Frame shares should be 1,67 times Confram which means Frame should now be at R14,30.

Speculation swirling around Frame came hot on the heels of Anglovaal and FSI announcing new acquisitions.

The purchase of Citizen Holdings by FSI in a R2,9m deal and Anglovaal's acquisition of a 41,6% stake in AA Life for R30m comes after a string of takeovers. Analysts said more could be in the offing.

Anglovaal plunged into international waters at the start of the year when it bought 29,9% of North Sea and General for R39m. It also bought the Lavino chrome mine in the eastern Transvaal from disinvesting US conglomerate Aimcor.

As part of a major rationalisation, Anglovaal Industries announced plans to delist subsidiaries T W Beckett, Globe Engineering, South Atlantic, Steel Metals and Avbak Foods.

After gaining control of Mooi River Textiles, the acquisition of Frame would make Anglovaal a dominant player in the fast-growing textile industry.

On the FSI front, the purchase of cash shell Citizen will be used as a vehicle for further acquisitions and shareholders have been advised to exercise caution in dealing in their shares.

Since its acquisition of the W & A group in September 1987, FSI has reorganised its furniture interests under the banner of newly acquired Joshua Doore (JD Group).

Vanadium, steel cause surge in industrials

B/Day 2/11/87

(180)

MERVYN HARRIS

STRONG world demand for vanadium, steel and allied products was the driving force behind the surge of the JSE industrial index to record highs last week.

The industrial index jumped nearly 4% to an all-time high of 2 532 to help sweep the overall index 1,6% up to a new post-crash peak of 2 563 points. The rises came on the back of buoyant prices for export products of companies which constitute a major part of the indices.

Heavily-weighted Amic climbed more than 7% to R96 in the wake of recent increases in the price of vanadium announced by its subsidiary Hiveld Steel and Vanadium.

Hiveld has been the star performer on the JSE over the past year with the shares soaring 300% to a recent peak of R20,40.

After backtracking on profit-taking, renewed demand for the shares last week pushed the price up almost 13% to R20,15.

Fuelled by expectations of another set of excellent results from unlisted Middelburg Steel & Alloys, Barlows surpassed its previous high of R37,60 and closed at a record R38,45.

The shares were given a further boost by news that Middelburg was negotiating with Samancor on a joint venture for large-scale production of stainless steel for export.

This development helped explain the strong demand for Samancor shares and the 14% jump in the share price to close at a record R24,50.

The rise of Samancor's parent, Gencor, to a fresh peak of R90,50 was helped by the fine perfomrance of its industrial interests. Its paper and pulp producer, Sappi, which is also a major constituent of the industrial index, gained nearly 3% on the week to R42,50 on buoyant world demand for its products.

The rise of world prices of vanadium, steel and allied products over the past year has been well beyond most expectations and analysts predict they should hold to current levels for at least another year.

BDay 24/4/89

Institutions can hedge exposure

(180)

THE opening of a formal futures exchange should boost volumes and liquidity, giving major institutions a better chance to effectively hedge their larger exposures. But, the growth will not necessarily happen overnight and the entry of new players into the market is expected to be gradual.

Scheduled to open no later than August, the SA Futures Exchange (Safex) will be based on a traditional open-outcry trading floor in the new JSE annexe and will accommodate telephone and, eventually, fully automated trade from offices outside the floor.

By providing a formal trading structure and the security of a self-regulatory framework envisaged in the recently tabled Financial Markets Control Bill, Safex hopes to draw more users into the market.

The early development in SA of derivative products to protect institutional, corporate and private investments against future price fluctuations and to enable the investors to exercise their views on future movements, has been rapid.

To its credit, the informal market has managed to facilitate not only the ongoing growth and occasional dramatic bursts of activity but also to maintain control in the absence of a formal self-regulatory framework.

In 1987, Rand Merchant Bank (RMB), the initiator of futures in SA, established in-house trade in futures contracts based on the JSE Actuaries all-share, industrial and gold indices. A year later, RMB and Cape Investment Bank introduced a future on Eskom's largest and most liquid long-dated bond, E168, which, after a slow initial response now claims about 70% of all futures trade.

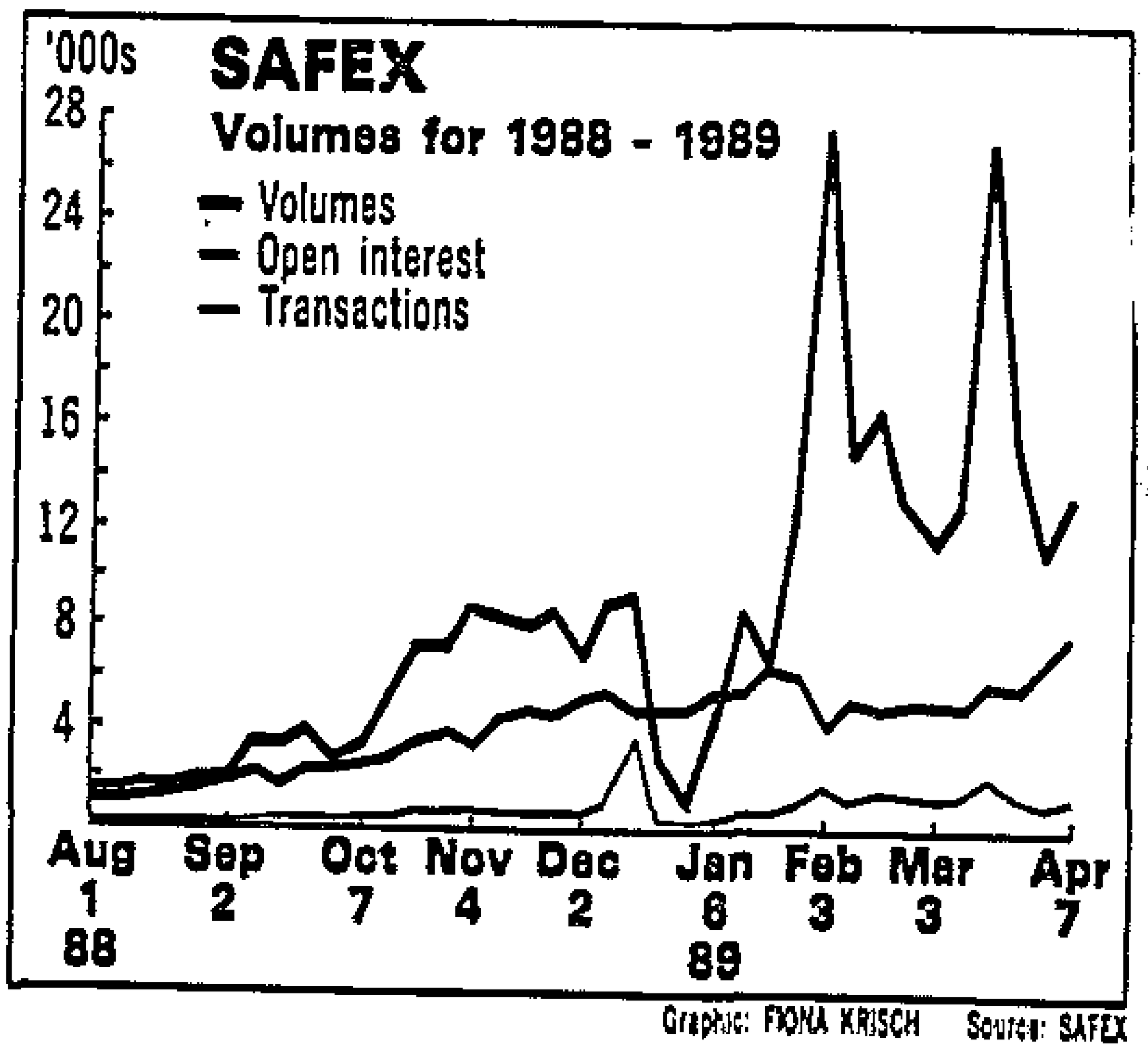
The market is currently considering proposals for a new five-year notional bond future to bridge the gap between the E168 future and the relatively new contract based on the three-month BA interest rate. It is also considering a notional long-dated bond contract, given that the E168 is regarded as a wasting asset with a constantly reducing lifespan.

Over the past year, the market has gained 23 members, including major banks and institutions. Between them, they have bought 80 seats on the exchange which was initially scheduled to open last year. But, an unexpected surge in volumes convinced members of Safcom — the company set up to clear Safex's business — to cancel its first phase of development and commission a system able to cope with far heavier loads. The next few months proved it right.

In February, volumes which normally average about 12 000 contracts a week doubled to a weekly record of almost 28 000 as a bull run on the JSE boosted trade in the exchange's stock index futures and the February close-out of the E168 future pushed volumes in all series of the contract to a record 12 160.

Volumes soared again in March to 27 000 in response to activity in the underlying equity and gilts markets after the Budget announcement. They were buoyed by bullish post-Budget sentiment on the JSE and a bearish gilts market.

The launch of Eskom's new short-term equity linked cash investment (Elci) stock, which was issued in equal bull and bear tranches, also played a part in boosting share index futures contracts. With issue and maturity dates coinciding with the stock index futures, participants, particularly market makers, can use it for hedging and arbitrage activities as well as investment. By providing a hedging mechanism, the new instrument allows them to quote prices and trade more aggressively in the stock index futures. It has also helped to nudge the price of futures nearer to their "fair value."



Graphic: FIONA KRISCH Source: SAFEX

As the market has grown, the RMB system has strained under the weight of increasing volumes and claims by other users that its direct link with RMB's futures trading division has given the bank an unfair advantage by enabling it to determine other players' positions and to trade on that knowledge.

To cope with volumes and dispel dissatisfaction about the fine line between its clearing and trading operations, RMB has implemented a new clearing system.

As a clearing member of the exchange, the merchant bank will continue to use its system to clear its members' trade after the Safex system takes over as the official clearing house.

Initially the Safex system will offer members two trading mechanisms — open outcry on a floor in the JSE annexe and telephonic trade, with off-exchange traders accessing prices on Reuters screens in their offices, by phoning the price-maker directly.

In time, it will offer a fully automated service with off-exchange members keying matched deals directly into the system.

"Safex's philosophy is to develop with the market," says Safcom MD Stuart Rees. "Our first step will be to take it from where it is now and then upgrade and develop that according to members' requirements. Automated trading surely cannot be too far down this line."

Participants welcome the security of formal clearing and regulatory structures and many have held back in anticipation of the formation of these structures. While volumes have increased steadily, the number of transactions (including any number of contracts, but averaging about 10 in normal trading conditions) have remained relatively low, suggesting a slow entry of new players. Modest but consistent growth in open interest — the number of positions which remain uncovered — implies a longer-term commitment to the market and is generally a good indicator of a market's real growth and depth.

However, many participants are critical of the decision to have a dual trading system. With an effective off-exchange network already in operation, and growing emphasis in international markets on the advantages of off-exchange trade, they object to the additional cost — estimated at R250 000 — of setting up a floor trader.

With a dual system, screen traders would need a dealer and supporting infrastructure on the floor to keep up with arbitrage opportunities pit traders would have. They feel that with with volumes at levels they are now, the cost could be prohibitive for smaller users.

Up to now, problems inherent to the SA market have hindered institutions' use of the futures market as an effective hedging medium. Local underlying markets are thin with relatively few participants. This tends to exacerbate price movements. Liquidity is confined to a handful of contracts and, with the high concentration of wealth in five major financial institutions, the opposing market views which encourage more activity are relatively scarce.

On the other hand, a shortage of skills has forced many young or inexperienced portfolio managers to perform functions and take on responsibilities that they should only be confronted by later in their careers.

However, users believe that the introduction of a formal market should boost volumes and liquidity to a large extent, and, provided the system copes with the expected increase in volumes, the market should provide institutional users with better opportunities to hedge their positions in the cash markets.

A slice of the Anglo pie for entrepreneurs

Star 24/5/89

By Winnie Graham

Anglo American Corporation awarded contracts and requisitions worth more than R1,1 million to emergent entrepreneurs in the first three months of the year, said Mr Gareth Penny, co-ordinator of corporation's small-business unit.

180

The company, which had made a conscious decision to buy a percentage of its requirements from small businesses, estimated it had saved "between five and 10 percent" on the contracts.

Mr Penny said the exercise to give small business a share in the corporation's big buying had yet to gather momentum.

SOUND BUSINESS

However, he predicted contracts worth many millions could eventually be shared among small, mainly black businesses.

Entrepreneurs had to "deliver the goods" to succeed, he said.

"Although we are taking every opportunity to interface with emergent entrepreneurs and to give them a chance of tendering, we do so on sound business principles."

Anglo American is exhibiting at Matchmaker 89 and will ask visitors: "Can you make this?"

Its stand will display a range of products it buys regularly, including such items as seat protectors, wire hose clips and pipe connectors.

SA's export earnings were R27,1bn in 1988

Mineral sales up 16%

B/Day 25/4/89

CHRIS CAIRNCROSS

CAPE TOWN — SA's mineral sales totalled R33,4bn in 1988, 16% more than in 1987.

According to the Mineral and Energy Affairs Department, this improvement is mainly attributable to a worldwide hardening of mineral prices and further weakening of the rand against the dollar.

Export earnings of R27,1bn accounted for 81% of total mineral sales, according to the department's annual report tabled in Parliament. Revenue from mineral sales to the domestic market totalled R6,3bn, reflecting an improvement of 32,6% on 1987's earnings, and was due to stronger rand prices for copper, zinc, nickel, coal, titanium, chrome ore and granite.

Gold was the main contributor to total mineral earnings, with total revenue amounting to R19,7bn, compared with R17,5bn in 1987. The 112,7-million tons milled was 4,7% higher than in 1987, while total gold output amounted to 618t, against 602t the previous year.

Coal was the largest foreign exchange earner after gold. Despite highly competitive markets and an oversupply situation, SA coal exports reached 42,6m tons, with export revenues totalling R2,7bn. Domestic sales pushed total earnings to R5,7bn.

Owing to greater international steel demand, iron ore exports climbed 26,5% to 11,1-million tons, earning R318,4m. Domestic sales rose 11% to R226,7m, pushing total revenue to R545,1m.

Local sales of chrome ore decreased 6,4% to 2-million tons. With a price rise of 14,1%, revenue climbed 6,8% to R137,9m. Export volumes rose to 1,3-million tons, with revenue soaring 53,8% to R174,3m. Ferro-chrome production continued at full capacity, increasing to 920 000t. Exports last year were valued at R1,2bn.

The slight revival in world steel consumption was reflected in manganese ore exports which increased 71% to 2,7-million tons. Sales brought in R278,4m.

Demand for high-carbon ferromanganese, ferro-silicomanganese and manganese metal remained firm, with export revenue drawing in R671,9m. SA held its lead in world vanadium markets, with export revenue amounting to R330m.

Total rand returns for nickel jumped 189% to total R305m, with export earnings climbing 211% to R161,1m. Copper exports improved 32,6% to R494m; lead production yielded R87,4m; zinc R35,2m; fluorspar R86,5m; and salt R59,1m.

Limestone and dolomite were the largest bulk commodity sold on the SA market after coal, aggregate and sand. Sales volumes increased 12%, and with a 6,2% price rise brought in R315,6m.

Business sector urged to help shape SA's future

B/Day 25/4/89 (180)

SA'S businessmen have good reason to be concerned with the future, as not all SA's possible scenarios are conducive to the survival of business, says Barlow Rand CE Warren Clewlow.

Clewlow spoke at the AGM of the Witwatersrand Chamber of Commerce and Industry (WCCI) yesterday.

A centrally-planned economy with little or no private property was not an environment in which the majority of business could operate successfully.

"Since the first duty of business is survival, it is therefore in our interest to take part in the process of shaping the future so that there is at least a chance that a congenial business climate can be created," Clewlow said.

Commenting on the current inflation rate, he said that when the EC was created, the elimination of internal trade barriers and creation of the biggest single market ever would give the EC the advantage of reducing inflation.

"This will mean that European prices will reduce in relative terms, and countries and companies wishing to export to the EC would have this additional presssure on their prices."

Clewlow warned that inflation had to be tamed. At its present rate it represented a continuing and increasing disadvantage in SA's efforts to remain internationally competitive.

He said South Africans would be judged on how they used the considerable resources at their disposal to the satisfaction of all. — Sapa.

Business should have hand in shaping future

South African businessmen have good reason to be concerned with the future, as not all of the possible scenarios for South Africa are conducive to the survival of business in its present form, says Barlow Rand chief executive Warren Clewlow.

Mr Clewlow, who was speaking at the annual meeting of the Witwatersrand Chamber of Commerce and Industry yesterday, said that a centrally planned economy with little or no private property was not an environment in which the majority of business could operate successfully.

"Since the first duty of business is survival, it is therefore in our interest to take part in the process of shaping the future so that there is at least a chance that a congenial business climate can be created."

Commenting on the current inflation rate, Mr Clewlow said that when the European Community is created within a few years, the elimination of internal trade barriers and the creation of the biggest single market ever, will give the Commmunity the advantage of reducing inflation.

"This will mean that European prices will reduce in relative terms, and countries and companies wishing to export to the Community will have this additional presssure on their prices."

Mr Clewlow warned that inflation had to be tamed. At its present rate it represented a continuing and increasing disadvantage in South Africa's efforts to remain interntionally competitive.

How big business can lift the little man up the ladder


Mr Ian Hotherington gives pointers as to how big business can contribute to growth of the economy.

Mr Ian Hotherington, managing director of Job Creation South Africa, believes purchasing agents can play a valuable role in the establishment of small business — and the creation of more jobs — by restructuring the buying patterns of their corporations. This extract is reproduced from his book, "The Development of Small Business in South Africa".

It is not easy for a big business to purchase any significant percentage of its total requirements from small suppliers. To do so will, of course, increase the number of accounts on creditors' ledgers and the number of cheques which must be made out each month.

More than that, it will require a complete restructuring of the company's purchasing department, the procedures and the job descriptions of your purchasing agents. It will require changes to the whole culture and philosophy of the company. In the short term the costs will almost certainly exceed the benefits.

No one knows the exact number of small businesses in South Africa because so many, particularly in the black business community, are unrecorded and in terms of our laws are illegal.

Mostly these businesses are built around the trade or technical skills of the proprietors. They are not skilled at keeping records or at costing. Their marketing efforts are rudimentary. They cannot afford advertising or even a salesman.

They frequently suffer from liquidity problems since their suppliers demand cash and their customers require terms. Their strength lies in their ability to make the novel, the special, the short-run, the urgent small quantity.

Those big businesses which are serious about purchasing from small businesses will need to take the following steps:

- Set annual objectives for the amounts (expressed either in rands or as a percentage of total purchases) which will be bought from small suppliers.
- Make some of the merit increases of the purchasing manager and his staff dependent on attaining these objectives.
- Set aside one or more purchasing agents as specialists in small supplier development.
- Identify reqirements that could be purchased from small manufacturers. These are unlikely to be the company's bulk requirements. And at the beginning at least they will probably not be items where tight delivery dates or rigid quality standards are required.
- Do not limit your imagination to what the small manufacturers are presently making but consider what they could make.
- Do not wait for small manufacturers to come to you. Even if they had the courage to try, they would probably not get past your receptionist.
- Go into your immediate neighbourhood, including the black areas, and find them yourself. Do not look only into factories and workshops. Look into backyards, garages and homes as well.
- If the small supplier quotes a price half that of your present supplier, do not give him an order. He has almost certainly got his costing wrong. Sit down with him and help him work it out.
- Do not give him so much business that he will be in jeopardy if he loses your business at some time in the future.
- Do not give him a big order and then reject the whole lot on quality grounds. Rather let him submit a sample and if there are problems, help him get it right.
- See if you can help him with your contacts to get his raw materials at more favourable prices.
- Once he has delivered, pay him promptly — COD if possible.
- Do not bounce him around a multitude of people in your organisation, nor force him to comply with your bureaucratic procedures and forms.
- Take the initiative in organising forums where large company buyers display and discuss the items for which they are looking for small suppliers.
- As you begin over time to gain confidence in small suppliers, and as they begin to grow in numbers and sophistication, actively pursue the sub-contracting out of work presently done in-house.
- Identify, encourage and assist any of your own present employees who have entrepreneurial talent and desire to start their own small businesses.

Lenco sees 74% leap in income

ZILLA EFRAT

INVESTMENT holding group Lenco Holdings has achieved a 74% jump in attributable profits in the year to February, in spite of an increase in its tax rate, with all divisions achieving healthy growth and improved market share.

Earnings rose 68% to 35,6c a share (21,2c) on an increased number of shares in issue. A dividend of 7c (5c) a share was declared, up 40%.

CE Doug De Jager says cover has been deliberately set at a conservative five times in line with the group's policy of retaining funds to finance continued growth through strategic acquisitions.

Turnover jumped 73% to R207,5m (R120m), mainly due to the consolidation of Amshoe's results.

Operating margins improved to 14% (10%), resulting in a 157% rise in operating profits to R29,9m (R11,6m). The tax rate rose to 20% (3%) following the utilisation of previous years' tax losses.

Attributable profits leapt to R14,2m (R8,2m) after some highly profitable acquisitions which included Rich Rags and House of Monatic.

Interest bearing debt to total shareholders' interest rose to 67% (51%). Interest-free liabilites doubled to R32,8m (R15,7m), while the interest bill dropped marginally to R3m (R3,4m).

Directors say an acquisition will be announced shortly that has significant growth potential.

De Jager says prospects are excellent. He is confident the group will be able to achieve a further substantial increase in earnings in the current year.

RIGHTS OFFER IN SPECIALTY ON THE CARDS

SHAREHOLDERS in Storeco are being offered an opportunity to invest in a newly listed company which houses the specialty retail operations of the Storeco group.

It was announced yesterday that to facilitate the expansion of the Storeco group, which consisted of Milady's, The Hub, Mr Price and Footgear, all Storeco operations would be listed in a renamed subsidiary Specialty Stores and a rights offer in Specialty would be undertaken to raise about R17m.

Storeco will become the pyramid company of the group with its sole investment being its holding in Specialty.

The newly announced rights offer terms involve one new Specialty share for one Storeco at a price of 325c a share with 5,217m Specialty shares being issued.

The relationship between the two companies will be that two Specialty shares will equal one Storeco share. — Sapa.

Exports will determine SA's economic future — FCI chief

Star 26/10/89

180

TANIA LEVY

SA will ultimately sink or swim by its export achievements, says Federated Chamber of Industries (FCI) executive director Ron Haywood.

Addressing the Europe 1992 conference in Johannesburg yesterday, Haywood said the Trade and Industry Department is to hold a meeting in Brussels next month to discuss all aspects of EC 1992 and its implications for SA businessmen.

Haywood said it is imperative SA companies become involved with the new European common market.

However, he warned SA industrialists to be careful not to tackle the new common market without sufficient preparation. He suggested a firm's major strategy should be to establish a base within Europe, through joint ventures, mergers, takeovers, agents or own offices.

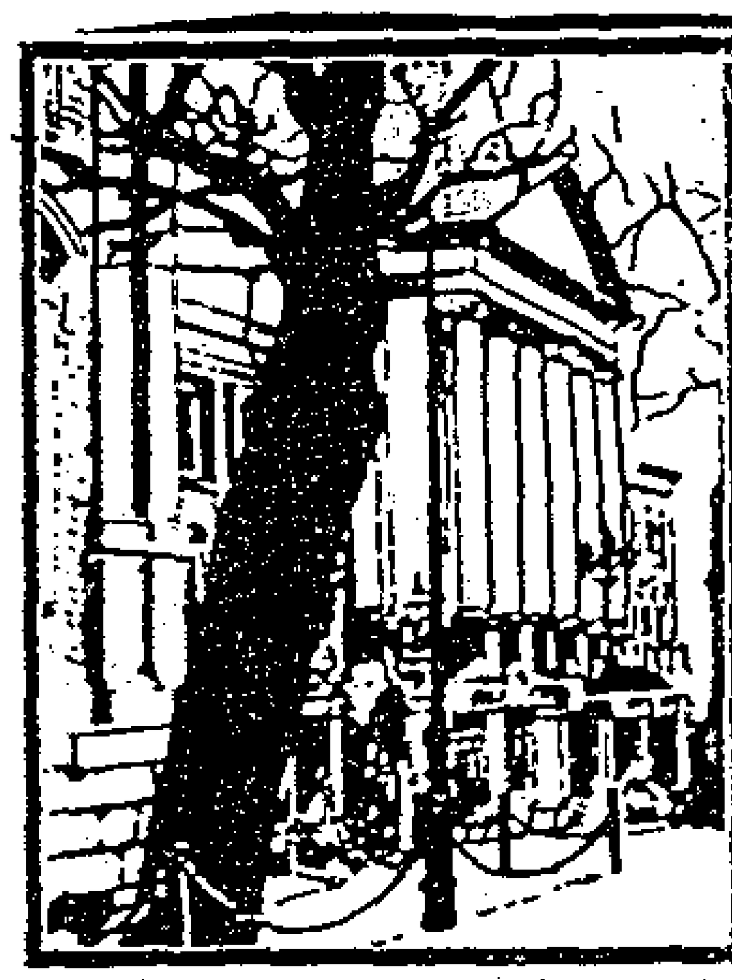
SA exporters should identify a particular niche for a product, like mining equipment, and concentrate on trade with selected countries rather than the total market, he said.

Haywood said serious commitment needs to be made to exports, although import replacement is an important area for local manufacturers to start expanding.

SA companies should commit a certain percentage of production to exports or produce to full capacity and export any shortfall between full production and the local market, he said.

Haywood said he sees 1992 as the catalyst for SA to start planning expansion of its markets into, not only Europe, but also into what, he termed, the Sub-Saharan Economic Community (SSEC).

With a size of about 250m people, the SSEC should be brought about and its labour, mineral and production potential tapped, he said.



Discrimination in labour 'must go'

Racial discrimination at all levels of the labour field in South Africa had to be removed in the interests of a better economy, Mr Sam Louw (LP, Rust Ter Vaal) said yesterday in debate on the budget vote for the Department of Manpower.

Mr K Chetty (Sol, Chatsworth Central) said some major companies in South Africa were still practising racial discrimination when it came to job opportunities for "people of colour".

He said this was being continued by companies which "cosmetically claim they are equal opportunity companies".

He did not cite specific instances or companies but said he knew of cases where firms had employed white "ex-Rhodesians". Star 27/4/89

"People of colour" already employed had trained these whites and had then found themselves replaced six months later. — Sapa.

PUNCH LINE

(180) FMAIL 28/4/89

Taking a beating

The repercussions of the results are being felt up the corporate pyramid

Despite rumours about Punch Line profits and large stock write-offs, the market had still not fully discounted the problems when the results were announced last week. Share prices not only of Punch Line itself, but its holding company, Fintech, and even the companies higher up the group — Altech and Altron — pulled back after the announcement.

Some analysts suggest that questions must now be asked about top Altron management. Says Bill Venter, Altron executive chairman: "We left it to the people who are in charge of the subsidiaries. There were warranties and we cannot interfere while warranties are in progress. At the time the acquisitions were made, there were audited balance sheets and we felt they were good acquisitions. You have to judge based on results and reputations."

Savage Schechter Venter

Unfortunately, there has been bad blood with some ex-directors. Fintech has taken the previous directors of a company taken over by Unitech to court and some of those in other companies are in the process of leaving or have left. In addition, there was a change in the top management of Fintech. *And* a major reconstruction of the computer interests of Fintech started in October last year, which was completed last month. This adds to the confusion.

Two extremely reputable companies — First Corp and auditor Fisher Hoffman Stride — stated in letters dated January 9 and reproduced in the relevant circulars to shareholders, that they considered the terms of the offer reasonable.

Fisher Hoffman also stated that it was appointed auditor with effect from March 1 1988 and was not auditor for the period covered by the report but that it made such adjustments (basically reclassifications of figures) as it considered necessary.

Fisher Hoffman states in each case — though in slightly different wording — that stock, which consists of merchandise for resale, has been valued at the lower of cost determined on the first-in, first-out basis, and estimated net realisable value; but that was on the basis of the previous audited accounts for which it was not responsible. Shareholders would seem to have every reason to believe the valuations were conservative.

Three months later — or rather two months later, allowing for preparation time for the accounts — there were massive write-offs. Obviously either the stock was incorrectly valued, or there was an enormous purchase of useless stock in those two months.

Charles Stride says: "We took a different view from the previous auditors. That is why the annual audited accounts were delayed ... The major year-end changes were write-downs of stock and bad and doubtful debts due to a change to group write-down policy."

It is vitally important for the minorities to know which companies' stock had to be written down and written off. The terms of the reconstruction, under which the minorities were offered Punch Line shares, were based upon these valuations. This put a price on Punch Line of 240c against the market price immediately after the announcement of the results of 115c and 130c at the time of going to press — a price which analysts believe to be supported by the Fintech offer of seven Fintech shares for each 100 Punch Line for shareholders unhappy with their Punch Line shares. Venter points out that Fintech did not have to do this.

At the end of February 1988, Unitech's stock amounted to R3,1m; that of Sequel to R7,99m; and that in Computer Warehouse to R6m. The Sequel figure consolidates Unitech and thus the stock in Sequel itself amounted to R4,9m. Punch Line's stock amounted to R35m at the end of February 1988, substantially up from R8,5m 14 months previously. According to Fintech MD Richard Savage the write-offs were across the board relative to the size of the company.

"They were overbuying and you have stock obsolescence," he says. "In an audit you are with a highly motivated computer salesman and you cannot climb into every crate. You have boxes and boxes of software and he says that this is fabulous; how do you, as an auditor, know that that technology was superseded by the next one?"

Punch Line was founded by a number of investors including Barry Schechter. No one in the Altron group criticises him, saying that he carved an industry, as a South African in SA, against tough competition from multinationals. Savage says that the write-offs were relative to the size of the company, suggesting that write-offs in Punch Line must have been that much more than in the other two companies; but Venter says the greatest was in Computer Warehouse.

It is not as though Punch Line has been without problems before. At the time of listing three years ago, the *FM* said that Punch Line had all the elements of a high-flyer: "Seldom has anyone come to the market so financially stretched — the result quite clearly of its explosive growth since 1982 . . . Punch Line comes to the market in a debilitated financial state, supporting an accumulated deficit of R484 000, with virtually no share capital and with reverse gearing totalling no less than R3,5m in bank and other loans." Fintech took 20% at the time of listing, exercising its option on another 5% within three months.

By the end of 1986, Punch Line again had borrowings of R5,7m, despite the rise in shareholders' funds to R5,4m and, three months later, it held a R7,5m rights issue.

In August Punch Line had bought South Continental Devices (SCD). In February 1987 Fintech bought 50% of SCD and in July 1987 Fintech took control of Punch Line. By February 1987, Punch Line owed Alfin, the Altron finance company, R28m — a figure which increased to R57m by February this year. With the rise in creditors, Punch Line increased the finance it utilised by R45m in the year. Sequel's borrowings amounted to R1,7m at end-February 1988.

Punch Line's profits, in the meantime, had improved sharply. From a taxed loss of R654 000 in 1984 the group turned around to a profit of R2,8m in 1986 and R8,3m in the 14 months to February last year. At the interim, there appeared to be a further improvement to a profit of R6,1m. There was nothing to warn shareholders that the profit would be only R938 000 after write-offs for the year and that attributable income would fall from R7,2m to a loss of R1,5m.

It has been suggested that Punch Line's problem was the same as that of many other small computer companies: that it chased turnover at all costs, with little regard for margins, financial controls or how to finance growth. Savage says that the financial disciplines were lacking. Yet all in the Altron group praise Schechter for the growth (uncontrolled) in Punch Line, a large part of which was by acquisition, from a turnover of R211 000 in 1982 to R200m last year (including of course Sequel, Unitech and Computer Warehouse). Schechter has a CA and Savage says that he is a very capable accountant; but Altron director Jacques Sellschop says that did not mean he had the inclination to attend to day-to-day disciplines. "The way you find out that something is wrong is that borrowings keep going up and stocks keep going up in relation to sales," says Savage.

Why should warranties be needed? Venter says that when you buy a business, you take people at face value and then ask for warranties, because it is good business.

Some analysts wonder why, if Fintech had examined the companies before they were acquired, they did not meet warranties. "We examined what we were able to," says Venter. "We had audited figures and warranties and annual reports for several years and a check on quantum of stock. The fact that warranties were not met does not mean that Altron's conclusion was wrong."

Warranty payments were made (except for Computer Warehouse's), and not included in EPS but offset against the cost price. Savage explains: "No matter what the profit and loss accounts of computer companies reflect, look at their balance sheets." But this is the very reason why investors felt safe with Fintech, though it is not a pure computer company. It had the security of Altron's financial backing and controls to stop the small entrepreneur from running out of control.

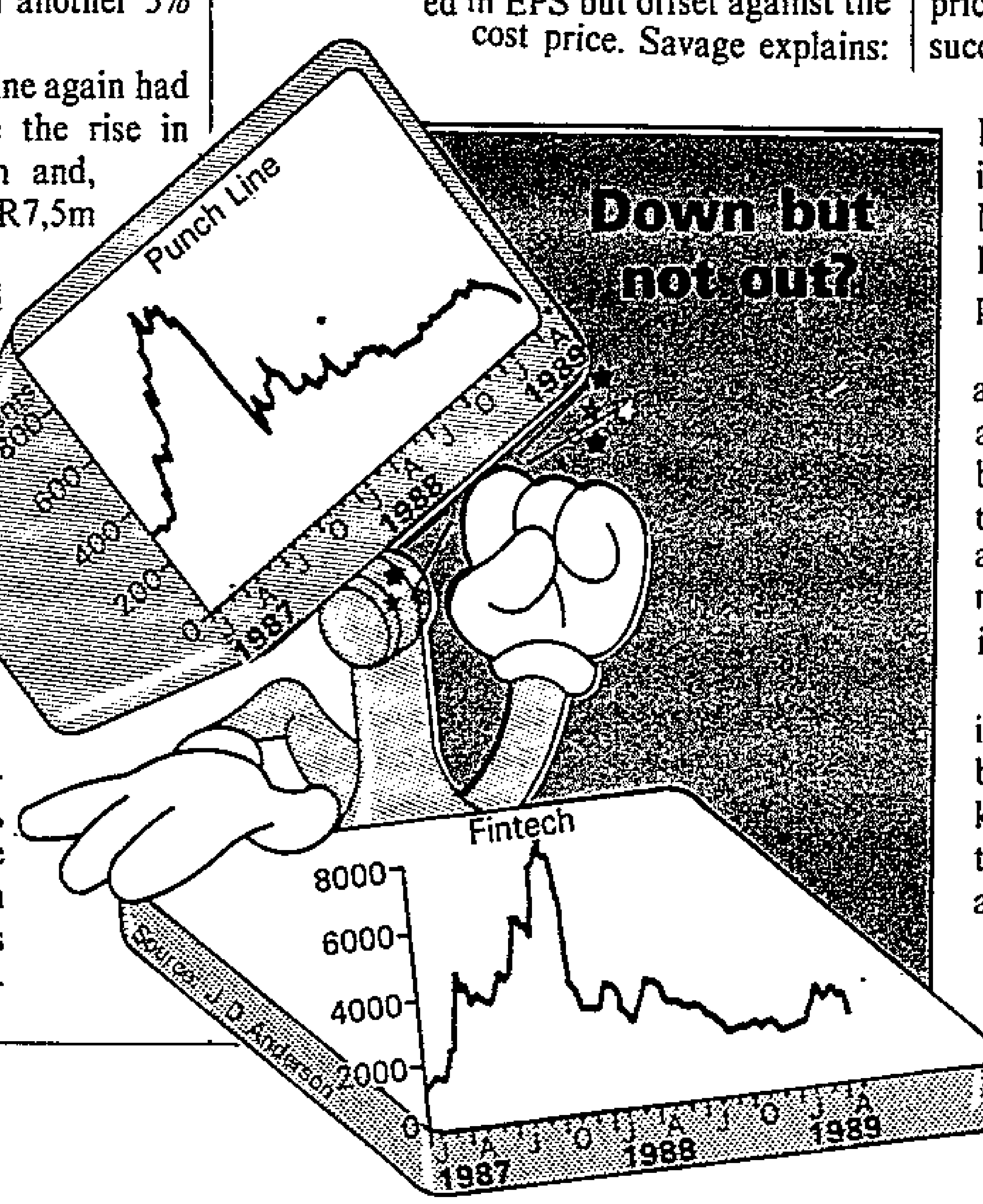
"If you have a highly successful businessman, you don't want to interfere to the extent that he leaves you," says Savage. "If the warning lights are on you start interfering. If you buy a computer company you have in fact bought people, and you would be very foolish to go in there with a heavy hand."

Where does the group go from here? It would seem that greater effort should be made to ascertain where exactly the write-offs occurred and to correct the terms of the offer made to the minorities in the reconstruction.

Altron deputy chairman Neill Davies says that the excess stock has been sold to an associate company. Schechter, and others, have indicated an interest in selling it — in Schechter's case in the US, where he has been sent to run Punch Line's US office. He has been given no golden handshake and no start-up funds, say Savage and Davies.

Davies says that the write-offs have been pretty fair without going overboard. Venter says that they have been in keeping with the conservative Altron accounting policy. Commonsense says that there has been such a dent to the image of the group that it is unlikely it would leave itself in a situation where this will be aggravated by additional write-offs, despite rumours in the market that there is more to come.

As far as Punch Line is concerned, there will probably now be some recovery in EPS and analysts expect about 20c next year. But the rights issue to convert the debt into equity is to raise R50m, while current shareholders' funds are R40,9m. This will be a massive dilution and Davies says that the issue will probably be at around the current price, at which analysts do not think it will be successful. Venter thinks otherwise.



Savage says that capital employed in Fintech is about R200m to R250m. The intention is to maximise returns from NCR and Xeratech and streamline Punch Line. In the meantime, Fintech profits must suffer.

What of the damage to the group image? Venter says that Altron took action as soon as it could and that everything has been done to put the right people in place to turn Punch Line around. "And what about NCR?" he asks. "The market does not penalise someone who has served it well for 12 years."

Where does the buck stop? Venter calls it a series of circumstances brought about by rapid expansion and over-zealous marketing efforts with insufficient attention to detail such as margins, debt collection and after-sale service.

In the end the market will be the judge.

Pat Kenney

Mystery shrouds Frame

Diagonal Street

ANN CROTTY

Heavy trading in Frame shares has resulted in a sharp rise in price from R10,50 to R14 within a few days.

There has been a similar trend in Frame's operating subsidiary, Conframe. It moved up from 700c to 900c within a few days.

Apart from those who are privy to the deals involved, the market has been left guessing what is behind the activity.

Is one of the major textile players or one of the institutions moving in to take control, or is it a case some investors seeing good value at current levels?

Another uncertainty is the identity of the large seller of Frame stock.

The consensus is that Sanlam was the major seller of Frame on Friday when the share closed at R13.

Sanlam is believed to have offered one million Frame shares yesterday at R15, but the top price it was offered was reported to have been R14, so there was no deal.

Sanlam's head of investment, Ronnie Masson would not comment on investment tactics and would not confirm or deny reports that Sanlam had been sellers on Friday.

He said there seemed to be too much uncertainty about the group and a lot of speculation about a possible takeover bid.

In view of these conditions, they were not sellers.

Questioned on whether it made good investment sense to sell shares at R13 when they had been bought a few years ago at R24, he said a decision to sell a share should not take into consideration the price at which it had been bought.

"The considerations in an investment decision — whether to buy or sell — must be the market price and prospects for that group."

Mr Masson felt the future of Frame was uncertain.

Although he implied Sanlam was not a seller yesterday, he left it quite unclear whether or at what price it might come back to the market.

Some investors believed that if the Sanlam parcel of one million shares was withdrawn, the Frame share price would move beyond last night's close of R14.

Takeover speculation and the group's good earnings prospects, enhanced by the BTI report, underpin strong sentiment, with few buyers seeing much downside at the current higher price.

There is also a question mark over the identity and motive of the buyer/buyers.

This means it is not possible to determine if the buying was being done with a view to a control situation or whether it was investors seeing good long-term earnings underpinning dividend and capital growth.

AVI yesterday denied it was buying Frame shares.

AVI director Dave Royston said they were bedding down the Mooi River acquisition and had not even considered Frame.

Other possibly interested parties include the other major textile players such as Barlows and SAB.

One of the institutions might be keen to see a change in the uncertain situation whereby control of Frame is shared among institutional shareholders with no one institution having more than 6 to 7 percent.

Frame chief executive, Mervyn King, who does not know the identities of the recent buyers or sellers and is unaware of any bid for control, believes if there is to be a bid, the most effective way to do it would be for the bidder to approach each of the other major shareholders, rather than buying the shares in the market.

Mast Holdings' turnover boosted by 80%

BDay 28/4/89 180

CHARLOTTE MATHEWS

A SUCCESSFUL year for all divisions of recently-listed Mast Holdings boosted group turnover by 80% to R8,4m for the year to February compared with last year's R4,7m.

DALLAMORE

In spite of a slightly higher tax bill, net profit rose 75% to R1,1m (R629 000), largely as a result of some trademark write-offs, says executive chairman Stephen Dallamore.

Earnings of 6,4c (5,3c) a share were above the 6c forecast in the prospectus in spite of an extra 4,5-million shares in issue. A dividend of 3c (2,4c) a share was declared.

Mast Holdings offers management, finance and micro-computer training as well as management planning through its division, Time/System.

The group's head-hunting and recruitment division, Paul Tingley Management Services (PTMS), which made its first contribution to the company's annual results, showed excellent growth and through cross-selling helped to boost Mast (SA) turnover.

PTMS was bought for R1m on an earn-out basis over three years with the full consideration to be paid in cash and shares.

As a result, the fully diluted earnings a share are 5,8c on a total issue of 18 998 668 shares at the year-end price of 45c. The unpaid portion of the R1m is reflected in long-term liabilities.

Since December 1, Mast has been selling Business Learning Systems, which teaches finance, marketing, operations and strategic decision-making.

"This group moved into profit at the end of the first three months of what will be a 15-month trading period to end-February 1990," says Dallamore.

Share premium declined to R1,8m from R3,3m because of the writing down of the group's listed investments to reflect current market value.

Hunts, Tarry involved in negotiations

B/Day 25/4/89 · (180)

Business Day Reporter

TWO FSI companies — Hunts and E W Tarry — have announced they are negotiating transactions which, if implemented, could have an impact on the value of their shares.

FSI corporate services, which made the announcement on behalf of Hunts and Tarry, added: "Pending a further announcement, which will be made as soon as practicable, shareholders are advised to exercise caution in dealing in their shares."

A Tarry spokesman said the negotiations were part of the group's operations restructuring following last year's major corporate reorganisation.

They involved restructuring within the group as well as a number of small outside acquisitions, he said.

BLACK BUSINESS ON SHOW

180

MATCHMAKER '89, the black business fair, opened its doors for both big business and emergent entrepreneurs at the National Exhibition Centre in Crown Mines, Johannesburg this week.

Opening the fair, the president of the Witwatersrand Chamber of Commerce and Industries (WCCI), Mr Henry Viljoen, said the fair was one opportunity small business had each year to show the sort of goods and service it offered.

The fair was a forum for interchange and integrating all South Africans as trading partners in business and industry.

The deputy managing director of Get Ahead Foundation, Mr Japie Marope, said the Matchmakers' impressive growth demonstrated that there was a real support for black economic empowerment.

It also demonstrated that there were individuals in the business community who were prepared to show their support with more than rhetoric, he said.

The executive director of the American Chamber of Commerce, Adriaan Botha, welcomed the Matchmaker concept and said it was designed to assist black-owned firms to establish contacts with large American companies in South Africa.

This year there are more than 100 stands at the Matchmaker Fair. Some small businesses are veteran exhibitors, others are newcomers.

Many who showed their wares at the previous exhibitions have become established and no longer need exposure. A few had faded away, according to director Mr Zuko Tofile.

Compiled on a Punch Line Panda PC

Growing profits boost business confidence

180

Star 28/4/89

Finance Staff

Business confidence is still rising, with Assocom's Business Confidence Index (BCI) improving to 96,7 in April after 95,6 in March.

Assocom says, however, that there is a divergence between business confidence and consumer confidence, with business confidence showing a stronger trend.

"Business confidence is currently being underpinned by expanding profits and the growth of the informal sector.

"Consumer confidence, on the other hand, appears less optimistic.

"Caught in the grip of inflation and taxation, the average consumer is finding it difficult to make ends meet, despite recent increases in salaries and wages."

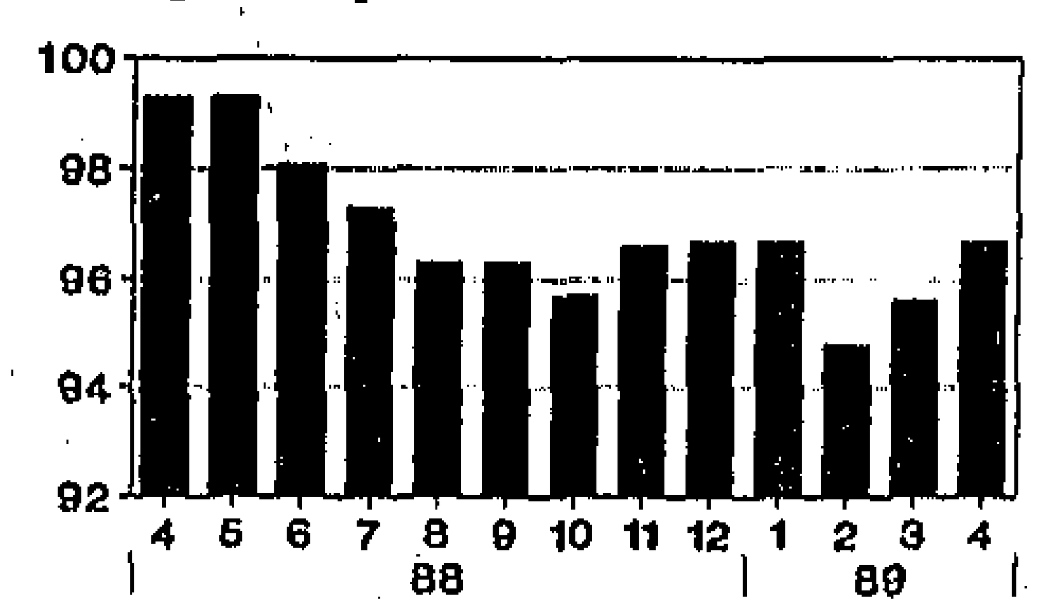
The report notes that demand for mortgages is tapering off.

It says a major problem for both business and consumers is the inflation rate.

"Costs are rising and the rate of increase in the producer price index and and the consumer price index is accelerating again."

Assocom says most companies do not use replacement cost depreciation and to that extent their profits are overstated.

Higher replacement costs will eventually have a negative effect on profit.



Assocom's BCI (1983 100)

The Association concludes: "Although there are signs of levelling off in certain segments of the economy — such as the building, white goods and furniture sectors — the overall business mood is buoyant."

It says the authorities may not have been totally succesful in conveying the message that they wish to see the economy cooled down.

Assocom says there is a perception in business that no further steps in the cooling-down process will be taken in view of the impending election.

Inside Out
Ann Crotty

(180)

Puzzling victory with no losers

Star 29/4/89

MYLES' MUM remains a bit puzzled about the exact outcome of the Minorco bid for Consgold.

According to newspaper reports both sides are claiming victory, which is very nice 'cos she doesn't like to see someone losing (not even Rudolph she says) but adds that her attention is now waning. Myles tells me that the same thing happened to her at the 500th episode of Dallas ... so her threshold for boredom isn't too low.

Anyway she's now fed up with the Minorco/Consgold saga and its all-star cast headed by Sir Michael Edwardes and Rudolph Agnew, and she'd like it sorted out ASAP so the gold price can get back on its normal course.

She's also a bit concerned about reports that the London-based institutions aren't keen to hold Minorco paper because it's a Luxemburg-based company. She reckons these reports are enormously exaggerated 'cos everyone knows that the London players are well prepared for 1992 and now see themselves firstly as Europeans and secondly as English.

The bank results that came out during the week were interesting. Total assets at Nedcor (which includes figures for the Perm) are now up to R27,3 billion, which isn't too far short of FNB's R30,2 billion (as Myles says, what's a couple of billion between bankers). But Nedcor managed to generate net income of R171 million and FNB only R98,9 million.

The discrepancy in performance wasn't so much management's fault as the taxman's. He took R67,7 million from FNB and only R7,8 million from Nedcor.

Talking about banks it looks as though FSI will again be ensuring good levels of activity for at least one merchant bank this year. It seems that there's going to be a sort of minature re-run of last year's re-organisation — this one will be restricted to Natbolts and Tarry's and could involve the de-listing of FS-Team. Tarry's was up 85c on the week.

Speculation is that FS-Team will be de-listed at just over 400c, perhaps as much as 450c, and the chances are that the minorities will be offered Natbolt shares rather than cash.

Also on the FSI front, there should be some news next week about the health-care division that is being established. Citizen has moved up strongly this week.

Just before the close of trade yesterday, Home-Makers bought 27 percent of Milstan from Columbia Holding and it apparently has the option to lift this to 40 percent.

As Myles notes, is it any wonder that FSI gets mentioned whenever there's a takeover rumour. Myles' Mum reckons the market says that its FSI and concerned shareholders pray that it's AVI.

De-listing is becoming quite popular which is perhaps why, when Toco was suspended yesterday morning, rumours went around that it was to be de-listed. There is apparently no substance to those rumours.

Myles was rather apologetic, muttered something about street cred and his 125c estimate of the cash offer to Jazz' minorities — a little short of the mark.

There was a big book-over in Curries during the week. Apparently one of the major institutions was moving in.

Still lots and lots of rumours about Frame and quite a lot of activity. Myles reckons most of the current buyers are warehousing in the hope of some major developments at a later date.

His Mum doesn't believe that the JSE will be closed on Workers Day. As far as she is concerned "workers" are people who wear boots — usually with mud on them; and if they have sleeves, they're rolled up; and they put in a decent day's work — usually underground or in a field.

"They certainly don't wear pin-stripe suits and strut around all day looking like extras for some film version of *The Bonfire of the Vanities*".

Star 2/5/89

(180)

Profit trend underpins booming Industrial index

By Derek Tommey

The steady climb in the Johannesburg Stock Exchange's industrial share index to new peaks has surprised many people who are not engaged in the investment sphere.

Last Friday the industrial index closed at 2581. This brought the increase in the index since the end of December to 32,9 percent and to 69,8 percent in the past 12 months.

The industrial market at the moment appears to be reflecting, to a great degree, the trend in industrial profits.

In the past few days the February year-end companies have started reporting. Since Friday there have been six industrial companies, some of fair size, which have issued prelimary profit statements.

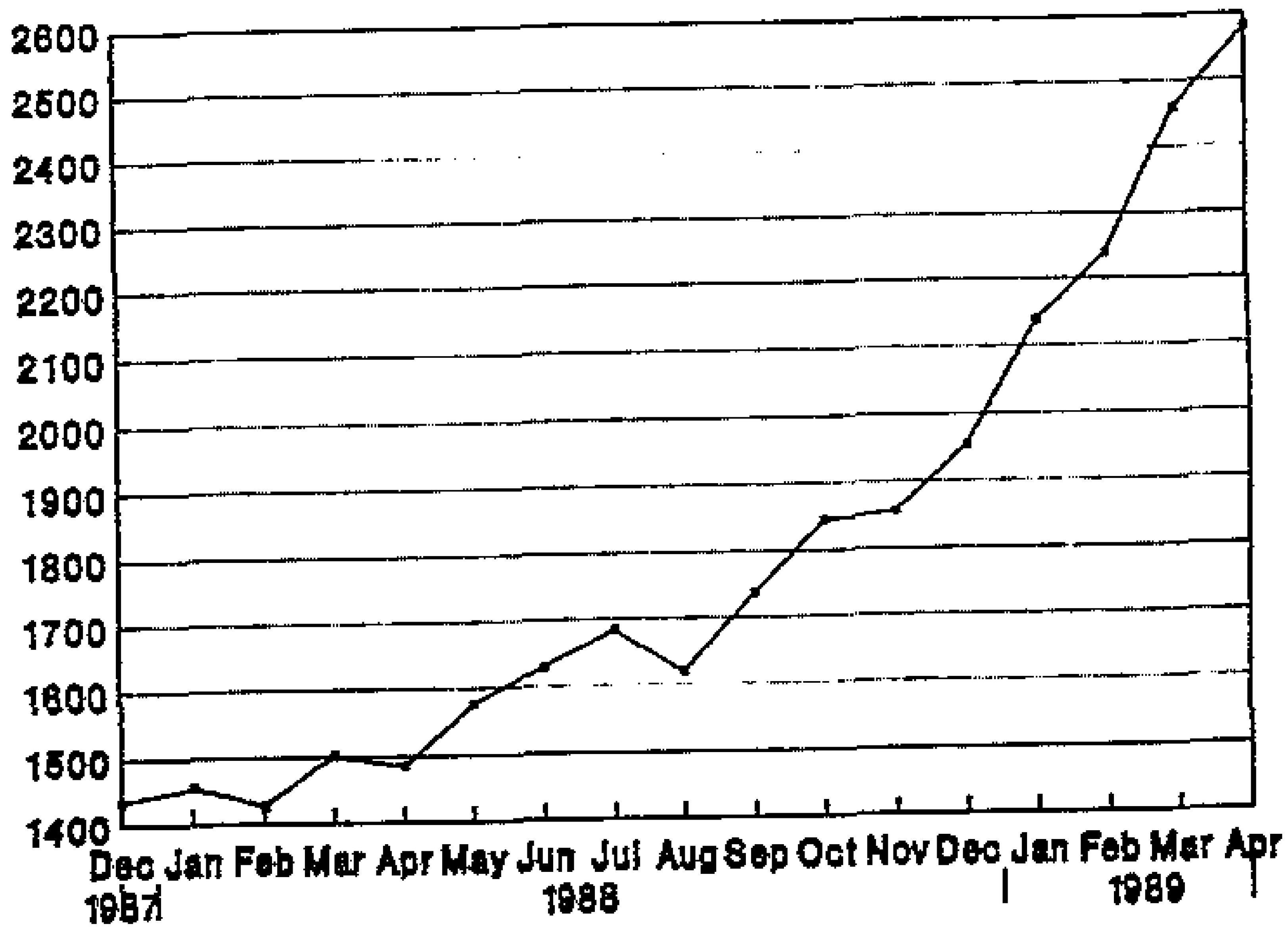
It is interesting to note that their combined pre-tax profits for this period amounted to just under R100 million, which is 65,3 percent higher than the R60,5 million they earned in the 12 months to March last year.

Good times

Although this is a small sample, the results confirm that well run companies are still experiencing extremely good times and it is likely that other companies will be reporting profit increases in line with the trend.

The six companies are:

- Powertech which makes heavy electrical equipment, including power generation and power transmission equipment.
- Spescom wich is active in the elecronics industry;
- Midas which distributes motor spares;
- Autopage which is a major company in the radio paging industry;
- Tafelberg, a small furniture retailers in the Western Cape; and
- Uniserv which dominates the local courier industry.



The JSE Industrial index moving into new heights.

An indication of how they fared in the year ended March can be gained from the following table of their respective profits before tax and the percentage increase on a year ago:

- Powertech R61,3 million (42 percent);
- Spescom R4,0 million (19,8 percent);
- Midas R18,6 million (103 percent);
- Autopage R3,2 million (193 percent);
- Tafelberg R1,7 million (34 prcent) and;
- Uniserv R11,1 million (147 percent).

The average percentage increase is 89,8 percent which is higher than the total increase in profits before tax owing to the large increases experienced by some of the smaller companies.9

The earnings a share and the percentage increase in the 12 months period was:

Powertech 21,4c (58,6 percent), Spescom 17,8c (30,9 percent), Midas 118,8c (94,1 percent), Autopage 12,0c (90,5 percent), Tafelberg 7,4c (34,5 percent), and Uniserv 20,3c (93,3c).

The average increase in earnings was 67 percent.

And this is howshareholders fared (annual dividend and percentage increase):

- Powertech 6,5c (41,3 percent);
- Spescom 5c (53,8 percent);
- Midas 35c (75 percent);
- Autopage 8,5c (240 percent);
- Tafelberg 3,5c (no dividends paid last year) and;

Uniserv 6c (93 percent).

Average increase in dividends is 100,6 percent.

More proof

Other evidence that the industrial sector is continuing to do well comes from Danech Mining Supplies. In the six months to March, last year it had an income before tax of R2,44 million. But in the six months ended September it had a loss of R1,19 million. However, in the six months ended March it has has made a strong recovery and reports a pre-taxed profit for this period of R2,58 million.

Packaging company Plastall has also reported a strong improvement in its income before tax for the six months ended March to R1,17 million from R279 000 a year earlier.

It to is also optimistic about business conditions, forecasting a growth in profitability.

With results like these coming out, it seems that the industrial market overall should remain firm for at least the rest of the year.

180 B/Day 2/5/89

Rigidity blamed for sector's poor performance

BTI casts critical eye on manufacturing industry

CHRIS CAIRNCROSS

CAPE TOWN — The most disquieting feature of the economy last year was the impact of the long-standing tendency of manufacturers to reduce their exports with any upturn in the home market.

The Board of Trade and Industry (BTI) singles this out as having had the largest effect on the country's export performance in 1988.

A further worrying factor, says the BTI, is the increasingly severe distortions in the relationship between capital and labour.

In its annual report tabled in Parliament, the BTI says the relatively low real cost of capital combined with the high real cost of labour has generated an increasing capital intensity in industry.

It is a paradoxical situation for a country with a huge annual increase in the labour force. And, to secure future prosperity, it is essential that the cost of labour and capital should reflect their true demand and supply positions, the report says.

This view is reinforced by the fact that a high proportion of the capital equipment used by industry is imported, says the BTI.

"An interest rate policy that keeps the cost of capital too low in relation to the rate of inflation not only distorts the capital-to-labour ratio, but also has a negative effect on the scarcest resource of all, namely foreign exchange.

"At a time when SA has little access to foreign capital, it is essential that everything possible be done to encourage domestic saving so as to generate the capital needed."

Restrictions

The BTI argues that the case for retaining positive interest rates in real terms is unassailable. It stresses that the policy of promoting the structural adjustment of industry to achieve a higher level of international competitiveness will be seriously impeded by any deviation from this norm.

The BTI notes that although there is a strong entrepreneurial spirit among South Africans, there are not enough entrepreneurs with industrial skills coming forward.

It suggests part of the reason is the lack of an industrial ethic among large parts of the population; statutory and other restrictions on the establishment of new industrial undertakings; a lack of venture capital; the tax system; and a generally negative attitude towards the trades among a large part of the community.

These shortcomings partly explain why exports of manufactured products perform so poorly ... and every effort should be made to build up subcontracting in the industrial sector.

The BTI says in the light of the weak performance of the manufacturing industry over a long period, and its apparent inability to adapt to changing market conditions, it has concluded there is too much rigidity in SA's industrial structure.

Emphasis in any restructuring programme should therefore be given to ensuring that the local manufacturing sector becomes more competitive internationally and more export-orientated.

Import replacement should continue, but not at the expense of international competitiveness.

FSI reorganises asset structure

Star 2/5/89

180

By Ann Crotty

In what appears to be an attempt to maximise the synergies existing between the original W&A assets and the original FSI assets, FSI management is reviewing Natbolts, FS-Team and Tarrys "with the objective of enhancing earnings growth of all three companies and of Hunts in both the short and the long term".

After last year's reorganisation of the enlarged FSI group, mangement is now doing the obvious: re-organising the assets so that similar operational units are bedded down together to ensure optimum performance.

In the absence of this sort of streamlining activity, the enlarged FSI (after the W&A acquistion and the reorganisation) would have been left in a suboptimal state.

The exercise will see the establishment of three arms of activity within the Natbolt group and will involve the acquistion of Tarrys and Spectrum by Natbolts.

The three areas of activity are: manufacturing — primarily through National Bolts and Universal Clips; distribution of automotive products through V&R, Femo and Tarrys; distribution of industrial products through Spectrum, Tarrys and FS-Team.

There will be no change in the grouping of manufacturing activities, which will remain within National Bolts (100 percent owned by Natbolts).

Operations in the other areas will need to be rearranged so that no one company is involved in the distribution of both automotive and industrial products.

Assuming Tarrys is used to house automotive distribution activities, it would acquire V&R and Femo and hold onto its own automotive interests.

Assuming that Spectrum is used to house the industrial distribution activities, it would acquire Tarrys' tools and, possibly some of FS—Team's operations.

If this is the sort of structure management has in mind, it will be left sitting with a listing it doesn't really need.

It is likely that management would prefer to see a stronger performance from manufacturing before getting a separate listing for it.

Tarry, which has a listing in London, will house the automotive interests. Spectrum will house industrial interests.

So FS—Team, which after the restructuring will only have a 35 percent stake in Elcentre, will not need a listing.

This means the minority shareholders who hold 8,5 million shares with a current market value of around 380c will have to be paid out, either in cash or paper. Payment in cash would put a fairly heavy burden on Natbolt.

The difficult part of the exercise will be pricing the various transactions in the fairest manner. A further announcement is expected in mid-June.

OK Bazaars going in right direction

180

Star 31/5/89

By Ann Crotty

Improved stock turn, increased operating margins and lower-than-expected interest charges enabled OK Bazaars to report results at the top end of most analysts' expectations.

Earnings per share were up 20,4 percent to 195c (162c) from which a dividend of 103c has been paid, 15,7 percent ahead of the previous year's 89c.

After the release of interim figures, which showed EPS of 55c, analysts were looking for a full-year figure of over 200c.

These expectations were revised downward after the introduction in August of stricter curbs on consumer spending.

Results show that despite a squeeze on furniture sales, OK managed to cope with the tougher trading environment better than most analysts had expected.

In the 12 months to March turnover rose 19,4 percent to R3,7 billion.

MD Gordon Hood says that allowing for inflation, this represents a volume increase of about 3,6 percent.

Operating income was up 25,3 percent to R67,1 million (R52,6 million), reflecting a slight improvement in margins from 1,7 percent to 1,8 percent.

But even a slight improvement in an operation the size of OK has a significant impact on profits.

In this instance, the 0,1 percent improvement lifted operating income by R3,7 million.

This is the sort of news that should hearten shareholders who are weary with the slow progress being made at OK as it highlights the benefits of slow and steady progress.

Interest payments were up 60 percent and cost R23,9 million for the full year.

The directors attribute this to higher rates and pre-December purchases.

But it seems there was an improvement in the debt situation in the second half.

At end-September, interest-bearing debt was R211,9 million. At end-March total interest-bearing debt was down to R177,6 million.

The apparent sharp swing away from long-term to short-term debt between end-September and end-March does not reflect a view on interest rates.

Long-term debt

Mr Hood says that in the second half, R100 million in long-term debt came up for review and because of this featured as short-term debt in the end-March balance sheet.

But since the end of the review period this R100 million has been re-classified as long-term.

The improvement in the second-half debt position can in part be attributed to tighter asset management, which saw year-end stocks up by just 6,8 percent, compared with the turnover increase of 19,4 percent.

Mr Hood says that at the interim stage, stocks were up 18 percent on the previous interim.

After a tax charge of R19,3 million (R18,7 million), taxed profit was up 19,3 percent to R23,8 million (R20 million) and attributable earnings up 20,4 percent to R23,9 million (R19,9 million).

He says the improvement in margins was helped by a slight change in product mix in favour of clothing and housewares at the expense of the low-margin food sales.

These accounted for 60 percent of turnover in financial 1989 (61 percent in 1988).

Also helping margins was the improvement in stock turn, up from 5,9 times to 6,6 times. In view of management's commitment to a high percentage of food sales (analysts believe in the region of 55 to 60 percent of total), it seems stock turn is crucial to profit performance.

The improvement reflects the initial benefits of computerised stock control.

Although analysts believe that performance would benefit from a significant reduction in food sales, OK management is emphatic that food sales "generate the traffic" and are crucial.

Columbia working on new strategy

S/Day 3/5/87

STEPHEN RICHTER

COLUMBIA Consultants has been sitting on the sidelines with regard to the recent spate of disinvestment activity by overseas companies, but according to chief executive Gordon Polovin that could soon be changing.

This week's sale by Columbia of its holdings in Toco follows closely on the heels of the Milstan disposal. These sales, combined with the proceeds from Trimtex, placed Columbia well on the road to accomplishing its goal of focusing on larger acquisitions valued in excess of R100m.

To allow this to happen, Columbia must first build up the necessary cash resources. Polovin says the group is well on its way, with proceeds from these sales amounting to roughly R35m. He feels Columbia needs to raise a total of R50m to R60m before the group can seriously consider implementing its new strategy.

The Toco disposal involved 32,9-million shares at a price of 48,6c, which brought in total proceeds of R16,2m. But since the shares were sold ex-dividend, Columbia will reap an additional R2m and therefore the total effective income from the Toco disposal will increase to R18m.

Polovin would not specify what other investments would be sold to raise further funds needed, but says that "within the next few months, there will be some more action".

The reason Columbia seems quite determined to shift its focus is that recently the group has been unable to capitalise on some very attractive opportunities owing to its financial situation. Although Columbia is conservatively geared and able to increase its borrowings, it appears that the group is unwilling to jeapardise its financial health in any way.

B/Day 3/5/87

BD

Mystery

Polovin says that the group has always been conservatively run, and therefore in order for Columbia to best finance its latest strategy, the directors have decided to cash in on various investments instead of approaching the banks for more funds. That seems a prudent strategy in view of the high interest rates and poor performance of second-line shares.

Exactly what acquisitions Columbia are contemplating at the moment remain a mystery. Polovin does disclose that the group is looking at some exceptional asset strip and turnaround situations. In addition, Columbia has been approached by other larger companies to go into partnership with regard to certain opportunities.

As these events unfolded last week, investors seemed to wake up to Columbia's inherent value, and pushed the share up 15%, or 30c, to 230c on Friday. If Columbia's directors would like to see a higher share price, then a generous payout from the latest proceeds might help.

In addition, an enhanced share price would place Columbia in a stronger position to pay either cash or paper for any future acquisition. But it seems that the market will only re-rate the shares once management shows its hand and invests in areas which offer above average growth prospects.

JSE agrees to relist Toco shares today

SDay 25/5/94

SYLVIA DU PLESSIS (180)

THE JSE has agreed to relist Toco shares with effect from today, Toco MD Adrian Goodman said in a statement yesterday.

However, he advised shareholders to exercise caution in their dealings in Toco shares until an announcement was made regarding fulfillment of certain suspensive conditions.

The move follows Columbia Consultants' sale this week of its holdings in the manufacturer and international distributor of industrial products for 32,9m shares at a price of 48,6c. The disposal brought in proceeds of R16,2m.

"Everyone is eager to participate directly in the success generated through their own efforts, hence our bid to increase our stake in Toco," he said.

On successful acquisition of the additional shares, management would speak for 62% of Toco's capital.

"We intend to retain Toco's listing and develop the company in partnership with the institutional and private investors who hold Toco shares," Goodman said.

Management would supplement the internally-generated growth with strategic acquisitions focused on manaufacture and international distribution of industrial products, he said.

Toco's results for the year to end-March will be released later this month.

R750-m sting

Star 6/5/89

(180)

Companies hit in bid to mop up liquidity

DEREK TOMMEY

In a desperate attempt to cool down the economy and curb imports the Government yesterday announced a surprise package of tough economic measures.

The Minister of Finance, Mr Barend du Plessis said that South Africa could not afford to continue importing goods at the present rate, and added that if the present situation continued South Africa would end up as a banana republic.

Key components of the new package are: an increase in the bank rate from 16 percent to 17 percent — which will lead to the commercial banks' prime rate rising from 19 percent to 20 percent; tougher hire-purchase regulations; a 10 percent loan levy on companies which must be paid within the next 8 weeks; and a squeeze on commercial bank lending.

Previous action by the authorities has seen mortgage rates rise from 12,5 percent to 19 percent with similar increases in bank overdraft rates; GST up from 12 percent to 13 percent; sharp rises in the petrol price; swingeing imposts on imports; and an 8 percent or so increase in income tax rates in real terms as a result of fiscal drag.

Money supply

But with the money supply still rising at an annual rate of 27 percent it is obvious that these measurers have not been particularly successful.

However, economists admit that it is possible that the latest measures on top of the old ones could actually lead to a slowing down in the economy and of inflation.

The new loan levy could bite fairly hard as companies not only have to pay a sum equal to 10 percent of last year's tax payment to the Government, but have to pay it within eight weeks.

The levy could cause problems for cash-strapped companies, especially as commercial bank accommodation will not be cheap or easily obtainable.

"The Government is mopping up liquidity," said Mr Jimmy Mackenzie, general manager of First National Bank.

Altogether, the Treasury expects to collect about R750 million from the levy. In order to find this money some firms will have to at least postpone planned spending on stocks and capital works. This could have a chain reaction on other firms and could trim demand throughout the economy.

Many firms are also likely to delay bringing in imports, or switch to foreign finance.

"Foreign financing is extremely attractive at the moment and the authorities are encouraging local firms to take advantage of it," said Mr Mackenzie.

The Government obviously hopes that the resultant curb on imports and the increase in foreign borrowing will lead to an improvement in the balance of payments and to a firmer rand.

However, squeezing R750 million out of companies in eight weeks is just one side of the coin. It also means an increase of R750 million in the Government's coffers. As it is to be placed in the loan account, it means there will be a substantial reduction in Government borrowing this year. This will also lessen inflationary pressurers.

At the same time it should reduce pressure on the bond market. This could lead to a significant drop in long-term interest rates in the months ahead.

It is not yet clear how the new measures will affect the stock exchange. Many institutional investment managers were on holiday yesterday while others did not know about the measures until late in the day so market reaction was limited.

Brokers said that the market had been expecting an increase in interest rates and that share prices had already discounted this part of the package.

But the loan levy was unexpected. In theory it could reduce taxed profits this year by anything up to 20 percent. This sort of impact on distributable profits should have some repercussions in the share market.

Brokers also pointed out that if the Government succeeded in slowing down the economy it would diminish company prospects. A firmer rand could lessen the attractiveness of some of the rand hedge stocks.

But an improvement in the balance of payments could lead to a greater gold retention by the Reserve Bank — and it requires only a small increase in South Africa's gold holdings to have a significant effect on the overseas gold supply.

REACTION

Association of Chambers of Commerce

Chief Executive Officer Raymond Parsons: "While accepting that interim remedial measures may be necessary during the course of any fiscal year, short-spanned decisions as reflected in this package suggest a lack of coherence in the management of the country's financial affairs. Such action is also very disruptive of business planning and will have a negative impact on business confidence.

"The lack of timeous action earlier has made more radical steps inevitable, and it will be necessary to ensure that the economy does not now go from a situation of 'underkill' to one of 'overkill' in the months ahead. Assocom said it was concerned about:

"The inescapable fact remains that efforts to restrain overall private sector spending will have no meaningful or balanced impact unless they are accompanied by curbs on excessive public sector spending".

The South African Agricultural Union

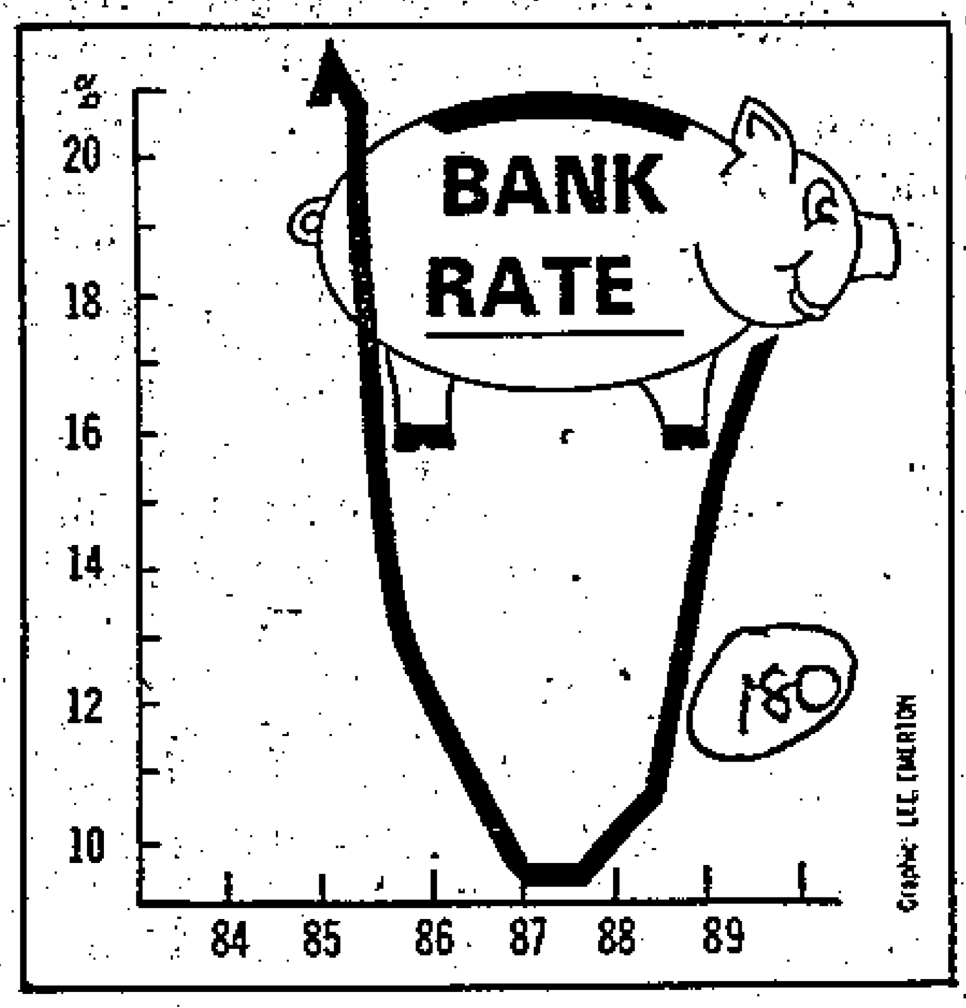
President Mr Kobus Jooste said pointed out that interest was agriculture's single highest cost item and was having an adverse effect on farm profits. Many farmers with a normal debt burden simply could not handle the problem.

The rise in rates combined with the flood of other recent price increases which also had an effect on the industry, has serious implications for the profitability, competitiveness and economic recovery in agriculture.— Sapa.

The Afrikaanse Handels Instituut

Executive director Dr Martin van den Berg: "If the measures had been postponed, the steps that would have had to be introduced later would have been more painful for the recovery of the economy than those announced.

He said that the package was as effective as possible with the minimum amount of discomfort, and notwithstanding the serious implications for many AHI members, it must be accepted that higher short-term rates are an essential part of any control measures introduced in the light of current circumstances.



Govt loan levy to reduce borrowing

GRETA STEYN

GOVERNMENT'S 10% loan levy on companies will help solve its borrowing problems on the capital market.

The levy, announced on Friday, will raise R750m for Treasury at a time when it is battling to find buyers for its stock at the price it wants to pay. Most institutions are insisting on high rates on government stock, now that they no longer have to meet prescribed asset requirements.

Finance officials confirmed the revenue from the levy would go towards reducing the borrowing requirement.

● See Pages 4 and 6

By issuing negotiable levy certificates to companies, government has effectively created a new form of gilt-edged stock which will trade in the secondary market. Thus, companies with cash-flow problems can sell their certificates in the market to get most of the cash back.

With the extra R750m, government only has to raise a few hundred million rands more on the reluctant capital market. Its original borrowing requirement has also been reduced from a budgeted R4,4bn by R1,5bn in privatisation and R200m in savings from last year.

The Reserve Bank has managed to place

● To Page 2

Govt loan levy to reduce borrowing

● From Page 1

R1,7bn in long-term stock, but has declined to divulge the interest rate at which the deals took place. Rates above 17% threaten to raise government's interest bill and its overall spending.

□ MIKE ROBERTSON reports from Cape Town that Finance Minister Barend du Plessis told a Press briefing the R750m would be "sterilised".

Du Plessis said: "That money won't be spent." But, he added the borrowing requirement would be reduced to R2bn.

Finance officials explained at the weekend that Du Plessis meant the extra revenue would not translate into extra spending of R750m, but would be used to reduce government's capital market borrowing.

Du Plessis said on Friday companies were highly liquid at present and were spending vast amounts on creating extra capacity and building up stocks in the expectation that consumer demand would be maintained at a high level.

Government at present had no instrument to mop up this liquidity and it had been decided to introduce the loan levy, he said.

Stock management more productive

STOCK management is one of the rare areas in SA where productivity has improved substantially over the past decade. 13/10/4 9/57/89

ZILLA EFRAT (18D)

Research by the Federated Chambers of Industry (FCI) suggests the ratio between inventories and sales in the manufacturing sector has declined over the past decade, probably due to better stock management and the computerisation of stock flows in manufacturing operations.

The latest FCI opinion survey shows that SA industrialists intend to maintain their present stock levels over the next 12 months, while only a month ago most were thinking of increasing their stocks over the year.

FCI industrial consultant Gad Ariovich says that, since January, industrialists have consistently been scaling down their intention to build stocks over the next 12 months as their stocks are too high to satisfy the current demand for their products.

The decision to keep stocks at the present level in spite of better sales is probably the result of anticipated slower economic activity and relative high real interest rates.

Ariovich says this strategy should alleviate downward pressure on manufacturing activity.

Company managements will be put to the test

180

Star 9/5/87

By Ann Crotty

On balance the latest moves by the authorities seem to have got the thumbs-up from the financial community, although this wouldn't seem too obvious from yesterday's 25-point drop in the JSE's overall index.

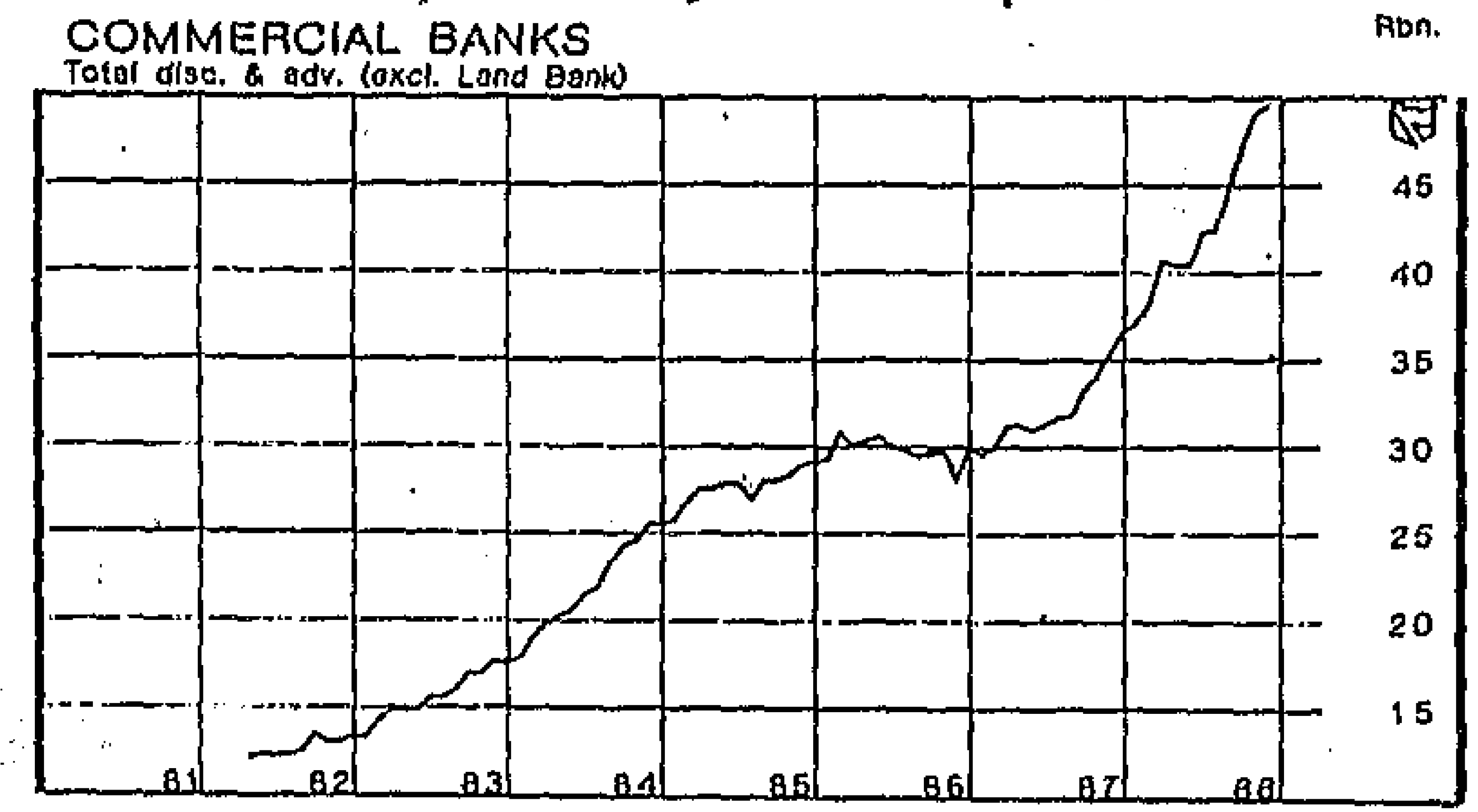
While the major complaint continues to be that too little was done, too late, the prevailing feeling now is that the moves may be just enough to curb consumer spending, reduce inflation and get the balance of payments back onto a healthier tack.

The drop in the overall index reflected the fall in industrial share prices as investors showed some nervousness about the implications for earnings and dividend growth.

If the measures are effective they will result in slower growth in the short term.

On the bright side, if they are effective, longer-term growth prospects will be enhanced.

Performance by consumer stocks, particularly those in sectors such as retailing, motor and furniture will reflect tighter trading conditions.



Total discounts and advances (excluding Land Bank).

Volume increases will be slim and earnings growth will depend on management ability to keep a tight control on assets.

The ten percent loan levy will have significant impact on company cash flows, but will not directly affect earnings performance. It may have an indirect effect to the extent that the cash has to be found elsewhere — at a cost.

Yesterday's report of government plans to slash R563 million from its annual salary bill by scrapping 60 000 public sector jobs over the next three years highlights the fact that success in the battle against inflation will take a toll on a broad front.

The banking sector could suffer in the short term as the squeeze on margins tightens.

In Friday's statement on monetary policy, Reserve Bank Governor Dr Gerhard de Kock said the Bank's own net domestic credit creation remained the key to effective control over the money supply, since under the present conditions it was the Reserve Bank's credit extension that provided the banks with the cash reserves they required to enable them to expand their discounts, loans, advances and investments.

This suggests the Bank is no longer going to depend on "moral suasion" to get the commercial banks to stop chasing market share. (It is reported that some weeks ago the Bank wrote to the commercial banks asking them to restrict their asset growth to one percent per month.)

Dr de Kock's clear message on Friday was that chasing market share could become unprofitable.

Interest-rate margins will be squeezed painfully at a time when bad-debt experience is likely to deteriorate significantly.

Although there may be a slight correction in the next few days, followed by a sideways move, the JSE will be propped up by the realisation that investment in a well-managed company is one of the best hedges against inflation.

Is this not overkill, Mr du Plessis?

Are the measures announced by Mr Barend du Plessis likely to to kill the goose that lays the golden egg? A top businessman interviewed by SUE OLSWANG warns as much.

The latest increase in interest rates and the rise in HP deposit rates (to a minimum of 20 percent of the purchase price) have come as a major blow to the country's domestic appliance industry.

Mr Richard Ferrer, chairman of the Domestic Appliance Manufacturers Association of SA, said domestic appliance sales could drop by as much as 15 percent this year.

"At the end of last year we forecast a downturn on major appliances of about 9 percent," he said.

"We had anticipated a cooling off in any event, but we did not anticipate further restrictive measures. HP deposits will now be set at 20 percent, and we believe this move will result in a market decline greater than our forecast because consumers will battle to raise the cash for a deposit.

"The domestic appliance industry is surprised that the Minister of Finance included major appliances in the latest round of increases because our industry has a relatively high local content. We can only assume he took the recent measures because of foreign exchange problems, but a decline in sales of major appliances won't help our country's Forex problem."

The new motor vehicle industry will not be hard hit by rising interest and HP deposit rates.

Mr Nico Vermeulen, chief executive of the National Association of Automobile Manufacturers of SA (Naamsa), said it is inevitable there would be some decline in the demand for new motor vehicles as a result of the tighter HP restrictions. But, he added, the industry did not anticipate a dramatic fall off because demand, as measured by orders on hand (which have not been fully satisfied), continued at a high level.

"Of course the increase won't help the new motor vehicle industry, but Naamsa had already anticipated a modest downswing in new vehciles sales, particularly in the second half of the year as the economy tends to cool down," Mr Vermeulen said.

"These latest measures will merely hasten our anticipated downswing, but we do not believe the adverse effect will be dramatic. We were expecting new vehicle sales in 1989 to be between five and 10 percent lower than 1988 in any case, and we don't believe the latest measures will affect these forecasts."

Supermarket executives are among those who have deplored the measures.

Mr Gordon Hood, managing director of the OK, said his company's traditional customers relied on HP for the purchase of "big ticket" items.

"When interest rates or deposit percentages rise, they are unable to purchase items which may be necessary, and this places what can also be termed as essential purchases beyond their reach.

"Obviously, it also makes such purchases very much more expensive, and as these are people whose real disposable income has been most affected by inflation, increased import duties, and all other factors which have an adverse influence on the consumer price index (CPI), it is regrettable that they will suffer the most."

Mr Hood said the entire industry was sensitive to such increases. He said this was revealed by the severe decline in the sales of VCR's (down by 50 percent), television (down by 20 percent) and other audio equipment (down by 30 to 40 percent) experienced by the entire industry after the increases in import surcharges and duties in August last year.

Mr Raymond Ackerman, executive chairman of Pick 'n' Pay, said he believed Mr Barend du Plessis had "done enough to cool the economy before these present announcements".

"I understand that Mr du Plessis is trying to curb spending because of our balance of payments problem, but I say he shouldn't kill the goose who lays the golden egg.

"The solution lies in other areas, such as reduced personal taxes, and not in an overkill situation."

180

Draconian penalties for insider trading

180

DEREK TOMMEY

THE DAYS of insider trading by big investors on the Johannesburg Stock Exchange are numbered. Cynics have maintained that insider trading will never stop. But that was before the publication this week of amendments to the Companies Act. These will make it extremely difficult for big investors (and they are the people who make the most money from insider trading) to get away any longer with this practice.

The apparent aim of the amendments is not to watch share movements and then seek evidence of insider trading. Instead it is to watch closely those who are in a position to carry on insider trading and then investigate their actions should share prices show large fluctuations.

This should make it much easier to indentify insider trading. And the Draconian penalties proposed for this offence, which will also apply to people acting for others who are 'in the know' but cannot act for themselves, should go a long way to stop this practice.

Restitution

Anyone found guilty of insider trading can be fined up to R500 000, sent to prison for 10 years or receive both punishments. In addition, and this could be even more expensive, he will have to make restitution to his victims.

But the amendments are aimed at catching more than insider traders. They also provide for the same Draconian penalties to be applied to anyone who has used false information or has made misleading statements with the intention of pushing shares and securities.

Hawkers of shares of fly-by-night companies who have made a good living fooling the ignorant will be living dangerously from now on.

The amendments were drafted by Professor Michael Katz, one of South Africa's top legal brains. Professor Katz became widely know in the business world for his work with the Margo Commission into tax reform.

The amendments are short, lucid and clearly define what is to be considered insider trading.

Watchdog

The watchdog will be the Securities Regulation Panel which will also have the task of monitoring take-overs. However, it is not expected to be actively employed in this area.

Members of the panel will be appointed by the Minister of Finance and by a number of bodies with the Johannesburg Stock Exchange having the biggest representation with three.

The panel will have the right to summon and cross examine any person as well as to call for books and other documents to be submitted to it.

As far as the panel is concerned, the key provision which should ensure that it is able to catch the the large insider traders, is that people in a position to conduct insider trading will have to submit, possibly at monthly intervals, details of their share portfolios. These people will have to furnish details of their holdings in unlisted as well as listed companies.

This provision could could cause a considerable outcry from the wealthy for it could mean that full details of their investments will now be made public for the first time.

The amendments state that anyone who directly or indirectly is the beneficial owner of more than 10 percent of the shares in a listed company, or who is a director or an officer of a quoted company, must furnish full details of his share investments to the proposed Securities Regulation Panel.

He much report his portfolio each month if there are any changes in its composition.

He must also furnish basic details of his listed investments to the Johannesburg Stock Exchange.

If he doesn't provide this information he could be liable to a fine of up to R20 000 or five years imprisonment or both.

The amendments apply to present or past directors or by an officer of a company or by any person connected with a company having knowledge which when published is likely to affect the share price. They also apply to people acting for them when they are unable to deal themselves.

Fraud and deceit

Any of these people trading in a share without waiting for 24 hours after their knowledge becomes public will be guilty of insider trading.

The authorities are also aiming to stop "fraud, deceit or artifice" being used in the sale of securities.

Professor Michael Katz who drafted the amendments.

The amendments state it is an offence (subject to the R500 000 fine) to employ any device, scheme or artifice to defraud any person.

It is also an offence to make any untrue statement of a material fact or omit to state a material fact that corrects previous statements.

The amendments maybe criticised on the grounds that small investors guilty of insider trading may possibly pass through the net.

But one can argue that if big investors are restrained from insider trading, small investors engaged in this practice would be readily identifiable and also liable to be investigated by the panel.

When the amendments become law the Johannesburg Stock Exchange will be a very different place from what it is now. There will be no loopholes for those engaged in insider trading.

Business confidence expected to decline

189

Star 9/5/89.

Finance Staff

Business confidence is set to decline further over the next few months in the wake of Friday's austerity measures.

In its monthly survey, the Federated Chamber of Industries (FCI) says: "On balance, it seems as if the measures will hurt, but will not prove to be a knock-out blow to an inherently vibrant manufacturing sector."

Presenting its index for expected sales volumes in the 12 months to April 1990, it says Friday's measures are not discounted in the survey and it seems probable, therefore, that business confidence and the index value will decline further in the months ahead.

"A touch of irony is present in these developments as it is universally regarded as politcally unwise to adopt a strict stance on econmomic policy prior to an election.

"The May 5 announcement caught many commentators by surprise and reflects the alarming degree of apathy among the electorate to socio-economic issues."

The index dropped for the third consecutive month to a value of 136, which is, however, well into the optimistic range. On the FCI scale 100 represents the borderline between pessimism and optimism.

The FCI says that on the positive side exports of fully manufactured products in certain sub-sectors are performing exceptionally well.

The FCI says: "Coastal regions canvassed by the FCI survey remain optimistic about the future and it seems that some industries are maintaining full order books. In the Eastern Cape this applies to motor vehicles, tyres, pharmaceuticals and clothing.

Standard Bank questions the effectiveness of the measures.

It says in its *International Review*: "In terms of inflationary expectations, nominal rates of interest are not that high and consumers may fail to rein in spending. It is also uncertain whether these measures will assist in stemming the seemingly inevitable depreciation of the rand."

"My party and I reject reject terrorism from the left and the right."

B L "Boy" Geldenhuys outside his bomb-damaged home. Picture: DANIEL SIMON

FCI against surcharges

Bus Day 9/5/91 (180)

GRETA STEYN

THE FCI has criticised the effects on capital spending of Friday's economic package, saying it could harm the growth potential of the country.

Economist Roelof Botha said yesterday the revised surcharge procedure for capital goods could affect SA's future productive capacity.

He was referring to government's decision to stop granting widespread exemptions to the surcharge on capital goods. Although the surcharge has been reduced from 20% to 15%, exemptions will only be granted in exceptional circumstances, whereas previously they had almost been granted as a rule.

Because investment in capital goods was necessary to expand productive capacity, he opposed clamps on imports of capital goods.

"The country's ability to generate foreign exchange earnings by exporting fully manufactured goods will be harmed."

The decision seemed to contradict the new structural adjustment approach towards industrial development.

Botha called for a more selective approach when tightening policy, targeting sectors that were large and consistent net users of foreign exchange. He was in favour of special treatment for industries which had the potential to export products with a relatively high local value-added component.

BUSINESS DAY, Tuesday, May 9 1989 3

Sales forecasts for goods fall again

180

ZILLA EFRAT

FORECASTS of sales of manufactured goods for the next 12 months have fallen for the third month in succession, but they still remain within an optimistic range, says the Federated Chambers of Industries (FCI).

In its April survey, the FCI disclosed that the 12-month sales forecast declined to an index number of 136, from 142 in March and 150 in February. It peaked in January at 158.

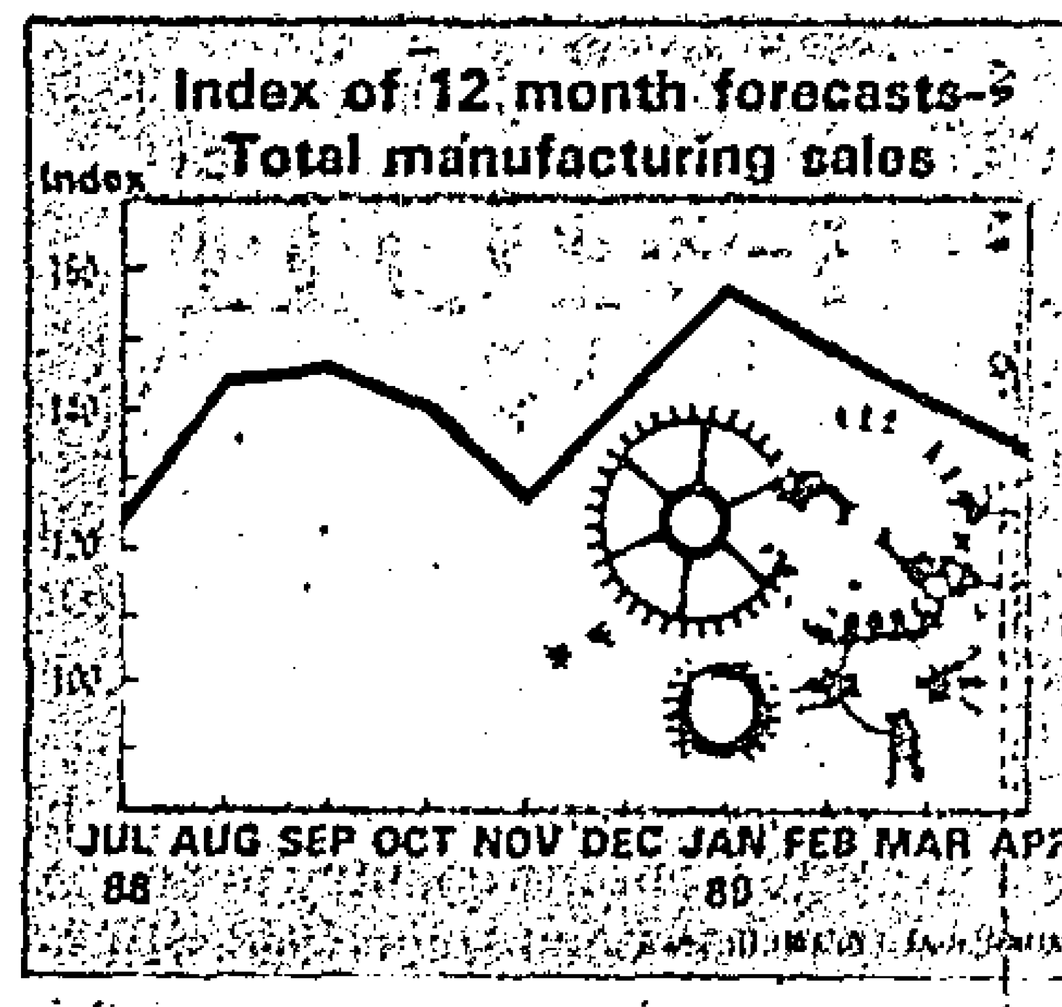
But FCI economist Roelof Botha says it still remains above the critical 100 favourable level. He adds that measures to cool the economy will further depress business confidence and lead to a continuation of this downward trend.

The other FCI index, that for manufacturing activity, posted an aggregate index value of 114 in April, but expectations for the longer term were more optimistic at 132.

Apart from the OFS, all regions were more optimistic about business conditions in the next 12 months, with Maritzburg and Port Elizabeth showing the most favourable expectations.

Maritzburg is benefiting from buoyant conditions in the timber industry, while the Eastern Cape has been boosted by the Mossgas project, an increase in tourism and strong demand in the motor vehicle, tyre, pharmaceutical and clothing industries.

The aggregate three-month momentum in output — November 1988 to January 1989 compared with the same period last year — reflects a 5,5% real increase, but is 1,5% lower than the corresponding figure two months ago.



This is a decline of more than 20% and greatly explains the drop in the FCI's confidence indices since January.

Botha says real increases in manufacturing output in excess of 5% can hardly be described as a recessionary trend.

The manufacure of electrical machinery has shown the highest growth in output with a 38% rise, followed by footwear, up 30%.

The greatest decline in national production output was in the clothing industry, down 10,4%, followed by the iron and steel industry, with a 9,1% drop.

Botha says economic policy is traditionally conducted in a neutral to expansionary manner before elections and the recently announced austerity measures clearly indicate the degree of apathy amongst the SA electorate regarding socio-economic issues.

Sechold's profit rise is a creditable performance

HAROLD FRIDJHON

SECURITIES Discount House Holdings (Sechold) gave a creditable performance for the 12 months to March with disclosed taxed profit rising to R9,4m from R8,1m.

This improvement of 18,5%, reported in a second interim statement — the financial year-end has been changed to June 30 — is noteworthy because of the steady increase in the interest-rate pattern during the the second six-month period.

The final dividend will be declared at the end of the 15-month period.

One must observe with some cynicism that the disclosed profit for 12 months is almost nearly double that reported for the first six months because of the smokescreen "net income after providing for tax and transfers to inner reserves".

That said, one assumes these transfers are a consistent percentage of taxed profit in which case the Sechold group's trading in assets — in the money market as well as in the bond market — was successfully carried out with knife-edged sharpness at a time when interest rates were rising.

Big profits are made when rates drop and markets are bullish.

MD Arthur Kelly said yesterday during the past 18 months interest rates had almost doubled.

Functions

This had necessitated limiting the the holding of stock and taking positions.

At present the discount house's book has been considerably reduced.

Profits had been cut to take advantage of market moves and to achieve a satisfactory outcome. Sechold was still performing some of the traditional functions of a discount house.

Deposits were received from the banks and other institutions but this was relatively low-key compared with its main business, which was trading and dealing in securities.

Sechold has a 30% stake in the Interbank Discount House and the group is also part of a consortium which has a 70% holding in National Discount House.

Kelly emphasised these two operations were totally separated from Sechold and that any dealing between them was done entirely at arms' length.

There was not, nor ever had been, any question of these two businesses being merged into Sechold.

The report said Interbank had shown a marked improvement in its earnings.

When the final dividend is declared after June 30, shareholders will, for the time being, not have the option of taking bonus capitalisation shares in lieu of a cash payout.

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CWIU set for ...sions on ...estment

...AN FINE

...TATIVES of Mobil Oil ... Chemical Workers' In... ...ion (CWIU) are due to ...onday for negotiations ...'s withdrawal from SA, a ... of the resumption of the ...rgent court application.

... are strong indications ...ill be differences between ...er the breadth of the agen... ...en Mobil's view that the sale ...ocal assets to Gencor is a *fait ...pli.*

...IU general secretary Rod ...npton said yesterday the entire ...U package of disinvestment de...ads remained at issue.

...he CWIU has asked the Industri... Court to halt the sale pending ...gotiation of the union's disinvest...ent demands first submitted to ...e company, and 38 other multina...ionals, in July 1987.

Mobil industrial relations manager Jacques Franken said yesterday the meeting would discuss "the possible consequences of the decision by its ultimate foreign parent company to dispose of its interests in southern Africa".

He agreed this meant Mobil considered the sale a *fait accompli*, and certain union demands such as for 12 months notice of the intention to disinvest should fall away.

Guarantees

"We are prepared to listen to everything and negotiate whatever is negotiable," he added.

It appears Mobil will also resist giving, or be unable to give, any guarantees regarding employees' future job security under the management of the new owners.

On demands for severance payments, Franken said the sale would not disturb the employer/employee relationship. All that had occurred was a book entry transferring shares from one owner to another.

Franken, commenting on CWIU accusations that Mobil had lied and acted duplicitously in making previous assurances regarding its future in SA, said such accusations were unfounded. He had always made such statements in good faith.

CWIU official Pat Horn said this week many CWIU members employed by multinationals, particularly petroleum companies, were extremely worried that disinvestment announcements may be sprung on them soon.

She said management was aware of these fears and that, at Sapref, management had this week issued special reassuring briefs.

15% tax hike on private use of company cars

180

B Day 9/5/84

SYLVIA DU PLESSIS

INCREASED income tax values on the private use of company cars represent an average hike of 15% on existing values, auditors Arthur Young say in their latest Tax Pace.

The increases were announced last month by the Commissioner for Inland Revenue.

In addition, the tables — effective from June 1 — have been extended to vehicles with a determined value in excess of R150 000, they say.

Where the determined value of any vehicle exceeds R150 000, the value of private use for each month will equal that for a vehicle with a value of R150 000.

The value will include an amount of R53 for each completed amount of R10 000 by which such determined value exceeds R150 000, Arthur Young says.

Where the employee bears the cost of all fuel used for the purposes of the private use of the vehicle, the monthly values are reduced by R67.

While no alterations have yet been proposed regarding the expenditures deductible against travel allowances, a revision of these tables is expected shortly, Arthur Young says.

The Star Tuesday May 9 1989

Is this not overkill, Mr du Plessis?

180

Are the measures announced by Mr Barend du Plessis likely to to kill the goose that lays the golden egg? A top businessman interviewed by SUE OLSWANG warns as much.

The latest increase in interest rates and the rise in HP deposit rates (to a minimum of 20 percent of the purchase price) have come as a major blow to the country's domestic appliance industry.

Mr Richard Ferrer, chairman of the Domestic Appliance Manufacturers Association of SA, said domestic appliance sales could drop by as much as 15 percent this year.

"At the end of last year we forecast a downturn on major appliances of about 9 percent," he said.

"We had anticipated a cooling off in any event, but we did not anticipate further restrictive measures. HP deposits will now be set at 20 percent, and we believe this move will result in a market decline greater than our forecast because consumers will battle to raise the cash for a deposit.

"The domestic appliance industry is surprised that the Minister of Finance included major appliances in the latest round of increases because our industry has a relatively high local content. We can only assume he took the recent measures because of foreign exchange problems, but a decline in sales of major appliances won't help our country's Forex problem."

The new motor vehicle industry will not be hard hit by rising interest and HP deposit rates.

Mr Nico Vermeulen, chief executive of the National Association of Automobile Manufacturers of SA (Naamsa), said it is inevitable there would be some decline in the demand for new motor vehicles as a result of the tighter HP restrictions. But, he added, the industry did not anticipate a dramatic fall off because demand, as measured by orders on hand (which have not been fully satisfied), continued at a high level.

"Of course the increase won't help the new motor vehicle industry, but Naamsa had already anticipated a modest downswing in new vehciles sales, particularly in the second half of the year as the economy tends to cool down," Mr Vermeulen said.

"These latest measures will merely hasten our anticipated downswing, but we do not believe the adverse effect will be dramatic. We were expecting new vehicle sales in 1989 to be between five and 10 percent lower than 1988 in any case, and we don't believe the latest measures will affect these forecasts."

Supermarket executives are among those who have deplored the measures.

Mr Gordon Hood, managing director of the OK, said his company's traditional customers relied on HP for the purchase of "big ticket" items.

"When interest rates or deposit percentages rise, they are unable to purchase items which may be necessary, and this places what can also be termed as essential purchases beyond their reach.

"Obviously, it also makes such purchases very much more expensive, and as these are people whose real disposable income has been most affected by inflation, increased import duties, and all other factors which have an adverse influe[nce on the] consumer price index (CPI), it is regret[table that] they will suffer the most."

Mr Hood said the entire industry was [...] to such increases. He said this was reveal[ed in the] severe decline in the sales of VCR's (down [...] cent), television (down by 20 percent) a[nd] audio equipment (down by 30 to 40 percen[t) experi]enced by the entire industry after the inc[rease in] import surcharges and duties in August las[t year].

Mr Raymond Ackerman, executive cha[irman of] Pick 'n' Pay, said he believed Mr Barend [du Plessis] had "done enough to cool the economy bef[ore the] present announcements".

"I understand that Mr du Plessis is tryin[g to curb] spending because of our balance of payme[nts prob]lem, but I say he shouldn't kill the goose [that lays] the golden egg.

"The solution lies in other areas, such a[s ...] personal taxes, and not in an overkill situat[ion ...]

Muted reaction to austerity package

(180) Star 10/5/8

Diagonal Street's response to last Friday's austerity package has been remarkably neutral. The industrial index might have shed a few points but the severity of the measures certainly suggests that falls of somewhat larger dimensions might have been expected.

Diagonal Street

JOHN SPIRA

The muted reaction can be viewed in a positive light. After all, if the JSE can hold its head in the face of so considerable a negative (damage to cash flows, interest burdens and end-demand), then it can be concluded that the market has built up a substantial head of steam. Thus, once the bad news has been digested, the JSE will continue on its merry way once more.

A major factor in so bullish an outlook is the weight of institutional funds seeking a home in the wake of the change in the prescribed asset requirements. Good quality scrip is already in short supply and with the prospect of additional investment funds destined for equities in the months ahead, there is no doubt much underlying strength from this source.

Adding fuel to the positive sentiment is a growing awareness of the nation's chronic inflation problem. Whether or not one places reliance on calculations pointing to a true inflation rate of 30 percent plus, the perception that something is awry on this front is certainly driving many an investor into inflation-proof equities.

At the same time, it would be shortsighted to view the JSE's apparent disdain for higher interest rates, et al, in a complacent light. The possibility remains that a full realisation of the economic package's ramifications has not yet dawned. A belated reaction cannot yet be ruled out.

To be viewed with some scepticism is the total lack of concern over the prospective impact of the tighter hire purchase conditions on furniture and motor companies.

By the close of trade on Monday, the furniture index was unchanged, while the motor index eased back a mere 1,2 percent. In fact, the biggest decline was in chemicals and oils — a sector one would have thought was immune to Friday's news.

It is this sort of action which implies that investors have not yet made up their minds as to which way the market is likely to go. They haven't yet distilled the effects of all the factors at work. Once they reach the bottom line, they could jump either way.

Don't be too surprised, though, if they ultimately decide that the weight of adverse news justifies a fairly sharp downward correction.

BUSINESS DAY, Wednesday, May 10 1989 13

Higate's earnings likely to increase

180

LIZ ROUSE

HIGATE's earnings are expected to increase by the rental escalation rates which have now moved up from between 9% and 10% a year to 11% or more, says chairman Anthony Ardington.

Prospects for 1989/90 are good, bearing in mind the Higate portfolio is well leased at rentals which stand below market levels. About 9% of the portfolio falls due for renewal this year, he says in his annual review.

Rentals are not rising at the same rate as building costs. This limits the likelihood of significant new developments creating surplus capacity.

Higate's unutilised development potential is therefore a major asset. There are 55,6ha of land in the portfolio. The total floor area of buildings is 23,6ha.

The undeveloped land is mainly situated in prime industrial areas and most of it falls into long-term leases. This land will ultimately provide excellent development opportunities.

Future acquisitions will continue to be considered only in prime urban locations with sound growth potential, with a preference for the greater Johannesburg/Pretoria area.

Higate has a sound spread of tenants with more than 50% of its net rental income coming from JSE-listed companies. The remaining tenants substantially comprise well-established businesses with proven success in their respective fields.

Although the company has few leases falling due for review in the next two years, it has a strong and fairly evenly balanced spread of reviews over the next three years from 1991 to 1993.

In the past year Higate committed R13,3m to new investments, leaving R8m for investment at the March year-end. Two new developments under construction at the start of the past financial year — in Industria, Johannesburg, and Jacobs, Durban — were completed at a total cost of R4,1m. These two properties were leased to major industrialists listed on the JSE on a fully repairing basis.

In addition, certain major developments totalling R9,8m have been completed or are in the process of completion at the year-end, the most signficant being an office complex in Craighall Park at a cost of R6,2m.

In its first year of operations Higate's earnings totalled R14,35m compared with the prospectus forecast of R13,49m. This represented an interest payment of 58c a debenture compared with the forecast 55,3c. A dividend of 5,8c (5,5c forecast) was paid.

New Act call for partners

b/Day 10/5/89

LAWS governing partnerships are outdated by several centuries and badly need to be rewritten, Professor Johan Henning said during the Ilpa Conference in Cape Town yesterday.

"Our partnership laws date back to 17th century Roman-Dutch common law and, as a result, are both outdated and uncertain.

"In order to interpret them it is necessary to go back to ancient Latin and medieval Dutch texts. It would make far more sense to follow the example set by most other Western countries and establish modern laws," he said.

Research undertaken by the department of mercantile law at the University of the OFS recently unearthed a comprehensive Roman Dutch work on partnership law which, Henning said, had been largely ignored.

"This has been translated and could serve well in helping to understand the existing law and, more to the point, in establishing a new one," he said.

Henning pointed out a principal function of the statutory law of business associations was to provide a standard form agreement to govern their relationships.

This, he said, would be economically efficient because parties involved could agree to be governed by the law, thus saving the costs of negotiating and drawing up a custom-made agreement.

Secondly, he said, a properly drafted statute made the rights of each party clear by reducing the need for litigation at a later stage.

"Finally, when the parties have entered into a business relationship without thinking through the legal consequences, a properly drafted statute gives them what they would have arrived at through negotiation," he said.

Henning also discussed the development of close corporations since the Act making these possible was established in 1985. This, he said, should not be regarded as an isolated event but rather as part of a larger process of reform.

It should be considered in association with such developments as privatisation, deregulation, advancement of effective competition and promotion of small business, he added.

"The unqualified success of the close corporation and enthusiastic reaction of entrepreneurs to the new dispensation augur well for the future," Henning added.

Incidence

180

He pointed out a total of 115 103 close corporations had been registered compared with about 25 000 companies registered since 1985.

"In 1984 SA saw the registration of a total of 11 601 companies — an average of 967 each month. During the following year this number dropped to 5 818, and 15 911 close corporations were established at an average rate of 1 325 a month.

"The incidence of registrations is now levelling off, with 36 092 new close corporations being registered last year compared with 7 393 companies," he said.

He attributed popularity of the close corporation to its tax benefits and the low cost of registration.

"SA now has an ideal entity to meet the needs of the small businessman," he added.

terest rate," managing director Stan

...match earnings in the coming year," he concluded.

Poor results from J.Bibby

Star 11/5/89 180

Finance Staff

Barlow Rand's international subsidiary, J.Bibby & Son continued its recent lack-lustre performance with a 5,5 percent rise in pre-tax profits to £15,87 million in the six months to end-March. An interim dividend of 2,75p was maintained.

After providing for an estimated taxation rate of 35 percent, earnings per share improved from 8,62p to 9,07p.

Sales were down by eight percent at just over £272 million, which directors ascribed to weak results from the agricultural division and raw material price escalation at the paper and converted products division. However, the science products and the materials handling division showed good performances.

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New legislation a contradiction

B Day 12/5/88

(180)

KAY TURVEY

SURCHARGE legislation gazetted this week flies in the face of Finance Minister Barend du Plessis' announcement last Friday and significantly widens the surcharge net in a move set to drive up local manufacturing costs.

Raw materials and components imported by manufacturers will now be subject to the 15% surcharge. The surcharge rebate to which they were previously entitled will now lapse.

The move has been slammed as a complete about turn from the authorities. Last Friday, Du Plessis said only the 20% surcharge on capital goods would be cut to 15% and "all other surcharges would remain unchanged".

Now many previously exempt imported raw materials which fall under the first schedule (Customs Tariff), such as TV tubes, will be subject to a surcharge.

Intermediate manufactured components, such as for earth-moving machinery under the third schedule (Industrial Rebates), will fall into the surcharge net. However, motor vehicle spares will remain exempt.

As part of last week's restrictive economic package, Du Plessis also announced the abolition of exemptions "other than in exceptional circumstances" and said "exemption permits already issued will remain valid".

However, the May 10 Government Gazette gives a cut off point for exemptions granted before May 5 as from June 30.

Deloitte Haskins & Sells associate director Doug Jolliffe says, where importers have exemptions, these will no longer be valid if goods are cleared through customs after the end of June, thus, causing havoc with financial planning.

In a strongly worded statement, Assocom last night criticised the authorities for being on the brink of sinking into "interventionist inconsistency".

"It is impossible for business to plan on the basis of official deeds not matching words. The constant search for tax revenue by the authorities is distorting the economy and is creating new uncertainty for industry and commerce virtually weekly."

□ EDWARD WEST reports about six applications have already been received by the Board of Trade and Industries for exemptions regarding countertrade schemes involving the import of capital equipment.

Board of Trade and Industry chairman Lawrence McCrystal said applications for countertrade schemes had been flowing in, as there were no exemptions under the new legislation other than for approved countertrade schemes.

Marais releases draft on new loan levies

BM Day 12/5/89 (180)

DEPUTY Finance Minister Org Marais yesterday released draft legislation on the new loan levies, following widescale confusion over the new tax announced last week.

KAY TURVEY

Tax experts, although critical of the levy, have welcomed the greater clarity given to the 10% loan levy companies must now pay, based on normal tax paid in the latest year to end-July.

The legislation states:

- The latest assessment will be taken as the assessment issued by the commissioner and posted to the company not later than July 15 1989;
- Where there is a dispute over the assessment, the commissioner may direct the loan levy payable by such a company be calculated on the amount "which the commissioner deems to be normal";
- Companies where the winding up or liquidation has begun before the begining of July will be exempt; and
- Companies failing to pay the loan levy for which they are liable before July 31 will be charged interest as from August 1.

Pim Goldby partner Jonathan Lowe said that, as many assessments are appealed, leaving an avenue open for objections was a crucial step.

However, Arthur Young partner Ian Mackenzie warned of giving more discretionary powers to the commissioner, saying this could cause problems in practice.

He added the July 15 cut-off date now made the loan levy less arbitrary.

The R750m to be raised by the loan levy should be accounted for seperately to demonstrate the authorities' stance that the tax was being levied to withdraw money from circulation, Mackenzie said.

Following hard on the heels of the Minimum Tax on Companies (MTC) — applied to companies declaring dividends but not paying full tax, last year — tax experts are sceptical of the loan levy, questioning whether it is just another revenue raising exercise.

Like MTC, the loan levy is a once-off, retrospective tax and accountants are already dubbing it MTC's "little brother".

MTC, introduced for a year in the 1988 budget, was, as Finance Minister Barend du Plessis said at the time, an "income-generating cash flow measure" to tide government over its tax reform programme.

MTC was expected to raise R350m but raised a good deal more.

'Measures will back up JSE'

15 (Day 12/5/89 (180)

LESLEY LAMBERT

TOUGH new measures against insider trading tabled this week could have been used in the prosecution of cases the JSE lost through inadequate legislation, JSE president Tony Norton said yesterday.

The measures, in an amendment to the Companies Act, will regulate mergers and acquisitions, and penalise insider trading in the securities market. The amendments also provide for the establishment of a Securities Regulation Panel, incorporating the private sector, with statutory backing.

Norton, who has been doing battle in an environment where none of the insider trading cases handled by the JSE has succeeded because of inadequate existing legislation, believes the new legislation will encourage morality in the markets.

"Up to now the JSE has been a watchdog with rubber teeth. It has had neither contractual nor statutory power to back it up. The market needs the credibility of the private sector clothed with statutory power. The panel will make the rules and enforce them statutorily," he said in an interview yesterday.

The self-regulating panel will consist of a chairman, the Registrar of Companies, three JSE nominees and one nominee each from various other market associations who will be elected for a five-year period.

On one hand, the panel will make rules governing takeovers and mergers and will have the power to investigate these corporate activities. On the other, it will exercise strict control over insider trading, investigating suspected cases and handing them over to the police or the Attorney-General for prosecution.

The combination of self-regulation with a statutory sanction has been adapted largely from the UK system, which is purely self-regulatory, but without statutory sanction for the breach of self-regulation.

The insider trading rules have followed the US pattern, which has benefitted from 40 years of legal interpretation and is considered to be the most advanced.

☐ Comment: Page 8

(180) Fmail 12/5/89.

MANUFACTURING

What the doctor didn't order

What's the point in encouraging local manufacture, then forcing goods out of people's reach?

That's the question many industry executives are asking, in the wake of government's latest economic package.

Motor industry officials, in particular, are more than a little peeved. Having just embarked on a hugely expensive local content operation at government's behest, they must now come to terms with a package which immediately hinders the operation.

Samcor's announcement this week that it plans to invest R1bn in the next 10 years — largely as a result of the new, foreign exchange-related local content deal — is the tip of the iceberg.

Other companies, like Toyota and Volkswagen, have already announced costly investment plans. Industry-wide investment over the next few years has been estimated as high as R10bn. Vehicle and component companies are discussing potential for co-operation on certain activities to avoid further unnecessary spending.

The main thrust of the new local content programme is to reduce motor industry imports and improve SA's balance of payments. The BoP factor is also a prime reason behind the latest credit restrictions and interest rate rise — which is what irritates people in the industry.

Coming on top of a 35% rise in fuel prices in recent months, tougher perks tax regulations and higher GST, the latest package is just what the doctor didn't order.

Interest rates, the industry can live with. That affects everyone. But HP restrictions are another story. The minimum HP deposit on cars rose on Monday from 12% to 15%, while the maximum repayment period fell from 48 months to 42.

Says Nico Vermeulen, director of the National Association of Automobile Manufacturers: "Government is obviously concerned over the BoP. But the new local content programme already addresses that. For that reason, we were surprised to be included in the latest credit package."

Others point out that sales this year are down on 1988 levels. Unlike other consumer sectors, where demand remains strong, car sales are already declining — without government help.

Theo Swart, joint-MD of the McCarthy Motors Group, says: "I'm disappointed at the government moves. They are asking motor manufacturers to invest very heavily in Phase Six of the local content programme. That investment will create jobs. But manufacturers need to produce goods to amortise costs.

"It seems to me that, on one hand, government is asking people to invest and on the other is making it more difficult for them to sell their product. I think the new moves are untimely."

In the new-car market, the credit and interest rate moves will widen the gap between private and corporate sales. The impact on private buyers will be greater than on the corporate sector, which already accounts for up to 80% of the market.

Vermeulen says the impact on overall sales this year will not be huge, because of that ratio. The industry has consistently predicted a slowdown in the second half of the year. The latest measures will reinforce the trend.

Used-car buyers will feel the strain more. Although Swart doesn't expect a major difference in total sales, he expects a lot of buyers to lower their sights.

"The man in the street will be hurt. He probably won't stop buying but he'll have to buy a cheaper car than he originally intended. The trend will move to cheaper units."

The motor industry isn't the only one feeling the heat from the new economic package. As the table shows, many consumer goods are affected.

HIRE AND HIGHER

Changes in HP requirements since May 8

	WAS		NOW	
	Deposit (%)	Term (months)	Deposit (%)	Term (months)
Cars	12	48	15	42
Jewellery	15	18	25	12
Domestic Appliances	15	18	20	18
TVs	15	18	20	18
Videos	25	12	30	12
Photographic equipment	20	18	25	12

Tek Group MD Mike Bosworth echoes Swart's view on the danger of encouraging local manufacture, then pricing the product out of the market.

"The Board of Trade & Industries recently announced incentives for the production of low-price, monochrome television sets but with these new terms, people won't be able to afford to buy them."

Sterns Jewellers CE Gordon Smythe says of the HP restrictions: "Lower income groups will be affected most. Middle and upper income groups can use their credit cards to get better than 12 months credit." But he adds: "As retailers, we'll have to meet the consumer's needs and find products of acceptable standards he can pay for in 12 months, instead of 18."

Eric Horvitch, MD of Photo Agencies, complains: "It seems absurd to increase the deposit and reduce the period of payment for cameras and accessories, but exclude equipment for cinemas and theatres. The theory, probably, is that cameras are a luxury, but they are used by professionals to take pictures used in publications and for scientific, archival and educational purposes. None of those are luxury pursuits." ■

THE WORLD

Nestlé hands out free milk ... and runs into a boycott

Nestlé, the world's largest producer of milk products, has been handing out baby milk free to hospitals in developing countries. But this apparently altruistic act has enraged health organisations who argue that high infant mortality rates in poverty-stricken areas are due to the misuse of bottled milk

By PETER COX

THE Nestlé company, the world's largest producer of dairy products, provides free or subsidised baby milk to hospitals in developing countries. The reason, says the company, is so that medical staff get to know the products, and also for altruistic reasons — "like giving money to concert pianists or the boy scouts".

Explains the company's representative, Francois Perroud: "Many hospitals in developing countries have a hard time making ends meet. They go to pharmaceutical companies; they go to companies that sell hospital equipment and beg — basically, that's what they do."

Many people find the idea of Nestlé as "fairy godmother" to the world's babies a trifle hard to swallow. Nestlé is a multi-national with some 163 000 employees around the world, annual sales of $24 billion and the lion's share of the international infant formula market. Couldn't there perhaps be a more commercial motive such as to promote sales?

"No. It doesn't," says Perroud. "There is no direct promotion involved — how could there be? There is no tit-for-tat involved of any sort. The hospital says we need so many boxes or so many cans of infant formula, let's see who can give it to us. Right?"

Perroud's argument cuts no ice with Nancy Gaschott of the US-based group Action for Corporate Accountability (ACA) which is organising a boycott of Nestlé products.

She says companies only donate free supplies of baby milk to Third World hospitals and maternity wards to promote their products. It is an effective technique because once bottle-feeding starts, breast milk dries up. When mother and baby leave hospital there is a physical need to buy more formula; both mother and baby are hooked.

But the mothers often cannot afford the formula, so there is the temptation to over-dilute the powder to eke it out a little longer. No wonder that bottle-fed babies in the Third World are twice as likely to die as breast-fed babies. In the hands of the poor, feeding bottles are a passport to death.

Perroud says: "On every single can of infant formula sold worldwide, there is an encouragement for mothers to breast-feed. There is a warning against the misuse of formula. What more can we do?"

"They could stop sabotaging breast-feeding at the beginning," retorts Patti Rundall of the Baby Milk Action Coalition in the United Kingdom.

But to give Nestlé due credit, they have probably done more than most infant formula companies to curtail unacceptable marketing practices. In 1982 they created an independent monitoring organisation — the Nestlé Infant Formula Audit Commission — headed by former United States Senator Edmund Muskie. Although this group has on occasion found Nestlé in violation of its marketing obligations, reports from around the world suggest that other companies more regularly break the spirit and letter of the World Health Organisations's code on the marketing of baby foods.

As a baby suckles, the breast-milk changes its constitution to ensure that the infant receives just the right nutrients. A mother's breasts produce a yellowish fluid called colostrum which contains protective proteins and anti-bodies, giving babies increased resistance to diarrhoea and other diseases. Breast feeding also inhibits menstruation, thus acting as an effective form of birth-control, increasing the spacing between births and improving an infant's chances of survival

Picture: PETER AUF DER HEYDE

Why have Nestlé been singled out for the boycott? The answer is simple: if the boycott is to be effective it has to target individual companies. Nestlé is the world's largest baby-milk seller and has agreed in the past to follow WHO guidelines. It has, says ACA, broken this agreement.

Moreover, the Nestlé Formula Audit Commission is not without its critics. According to Gaschott, the commission's chairman was chosen by Nestlé, all of its funding comes from Nestlé — it even shares Nestlé's public relations firm. A member of the commission, Professor James Post, confirms that the group undertakes little direct monitoring of Nestlé marketing activities: "There has not been much recent activity in the field ... I think that commission members themselves recognise that the time is right for us to do more of that."

I ask Perroud why the commission doesn't undertake regular fact-finding missions.

"It is entirely free to do so," he replies. "Whenever it wants to; whenever it perceives a need."

I ask Perroud whether Nestlé accepts that "Bottle Baby Death", as the syndrome is called, actually occurs.

"Definitely," he says. "But I think you used absolutely the right word — 'Bottle Baby'. Nobody has ever checked what is in the bottle. You have dozens of instances, hundreds of instances where that bottle was checked, and we found cow's milk, we found goat's milk, we found camel's milk, we found Coca-Cola, we found sugar-water, whatever else. And we have very, very rarely found misuse of infant formula."

Gaschott does not take kindly to this defence. "Certainly all these things appear in bottles, as well as over-diluted formula. But a mother only resorts to feeding her baby this way because she has been persuaded by industry promotion that bottle-feeding is the best way to feed her baby. After her breast milk has dried up she discovers the incredible expense of infant formula and she does the best she can with the resources available to her."

A final question for Perroud lingers in my mind: "Let's assume that a mother is encouraged to use infant formula and subsequently can't breast-feed — but also cannot afford to buy enough infant formula for her baby. Would you feel morally responsible for that in any way?"

"Well," says Perroud, "the simple fact is that we put ideograms on the cans to show the mother how to use it." — The New Internationalist

HLH beats expectations

180

Star 12/5/89

Finance Staff

Earnings per share for the enlarged Hunt Leuchars & Hepburn (HLH) rose by 42 percent to 68,8c a share in the year to March, with all companies in the group performing above expectations.

Income attributable to ordinary shareholders was R75 million.

But since the results include those of the Bonuskor group, acquired in April last year, meaningful comparision with the previous year's results is impractical.

Turnover for the diversified industrial holding group in the Rembrandt stable was R371 million, with income before interest and tax R102 atmillion.

Pre-tax income rose from R11,2 million to R96,5 million.

But the tax charge soared from R198 000 to R36,2 million, leaving taxed income at R60,235 million (R11,049 million).

After making provision for R4,3 million attributable to outside shareholders and including R19,047 million, being the share of net income retained by associated companies, attributable earnings were R74,969 million (R22,4 million).

Because of an increase in the number of shares in issue, which were used in part to fund the Bonuskor takeover, the number of shares ranking for dividend rose from 46,47 million to 109,0 million.

This resulted in earnings per share rising from 48,4c to 68,8c. The final dividend has been increased from 10c to 14c a share.

Together with the interim dividend of 10c (8c) this makes a total of 24c for the year.

Since the year-end HLH has acquired a strategic stake of 25 percent in Rainbow Chickens, as Rembrandt's nominee. To finance the deal, HLH and its holding company, Huntcor, are proceeding with a rights offer.

The company's balance sheet looks sound, with cash resources of R64,3 million available, together with considerable under-utilised debt capacity.

Offenders face R500 000 fine and/or jail

Star 13/5/89.

Draconian penalties for insider trading

(180)

DEREK TOMMEY

THE DAYS of insider trading by big investors on the Johannesburg Stock Exchange are numbered. Cynics have maintained that insider trading will never stop. But that was before the publication this week of amendments to the Companies Act. These will make it extremely difficult for big investors (and they are the people who make the most money from insider trading) to get away any longer with this practice.

The apparent aim of the amendments is not to watch share movements and then seek evidence of insider trading. Instead it is to watch closely those who are in a position to carry on insider trading and then investigate their actions should share prices show large fluctuations.

This should make it much easier to indentify insider trading. And the Draconian penalities proposed for this offence, which will also apply to people acting for others who are 'in the know' but cannot act for themselves, should go a long way to stop this practice.

Restitution

Anyone found guilty of insider trading can be fined up to R500 000, sent to prison for 10 years or receive both punishments. In addition, and this could be even more expensive, he will have to make restitution to his victims.

But the amendments are aimed at catching more than insider traders. They also provide for the same Draconian penalities to be applied to anyone who has used false information or has made misleading statements with the intention of pushing shares and securities.

Hawkers of shares of fly-by-night companies who have made a good living fooling the ignorant will be living dangerously from now on.

The amendments were drafted by Professor Michael Katz, one of South Africa's top legal brains. Professor Katz became widely know in the business world for his work with the Margo Commission into tax reform.

The amendments are short, lucid and clearly define what is to be considered insider trading.

Watchdog

The watchdog will be the Securities Regulation Panel which will also have the task of monitoring take-overs. However, it is not expected to be actively employed in this area.

Members of the panel will be appointed by the Minister of Finance and by a number of bodies with the Johannesburg Stock Exchange having the biggest representation with three.

The panel will have the right to summon and cross examine any person as well as to call for books and other documents to be submitted to it.

As far as the panel is concerned, the key provision which should ensure that it is able to catch the the large insider traders, is that people in a position to conduct insider trading will have to submit, possibly at monthly intervals, details of their share portfolios. These people will have to furnish details of their holdings in unlisted as well as listed companies.

This provision could could cause a considerable outcry from the wealthy for it could mean that full details of their investments will now be made public for the first time.

The amendments state that anyone who directly or indirectly is the beneficial owner of more than 10 percent of the shares in a listed company, or who is a director or an officer of a quoted company, must furnish full details of his share investments to the proposed Securities Regulation Panel.

He much report his portfolio each month if there are any changes in its composition.

He must also furnish basic details of his listed investments to the Johannesburg Stock Exchange.

If he doesn't provide this information he could be liable to a fine of up to R20 000 or five years imprisonment or both.

The amendments apply to present or past directors or by an officer of a company or by any person connected with a company having knowledge which when published is likely to affect the share price. They also apply to people acting for them when they are unable to deal themselves.

Fraud and deceit

Any of these people trading in a share without waiting for 24 hours after their knowledge becomes public will be guilty of insider trading.

The authorities are also aiming to stop "fraud, deceit or artifice" being used in the sale of securities.

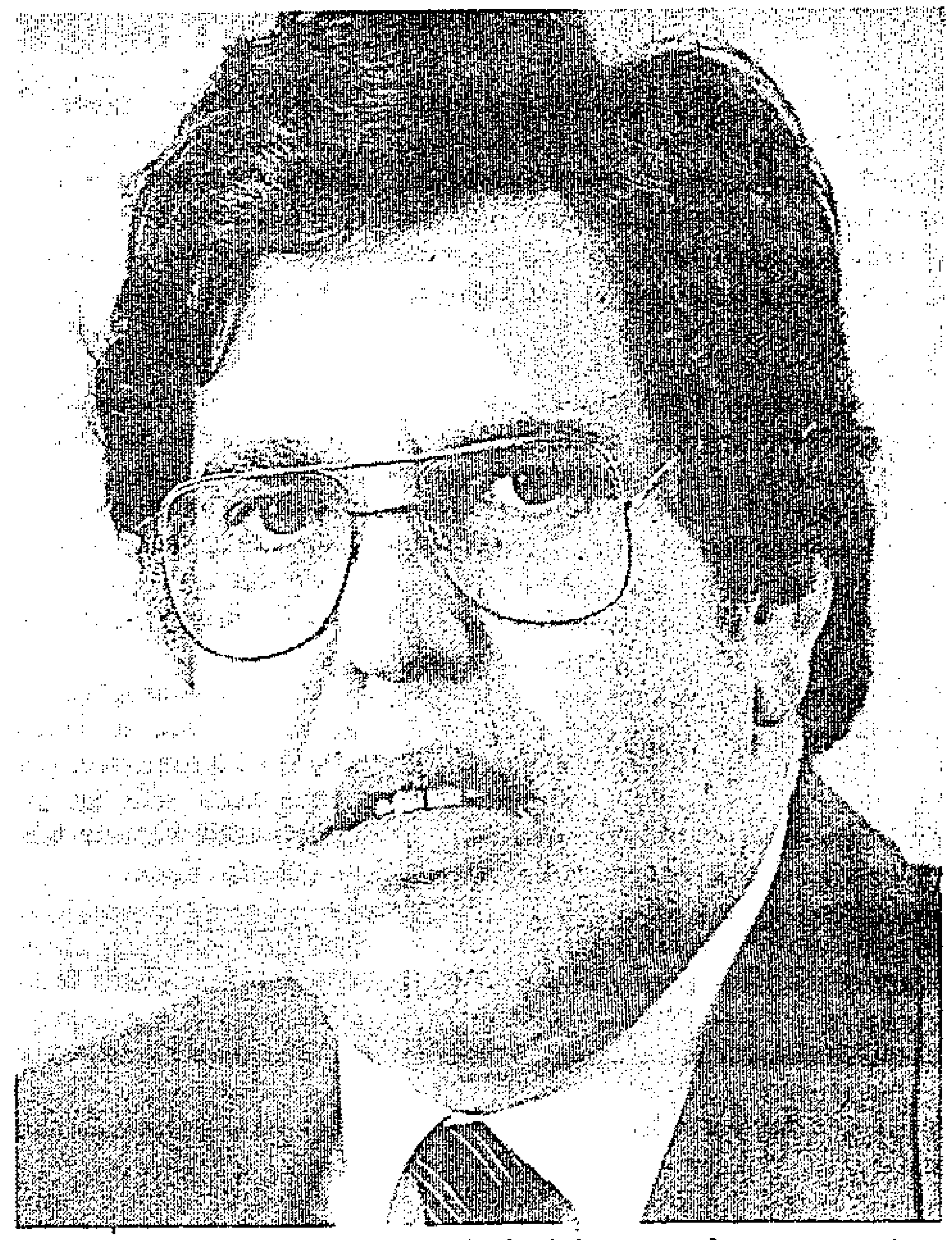
The amendments state it is an offence (subject to the R500 000 fine) to employ any device, scheme or artifice to defraud any person.

It is also an offence to make any untrue statement of a material fact or omit to state a material fact that corrects previous statements.

The amendments maybe criticised on the grounds that small investors guilty of insider trading may possibly pass through the net.

But one can argue that if big investors are restrained from insider trading, small investors engaged in this practice would be readily identifiable and also liable to be investigated by the panel.

When the amendments become law the Johannesburg Stock Exchange will be a very different place from what it is now. There will be no loopholes for those engaged in insider trading.



Professor Michael Katz who drafted the amendments.

3 SA envoys ordered to quit Britain

FOREIGN NEWS SERVICE and SAPA

LONDON — Three South African Embassy diplomats have been told to leave Britain within seven days as a result of the Blowpipe arms scandal.

They are First Secretary Mr Jan Castelyn, counsellor Mr Jonathan Fourie, and Staff-Sergeant Mark Brunner, a member of the administrative and technical staff.

Last week the French Government ordered three diplomats at the South African Embassy in Paris to leave for the same reason.

The British move came after South African Ambassador Mr Rae Killen had been summoned to the Foreign Office on the instructions of Foreign Secretary Sir Geoffrey Howe to see Sir Patrick Wright, Permanent Under-Secretary of State.

In a 15-minute meeting he told Mr Killen that Britain had carefully considered the South African Government's response to British demands for an explanation, and had noted its expressions of regret.

"However," said a Foreign Office statement, "the South African Government should be under no illusions about the grave concern with which Her Majesty's government views the involvement by its officials in this affair, having regard to the United Nations arms embargo, as well as the security situation in Northern Ireland, where the lives of innocent people are at risk."

A spokesman, who gave the names of the three diplomats, said that any retaliation by South Africa "would be entirely unjustified".

South Africa was tight-lipped last night about the expulsions.

Minister of Foreign Affairs Mr Pik Botha declined to comment, except to point out that none of the three was involved "in any improper activities".

Diplomatic sources have indicated that it is highly unlikely that South Africa will retaliate.

Instead, South Africa is expected to swallow the medicine for offending Prime Minister Margaret Thatcher,

TO PAGE 2.

Institutions happy to stay on the sidelines

Star 13/5/87 (180)

ANN CROTTY

AS EXPECTED, the market moved sideways this week with most investors nervous or undecided about the implications of the latest batch of government measures aimed at curbing consumer spending.

In view of this year's steady increase in the industrial index and the tighter trading environment facing many companies, it seems that most of the institutional buyers are happy to stay out of the market and allow it to drift sideways.

In addition consideration of the Iscor flotation is probably countering much of the effects on sentiment of the change in prescribed asset requirements.

The industrial index closed yesterday at 2522 compared with the previous Friday close of 2559.

The all gold index showed some recovery on the week's trading. It closed yesterday at 1490 compared with the previous week's close of 1462.

Edgars moved up strongly following the release of excellent results during the week. Indications are that the management team is very well placed to sustain a strong performance almost regardless of what the government throws at it. This is the sort of management that will always attract investor support.

McPhail was back to 41c by the end of the week having surged on rumours that it was being used to house some FSI acquisitions — FSI management denied that they had any such intentions.

Recently listed Digoco didn't have a very good week, it closed 13c lower at 30c.

Allied featured strongly yesterday with unsubstantiated merger talk again pushing up the share.

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JSB

Rents, land price rise in factory shortage

S/Times 14/5/89

180

IAN WATT

A BOOM in factory building is under way.

Property experts expect it to continue for at least six months.

Some big institutions which develop mini-factory complexes on spec are experiencing a major take-up of space. An example is Sanlam's Strydom Park development in Randburg which is fully let.

There is a severe shortage of factory space not only on the Reef, but in other parts of SA.

As a result rents and land prices are rising. Vacant land is scarce and expensive in certain parts of greater Johannesburg.

Declining

A study by JH Isaacs says property trust and investment companies with a strong complement of industrial space on short-term lease should benefit.

"Vacancies are steadily declining and land prices have escalated drastically in prime industrial areas," says group research manager Nicki Vontas.

He tips property investment companies and trusts such as Barprop, Pioneer, Tamboti and Capital to do well in the boom.

The study shows that since 1985 when the market was depressed, land prices and rents have increased by as much as 100% in some areas. Land availability has dropped considerably in others.

The scarcity is acute in industrial areas along the M2 East motorway, in Isando, Spartan, Wynberg and Eastgate-Kramerville where land prices have soared to R200/m^2 and rents to R10,50/m^2. Land prices range between R140m^2 in Wynberg and R75/m^2 to R80/m^2 in Denver and Cleveland.

Top rents of R10/m^2 are being paid for premises under 500m^2 in areas such as New Centre and Denver, and R8,5/m^2 for small sites in Selby-Ophirton, Sebenza, Eastleigh and Heriotdale.

By Udo Rypstra

Mr Vontas says his study involved only buildings that are structurally sound, with ground-floor loading access and where the office component is about 15%.

Firm

Even for large sites of 5 000m^2 rents of R5,60/m^2 are being paid in Johannesburg itself.

In the northern suburbs close to Alexandra, rents are again climbing. Land availabity is "very good" in Malboro, but fair in Kew. After the riots, many businesses moved to Strydom Park where rents are firm at about R10/m^2 for small sites.

Land is available at Midrand, but prices have risen by 75% since 1985 and rents by 38% to R9/m^2 for small sites.

On the West Rand, land in Amalgam is going for R150/m^2 and rents are R7/m^2. Townships such as Industria are under slight pressure because of large areas on offer and limited access.

In East Rand areas such as Wadeville and Sibenza rents have increased by more than 50%, says Mr Vontas.

Rents have risen by about 40% in Pretoria. Going prices are R8/m^2 to R10/m^2 for properties under 500/m^2 and between R6/m^2 and R8/m^2 for bigger sites. In Durban, the recovery has been between 25% and 50%. Top rents are R9/m^2 for small sites and R6/m^2 for bigger ones.

Cape Town has maintained stable growth of between 15% and 20%, small sites commanding R7/m^2 and bigger ones between R4/m2 and R6/m^2.

Some experts argue that new building projects would require rents of at least R7,50/m^2. Mr Vontas says minimum rents vary from area to area and depend on size, land price, building cost, financing cost and profit margin, which generally runs between 15% and 20%.

Pipeline

Ian Watt, Transvaal regional property manager of Old Mutual Properties, believes the strong recovery in the market and demand should lead to a new cycle of development of prime industrial space.

OMP has let more than 130 000m^2 in the Pretoria-Witwatersrand-Vereeniging and greater Durban and Cape Town areas in the past 20 months. Mr Watt says there is a 7 420m^2 deal in the pipeline which will result in the former Bluebell Wrangler factory in Durban being fully let.

"In response to demand, rents for large prime industrial space on the Witwatersrand are moving towards R7/m^2. That is a point that makes new development attractive. However, it is unlikely that much new development will be speculative.

"It will be for committed tenants and largely tailored to their needs. An indication of this is that one broker has brought us proposals for the development of a total of 33 000m^2 for various firms."

"We also are considering requests from existing tenants, mainly in the City Deep and Isando areas, to extend their premises.

"We have had an increase in inquiries from property brokers looking for space for clients."

Elcentre – overlooked new star of the JSE

S/Times 14/5/89

By David Carte

ELCENTRE, the Mowszowski brothers' little-known electrical group, draws the spotlight today with earnings that put it in the top 50 companies in SA.

The low-profile, high-performance group based in humble quarters in Doornfontein, Johannesburg, sold R500-million of assorted electrical goods in the year to August 1988. Sales have leapt from only R73-million in 1986.

In hoisting taxed profit by 61% to R48,9-million, Elcentre earned 70% more than Powertech, the Altron group company, which is much better known and more highly rated.

In the past three years, Elcentre has acquired competi-

Privatisation boost for big corporations?

BIDay 15/5/86

(180)

MARC HASENFUSS

THERE is a danger that privatisation of state concerns could lead to greater concentration of industry in spite of uncertainty over the proportion of total shares in public entities government is prepared to sell to the private sector, says the Bank of Lisbon.

Its publication Economic Focus said SA's wealth base was concentrated in fewer hands than in the UK (where privatisation in the 1980's raised the number of shareholders from two-million to nine-million), and relatively few new individual holdings were likely to be created.

The article said that changes in taxation such as the scrapping of taxes on dividends, as recommended by the Margo Commission, would help to encourage ownership. Preferential offers of shares in newly privatised concerns to existing employees would help here, although it might be objected that this would amount to further subsidisation of public sector workers by taxpayers.

Changes in financial legislation which permitted banks and building societies to invest directly in ordinary shares might also reduce the concentration of shares held by financial institutions.

Concentration

Economic Focus said it was difficult to escape the conclusion that the great majority of any privatisation issues would be bought by existing financial institutions, mining houses and other financial institutions.

A further increase in the concentration of industry in SA would blunt new competitive forces in the product markets, while the capital market disciplines would similarly be moderated by the reduced danger of takeovers of any new relatively inefficient firms emerging in the private sector.

"A materially wider diffusion of wealth among the population could probably be achieved only if privatisation issues do not take the form of preferential offers for workers in the nationalised concerns and other investors, but instead involve a free distribution of shares *pro rata* to every citizen."

Such a dispensation would create a much greater, even if more thinly, spread group of shareholders, strenthening the position of private enterprise, and rendering it more dificult for any future black government to elicit sufficient support for a programme of nationalisation.

However, sharp increases in ... costs and taxation cut the rise in taxed profit, from R512,4m to R651m, to only 27%.

Kahn said SAB's tax rate was now at

February this year, of just under 50% of the equity in the Da Gama Textile group. A further 6% was acquired subsequent to the year end.

Assocom queries surcharges

BDay 16/5/89 . (180)

KAY TURVEY

ASSOCOM is to make representations to government over its about-turn on widening the surcharge net to include many semi-processed and component imports in a move that has caused widespread confusion among local manufacturers.

On May 5, Finance Minister Barend du Plessis announced the 20% surcharge on capital goods and its components would be reduced to 15% with no exemptions.

Barely a week later, legislation introducing this provision included a surprise move placing surcharges on many components and semi-processed materials used for industrial purposes.

Du Plessis' assurance that exemption permits already issued would remain valid was brought into question when a shut-off date of June 30 was gazetted for permits granted before the announcement.

Assocom foreign trade secretary Bess Robertson said this would also be taken up with the authorities.

Other customs and excise consultants are also confused by this cut-off point.

Leo Fincham, joint MD of Antax Customs, which is contracted to Arthur Andersen, said legislation giving the cut-off date was vague. He asked whether permits granted before May 5 and valid after the end of June would still apply, or if these importers would be obliged to pay an unbudgeted surcharge if goods were cleared through customs after the end of June in spite of the exemption permit.

He said the the Board of Trade and

☐ To Page 2

Assocom

BDay 16/5/89 . (180)

☐ From Page 1

Industry had been asked for further clarification. Business Day posed a similiar question to the Board and is also awaiting a response.

Many manufacturers were still too stunned to assess the extent of the problem, Fincham said, and most had only received the Government Gazette of May 10 yesterday.

The removal of the automatic surcharge exemption on goods falling under the third schedule means certain chemicals, paints, textiles and plastics, among other components and semi-processed materials, will now attract a surcharge at an applicable rate for the product concerned.

Board of Trade and Industry chairman Lawrence McCrystal said, however, that raw materials which underwent material transformation in the manufacturing process were zero-rated and, under the third schedule, would be similarly zero rated.

Items in the third schedule, previously exempt from surcharge, would now be subject to the applicable rate, at zero in the case of raw materials and 15% for components. However, components for the motor industry would remain exempt.

Deloitte associate director Doug Jolliffe said the inclusions were a far cry from the original Press release, when Du Plessis said capital goods and components would see a reduction in surcharge from 20% to 15% and no exemptions would be given.

Surcharges 'necessary'

B Day 17/5/89 (180)

KAY TURVEY

THE slow growth in domestic output for the first quarter of 1989 proved the latest surcharge measure announced earlier this month was necessary.

Board of Trade and Industry chairman (BTI) Lawrence McCrystal said yesterday the latest 1,6% rise in GDP against a backdrop of rising expenditure, showed the "correct direction" had been taken.

Legislation gazetted last week applies a 15% surcharge on all capital goods and their components, as well as components of certain manufacturing industries, with no exemptions.

Commenting on this legislation, McCrystal said gross domestic expenditure — which rose 6% in 1989 — must grow more in line with production.

"The BTI is focusing its attention on trying to find ways to increase productive capacity in the economy, but this takes time. Meanwhile, some of the expenditure going on imports can be mopped up by the surcharge."

McCrystal said there could be anomalies in the amendment to the third schedule of the customs tariff, but manufacturers were at liberty to have these put right.

Where a product is classified as a material which does not undergo a technical transformation in the process of manufacture and, therefore, carries a 10% surcharge, the manufacturer can submit that there is a technical transformation and it should be zero-rated.

According to amendments to the third schedule which involves mainly raw materials and component inputs to various manufacturing industries, the surcharge rebate now lapses.

Sell-off quickens as curbs begin to bite

180

Star 18/5/89

Diagonal Street

MAGNUS HEYSTEK

It has taken major institutions and large investors about twelve days fully to grasp the implications of the austerity measures announced on May 5.

Although the JSE has been showing signs of weakening recently, a sudden rush of selling in the last hour's trading yesterday afternoon — mostly by institutions, according to brokers — confirmed that the JSE was now technically busy with a short-term correction.

But analysts cannot agree on the extent of the correction, with estimates ranging from 10 percent to 30 percent in some extreme instances.

Since May 5 the overall index has declined by 85 points to yesterday's closing of 2553, a drop of 3,3 percent.

The all gold index has dropped by 2,5 percent to 1431, despite the rand's decline to $2,69 having the effect of increasing rand receipts for gold mines to above R1 000 an ounce.

The industrial market has fallen by 3,36 percent over the last twelve days, despite a number of blue-chip companies reporting excellent profit figures.

The May 5 meaures, ostensibly taken in order to protect foreign exchange reserves and the rand itself, have not stopped the rot.

By yesterday afternoon importers were paying 12c more for a dollar than twelve days ago.

Without the austerity measures it is quite conceivable that the rand would have declined to an even larger extent.

The dollar is once again causing havoc in financial markets, surging to a three-year high of DM1,96 yesterday.

This raises the spectre of massive central bank intervention by Japan, West Germany and Britain to protect their currencies.

The other alternative is to increase domestic interest rates in those countries, which is bound to lead to renewed upward pressure on interest rates in South Africa.

The events of the last two weeks have once again demon strated the highly volatile financial environment this country, and the world as a whole, finds itself in.

But the surging dollar, ironically enough, is causing concern in some circles that a series of interest-rate increases by major countries, could lead to another collapse of equity markets worldwide.

Caution is definitely the watchword until the current crisis ends.

Manufactured goods' export earnings drop

BDay 14/5/87 (180)

GERALD REILLY

PRETORIA — Manufactured goods' contribution to foreign exchange earnings for the past decade had decreased to a disturbing extent compared with raw materials, CSIR chairman Louw Alberts said here last night.

Delivering the Hendrik van der Bijl memorial lecture at the University of Pretoria, Alberts warned this clearly implied the country was becoming less economically viable.

Referring to the "inertia" in the mining industry regarding a greater processing of minerals, he said there was no logical argument against other organisations becoming involved in processing raw materials.

The need was illustrated by the lack of a jewellery industry, and of the manufacture of platinum group metal products, the production of titanium and vanadium metals, large-scale production of stainless steel and the lack of large-scale production of chrome chemicals, he said.

Alberts added the optimal development and use of trained manpower would remain the greatest single problem in relation to technological progress.

CMS is riding high after tax holiday

B/Day 19/5/87 (180)

TANIA LEVY

CORPORATE Management Services has announced a 77% leap in attributable profits after a tax-free year to March.

The IBM mainframe and compatible products supplier — in which Premier has a 30% interest — achieved attributable profits of R2,4m (R1,3m annualised).

An increased number of shares dilutes this to a 6% growth in earnings to 8,2c (7,7c) a share, a significant increase on the 2,1c a share earned in the first six months.

The dividend has been raised 17% to 3,5c (3c) a share.

CE Alan Baxter says the 38% increase in sales to R32,2m (R23,3m) reflects a strong demand for the company's products and services.

Lower margins produced a 9% rise in operating profits to R2,4m (R2,2m).

Baxter says CMS's core businesses achieved satisfactory increases in market share and profit contribution for the year.

"The recently acquired software divisions are taking time to reach the level of profitability anticipated," he says.

Management is confident completion of rationalisation of these businesses will, however, allow it to contribute significantly to earnings.

180

Business groups to form pressure front on the State

Sowetan 19/5/89.

SEVERAL black business groups have decided to ignore the National African Federated Chamber of Commerce and have pledged themselves to break through all business obstacles and provide a national front.

By JOSHUA RABOROKO

At its first national conference in Johannesburg, the newly-formed Foundation for African Business and Consumer Services declared that it will use all pressure, including co-operating with political and community-based organisations and trade unions to end apartheid in South Africa.

Join

Addressing a Press conference after the summit, Fabcos' interim general secretary, Mr Jabu Mabuza, said they have decided to ignore Nafcoc because attempts at meetings to join hands have been unsuccessful.

He said: "We realise that Nafcoc is a giant business organisation and want to co-operate with them. However, we will continue to negotiate with them in the future."

Fabcos was formed last year to help provide the necessary political clout and co-ordinated approach to fight for business people's rights as well as to seek black economic empowerment.

Mr Mabuza said apartheid still remained a monster to be destroyed because it has humstrunged development of black business and the community in South Africa.

He said they would use all sorts of pressure to make the government to scrap apartheid. The organisation still has to decide on crucial issues such as disinvestment, sanctions and joining political organisation as means to end vexatious laws in the country.

"We accept that the liberation of blacks from the shackles of apartheid must be accomplished soon," he said.

"Fabcos thinks it is necessary for blacks to enjoy a meaningful stake in the country's economy if we are to prosper," he added.

He said for South Africa to prosper a clear strategy was needed to be developed which included buying, joint ventures, partnerships and share participation in white organisations and companies.

Organisations that form Fabcos are: the Southern Africa Black Taxi Association, the National Black Consumer Union, the National Stokvel Association of South Africa, the South African Builders Association, Farmers Association, the National Hawkers Association and Cottage Industries Taverners Association of South Africa.

May 19 1989

Malawi 'safari' for businessmen

Sowetan 19/5/89

180

The South African Transport Services has announced that Mr M P Bodibe, of Sebokeng, is the ***Sowetan*** reader who has won the "win a free blue train trip to Cape Town and fly back SAA" competition. Here ***Sowetan*** staffer Miss Thandi Moloi and Sats' PRO, Mr Ephraim Mohale, sort out scores of entries.

The correct answers for the competition, which was published in the ***Sowetan*** are: (1) Dr A Moolman, (11) Airway Railway and (111) Pretoria - Cape Town. The presentation will be made to day at Sats offices in Johannesburg.

Hurry to enrol

ABOUT 100 black businessmen, led by president of the National African Federated Chambers of Commerce Mr Sam Motsuenyane, are to tour Malawi next month.

By JOSHUA RABOROKO

The tour represents a meaningful attempt by concerned black business enterpreneurs to explore potential import and export opportunities between South Africa and Malawi, according to tour co-ordinator Mr Willie Ramoshaba.

Ramoshaba, who is also chief executive of WR Consultants said: "The purpose is to broaden the horizon of our black business people and to expose them to meaningful business opportunuties in Africa."

The safari mission is a result of numerous behind-the-scenes manoeuvres by Nafcoc in its thrust to foster and encourage business opportunities among its members.

The scheduled tour programme covers virtually all meaningful business parts of Malawi, stretching from the capital Lilongwe, through the business heart of Malawi, Blantyre, into the holiday resort of Lake Malawi.

During the visit the Minister of Finance of Malawi is scheduled to officially open the one-day conference of the estimated 200 Malawian and South African business people on June 10.

A number of Malawian and local speakers, including Motsuenyane, will also address the conference.

The group will meet government officials, bankers, industrialists, farmers and other businessmen. Ramoshaba did not rule out the possibility of the group meeting exiled leaders of South African political organisations.

The cost of the trip is R2 450 for people who will share and R2 850 for single persons. Contact WR Consultants for further information at (011) 331-7454.

Insider trading crackdown

Rooting out the dicey deals

180

Star 19/5/89

The introduction earlier this month of draconian penalties for insider trading puts South Africa very much in line with overseas legislation. **SVEN LUNSCHE** examines the legislation passed by Parliament last week, while **NEIL BEHRMANN** in London and **RAMSAY MILNE** of The Star's New York Bureau provide a broad overview of insider trading legislation in Britain and the US.

Parliament earlier this month passed an amendment to the Companies Act under which offenders of insider trading legislation face fines up to R500 000 and/or 10 years' jail.

This has sparked a wide debate in financial circles as there is no clarity on what constitutes an insider trading offence. Broadly defined, insider trading legislation aims at prohibiting dealings in securities by people with confidential, unpublished price-sensitive information about a company.

It also generally seeks to control "secondary insider dealing" by prohibiting a person taking advantage of tips given to him by an insider who is acting in breach of confidence.

The difficulties are to establish when someone has acted on insider information or when they have used their analytical skill to determine what is a good investment.

In most cases this is clear cut, but past experience in Britain and the US has shown that potential offenders have escaped punishment by claiming it was their job to establish whether a particular share was a good investment or not.

The apparent intention behind the recent legislation was not to watch share movements and then seek evidence of insider trading; it is to watch closely those who are in a position to carry on insider trading and then investigate their actions should share prices show large fluctuations.

But the amendments to the Companies Act also provide for the same penalties to be applied to anyone who has used false information or has made misleading statements with the intention of pushing up share prices.

The watchdog to administer the legislation will be the Securities Regulation Panel, which will also have the task of monitoring takeovers.

It will have the right to summon and cross-examine any person and to call for books and other documents to be submitted to it on a monthly basis. People in a position to conduct insider trading will have to submit their

To obtain a conviction, the prosecution must prove that the defendant knowingly "obtained", either directly or indirectly, information from another individual or tipster who under the Act is legally prevented from parting with the knowledge.

The tipster must have been connected with the company in the six months preceding the announcement. The defendant should be aware that the tipster held the information because of his ties with the company. He should know that the information is unpublished and price-sensitive.

The moral: be wary of those who claim they have insider knowledge.

But those who have a legitimate defence are brokers who are merely taking positions in market-making as well as liquidators, receivers and trustees who take a view and buy shares ahead of a takeover. The court must prove intention to trade on insider information.

The broad definition explains why it is difficult to pin down an insider and to prevent drawing unwitting innocent parties into the net.

UNITED STATES

The exposure and arrest of former Wall Street "biggies" such as Ivan Boesky, the archetypal insider trader whose stock transfer practices two years ago created Wall Street's biggest scandal, set in motion the most sweeping overhaul of stock market anti-fraud legislation in US history.

What is in place now in the wake of these and other scandals is a set of tough laws, enforced by the Securities and Exchange Commission (SEC) and federal and State prosecutors acting under the widespread provisions of the Racketeer Influenced and Corrupt Organisation Act (Rico).

Cheats and thieves

Though Congress is still under pressure from securities and financial lobbies to ease some of the tougher measures written into Rico after the Boesky scandal, neither Washington nor the SEC shows any sign of easing information or when they have used their analytical skill to determine what is a good investment.

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It will have the right to summon and cross-examine any person and to call for books and other documents to be submitted to it on a monthly basis. People in a position to conduct insider trading will have to submit their share portfolio on a monthly basis.

Since insider trading legislation was enacted in Britain, there have been only a paltry number of convictions, illustrating that it is very difficult to define and prove insider trading. Yet investigations are a deterrent. They illustrate that the financial authorities, in conjunction with the JSE, are concerned about the problem and are trying to stamp it out.

UNITED KINGDOM

UK insider trading legislation has become more stringent in the past few years, but actual convictions are few and far between.

Awaiting trial

Since the Company Securities (Insider Dealing) Act came into being in 1985, less than a dozen miscreants have been convicted. Under the Financial Services Act, the Secretary of State can appoint inspectors to probe possible insider dealing offences.

The UK authorities are at present investigating 45 cases of insider trading, six of which are awaiting trial. Insider dealers can face up to seven years' prison once convicted.

The Insider Dealing Act forbids dealings in securities by people with confidential, unpublished price-sensitive information about a company.

Under the Act you are guilty of a crime if you deal as a "prohibited person". This does not only involve people who are connected with the company, including merchant banks, lawyers, accountants and other advisers, but also those who obtain information from company employees, directors or advisers.

The law seeks to control "secondary insider dealing". It is aimed at preventing a party taking advantage of tips provided by or through an insider acting in breach of confidence.

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Rico was enacted in 1970 to give public prosecutors a way to deal with the scope of organised and white-collar crime. Now, with tougher amendments, it is being applied energetically to all financial dealings, including insider trading, despite protests from the financial lobbies who are arguing that the original Rico was aimed at organised Mafia-type crime figures.

But prosecutors and others point out that victims care little whether their life's savings are stolen by mobsters wearing black shirts and white ties or stockbrokers in tailored suits.

Under Rico's new provisions, triple damages are now possible against an insider found guilty of misconduct.

In addition to permitting those who traded in the stock market to seek redress, others who can prove they were injured by the illegal trading can also seek redress.

This includes an investor or company proving that the purchase price of a takeover target was driven higher by insider trading.

The SEC is no longer required to prove that wrongfully acquired information served as a basis for stock transactions.

Instead, the law requires only that the commission prove that the trader concerned was in possession of such information for trading in related securities to be illegal.

The new law makes it a crime to trade on tips from insiders, provided the person receiving the tip knows, or has reason to believe, the information is confidential. In such cases, both face criminal prosecution.

The phrasing is important because it ends years of reluctance by the SEC to commit itself to a definition of insider trading.

Students told how to get rich

By Sue Valentine, Education Reporter

A willingness to involve oneself in every aspect of business and to gain experience in all tasks were some of the dimensions to the pursuit of wealth and success, University of the Witwatersrand commerce graduates were told last night.

Delivering the graduation address, Mr Stephen Mulholland, managing director of Times Media Limited, outlined some aspects of the route to wealth and success.

He advised graduates to be prepared to do anything — from making tea to running messages. In this way, they would learn how the company worked and gain the respect of their seniors and those down the line.

Secondly, he suggested people should believe "in the integrity of the market" — that it was a good thing to produce goods and services which people chose to buy and which would enrich their lives.

He cited 18th-century economist Adam Smith, who in his book, "Wealth of the Nations", claimed that self-seeking men benefitted society as a whole.

Referring to an address he gave at Fort Hare University 10 years ago, Mr Mulholland said those students' anger was misdirected at the market system of free enterprise.

"Their justifiable anger had blinded them to the facts that apartheid is the antithesis of a free enterprise system. You cannot have a free enterprise system with artificial barriers raised against some of the people," he said.

"Free enterprise does not offer equality of result. But it must strive for equality of opportunity."

He said he believed South Africa's future could best be served by moving away from authoritarian and collectivist economic models towards a market system which offered fair opportunity to pursue one's happiness and enrich all of mankind at the same time.

Barlows still leading the industrial field

Barlows remains South Africa's largest JSE-listed industrial company with total assets of R14 billion.

The Financial Mail's Top Companies survey lists Remgro as second, with total assets of R7,7 billion, followed by CG Smith (R5,7 billion), Sasol (R5,4 billion) and SA Breweries (R5,2 billion).

Compared with a year ago, CG Smith has moved up from fifth to third position and SA Breweries from sixth to fifth.

Assessed in terms of market capitalisation, SA Breweries is first with R5,2 billion, followed by Barlows (R5 billion), Sasol (R4,5 billion), Remgro (R3,9 billion) and Amic (R3,3 billion).

But if the market capitalisation net is spread wider to include non-industrial listings, SA Breweries drops to 10th position, being dwarfed by Congold (R17,3 billion), De Beers (R15 billion), Anglo (R13,9 billion), Lonrho (R11,1 billion),

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Star 29/5/85

Council hosts 17 top businessmen

Sowetan 25/9/84

THE Soweto City Council is to host 17 businessmen from the Netherlands before the end of this month, chairman of the management Mr Payne Tshabalala said yesterday.

The visitors will tour Soweto with a view to investing in the area, especially the establishment of factories. The visitors will be part of groups of expected businesmen who have been approached locally and overseas to find if they can invest in Soweto. To this end the council raised about R39 000 from the private sector to promote business tours to Soweto. Part of that money was used to send the mayor, Mr Sam Mkhwanazi, to the International Mayor Conference in Halifax, Canada, which is still in progress.

Mr Mkhwanazi is expected to make new contacts for possible investments; invite business leaders to visit Soweto while in South Africa and promote tourism to Soweto.

Mr Tshabalala said: "We want businessmen to invest in Soweto and build factories in our industrial sites so that we can have a tax base to fund the council's projects and create employment for Soweto residents. Presently Soweto has no funds because it is a dormitory for Johannesburg industry".

He said his council has been fighting to get the Devland industrial area, near Baragwanath Hospital, transferred into Soweto and for more industrial land to be incorporated into the township.

Mr Mkhwanazi was accompanied by the acting town clerk, Mr Sarel van Rensburg, on the 10-day trip which started last Friday. Companies which donated to the council are: Old Mutual; First National Bank; Delmas Milling; Van Wyk and Louw Consultants; Price Forbes; Federale Volkskas and Hannibal Construction.

Mobil, union still talking

ALAN FINE

MOBIL and Chemical Workers' Industrial Union (CWIU) representatives were last night still locked in negotiations aimed at ending their disinvestment dispute.

A source said Mobil's latest offer stood at a once-off "compensation" payout of R1 340 for each employee. The union was pressing for an improvement on that offer.

Sapa reports CWIU official Pat Horn said the union had agreed to extend the suspension of strike action for another week and postpone its Industrial Court application for the deal to be halted.

Industrial and financial sector undergoes major correction

180 Star 20/5/89

THE industrial and financial sector of the Johannesburg Stock Exchange is in the middle of a correction phase which could last until the third quarter of next year, state market analysts.

Matt Brenzel, head of Syfrets Investment Research, said that a correction of up to 20 percent could be expected. He said the market is nervous and that questions are being asked about the possibility of another "Black Monday".

He pointed out that with many variable factors in place, it was no easy task to draw a conclusion."On balance however," he stated "we feel thaat as several key fundamentals have been ig nored, the Financial and Industrial Index is overpriced and a correction of 10 to 20 percent cannot be excluded.

"It must be realised there exists a mountain of investible funds waiting for such a correction. Scrip is likely to be extremely tight and prospective investors should not wait until the trough is reached before committing their funds".

Mr Brenzel was reluctant to estimate the extent of the downturn in industrials but said he felt it would possibly end during the course of 1989.

He said much depended on decisions taken by the institutions. The removal of prescribed asset requirements would increase their buying power substantially. And as the JSE traditionally gave a better return than fixed interest securities, they would turn the trend when they felt the trough was approaching and started buying.

40% fall predicted

Chartist Tony Henfrey is more pessimistic on the outlook. He feels the decline will carry through until the third quarter of next year, with an upkick at the end of year.

He also has the opinion that the Industrial Index will fall by as much as 40 percent until the uptrend is re-established.

He said the Industrial Index peaked on April 30 at 2581 and started its decline the next day. At the close of trading yesterday it stood at 2353.

Henfrey said: "The evidence suggests that in all probability the JSE Industrial Index has made a major long term peak and cycle analysis suggests the next trading low will occur in late October or early November. However, longer term cycle trends point to the likelihood that there will not be a meaningful oversold low until the last quarter of 1990".

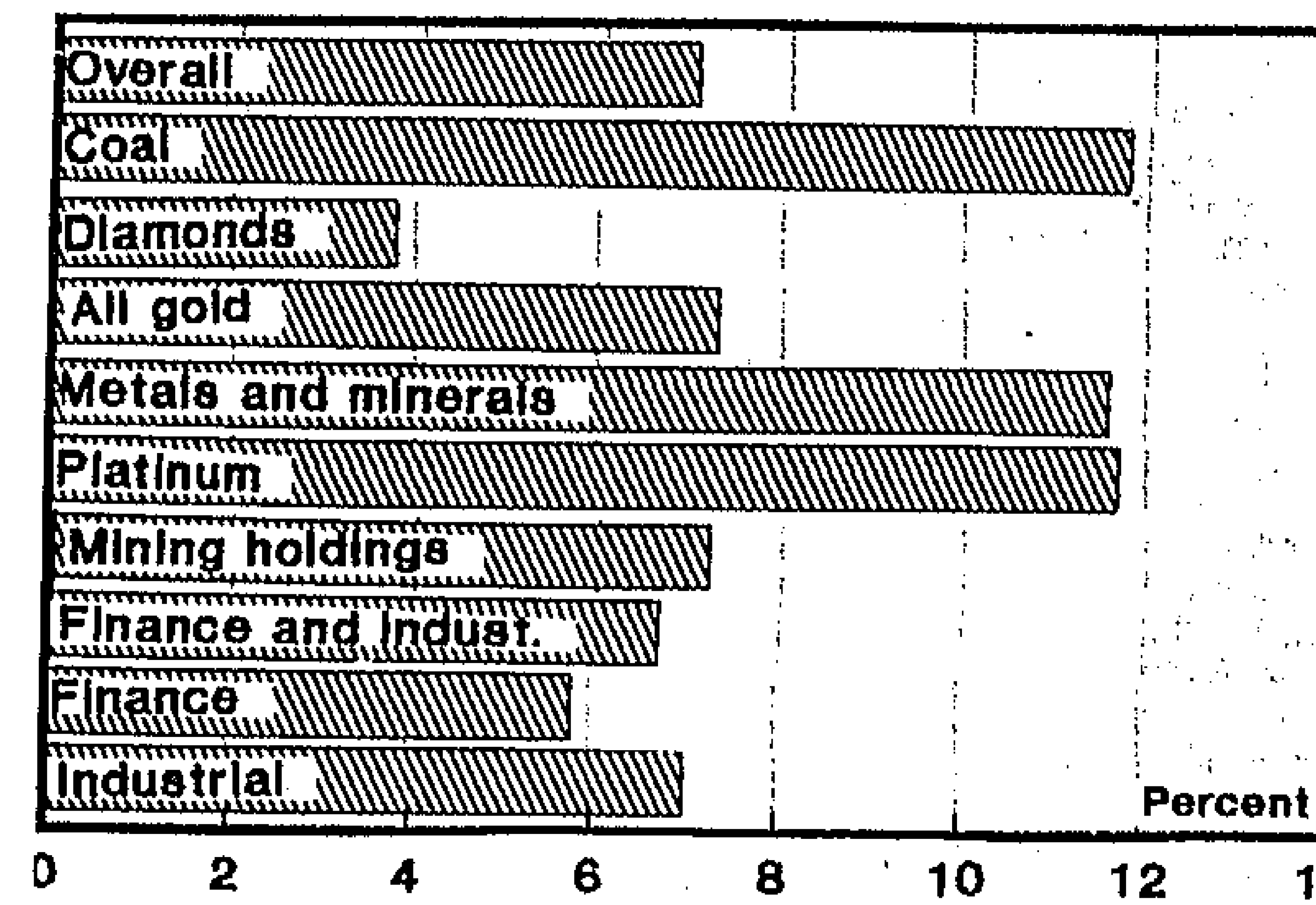
Mr Henfrey also said: "The JSE Industrial Index is now expected to underperform world markets, which it has been beating since early 1988".

Mr Henfrey is more optimistic on the gold markets and feels that the gold price is in the process of bottoming out and the will have a positive effect on the gold sector of the JSE.

Sydney Frankel of Frankel Kruger Vinerine Inc said it was time for a correction to take place and felt that losses in the index would be between 10 and 20 per cent.

Union Acceptance spokesman Alistair Colquhoun said the pace could not continue at current levels and felt the index could come back by between 10 and 15 per cent.

Other analysts said interest rates at a high level would attract institutional cash into the money and gilt markets and that they would only return to the stock market in any strength when the market appeared to be approaching a bottom and interest rates started to decline.— Sapa.



Percentage decline in sectors since May 5.

Sowetan 21/5/87 (180)

Resource chief hits out at black business

THE Chief Executive of Black Initiative Resource Centre, Mr Kehla Mthembu, yesterday levelled criticism at black business, progressive organisation and trade union approach towards attainment of black economic empowerment.

Economic

Addressing a seminar held in Johannesburg on black economic empowerment, he said there seemed to be sceptism between black leaders themselves on the issue.

He said: "Those in business, save for the public resolutions and utterances, do not seem to be committed to the black development, but to their own esoteric interests.

"The perceived failure of many black business ventures justifies my view. I do not want to mention names as it is obvious who they are.

"The leadership of progressive movements, both community and trade unions, generally display ignorance on how business operates."

Illeteracy

He said that there was a high rate of business illiteracy among black leaders, adding, "most of the time they conceal their ignorance by being rhetoric and radical."

He said that had resulted in many lost opportunities for black advancement in business.

Black economic empowerment could be attained if these organisations co-operated. "Our people need to be conscientised and motivated to be involved in wealth creation programmes."

He also took a critical view at white organisations that were jumping on the bandwagon of black economic empowerment for the sake of exploiting blacks.

Amazing

He said the involvement of "these strange bedfellows" in black business after such a long time of oppression was "totally amazing."

They have infiltrated black business in fraudulent and self-defeating practices, he added.

He urged the organisations to seriously consider projects like pensions/provident funds to mobilise capital. By engaging these projects "we may develop blacks to have their own Sanlams and other big corporates in the country."

Blacks should also look into the possibilities of buying the disinvesting companies.

Investors unhappy over share valuations

BDay 22/5/89 · 180

TRANSVAAL Distillers, the Tzaneen mampoer producer which has applied to join the JSE's development capital market in June, has privately placed shares at prices far higher than those attributed to the company by JSE stockbrokers.

Business Day has received complaints from investors who bought TDL shares in the informal, unlisted securities market and saw them valued by the stockbrokers structuring the listing at less than 25% of what they paid for them.

In a series of separate private issues arranged by TDL, in consultation with venture capital brokers Share & Property Brokers (SPB), and marketed by brokers Miles, McMillan & Associates (MMA), investors paid 50c, 125c, 175c and 80c for TDL shares.

MMA brokers — who, together with SPB sold shares in the now liquidated company Swiftsure and beleaguered Silvercorp — hold shares in TDL.

Reverse takeover

Private investors, who have ploughed about R4m into TDL via MMA, say they bought the shares on the basis of information in a prospectus issued by the company which forecast impressive earnings, and share price information provided by MMA.

Earnings were forecast at 20,2c a share in the 1989 financial year, 24,1c in 1990 and 31,05c in 1991.

The shares, investors were told by the brokers, had the potential of growing rapidly to R5 by the end of 1989, by which time the company would be ready for a JSE listing. One investor was subsequently told the share would list at between R2 and R5.

Last week TDL issued a statement to its investors announcing its intention to list by way of a reverse takeover of suspended JSE cash shell Agricultural Services (Agserv).

Payment of R11,3m — TDL's net asset value in February 1989 — would be effected by the issue of 53,4-million new Agserv shares at an issue price of 21,23c a share. Two Agserv shares would be issued for every one TDL held.

Jannie Grobbelaar, of stockbrokers

LESLEY LAMBERT

Senekal, Mouton & Kitshoff, which originally brought Agserv to the market and structured the TDL listing, said the projected earnings a share for the new company was 1,59c for the year ended February 1990.

NAV was calculated at 12,6c and net tangible asset value — after striking off the premium paid for subsidiaries — was 6,8c.

Grobbelaar said he had not seen the prospectus which preceded the private placings and could not comment on the discrepancy in the valuation of the share price.

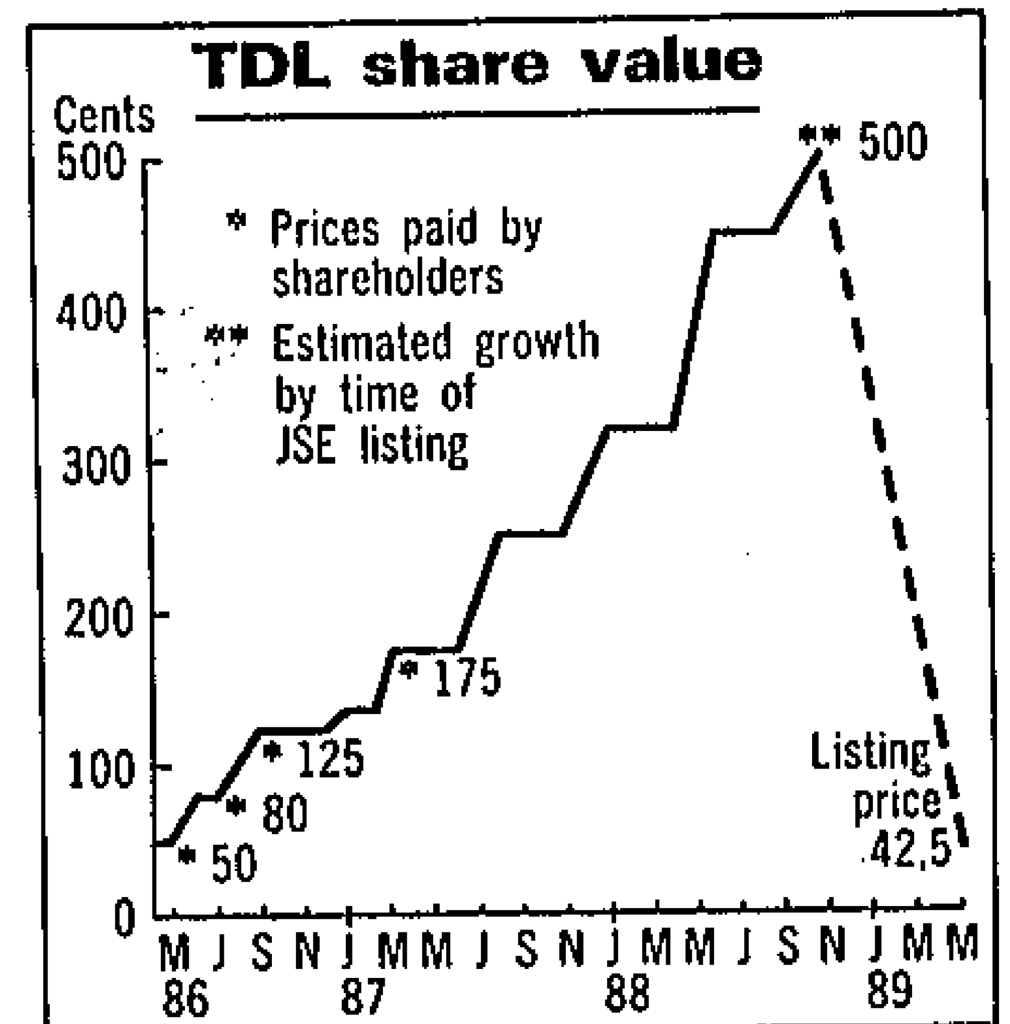
While the 21,23c, or 42,46c for two shares, is not necessarily an indication of what the market will pay, because theoretically it will discount future growth potential in venture or development capital companies, the enormous difference in the valuation of the share price suggests forecasts by the company and venture capital brokers were misleading, analysts say.

'Not developed'

TDL shareholders have been invited to approve the company's decision to list at a meeting in Tzaneen on June 6. Agserv, which is currently suspended, will be reinstated if the listing goes ahead on June 26.

In an interview with Business Day this week, MMA brokers Mike Miles and Allan McMillan, said they would advise investors to vote against the decision to list.

"We feel the company has not developed sufficiently for a listing as far as



Graphic: FIONA KRISCH

attaining the expected prices is concerned," Miles said.

"It is listing on the wrong board at the wrong time. On the venture capital board there is at least a premium attached to the net asset value of shares," Miles said.

McMillan said the share prices had been forecast during a bull run and forecasts had not been adjusted.

TDL's sole director Riaan Van Rensburg could not be contacted at his Paarl office last week.

On Friday, he left a message with a colleague saying he was at a meeting in Cape Town and could not comment on Business Day's information until he had seen the details. However, he would discuss the issue this week.

SPB MD Coen Wium was out of the country.

Many venture and development capital companies which need new capital to finance growth have difficulty raising it through traditional channels because of their high risk status.

Companies like SPB offer them the opportunity, often at higher than normal costs, to raise capital by way of private share issues.

SPB's strategy is to define various stages of development. A prospectus is then issued to finance each phase.

The brokers have told clients that the value attributed to the shares on offer at each stage of development is not a "thumbsuck".

It is determined by many factors, they argue, including the rate at which the company has developed, the potential of entrepreneurial ideas and concepts, the quality of infrastructure already set up, contracts already signed, profit expected from future projects, the value of hidden assets and management.

'Unrealistic'

However, according to one independent broker, John Hone — who worked as an agent for MMA — the venture capital brokers' "unrealistic" share prices are based on a "manipulated demand" rather than fundamentals.

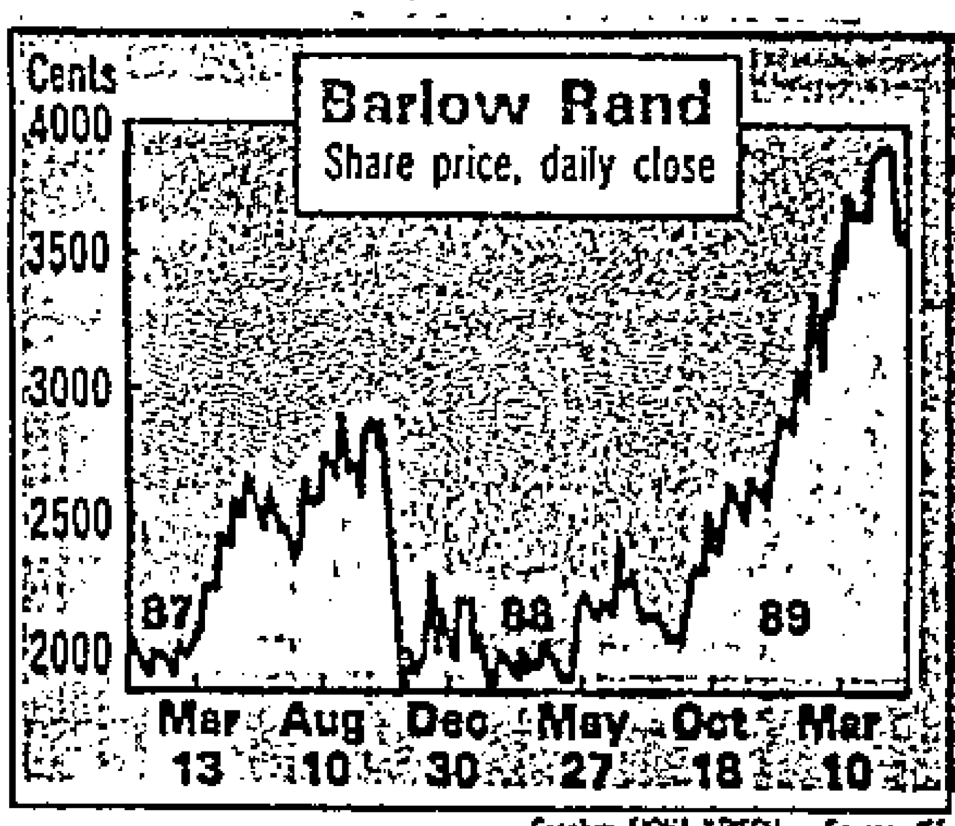
Hone said they and other brokers are motivated by self-interest.

Referring to the TDL listing, he said: "One expects directors to have shareholders' interests at heart. The TDL directors have asked shareholders to absorb substantial share price depreciation to facilitate a listing.

"There are no prizes for guessing who holds shares at a cost price of less than the anticipated listing price."

Barlows turns in sound effort

A 69% rise in the contribution from Barlow Rand's mining and mineral beneficiation interests — largely representing Middelburg Steel & Alloys (M S & A) — was the outstanding force behind the 39% rise in the group's attributable earnings in the six months to March.



Graphic: FIONA KIRSCH Source: JSE

6/Day 23/5/89

180

REINIE BOOYSEN

Barlow's earnings a share rose to 238,2c (171,6c) and a dividend of 51c has been declared (39c last year).

M S & A has turned out to be one of the group's happiest investments to date, in spite of early teething problems.

The company — which was set up with an initial capital outlay of R150m in 1982 — this year more than doubled its contribution to group attributable earnings, to about R90m (or 20% of the total R438,2m), from about R40m last year (15% of the group's total, R311,4m).

Mining and mineral beneficiation now accounts for 32% (26% last year) of Barlow's taxed profit, with less spectacular, but solid growth from Rand Mines (39%) and Pretoria Portland Cement (28%).

Industry remains Barlow's most domi-

□ To Page 2

Barlows beats most expectations

Star 23/5/89. (180)

By Ann Crotty

After an excellent performance in financial 1988, Barlows has reported interim figures for 1989 well ahead of most expectations.

In the six months to end-March earnings were up 39 percent to 238,2c (171,6c) a share (on an additional 2,5 million shares).

A dividend of 51c will be paid — 31 percent up on the previous 39c.

Turnover was up 26 percent and operating profit surged 44 percent to R1,3 billion (R891,7 million), reflecting a sharp improvement in margins from nine percent to 10,3 percent.

Taxed profit, including associates, showed a 37 percent advance to R779,5 million (R570,8 million).

Attributable profit was 41 percent ahead at R438,2 million (R311,4 million).

The strong performance (most analysts were looking for an improvement of 30 percent), reflects a massive improvement at wholly owned Middleburg Steel where strong demand and favourable pricing lifted margins and produced a 100 percent improvement in profits.

News of the results apparently filtered through to the market before the close of trade yesterday and helped to counter possible adverse sentiment from reports that two of the group's ailing gold mines might have to close.

It also cushioned the share from the sharp general downturn in investor sentiment. In early trading the share dropped 125c to a low of R34,75; it recovered to close at R35,50.

The weakening reflects a certain degree of irrational behaviour in view of the excellent performance and given the reasonably strong prospects for the second half.

Management is cautious, which seems appropriate considering the degree of uncertainty in the group's trading environment, but believes the group should have a good year, despite the slowdown.

If it can achieve a 30 percent earnings improvement for the full year, EPS of 530c are on the cards. This means that at yesterday's close, the share was offering a prospective P/E rating of 6,7 times.

A divisional break-down highlights the source of the growth performance. Despite the weak gold price, mining and mineral beneficiation (which includes Middleburg Steel) turned in a 69 percent advance at taxed-profit level to R249,2 million (R147,8 million).

The firmer coal export market also helped boost contribution.

The industrial division performed well off a high base, with a 26 percent increase to R295,8 million (R233,9 million).

Contribution from food and pharmaceutical was up 33 percent to R205,8 million (R155 million).

The international division had mixed fortunes and its rand performance — there was a 24 percent improvement to R49 million (R39,6 million) — was helped by the decline in the rand/sterling exchange rate.

Premier turns in sterling performance

180

Star 23/5/89

By Ann Crotty

Premier's results were well ahead of market expectations with earnings for the 12 months to end-March up an excellent 32 percent to 419c (317c) a share.

The dividend distribution was lifted 23 percent to 172c (140c) a share.

An indication of the weakness of the JSE is that news of the sterling performance did not prevent the share price from dropping 100c in yesterday's market to close at R37 — down from R41 a week earlier.

After the release of strong interim figures last November, analysts were looking to a full year earnings improvement of about 25 percent. This was recently revised upwards following the release of SAB's excellent full year figures (in 1988, 35 percent held SAB accounted for 67 percent of attributable earnings), but the Premier figures released yesterday even surpassed the revised expectations.

Reason for the much-better-than-expected performance was the strong contribution recorded by the much leaner food division which is showing the benefits of tighter asset management and the sale of its poultry interests (part of which are now housed in a separate joint venture).

The key features of the 1989 results include a 29 percent hike in turnover to R4,1 billion (R3,2 billion); a 39 percent improvement in trading profit to R286,7 million (R206,5 million)and; a 35 percent improvement in taxed profit to R217,4 million (R161,3 million). This all culminated in a 32 percent surge in attributable earnings to R267,5 million (R201,9 million).

CORE BUSINESS

In something of a departure from tradition, management has this year highlighted the performance of the group's "traditional core business", that is all of the group's activities apart from SAB namely, Premier Food; 33 percent of CNA/Gallo; 48 percent of Twins and; 76 percent of Gresham Industries.

During the review year, SAB chipped in with a massive R175,2 million at the earnings level (equivalent to 65 percent) compared with R92,3 from core business.

Although in absolute terms SAB continues to dominate, earnings growth in the core business of 42 percent compares very favourably with SAB's growth of 28 percent.

Peter Wrighton — Misconceptions in the marketplace.

Release of these sort of figures should help to cor rect what chairman Peter Wrighton describes as misconceptions in the market about the performance of Premier's core business. Mr Wrighton feel that these misconceptions could account for the fact that, stripping out the SAB element from the share price, indicates that the market is valuing the group's core business at around only R5-R6 a share.

This suggests that the core business, which contributed 144c a share, is on a price/earnings rating of around 4,5 times compared with the 10,9 times rating for the whole group and the sector average of 11,6 times.

FOOD DIVISION

The group's food division accounted for around 84c of the 144c a share.

Management's emphasis on the strength of the core business, and in particular on the food interests, could be designed to prepare the market for a separate listing of the food division. This was first mooted shortly before the market collapsed in October 1987.

Although current market sentiment would not do justice to the improved performance of the food division it may only be a matter of months before there is a sufficient improvement in sentiment to encourage such a move.

It is certain that group management is looking closely at the issue. A separate listing would help significantly to reduce the high gearing in the food division.

Group gearing of 23 percent chiefly reflects the strong position in SAB and hides a worrying debt/equity situation at the food division which, given its high working capital requirements and increasing interest rates, seems likely to deteriorate.

Panic selling adds to shares' downward spiral

BDay 23/5/89 (18C)

MERVYN HARRIS

PANIC selling by smaller investors gave a further twist to the downward spiral of shares prices on Diagonal Street yesterday.

But institutional investors re-entered the market towards the close of trading to nibble at selected leading shares at their lower levels on the view that they were oversold.

The late buying helped lift the JSE overall index off its low to close 2,8% down to 2 288 points. The fall means the index has shed 12,1% since rising to a post-October 1987 crash high towards the end of Arpil, and by 5,4% over the last six trading days.

The 3,2% slump in the all gold index, to 1 313 points, has taken the index down 20% from its recent high towards the end of April and by 12,2% since the gold price began its fall to 33-month lows at the start of last week.

After peaking at 2 581 on April 28, the industrial index started losing ground after government's restrictive measures to curb spending and the downtrend accelerated on the turnaround in sentiment following the gold price fall.

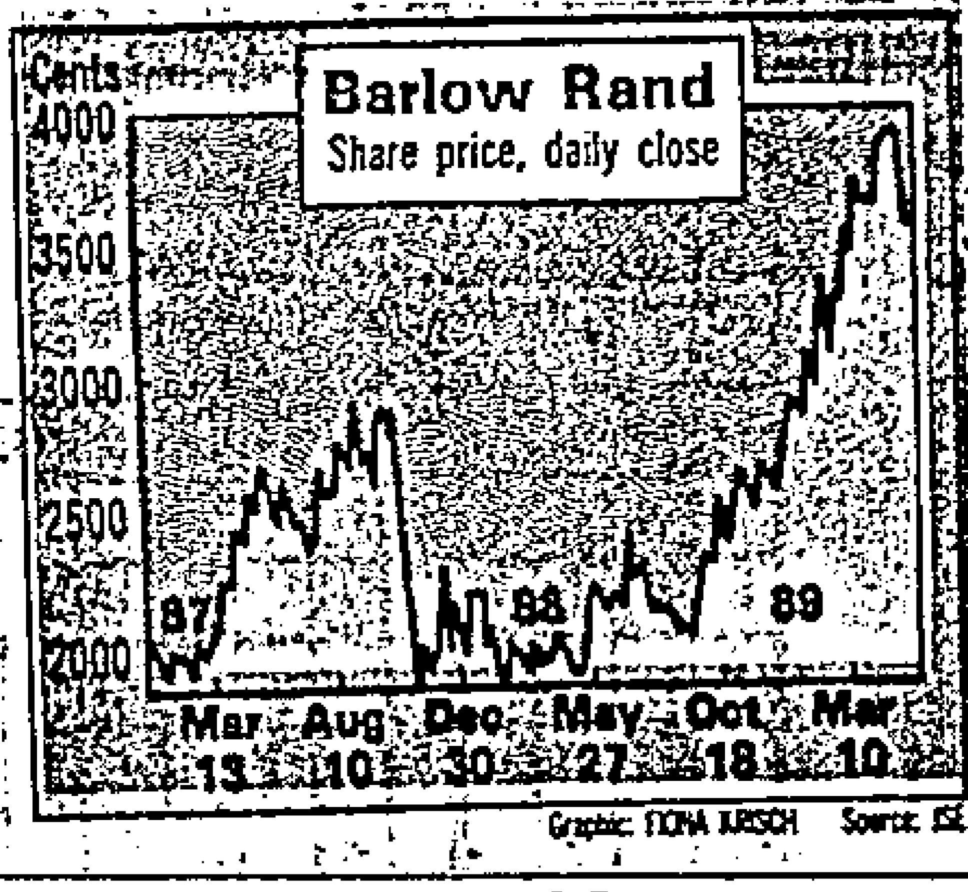
The index yesterday tumbled a further 2,8% to 2 287 to bring its decline to 11,4% from its peak, and by 9,5% over the last six trading days.

The market sell-off was reflected in gaps in the list of 20 largest price gainers as only 11 shares recorded price rises yesterday. In the absence of buyers, some shares fell sharply on light volume with Nictus in the industrial holdings sector plunging 34,2% to 25c on 15 000 shares traded in one deal.

Falls on the goldboard extended to 32,9% as in the case of WR Cons, which gave up 135c to 275c on 7 000 shares changing hands in three deals.

Barlows turns in sound effort

A 69% rise in the contribution from Barlow Rand's mining and mineral beneficiation interests — largely representing Middelburg Steel & Alloys (M S & A) — was the outstanding force behind the 39% rise in the group's attributable earnings in the six months to March.



REINIE BOOYSEN

Barlow's earnings a share rose to 238,2c (171,6c) and a dividend of 51c has been declared (39c last year).

M S & A has turned out to be one of the group's happiest investments to date, in spite of early teething problems.

The company — which was set up with an initial capital outlay of R150m in 1982 — this year more than doubled its contribution to group attributable earnings, to about R90m (or 20% of the total R438,2m), from about R40m last year (15% of the group's total, R311,4m).

Mining and mineral beneficiation now accounts for 32% (26% last year) of Barlow's taxed profit, with less spectacular, but solid growth from Rand Mines (39%) and Pretoria Portland Cement (28%).

Industry remains Barlow's most domi-

□ To Page 2

Barlow's effort

□ From Page 1

nant division, with a contribution of 38% to taxed profit.

Vice-chairman and CE Warren Clewlow said yesterday all of the group's industrial interests performed well off a high base. Electronics and electrical engineering (including Reunert and GEC) achieved "good growth" after strong local and export demand. Computing (including TSI, ISM and RCP) was "satisfactory, particularly in view of establishment costs and strategic investments made for the future".

Earthmoving equipment, motor and appliances achieved a 50% earnings growth, while building materials, steel and paint "achieved a pleasing improvement in earnings". Carpets and textiles benefited from higher volumes, while demand was sustained in all sectors of packaging and paper, resulting in another good earnings increase.

In the food and pharmaceuticals division, which contributed 26% to taxed profit (27% last year), all segments of Tiger Oats and ICS advanced strongly in a competitive environment. "A good crop and stronger world prices enhanced the contribution from sugar" and fishing and pharmaceuticals performed "particularly well".

Virtually the only bland performance came from Barlow's international division — largely J Bibby & Sons, which recorded a slender 6% rise in pre-tax profits, to £15,9m (£15m).

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BD 23/5/89

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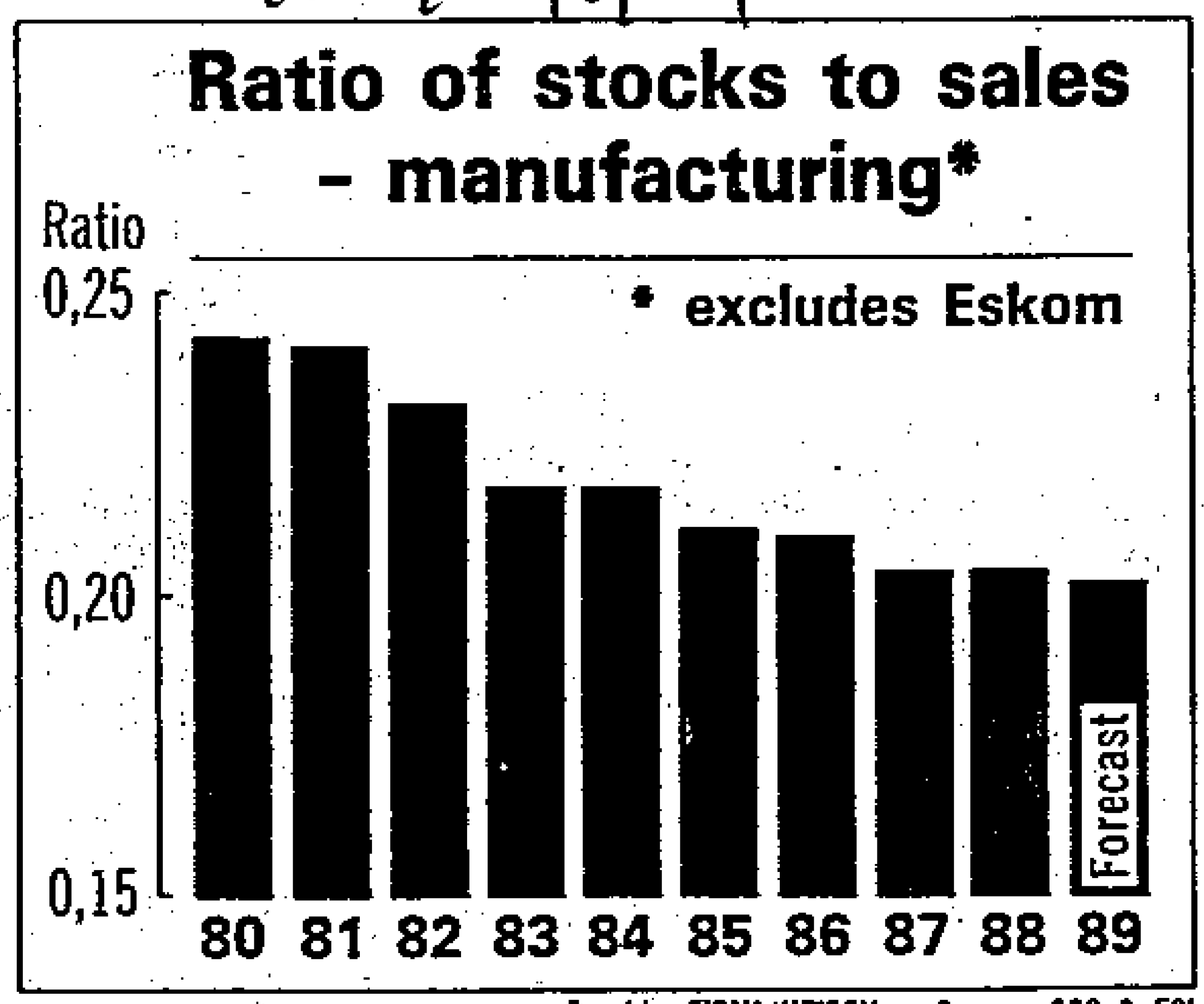

Graphic: FIONA KRISCH Source: CSS & FCI

Some structural changes among manufacturers

(180)

BETTER inventory management has resulted in a 20% improvement in SA companies' ratio of stocks to sales over the past decade, said Federated Chamber of Industries economic consultant Gad Ariovich.

Deriving his findings from Central Statistical Service (CSS) figures, Ariovich said improved management and computerisation of stock flows had resulted in a structural change being reflected among manufacturers.

"Stock management is one of the rare areas where productivity has improved substantially in SA in the past decade," he said.

In its monthly survey among manufacturers, FCI found that in April industrialists did not intend to increase their stock levels over the next 12 months.

The manufacturing sector would tend to increase stocks to meet growing demand during economic upswings. And when the downtrend set in, they could be caught with high stock levels, but no demand. A discernable feature of the survey showed industrialists' apprehension of the next year, Ariovich said.

But Possl and Johnson management counsellor Warwick Johnson said a major reason for the decline in inventory held was that government had stopped its interest-free loans to companies that held "strategic stocks".

The threat of sanctions led government to subsidise "strategic" stocks as early as 1980. But, after discovering abuse of the system, government put a stop to it last year — just when sanctions were starting to take effect.

Johnson said millions of rands worth of SA manufacturing plant was sold off in Europe during the last recession, when manufacturers were unable to reach interest payments. Despite a recent surge in the manufacturing sector, replacing the plant had become almost impossible because of forex constraints.

BTI gives concessions on import surcharges

IN A major breakthrough, Assocom has wrung concessions from the Board of Trade and Industry (BTI) over amendments to the import surcharges which were to become effective from May 10.

Exemption permits issued for capital goods and components before Finance Minister Barend du Plessis's announcement on May 5 will now remain intact.

Du Plessis said, in this original package, all exemption certificates would remain valid. However, just five days later their validity was brought into question when legislation for a June 30 shut-off date for exemption certificates was gazetted.

The validity of existing exemption certificates has also been confirmed with Customs and Excise, said Assocom trade secretary Bess Robertson, who headed the delegation that met the BTI on Monday.

She said the board was generally supportive of the concept of exempting goods irrevocably committed.

However, for semi-manufactured goods — which fell under schedule 3 and were previously fully rebated — the matter would have to be raised with the Customs and Excise Department.

On representations made with regard to the surcharge on these semi-manufactured goods, the BTI remained committed to leaving all imports on the same footing.

Assocom CE Raymond Parsons said the flexible attitude taken by the board was seen as a major breakthrough for the Assocom delegation.

However, BTI chairman Lawrence McCrystal said, as imports dropped by only 0,5% in real terms in the first quarter of 1989 compared with the same period last year, the surcharge was intended to reduce imports by raising price levels to a point where there was resistance in the market.

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Factories notorious for overstocking

THE ideal inventory level for any company would be zero, but few companies come close to that.

Holding high levels of stock puts a pressure on a company's cash flow, requiring unnecessarily high costs and interest rates in holding stock. The sum effect on an economy of companies holding too much stock is to create excessive credit demand, with the resulting pressure on short-term money market rates.

SA's factories and offices are notoriously overstocked, or are carrying obsolete stocks with shortages of inventory required to "get on with the job".

This is mainly ascribed to ignorance of the methods that have made manufacturers throughout the world competitive on world markets.

Powerful

Sapics vice-president Peter van Heerden, who is also the material control manager for Knorr-Brehmse SA said: "If government utilities and businesses in SA got a hold on their inventory control, we would have a powerful tool in our hands to fight inflation."

When questioned on their threories of inventory control, management specialists emotively call these methods "a way of life".

They point to examples in the US and Japan that have lead the countries to revel in competitiveness in seeking — through productivity — the best management tools.

Coopers and Lybrand management consultant David Tootill says the first theories of materials management to harness the power of the computer originated in the 1960s. The package was called Material Requirements Planning (MRP).

This was later adapted to include the cost of labour and machines and called Manufacturing Resource Planning (MRP2).

"Since then there has been a major rethink on the economic order quantity. The thinking is moving toward reducing inventory and orders as an engineering technique," said Tootill, who is also a Sapics vice-president.

"Almost immediately people in manufacturing realised that where assembly was taking place, material planning was needed. Computers were at hand to assist in analysing the requirements."

Pim Goldby consultant Dave Hutchinson said a few US manufacturers were visiting Japan in the late 1970s, when they came accross the just-in-time (JIT) manufacturing philosophy.

The Japanese had mastered their manufacturing and ordering techniques, stockholding and supplier relationships to receiving supplies just in time to be put on the assembly line.

"Inventory control was the first thing companies went for, but manufacturing efficiencies are far wider than that.

"Japan was taking seriously the quality control excercised by every operator involved in the manufacturing process," says Hutchinson.

Instead of involving quality inspectors in assembly line checks, they were assigned to positions of research and adaptation of current technological methods.

Cutting out these non-value added positions and making quality control the responsibility of the operators, raised the standard of goods being produced.

However, the US manufacturers realised there was room for improvement in JIT.

Sapics president Peter Birkett, who also works for NCR, says the Americans took the JIT philosophy one step further by noticing that bottlenecks occured in the production process.

Scheduling

This gave rise to the Theory of Constraint, and is considered the latest tool to manage production in a MRP and JIT environment.

"Output is determined by the amount of work that can be handled at the bottleneck. Now companies talk about forward and backward scheduling from the bottlenecks that are encountered in the production system," Hutchinson says.

"While most production and inventory control systems are computer-driven and in some cases have gone as far as computer-integrated systems (CIMS), small companies can apply appropriate theories without the use of computers."

Red tape cut for business in 28 areas

CHRIS CAIRNCROSS

CAPE TOWN — Government has suspended a welter of red tape restricting small or embryo businesses from starting up and operating in 28 areas in the four provinces earmarked for the establishment of industrial parks and training centre by the Small Business Developmen Corporation.

Details of the suspension of thes laws and regulations and the area affected are published in the Gov ernment Gazette. The suspension are carried out in terms of th powers granted the president i terms of the Temporary Removal Restrictions on Economic Activiti Act of 1986.

Regulations suspended include a wage regulating measures referre to in the Labour Relations Act, pro visions of the Basic Conditions Employment Act, the Machine and Occupational Safety Act, tl Factories, Machinery and Buildi Work Act, shop hours and licensi ordinances, National Building Reg lations and Building Standards A

Areas involved are mainly outsi white group areas. In Cape To they include two sites in Athlo Other Cape sites are in East Lond Paarl, Port Elizabeth, New Brig ton, Uitenhage and Kuils River. Natal, the sites are in Chatswo and Inanda, and in the Free State Bloemfontein's Hamilton district

About 12 sites in the Transvaal in Atteridgeville, Sebokeng, Sowe Eldorado Park, Lensasia, Nan field Township, Pennyville To ship and Wadeville.

Industrial groups still optimistic

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Hav 25/5/89

Diagonal Street

ANN CROTTY

Despite all the recent talk of doom and gloom, many major industrial groups that have recently reported interim and year-end results are optimistic about growth prospects for the foreseeable future.

The obvious exceptions are some of the banks, building societies and companies exposed to consumer durables.

The general feeling is that these areas will feel the worst effects of higher interest rates and the squeeze on consumer spending.

But elsewhere, although the rate of growth is expected to slow, the benefits of closer attention to asset management, combined with the momentum that exists within the economy, are sufficient to ensure significant growth is still on the cards for many industrial counters.

Given the uncertainty surrounding the key variables that determine growth, it is understandable that most executives avoid being specific about profit projections over the next 12 months.

But many are forecasting good levels of real growth and few expect a fall in profits.

In many instances, the outlook on the political front is the major concern and is given precedence even over the gold price as the single most important influence on growth.

This week alone, while the industrial sector was struggling to support an average earnings yield of 13 percent and a dividend yield of 4,9 percent, three of the industrial giants — Premier, Barlow Rand and Fedvolks — reported excellent results.

Premier directors say shareholders can expect more growth in the year ahead "provided economic and political conditions do not deteriorate".

CE Peter Wrighton is confident the leaner Premier will produce real growth in financial 1990.

The outlook might not seem exciting after a financial 1989 which produced a 32 percent growth in earnings, but it makes the Premier share look enticing at its current level.

At Barlows, growth in the motor and appliances operations is expected to slow in the second half of financial 1989, but the group overall seems on target for full-year earnings growth of 30 percent.

Barlows CE Warren Clewlow sees the informal sector as the propelling force in the economy: "Growth in SA is consistently being underestimated."

Another driving force is infrastructural development. Mr Clewlow says this is still going on and does not believe there will be a dramatic cut-back in the foreseeable future.

It's a similar picture over at Fedvolks. After a 21 percent hike in EPS (on a significantly larger number of shares in issue), management forecasts real earnings growth for financial 1990.

CE Johan Moolman accepts the group's domestic consumer goods are facing a difficult year, but says the other sectors are fairly insensitive to economic cycles.

The group is leaner and is constantly looking to boost the value-added element of its product.

In addition, there are bound to be benefits from both exports and export replacement.

But it seems the weak gold price has knocked investor sentiment sufficiently to ensure that 17 percent return on cash currently looks the more attractive (and easier) investment.

Tomorrow, next week or in a few months the picture could look very different.

Institutional investors accept this, saying the skill in the local market is to move back into it the day before it looks obvious to all other investors.

Nafcoc unhappy over rival

THE National African Federated Chamber of Commerce yesterday said it regretted the formation of a rival body, the Foundation of African Business and Consumer Services, at the time when the unity of blacks was needed.

Regretted

Nafcoc's communication's manager, Mr Gabriel Mokgoko, said it was regretted that certain organisations allowed themselves to be reduced into small ineffective units with diminished bargaining power.

Fabcos was formed by several business groups which are to provide a new front outside the framework of long established national organisations.

Fabcos said it would ignore Nafcoc and continue with its agenda to unite black business people because talks to merge with the national organisation had failed.

Fabcos said it would continue to negotiate with Nafcoc to see if they could not join hands in fighting for the rights of blacks.

Retailers begin to feel the pinch

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Star 25/5/89

By Derek Tommey

The Government's squeeze on consumer and company spending is starting to bite, especially in the retail sector.

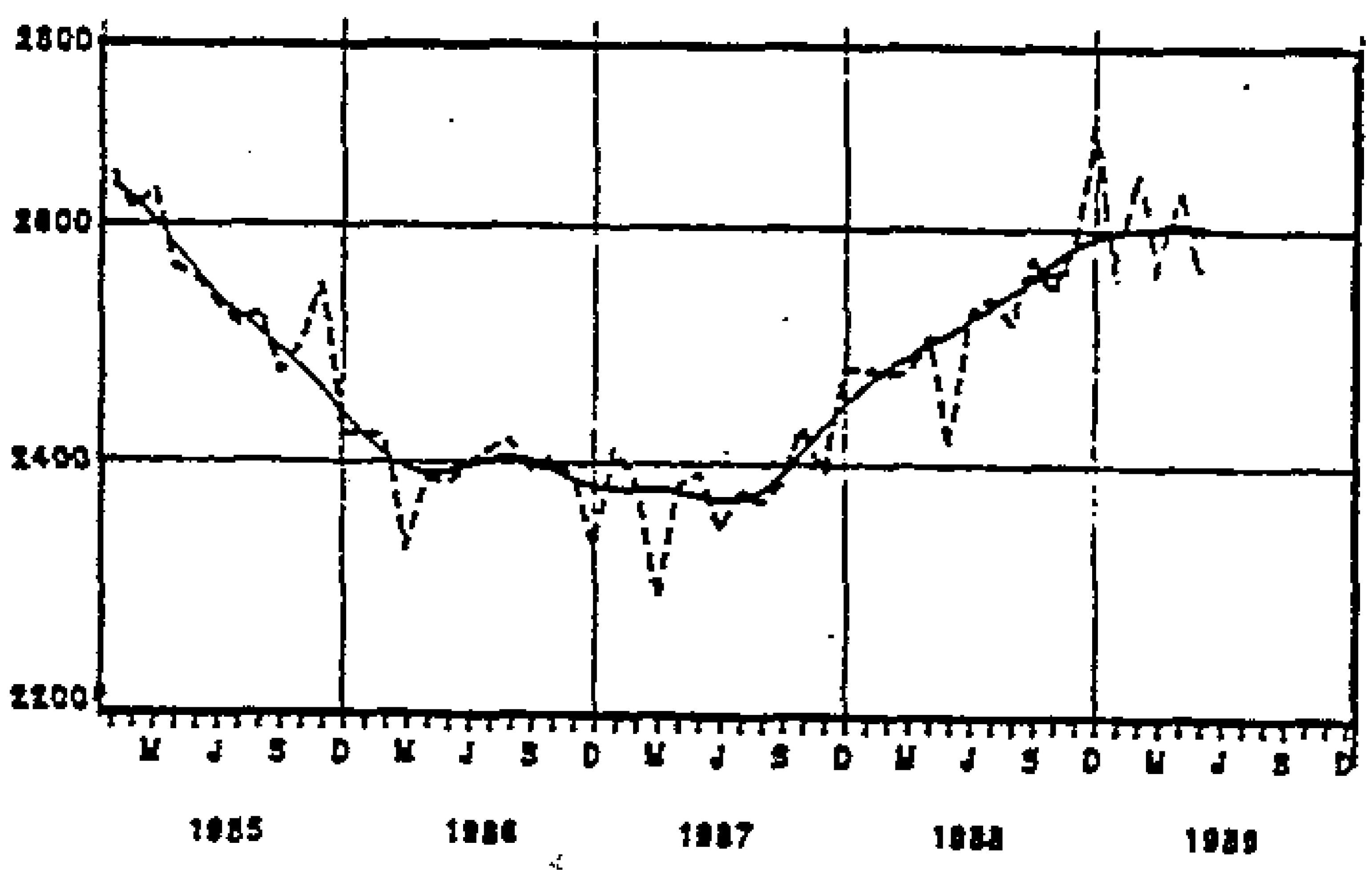
The squeeze was imposed to curb imports, trim inflation and put a floor under the rand's exchange rate.

Latest statistics from Central Statistical Sevices (CSS) show that increased taxes and higher interest rates are beginning to drain cash from consumers' pockets and this is starting to affect not only retail sales, but new building starts and manufacturing production.

Assocom's latest survey confirms this trend. It reports that business confidence has deteriorated in the past few weeks.

"Consumption expenditure is growing more slowly. Consumer durables in particular — cars, furniture, jewellery and white goods — are already showing declining trends.

The rise in interest rates is hitting consumers most, especially home owners who have to find extra cash to meet increased bond payments. To balance the books, they have to cut back on their spending and it looks as if the retailers will be the first victims.



Retail sales at constant 1985 prices in R-millions.

Companies have not gone unscathed. They have to find an extra R750 million by July 1 for the recently announced loan levy and make higher repayments on their overdrafts.

Import surcharges and the continuing rise in inflation are also adding to the load consumers and companies have to carry. Moreover, it seems likely that as the year wears on and profits and cash flow come under increasing pressure, the squeeze will intensify.

The comment this week by the Minister of Finance, Mr Barend du Plessis, that no further restrictive economic measures are being considered, seems an overstatement.

According to CSS, retailers are expecting a drop this month of 1,7 percent in cash sales and 3,1 percent in real terms.

Retail sales since February have shown a definite levelling off in real terms.

Sales of cars and motor accessories have also lacked buoyancy in recent months, CSS figures show. Interestingly, this sector of the economy has been experiencing tougher conditions since October, last year.

Motor traders, who did R2,5 billion worth of business in March were expecting this to fall to under R2,4 billion in April.

The value of projected new residential buildings has also dropped significantly. In the first quarter of this year plans for houses, town houses and flats estimated to cost R802 million were passed by the various local authorities.

This was 14,6 percent down on the year ago figure, and the CSS estimates that in real terms the drop is 25,8 percent.

However, the value of non-residential buildings approved jumped 61 percent from R335,1 million to R539,4 million, which should help take up the slack in the residential side of the building industry.

An indication that manufacturers also have been experiencing tougher conditions is contained in the CSS latest figures for manufacturing production and sales.

These shows that for the first time for several years manufacturing output failed to spring back in January after the December shutdown — suggesting that manufacturers have been treading more warily.

Economic policy hinders long-term business planning

Star 26/5/89. (180)

Finance Staff

The vagaries of the managed economic climate hinders business development, says Frame Group chief executive Mr Mervyn King.

Speaking at the release in Durban of a Senbank-sponsored report on discipline in national financial management, he called for visionary thinking of the likes of that of Margaret Thatcher and Ronald Reagan in the early Eighties.

Mr King said "ad hocery" had become the tool of politicians for handling problems as they arose.

Mervyn King

"There can be no greater restraint or constraint on commerce than to plan long-term in an environment where the politicians' plans are short-term."

He urged fiscal discipline by Government to cut the deficit before borrowing to a level no greater than the expected rate of economic growth.

At the same time, Government spending, which had grown from a relatively constant 22 percent of GDP in the 1970's to 27,3 percent in 1988-89, should be "prescribed".

Mr King cited the latest round of demand clamps, imposed by the Minister of Finance this month, as strongly suggesting a lack of forward planning.

The Minister had threatened to "cut off the tail" of the consumer if he did not stop spending.

"I believe, because of the Government's lack of control of expenditure, that the taxpayer's and consumer's only tail is a tale of woe which, not being tangible, cannot be cut off," said Mr King.

Pointing out that leadership should be by example, the Frame chief said that on the same day the Minister of Finance urged austerity, the Minister of Transport Affairs announced that South African Airways was spending R640 million buying two new aircraft.

Pretoria academic Professor Geert de Wet said that the Government's approach to the economy had caused uncertainty in business, raising demand for goods and services while reducing supply.

The country was still suffering the hangover of the Government's harsh measures in August 1984.

Professor de Wet, who led the report research team and who is head of the Department of Economics at the University of Pretoria, said: "Our analysis strongly suggests that discretionary policy measures should be replaced by clearly defined policy norms to create the conditions in which the private sector can undertake meaningful long-term planning.

"These norms should include rules which would make any departure from them very difficult."

Clear-cut objectives

He said while further research was needed to better establish the nature of the norms and rules, it was clear that policy should be aimed at a small and balanced budget to cut excessive government spending and to reduce the tax burden.

"Fiscal policy should, moreover, have attainable, clear-cut and known long-term objectives."

While much concern existed about the budget deficit before borrowing, this actually was not the main issue; rather "the real problem lies with public expenditure.

"It seems that the Government simply cannot raise enough current revenue to meet its various commitments, to the extent that it has to make use of loans to an increasing extent in order to finance current expenditure".

Meanwhile the tax burden, particularly on individuals, increased constantly as more revenue was sought to finance State spending. Thus, people's savings were going towards meeting the Government's current expenditure committments instead of capital projects.

Play safe until market improves

STAR 24/5/89

THE SHARP downward correction on the Johannesburg Stock Exchange has again underlined the very fragile and volatile investment environment in South Africa. And any look in a crystal ball suggests that this situation is bound to be fraught with extreme movements in the stock market.

Since April 27, when the present bull market in equities, and particularly in industrial shares, came to and end, the overall market has dropped by more than 10 percent as investors, large and small, starting converting some of their profits into cash and near-cash.

While the decline in prices was initially welcomed by most analysts, Monday's sell-off during which the Overall Index dropped by 66 points, raised spectres of a repeat of the Great Crash of '87. This sell-off was prompted by the drop in the gold price to below $360 an ounce on Monday. Since then the

Money Matters

Magnus Heystek

gold price and the market have recovered somewhat, "but the mood is still very fragile. Any further declines in the gold price are bound to lead to further downward moves.

The weak gold price is particularly worrying for most analysts. Not only is it reducing the vitally needed supply of foreign exchange, but it also has severe implications for the local economy, especially growth and job creation.

There is no doubt that a lower gold price reduces the Gross Domestic Product (GDP), albeit with a time-lag. If the gold price does not recover, it could lead to further lay-offs at gold mines as is now threatened at ERPM in Boksburg and Durban Roodepoort Deep on the West Rand.

So what should one's investment strategy be in such in precarious investment environment? Should one continue buying unit trusts or shares, or should one sit and wait on the sidelines until the market gives a clearer indication of where it is heading?

Anybody with an ongoing unit-trust purchasing programme should continue buying, as this is is not only a disciplined form of savings, but also offers the investor the advantages of rand cost-averaging. Technically speaking, the bull-market is still intact and is currently undergoing a healthy correction.

But if one prefers some kind of safety in these uncertain times, it might be prudent to switch some (or all of one's funds) from a general equity fund to one of the fixed-income unit trust funds. While this might entail some cost, rougl between 2 and 5 percent of total value of the investment does offer the peace of m that one's capital will rem intact should the market corr tion be more severe than m expect.

When the correction is over would be advisable to swi back into some general eq fund or into one the of the s cialised equity funds.

Some life institutions, like Standard Bank, Old Mutual Sanlam, allow investors switch money between one the "family" of unit trusts a very small fee. Perhaps thi not a bad idea considering current state of the market.

It is debatable whether it good thing to suspend o monthly investments in trusts and rather place money on call until the situa improves.

Many people might not be ciplined enough to maintain form of discretionary sa and might spend the money non-essential goods. But, if are convinced that you do l the necessary discipline, pend your monthly debit o and rather build the money elsewhere in a special sav account, and re-enter the r ket when it is at lower levels

For investors who prefe manage their equity inv ments on their own, it is n good time to start a large-s equity-purchasing progran Many analysts expect the r ket to drop by another 1 25 percent as the recessio conditions spread throug the economy.

Rather place the mone call, which will earn intere about 16 to 17 percent a and wait for the market to itself out. A further weake in the gold price will defin be detrimental to share pr but a steady improvement i gold price will be the sign re-enter the market.

● Stock Market Solutions, another stock market tra school, has recently opene doors for business in Joha burg. Here are some gener vestment guidelines offere SMS for successful investir the JSE::

1. Look for a rising index.
2. Compare shares withi sector.

Star 27/4/89 (180)

More on winners and losers

Diagonal Street

JOHN SPIRA

My description of the winners-and-losers stock market strategy in last week's Sunday Star has sparked off remarkable interest.

The technique involves buying the leaders and selling (and/or avoiding) the laggards on the ground that the strongest shares generally keep moving higher and the weakest shares keep moving lower.

I presented a list of this year's leaders (Canvacor, Zaaiplaats, Mooi River, Union Steel, Musica, Hiveld, Msauli, TEJ and Yorkcor) and laggards (JMF, New Bernica, Worles, WOM, CDS, C-Matic, Punch, Masterbore, Romano, Springtex and ME Stores) and suggested that six months from now the proof of the pudding could be put to the eating.

It's a measure of the growing impatience of today's world that reaction to the article centres on wishing to learn the efficacy of the strategy right now.

"You can surely test the technique by reference to past performance," was the essence of the feedback.

What I did was to go back to last August and extract the leaders and laggards for the first eight months of 1988.

I chose that paticular time because it was from then that the JSE began to move strongly higher.

I then compared the prices of the shares thereby extracted with their ruling levels.

Bearing in mind that most share prices across the board have gained ground since then, the outcome bears out the supreme reliability of the winners-and-losers strategy.

Though there are certain exceptions (no technique is perfect), most of the leaders at the end of August 1988 have continued to rise (in some cases steeply), while most of the laggards have continued to decline — despite the market's firmer undertone.

Among last year's foremost leaders (to end-August) were CMI, Trencor, ZCI, M&F, SA Eagle, Corwill, Cadswep, Hiveld, Union Steel and Mobile.

Their respective percentage gains in the past eight months are 90, 83, 21, 52, 45, 75, 63, 176, 250 and 65.

The only notable exception is Presto, which was 90 percent up at the eight-month stage last year and which has since fallen by 30 percent.

Mathieson & Ashley, 56 percent up at the relevant stage last year, has since risen by only four percent.

Turning to the laggards, of the approximately 50 shares that had declined by more than 50 percent in the first eight months of last year, only 20 have gone bettter in the past eight months — a period of considerable strength on Diagonal Street.

And most of these have gone only marginally better, the exceptions being Barplats, Reunert, Canvacor, Channel, Citizen and Elex, with the latter two having been boosted by unexpected changes of control.

Significantly, some of last year's largest declines are also some of this year's, striking examples being Modbee, Osprey, Rogold, South Roodepoort, Sub Nigel, Elsburg, JMF, Egoli, Corex, BSI, CRB, Punch, Dicor, Prestige, ME Stores and Quantum.

Enough said.

JSE 'looking into Berardo affair'

Star 27/5/89 (180)

DEREK TOMMEY

Many companies have come to grief on the Johannesburg Stock Exchange but few have done so with such speed and such huge losses as has Johannesburg Mining and Finance Corporation.

This company was brought to the stock exchange 19 months ago by Mr Joe Berardo, who is now reported to be living in Madaira.

Figures issued this week show that the company is technically bankrupt — owing more money than it is worth.

A spokesman for a consortium which is trying to save the group, reported that the company owes R23 million to banks. This is R500 000 more than its net worth of R22,5 million.

But when the JMF was listed in October, 1987, by way of a reverse takeover through Cogram, the company was reported to have assets of around R300 million.

Cogram, which changed its name to JMF, paid R238 million for JMF's assets. This was met by an issue of 55 million shares at 352c a share and the payment of R45 million in cash.

However, Cogram also had a further R46 million in cash at the time of the listing. Prior to acquiring JMF's assets it had sold its granite interests to Marlin for R91 million in cash. Of this R45 million went towards paying for JMF assets, leaving a balance of R46 million which presumably it still possessed when the JMF deal was transacted.

JMF's financial position was still healthy at the end of March last year. An annual report issued in September showed that the group had made R14 million for the nine months ended March and had net assets of around R230 million.

But the JMF apparently started running into trouble soon afterwards. In a interim report issued in January, this year, it reported profits of only R2,6 million for the six months ended September against R9,1 million for the year-ago period.

JMF is a mining and exploration company and has obviously been hard hit by the drop in the gold price and the steep rise in interest rates in recent months.

But shareholders and the investing public would seem to have cause for complaint in the failure of the company to inform them of the deterioration in its financial affairs.

Mr Tony Norton, executive president of the Johannesburg Stock Exchange, said last night that the exchange would be looking into the matter. It was the exchange's policy to insist that companies provide half yearly reports and also to report immediately any material change in their operations or assets whenever this happens.

Joe Berardo posing alongside his Rolls-Royce.

constituency.

Swapo Democratic leader Mr Andreas Shipanga

Assocom gives nod to tolls, but sets limits

Star 28/5/89

(180)

By Lloyd Coutts

The Association of Chambers of Commerce and Industry (Assocom) has conditionally agreed to road tolls.

In a statement released yesterday, Assocom said the re-introduction of the Road Fund was the most efficient and equitable way of maintaining roads and providing additional facilities. However, it accepted that funds allocated by the Minister of Finance might be insufficient.

It agreed to the tolling of roads on the understanding that this would be regarded as a short to medium-term method of funding new roads and facilities, and made several conditions:

- The road network as it existed on January 1 1988 be regarded as inviolate as far as tolls were concerned.
- Tolls applied to new facilities only and not to any road in existence on January 1 1988, unless agreed to.
- Cross-subsidisation was opposed and therefore Assocom did not condone the levying of a toll on one road to finance another.
- Once the capital costs had been amortised, the toll could be retained to finance maintenance.
- Where a new facility was provided, the existing road would become the alternate road.
- A proportion of the tolls collected must be re-invested in the industry to finance roads and maintenance.
- In all instances where Government planned to introduce a toll on a road or other facility, the private sector and the general public must be consulted.
- A mechanism must be established for negotiations in the event that these principles are not adhered to.

Three men are executed in Pretoria

Star 29/5/89

Three men were executed this morning at Pretoria Central Prison.

They were Patrick Jabulani Msomi (31), who was convicted in September 1988 for the robbery and murder of a 58-year-old woman in Johannesburg; Simon Mbatha (35), convicted in August last year on three charges of theft, the murder of two men near Alberton in 1987 and possession of firearms and ammunition; and Abraham Mngomezulu (no age given), convicted in 1987 for the murder of a police informer in Pretoria. — Staff Reporter.

months, based on a conservative dividend yield of 8%.

He warns that total market sentiment is a major criterion, and that although Msauli has the potential to climb under favourable conditions, the current climate is uncertain.

stock is the top of le feeble pops with 90c capil appreciation on 700c sin 1985.

Association cairman Howard Schachat iys loan stocks have more icommon with members of tl property trust sector tan with some counters in tl proper-

is not taxed in its hands. All earnings are distributed to shareholders as interest and are fully taxable in their hands.

Loan stock income is taxed in much the same way, depending on whether or not linked units were issued. A

their property portfolios. But property trusts are strictly limited. The management company and trustee requirements are not governed by the same regulations as are unit trusts.

Uncertainty has surrounded the tax implications of

To market for millions

180

ST 28/5/87

MARKET jitters are not deterring several companies from raising capital on the JSE.

Sage ordinary shareholders will get the right to 100 cumulative convertible redeemable preference shares in Sage Financial Services (SFS) for every 100 Sage Holdings held, at 370c. Preferential offerees wi be entitled to 125 for 100.

Holders of SFS efs will be entitled to a fixedividend of 5,4% of the issuprice in 1989, fluctuating ereafter with the percentag change in earnings an ordiary SFS share from the perrmance in 1989.

The dividend shl never be less than 5,4% of the issue price. The complicated offer seems to be a way of dealing with tax implications.

Huntcor is to raise R107-million by the issue of 16 ordinary shares for every 100 at 1 550c to follow its own rights in Hunt Leuchars & Hepburn (HLH), which is seeking R148-million to buy 25% of Rainbow Chicken.

HLH's offer is also 16 for 100 at 775c. Huntcor is currently 1 550c and HLH 825c.

Springtex is to issue 15% unsecured subordinated compulsorily convertible debentures to its ordinary shareholders in the ratio of 88 debentures at 65c for every 100 ordinaries held. A total of R10,2-million will be raised.

EXECUTIVE EDUCATION

RATE INCREAS

SUNDAY TIMES, Business Times, May 28, 1989 4

Education before economy at FCI

180

THE troubled economy took a back seat to education and training at the executive council meeting of the Federated Chamber of Industries in Cape Town this week.

Business Times Reporter

Minister of National Education Piet Clase asked industry to help the State in technical and vocational education.

"The private sector and industry in particular can play a larger role in vocational education. They can offer real-life experience to pupils. They also have the equipment and the money for such training. The Government cannot fund the entire training effort."

Stigma

Pointing out that university students outnumbered technikon students five to one, Mr Clase lamented a "stigma" attached to technical education. He said two-thirds of university students studied the humanities.

This was a recurring theme of the conference, which was shocked to hear that SA, with a population of 30-million, has only 12 000 apprentices in training compared with 700 000 in West Germany, which has a population of 60-million.

Even Finance Minister Barend du Plessis raised the subject, saying: "A very small proportion of black matriculants take science or mathematics. In the industrial culture of the future, lack of reasonable numeracy will seriously impair employability."

S W H Engelbrecht of the Human Sciences Research Council said: "Hundreds of thousands of black pupils who are streaming through to secondary and tertiary education levels are focusing on and qualifying themselves in the human sciences. The next decade presents a danger of the educated unemployed."

Although all deplored the tendency of black and white students to prefer degrees in the human sciences to diplomas in technical areas, nobody pointed out that white-collar jobs offer more money, greater status and job security.

Although keynote speaker Mr Du Plessis outlined SA's daunting economic problems and how export promotion and the creation of an industrial culture might help, it was a Stellenbosch physics professor who made people sit up with the challenge: "Let's teach children to think."

According to Professor W L Rautenbach, there is too much emphasis on rote learning and certificates in education.

He contends that it is vital for parents to teach their children to think so that they can handle change.

"Should a community fail in developing the thinking skills of its young, it fails not only in cultural development but also in cultural transmission. Such failed communities live in a type of cultural vacuum, which often leads to the development of distorted or even delinquent sub-cultures."

Professor Rautenbach said First World countries adapted successfully to the industrial revolution, but those emerging from colonialism had greater difficulty.

They had been used by colonial powers as a cheap source of raw materials and unskilled labour. Once industrialised countries' technology replaced cheap unskilled labour, decolonisation took place.

Universal education became the drive, but teaching skills were absent. Post-colonial education systems quickly became bogged down in rote learning and certification.

"The gravest effect is probably that the thinking or cognitive skills of children do not develop in a normal manner where the parents have lost their understanding of reality and are neither consciously nor culturally bound to transmit culture to the young or to develop their thinking skills.

"Under conditions where schooling is to a large extent divorced from reality, thinking and life, children and parents tend to view certificates as magic tokens to an easy life in white collar positions."

The solution to the problem, said Professor Rautenbach, was the rehabilitation of thinking skills. Cognitive rehabilitation work being pioneered in Israel was highly promising.

Promising

Professor Rautenbach said teachers, educational institutions, leadership groups and young parents should be exposed to cognitive rehabilitation as a matter or urgency. He is looking for support to start rehabilitation units in educational institutions.

Professor Rautenbach warned there were many obstacles, including pressure groups with a vested interest in underdevelopment.

"Teachers and instructors who do not possess the necessary thinking skills only feel comfortable in rote learning and feel genuinely threatened by thinking people."

Dudley Schroeder, chairman of the Teachers Federal Council, said there was a human component in education. People were not only technical and economic ciphers. Teachers were more than mere instructors. They were educators who had to inspire leadership and to help children to cope with the problems of modern life.

Mr Schroeder, principal of Queen's College, Queenstown, said a 1% increase for teachers cost the State R72-million a year. Pointing out that 3 500 teachers left the profession last year, he said they were caught in the crossfire of the private sector's attacks on government spending. SA would get the quality of education it was prepared to buy.

Gencor move likely to have followers

More firms 'to cash in at the JSE'

B/Day 24/5/89

GRETA STEYN

ANALYSTS expect more top companies to follow Gencor with rights issues as institutions are sitting on at least R20bn in cash which could flow into equities.

The abolition of prescribed asset requirements for pension funds and life offices has freed billions of rands to flow into equities, including privatisation, instead of into gilts or semi-gilts.

In spite of uncertainty over the direction of the JSE, analysts said the liquidity meant quality companies would have no problems in raising capital.

The Gencor rights issue of about R1,5bn will be accompanied by a 22-for-100 issue by Federale Mynbou which is expected to raise about R880m, bringing the total demand on the market to almost R2,4bn.

This issue will take place before the Iscor privatisation, which will probably demand at least R1,5bn from the market.

Sanlam MD Pierre Steyn said yesterday: "The abolition of prescribed asset requirements means savings can be mobilised for privatisation and for expanding companies.

"There is no doubt that other top companies will follow Gencor with rights issues this year. Companies are seeing their share prices on the JSE as being reasonably high, even after the recent downward movement."

Analysts said Gencor had timed its issue particularly well by getting in ahead of the Iscor privatisation. But some said the outlook for the JSE was uncertain.

A sustained slump in the gold price could depress the market, pushing down Gencor's share price and reducing the capital it will be able to raise through its offer of 20 new shares for every 100 in issue.

Liberty Life joint MD Mark Winterton said the JSE had "suffered a bit of a setback because of the gold price.

"Companies might find they have to offer quite a big discount on their share prices when raising new capital."

But he agreed institutional liquidity was a positive factor for the market.

Gencor executive chairman Derek Keyes said: "Although the offer price still has to be finalised, we will raise about R1,6bn, based on Gencor's market price of about R87. Our shares enjoy a good price and the institutions have surplus funds."

He said the company's research had shown that the idea of a Gencor rights issue would be favourably received by the market.

Gencor is well regarded, especially after its 55% increase in interim earnings.

Keyes said Gencor did not have any specific projects in mind and that the capital would finance its growth. "We believe Gencor should do a rights issue once every four or five years."

He said the capital would help Gencor, which has a R10bn asset base, to finance its expansion programmes and will enable the group to maintain growth momentum through speeding up development of existing business and making new investments possible.

There has been speculation for some time that it might be interested in ConsGold's 38% share in GFSA, but a spokesman yesterday declined to comment on the talk.

Gencor recently bought Mobil for an estimated R400m-R600m and Keyes said that had already been financed.

More pressure on petrol slate

ZILLA EFRAT

THE falling rand, coupled with escalating international fuel prices, is certain

Rand 'will affe

THE weak rand would mainly affect the new local content programme requiring extensive tooling up — where much of the equipment was imported and could result in huge forex losses, motor industry analysts said.

Industry group to probe country's public finances

7/w 20/5/84

The South African Federated Chamber of Industries (FCI) is to undertake a detailed study of the country's public finances.

The FCI says emphasis will be placed on government expenditure, which is accepted as being one of the root causes of inflation.

The study will also focus on proper managment processes in government.

The FCI said: "The purpose of the study will not be merely to point out deficiencies in regard to the public finances but rather to use the factual evidence obtained to arrive at logical suggestions for a sound normative framework for public finances in South Africa".

The FCI said the main reasons for the investigation were:

- Goverment's excess expenditure over budget estimates during the current decade averaged at 7 percent, which, said the FCI, indicated a serious lack of budgetary control.
- Preliminary research had shown that South Africa had become a high tax country compared to its main trading partners and this needed to be quantified accurately. — Sapa.

180

Business confidence goes into a decline

180

SKV 30/5/89

Finance Staff

Business confidence is declining rapidly in the wake of the fall in the gold price and the rand and the pessimistic outlook on the economy in months to come.

Assocom's Business Confidence Index fell by almost one percentage point in May in what the association describes as a reaction to the more tangible evidence that a downswing has started.

Consumer durables, in particular — cars, furniture, jewellery and white goods — are already showing declining trends.

Some sectors such as exports, however, should gain to some extent from the weakness of the rand.

Among the factors identified by Assocom as contributing to the deterioration in the business mood, are the recent sharp decline in the gold price, the constant depreciation in the rand-dollar exchange rate and the negative perception of the way in which the economy has been handled over the past year.

Another negative factor is the increasing tendency of the authorities to change the rules of the game — in the sphere of tax, for example — often with retrospective effect.

Assocom says, however, ~~that~~ this does not man that business confidence will continue to decline in the months ahead.

It depends upon whether any further external shocks emerge and how the economy is handled.

Although economic and business conditions are becoming more difficult, a soft landing for the economy later in the year is still possible, but the margin of error remains small, Assocom says.

The association says the persistently high level of government spending is emerging as a major element of low business confidence.

Although the Government has recognised the problem, Assocom says it still seems unable to exercise effective control over its spending.

Unless fiscal policy plays its rightful role in a stabilisation policy, a disproportionate share of the burden of adjustment will be borne by the private sector, Assocom warns.

In the wake of continuing overspending by the public sector, the Federated Chamber of Industries (FCI) said yesterday it would undertake a detailed study of South Africa's public finances.

The FCI said emphasis would be on government expenditure, which is accepted as being one of the root causes of inflation.

The study will also focus on proper managment processes in Government.

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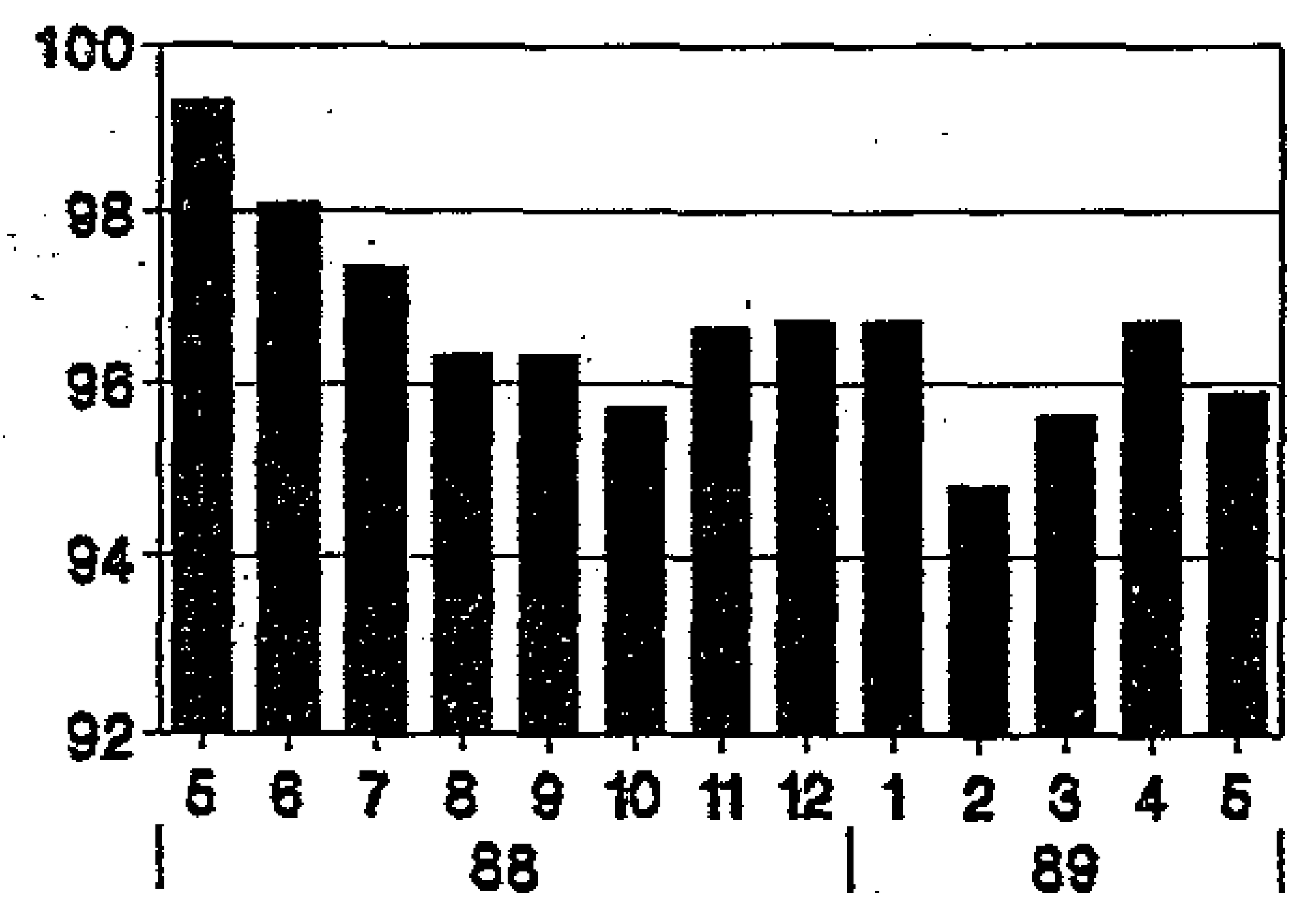
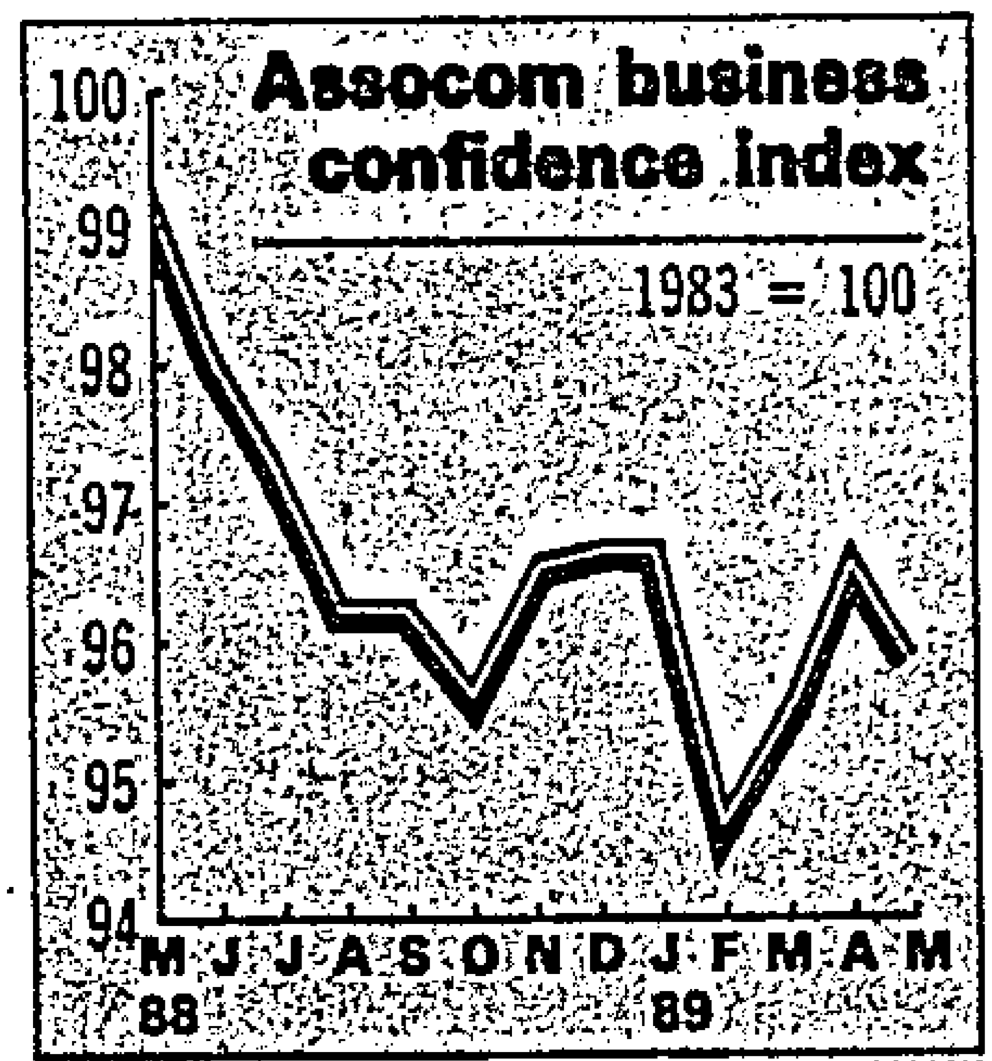


Assocom's Business Confidence Index (1983 — 100)



Graphic: FIONA KRISCH Source: ASSOCOM

BDay 30/5/89

Business mood is deteriorating

SYLVIA DU PLESSIS

A NEGATIVE perception of the way the economy has been handled over the past year contributed to the recent deterioration in the business mood, Assocom said yesterday.

Its business confidence index (BCI) fell nearly one percentage point this month to 95,9 from 96,7 in April.

A lack of "timeous action", in spite of warnings from the private sector that early moves were needed to keep the economic upswing under control, led to a situation in which sterner steps became inevitable.

The failure to act had left the economy vulnerable to external fluctuations to a far greater extent than would otherwise have been the case.

The recent sharp decline in the gold price and the consequent depreciation of the rand against the dollar were also major contributors to the worsening in business sentiment.

A disturbing factor was the persistently high level of government spending.

"Although the government has recognised the problem, it still appears unable to exercise effective control over state spending," Assocom said.

While there was now more tangible evidence that an economic downswing had started, business confidence would not necessarily continue to fall in the months

□ To Page 2

Business mood

□ From Page 1

ahead. Perceptions depended on whether any further external shocks emerged and how the economy was handled.

"Although economic and business conditions are becoming more difficult, a 'soft landing' for the economy later in the year is still possible. But the margin for error remains small, given the constraints facing the economy," said Assocom.

Negative factors affecting the May BCI were the decline in the dollar price of gold in London and the rand/dollar exchange rate, the drop in the JSE overall share index and the rising rate of inflation.

In addition, interest rates increased, exports decreased, the number of new cars sold declined and expected retail sales, in real terms and seasonally-adjusted, declined, while the value of building plans passed (in real terms) and the volume of manufacturing production fell slightly.

Positive developments were the increase in merchandise imports, a slight decline in the number of insolvencies, a small rise in the number of new companies registered and improved total migration figures.

REVISED COURSE DESCRIPTION: MAT 311S

Mat 311S Ceramic Materials

Prerequisites: MAT 204W, MAT 206S and MAT 301F
36 lectures, 3 industrial visits, 3 credits

General properties and classification of ceramic materials.

The structure of ceramic materials; powder technology; vitrification; crystallization and solid state densification; strength, fracture and toughness; high temperature properties; optical, magnetic and electrical properties; reliability and proof testing.

Production, properties and application of ceramics; traditional ceramics; advanced ceramics - glass, oxide ceramics, light non-oxide ceramics, fibres and composites. The design of ceramic componants for engineering applications.

MANUFACTURING — GENERAL

1989

JUNE — ~~JULY~~ AUG. SEPT.

DECEMBER.

Phenomenal growth in capital gains and dividends

180

Star 1/7/89

Bonsella from unit trusts

DEREK TOMMEY

THE past 12 months have been exceptionally profitable ones for mutual fund/unit trust investors. The funds' June quarterlies to be issued in the next few days will show quite phenomenal growth in both capital appreciation and dividends over the past year.

It is clear that the funds have "taken full advantage of the buoyant share market in this period. Since last June the All Gold index has risen 19,2 percent, the Industrial by 42,9 percent, the Diamond index by 74 percent and the All Share" index by 57,8 percent.

Preliminary results, based on figures published earlier this week, indicate that several funds will report a combined growth in capital and income of 50 percent or more

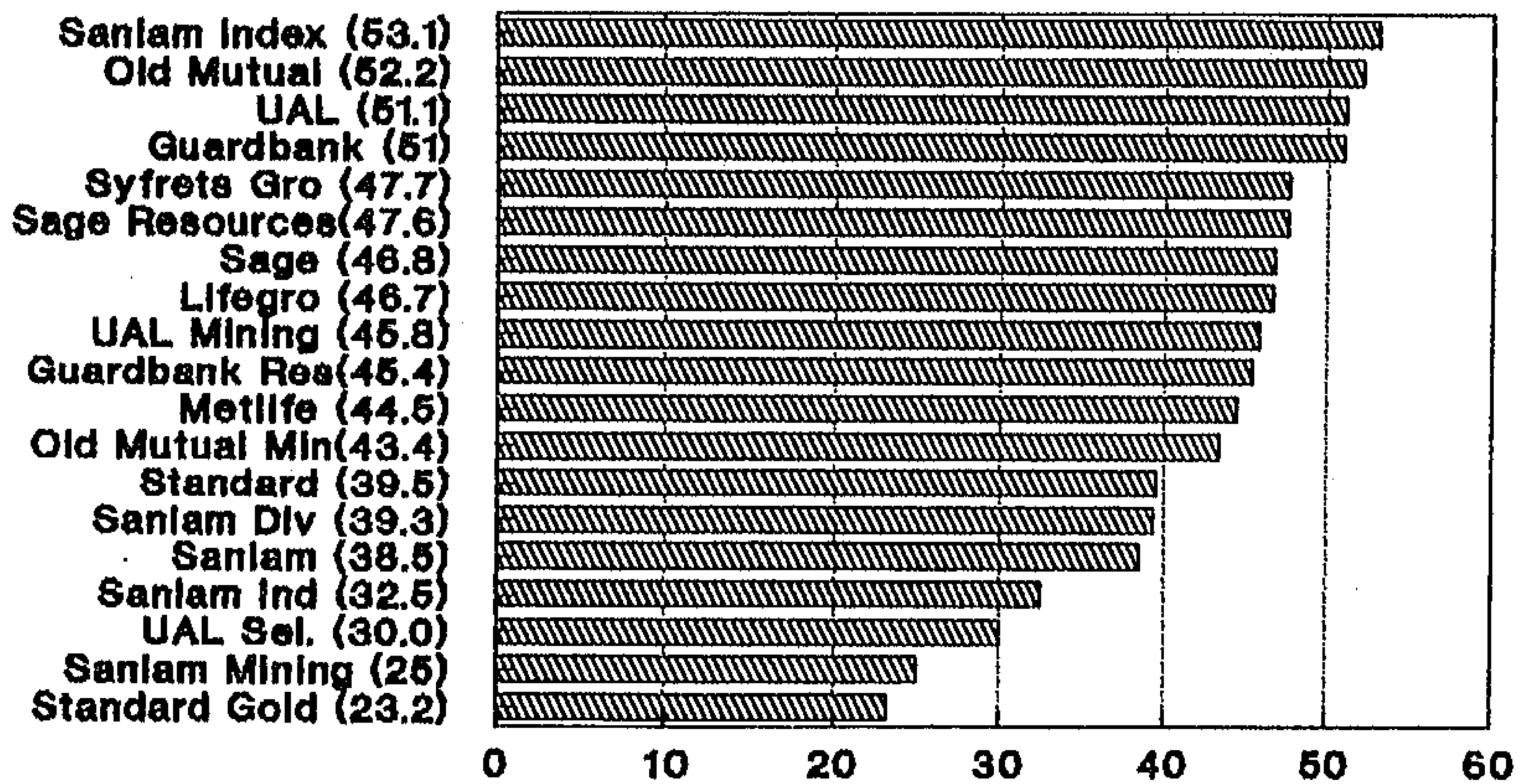
As a result most unit trust investors will, after taking 15 percent inflation into account, show a net return in capital and dividends of at least 25 percent on the money they had invested last June.

According to the preliminary figures the top performer in the past 12 months has been Sanlam Index. This achieved capital appreciation of 48,5 percent and paid out dividends equal to 4,6 percent of its year ago price, giving a total return of 53,1 percent.

Mr Otto Jaekel, Sanlam unit trusts' general manager, said the strong growth of the trust was partly the result of its policy of being fully invested and partly to it having a substantial portfolio of "rand hedge" shares which showed considerable capital appreciation during 1988 and 1989.

Most of the other Sanlam trusts also performed well. Sanlam Trust showed a gross return of 38,5 percent, while Sanlam Dividend trust, whose portfolio is planned to give investors a higher dividend yield than obtainable from other trusts, showed a return of 39,3 percent - comprising 30,2 percent in capital growth and 9,1 percent in dividends.

Sanlam Mining was one of the poorer performers, mainly owing to the easier trend in gold shares. But in recent weeks the gold market has picked up resulting in Sanlam Mining showing capital appreciation of 8 percent in the past three months.



The recovery in gold shares also helped the Old Mutual Investment Trust into second place with an overall growth of 52,2 percent in the 12 months between June 30 last year and June 26 this year.

Mr Marco Celotti, a senior portfolio manager with the Old Mutual, said that the fund had a large stake in golds and the recovery in this sector of the market gave the fund an extra boost.

Third in the performance stakes was UAL with an overall growth of 51,1 percent and only fractionally ahead of Guardbank, which had a growth of 51,0 percent.

Mr Alister Colquhoun, UAL executive director and managing director of the management company, said the fund was heavily invested in the big corportions and these had performed well. Moreover, because the fund was the most concentrated and made few switches it saved on transaction expenses.

It is clear from these figures and those shown in the accompany graph that investors in South Africa have been well-served by the unit trust industry.

Although the heavy losses sustained by investors in the 1969 share market collapse led to considerable criticism of the movement, since then it has been an extremely sound investment, consistently providing investors with capital appreciation and dividend growth far in excess of the inflation rate.

The movement has been helped by the steady growth in the economy, which is expected to continue and enable unit trusts to show further substantial growth in the years ahead.

Firmer gold price injects new life into Diagonal St

Star 11/7/89

LYNNE PEACH

180

A FIRMER gold price and weakening dollar injected new life into Diagonal Street and sent the JSE industrial index to an all-time peak of 2635 on Thursday. The belief that the gold price has bottomed and the shortage of quality scrip added momentum to rising share prices.

Brokers say that yesterday's trading started quietly, in line with gold falling overnight, but picked up momentum as the day wore on and the bullion price picked up. They say there was interest across the board, particularly in metals and minerals.

The JSE Overall index came off 15 points to 2627 reflecting weakness in the yellow metal price. The JSE Gold index lost 17 points to 1520 while the JSE Industrial index fell back 15 points in sympathy to 2635.

Nonetheless, the fundamental and technical view is that the downside potential for gold bullion is limited. In view of this, institutional buying is likely to grow which means more and more gold shares could appear on the new highs list as the year progresses. The gold price has tended to stay above $370 this week and late yesterday was trading at around $373.

Beatrix, Gencor's mining investment company, has been a strong performer. Its price advanced 75c this week to a new yearly high of 1625c. This is significantly above its February low of 1025c. Vaal Reefs continued to move ahead, rising 1200c to 32200c, which is still short of its 35200c peak in March.

JCI's only really profitable gold operation, Randfontein Estates, is paying a dividend of 1300c for the year to June, compared with 1150c last year. This prompted its share price to move up 1500c to 20000c.

ERPM, relisted on Thurday, did not fare well. Its price sank 50 percent to a new low of 700c before recovering to 725c yesterday.

The strength in Wall Street was a positive factor behind a sparkling De Beers which climbed 240c to 6665c. Anamint followed suit and gained 5500c to 88000c.

Rembrandt-controlled Transhex advanced 100c to 1400c, not far off its 1435c high established in March. This followed a turnover increase of 84 percent and an attributable profit rise of 41 percent in the year to March.

In addition, brokers say there is a possibility that Transhex could be enlarged and moved to the mining financial board.

The Consgold deal will give Rembrandt first option on some GFSA shares and it has been suggested that these shares will be placed in Transhex's care.

Mervest, which lost 2c this week to 29c, is another diamond share being talked about. If Mervest's offshore mining contract with the Namibian arm of De Beers works out, a lot more contracts could follow. In this event, they say the price will rocket.

The platinum sector was mixed. Impala lost 25c to 5200c while Rustenburg gained 50c to 6200c. Lefko's price rose 35c this week to 805c, but is undervalued according to brokers. They predict that when the platinum market takes off, Lefko will be a front-runner.

On the back of Hanson's bid, Consgold's share price remained firm, rising from 9100c to 9150c. Minorco will also be favourably affected by any deal as the sale of its stake will fetch just under £1 billion. Its price, however, retreated 50c over the week to 6250c.

Vanadium operation Rhovan, listed on Thursday and issued at 60c, reached 65c yesterday. Brokers have placed this share on their buy-list saying it offers good value compared with Highveld and Vansa.

They also believe that building society shares are worth accumulating. Allied's management uncovered "some problems with management accounting" but its share price jumped 12c to 122c.

The restructuring and special dividend announced by NDH drove its price up from 85c to 90c. Sage Financial Services, issued at 370c and listed on Thursday, saw the price of its preference shares increase to 380c.

Columbia's announcement that it is looking for a single substantial investment had no effect on its price which was steady at 195c. As a result of the sell-out of its major interests, the group is sitting on a cash pool of some R35 million.

It could soon have more cash, according to brokers who say that Columbia may be selling its stake in Anbeeco-controlled Supalek for not more than 40c a share. Following their cautionary announcements, Anbeeco's price rose 3c to 60c while Supalek's price stayed constant at 40c.

In the insurance sector, Santam has been singled out by stockbrokers as a buying opportunity. They point out that Santam has produced excellent results and its future performance will be relatively unaffected by economic downturn. Santam advanced 10c this week to 245c.

Industrial counters continued move ahead despite several disturbing economic fundamentals. Amic appreciated by 100c to 10300c and W&A moved similarly ahead to 6300c. In contrast, Barlows retreated from 4425c to 4400c. Richemont released an impressive set of results with attributable profit up 38 percent in sterling terms. Its price responded, moving up 85c to 1490c.

The beverages & hotels sector welcomed Amalgamated Beverage Industries (ABI) into the fold on Wednesday. This soft drinks giant, with an annual turnover of R550 million, moved to a peak of 675c on Wednesday before dropping back to 600c yesterday.

Brokers are doubtful about the medium term profitability of the building and construction industry. LTA did not pay an expected dividend despite the doubling of earnings in the year to March. Shareholders reacted negatively and the price came off 15c to 160c. Solid Door's decision to pay minorities 80c for their shares and delist the company pushed its price up 5c to 75c.

Sappi's share price rose 75c to 4775c on the back of rising world market prices, the weak rand and the acquisition of Saiccor. Sappi's annualised earnings rose 57% in financial 1989.

Significant volumes of Lenco shares changed hands pushing the price up from 180c to 195c. For some time, stockbrokers have been saying that Lenco is putting together an offshore deal.

The expected rise in TV set prices rubbed off on Teljoy wich advanced 10c to 260c. The group has a significant stock of TV sets and investors are anticipating that more consumers will start renting. Tedelex, on the other hand, will be negatively affected by rising TV prices and its price moved 5c lower to 220c.

Troubled DCM listed Wedge downward revised its results for the year to December. The attributable loss has been increased by R1.6 million to R4,2 million. This knocked the price back 5c to 50c.

Manserv gets Colfin boost

BTimes 27/7/89.

(180)

By Julie Walker

MANAGEMENT Services Corporation (Manserv) beat its earnings forecast with profits of 22,3c a share and a dividend of 8c for the year to March 1989.

Previously Don Gray, and soon to become Colfin, Manserv's profit mix was not as expected in spite of making the bottom line. Don Gray companies underperformed, but corporate financial services arm Colfin doubled its forecast and Punch Line Columbia Training bettered expectations.

Control of Manserv has been assumed by executives of Colfin and Punch Line Columbia after the decision by previous controlling shareholder Columbia Consultants to sell certain investments.

The renamed Colfin will become a financial services and investment banking group. Through its 21,5% stake in Wingate — a sort of unlicensed bank — Colfin will be able to help provide clients with funds as well as financial services.

Most of the Don Gray companies and some other interests have been sold to management for R4,2-million, but Manserv has retained 100% of Accsys — a payroll attendance and timekeeping system — and a personnel agency.

Manserv shares eased 5c to 80c ahead of the results, putting the company on a historic price-earnings ratio of 3,8 and a dividend yield of 10% — well below the sector average. The net asset value is 70c, of which half is cash.

Executive director Jeff Wiggill believes Colfin's prospects are sound. He says activity in corporate finance is high, and the group hopes to establish a foreign operation.

180

Shareholders cheer R17m Suntaco loss

By Don Robertson

VENTURE capital investors in Super International Corporation (Sunatco), a remnant of the liquidated Turf Holdings, gave management the go-ahead to continue with its many adventures this week.

Sunatco's main interest is its holding in listed Digoco Mining and its 74% stake in Spiron Motor Holdings, which is developing a sports car.

Contrary to expectations, the 60 shareholders who attended the annual meeting at Koedespoort near Pretoria listened politely to explanations given for the R8.1-million deficit in the year to last September and the R9.2-million loss incurred in the previous year — a shortfall of R17.1-million in two years.

Largest

Since its inception, Sunatco has raised R16.9-million from shareholders, the largest sum being from a company called Diligentia. Sunatco chairman Jannie Nel represented Diligentia at the meeting.

Diligentia is now a wholly owned subsidiary of P J Nel & Broers Boukontrakteur, which belongs to Mr Nel.

At September 1987, the company had issued 79.4-million shares, on which it paid R441 000 in commission. The 20.6-million unissued shares were placed with the directors at the meeting.

For the past two financial years, the auditors have been unable to qualify the financial statements, insisting that internal control was weak, that they were unable to satisfy themselves about the completeness and accuracy of the accounting records and that certain sections of the Companies Act had been contravened. All of the contraventions have been rectified.

Seven directors, including Prof Nic Wiehahn, have resigned in the past two years.

But instead of berating management, shareholders gave their almost unqualified support for a second attempt at getting the company back on the road. The meeting ended with applause.

The company's other major investments include 52% of Lowveld Macadamia Industries, 100% of Monument Hardware & Industrial Supplies, 72% of Stock & Property Investments and all of Eagle Finance and Investments in Swaziland.

It is intended to sell Lowveld Macadamia and Monument Hardware.

Shareholders at the meeting were, however, amazed to hear a claim that the plantation at Lowveld Macadamia had burnt down.

Approval

The meeting, which lasted 2½ hours, was addressed by nine shareholders who put pointed questions to the board. One even suggested that because there was little hope that the various projects would be fully developed, the company should be shut down and shareholders be satsified with what they were able to recover.

Shareholders approved the financial statements for 1987 and 1988, re-elected Mr Nel and P D R Hudson as executive directors and D F du T Malherbe as non-executive directors.

It was agreed that the executive directors would receive a financial package of R7 500 a month and non-executive directors R5 000.

JANNIE NEL

The auditors were re-elected and it was decided not to take action against the previous management.

The company lost R5,2-million on the sale of Digoco shares in the year to September. The issue price of Digoco was 50c a share when it was listed in May, but has since declined to 18c. The company said in the latest annual report that it held 60% of Digoco.

Shareholders rejected a plan to convert a loan of R1,4-million to the Endless Pit diamond mine, which is part of Digoco, into shares in Digoco. It had been intended to convert the loan at the issue price of 50c a share.

Explaining developments in the company in the past year, Mr Nel said difficulties had been experienced in obtaining documents from the previous administration and it was necessary to apply to the Supreme Court to obtain them.

He asked shareholders to accept that the share register was now in order, but promised that Diligentia would make good any shares that had been paid for and not delivered.

The group's major project is development of a sports car, the Phoenix, through Spiron. The car was to have been launched in February last year with an Alfa Romeo engine. However, the withdrawal of Alfa from SA forced the company to change the engine and redesign the car.

So far R6,9-million has been spent on development, but the company needs another R2-million to get the project rolling.

Mr Nel asked for shareholders' help because bad publicity had made it difficult to raise more money.

Provided sufficient finance could be raised, the car would be launched in about three months' time, he said.

The company planned to sell Monument Hardware and hoped to arrange an offer of compromise on Lowveld Macadamia.

Cancelled

A contract with Turf Diamond Holdings had been cancelled because of the geologist's report and the company was trying to recover the R300 000 deposit.

It had been discovered that Piggs Back Industrial, in which the company had an interest, did not own the casino rights at the Piggs Peak Hotel in Swaziland. This was now the subject of a court case, said Mr Nel.

Sunatco's interest in the Endless Pit mine had been valued at R15-million after a geologist's report. Mr Nel said that the farm was on 800 morgen and one pipe had not yet been sampled.

"I have no problem with a value of R15-million on this project," said Mr Nel.

Manserv's earnings improve

Star 31/7/89.

(180)

Finance Staff

Results released by reconstituted Management Services (Manserv) place the group in a strong position to pursue its core interests — namely financial services and investment banking.

Manserv was listed in April last year and in its maiden financial year to end-March improved earnings per share by 29 percent to 22,3c a share, just 1c lower than the figure forecast at the time of the listing.

Turnover rose from R11 million to R26 million while a dividend of 8c was declared.

Two weeks ago Manserv announced a major restructuruing with control assumed by certain senior executives of Columbia Corporate Finance (Colfin) and Punchline Columbia Training (PLC).

This has followed the decision by Columbia Consultants, the then controlling shareholders to dispose of certain investments in its portfolio.

Manserv was created in order to specialise in the provision of management and financial services, and was formed through the amalgamation of Colfin, Don Gray Computer Holdings, PLC and minority interest in Wingate Holdings and Concorde Travel Holdings.

Other subsidiaries, which returned poor results during the year, have since been sold for a total consideration of R4,2 million.

The restructure is intended to position the group as a focused financial services house and to obtain the funding available to facilitate the group's intended investment banking/holding operation, according to a statement accompanying the results.

PLC and Colfin were the major contributor to Manserv's satisfactory performance in the previous financial year and the restructure of the group will be facilitated through the promotion of the present activities of Colfin, a financial services and investment holding operation.

Small investors shunning the market, say brokers

B|Day 4|7|89 (180)

SMALL investors with less than R10 000 to invest are still shunning the share market after the crash of October 1987, but a mature approach by informed investors buying blue chips has been boosting the indices, say stockbrokers.

CHARLOTTE MATHEWS

A Frankel Kruger Vinderine analyst said: "Generally, we have been quite busy although May/June is traditionally quiet on the market."

"But we have not had the wild cowboys who boosted markets and turnovers buying "penny" stocks in 1987. The present emphasis is on the person who knows more about markets buying the blue chips, even in 100 lots.

"There are still some jobbers but there are more investors now than gamblers."

A dealer at Fergussons, which has a big private clientele business, said its clients had been increasing in number over the last year, but these were investors putting in at least R100 000.

A Simpson McKie analyst said: "Everyone is terribly concerned about inflation and the man with money is investing in shares or property as a hedge.

"Since the crash small investors have not come back in any meaningful way in spite of the fact that the market has been quite good.

"The big stocks have been leading the way and a large proportion of listed shares have really flagged. That is partly because there are no small investors and partly because there are not many tradeable shares."

A source at another stockbroking firm added that every time big lines of shares came on the market, they were snapped up by the institutions so smaller investors did not have the opportunity to get good quality shares.

Various brokers agreed the entry of small investors into the stock market was influenced by the type of publicity the market received and by the gold price.

Spokesmen from unit trust companies said the investor with less than R10 000 had been pulling out in the last three months.

A source at Standard Merchant Bank said: "Judging by mutual funds there has been a gradual decline of enthusiasm. In any event the small man's ability to invest has been squeezed by bond rates."

Sharp deterioration in consumer confidence

Star 4/7/89 (180)

Consumer confidence has deteriorated sharply and white consumers, in particular, were worried about the short term future of the SA economy, the Bureau for Economic Research at Stellenbosch University discloses in its latest quarterly analysis of consumer activity and trends in the retail, wholesale and motor trade.

Although white consumers have now become "very pessimistic" about the short-term future of the economy they did not anticipate a substantial deterioration in their financial situation. Likewise, black consumers were also pessimistic about the economy but they actually anticipated an improvement in their finances.

The wholesale sector enjoyed "fairly vigorous sales" but anticipated much slower growth during the third quarter.

Sales volumes exceeded expectations. The demand for consumer goods was keener than for non-consumer goods and, according to respondents, the demand for consumer goods will continue to remain lively during the third quarter, while sales of non-consumer goods were not expected to improve compared with the third quarter of last year.

Although retailers reported second quarter sales were well above those of a year ago, they have indicated that growth in sales was levelling off — particularly in the durables sector, with the majority reporting unsatisfactory business conditions.

The vast net majority of retailers anticipated a quickening in the rate at which purchase prices were increasing — and they hold similar views in respect of selling prices.

"The implication of this is simply that the inflation rate may increase at a faster rate."

Motor dealers have indicated that the demand for vehicles — especially used vehicles — was tapering off and confidence was lower than a quarter ago.

However, dealers in spare parts again enjoyed vigorous sales and were "brimming with confidence," although this was expected to level off during the third quarter.

Most dealers placed fewer orders for new vehicles during the second quarter and indications were "that this is the start of a cyclical downturn," the Bureau said. — Sapa

Confidence lowest since 1986

Consumers pessimistic on economy

180

SYLVIA DU PLESSIS

CONSUMER confidence has taken a nosedive from a relatively neutral position a few months ago, with white consumers in particular expressing concern about the near-term future of the economy.

This is the finding of the Stellenbosch University-based Bureau for Economic Research (BER) in its latest quarterly analysis of consumer activity and trends in the retail, wholesale and motor trades.

The BER said the confidence index of white consumers had tumbled 12% to 88 — only marginally higher than the previous low of 81 in the first quarter of 1986.

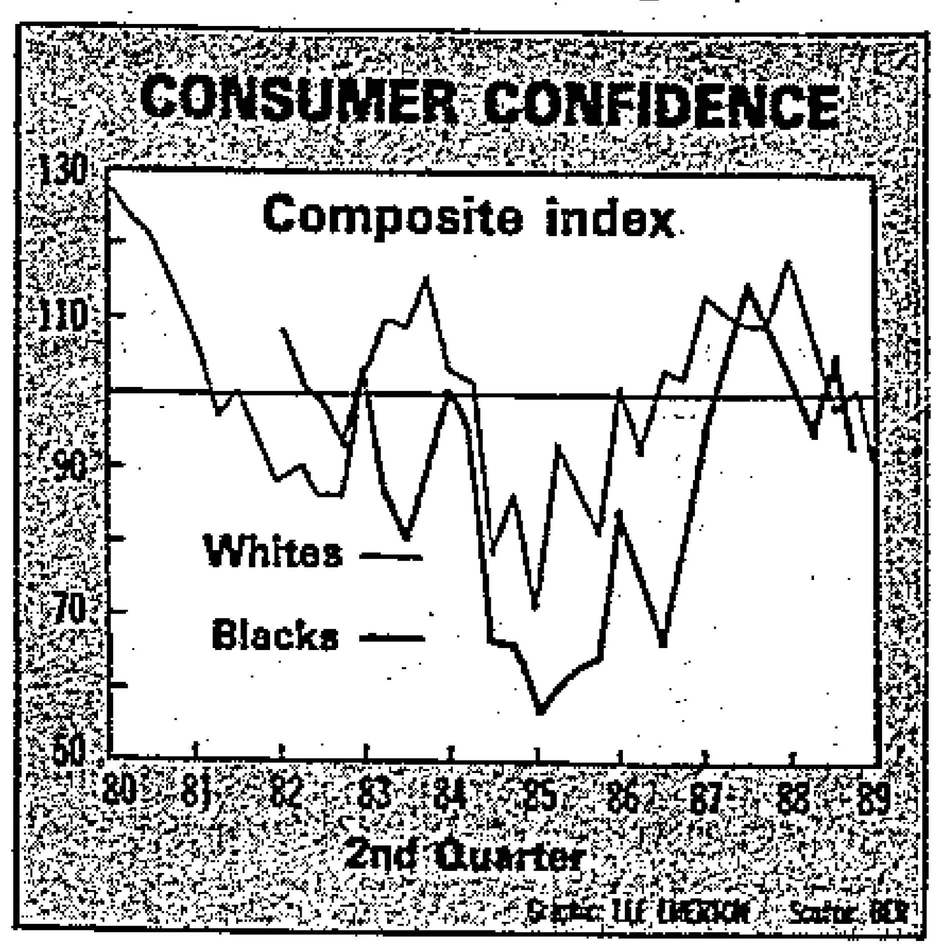
Blacks, too, had lost confidence, but in their case the level was still "well above" the previous trough in the confidence cycle.

This deterioration in consumer confidence would negatively affect spending on durable goods in particular, and might boost savings, provided that the existing credit repayments allowed for it, the bureau said.

The survey showed nearly a quarter of white consumers — 22,8% — expected a considerable deterioration in the economy.

Black consumers, canvassed a month earlier, had also been more pessimistic about economic prospects than before, but the BER said it suspected this index level would have been lower had the survey been conducted at the same time as that of white consumers.

In spite of expected slackening in the tempo of activity, white consumers did not expect a substantial deterioration in their



financial situation.

Black consumers, on the other hand, expected an improvement, but this could be based on the buoyant economic conditions at the time of the poll, the bureau said.

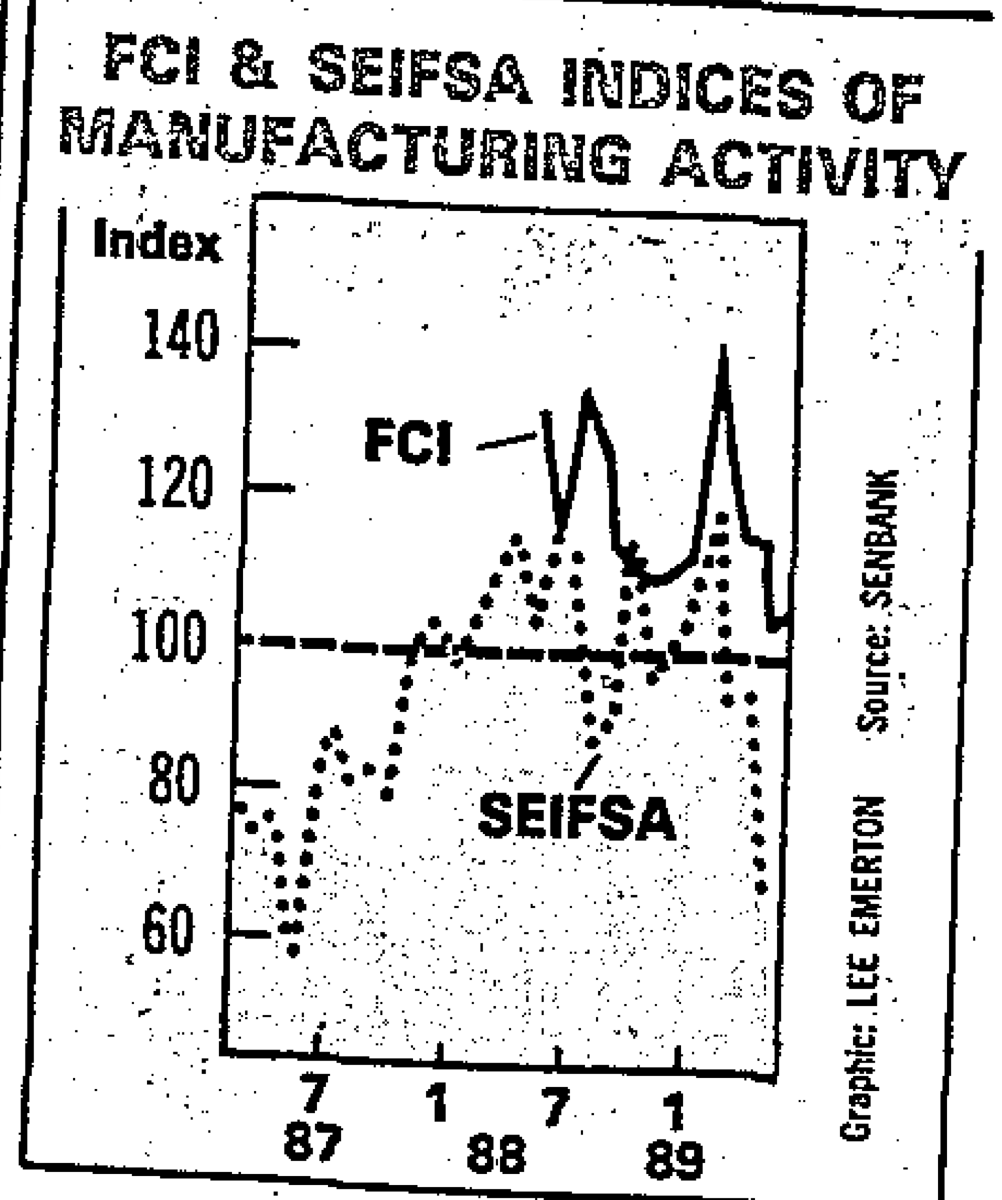
In conclusion, the BER said consumer spending was expected to perform better during 1989 than originally thought because of an improved financial situation during the first half of the year in particular, and confidence levels that had remained high for longer than expected.

"Our analyses suggest — and the results of the latest surveys substantiate this — that consumer spending could run out of steam during the second half of this year.

"The durable goods sector in particular is likely to experience sluggish demand."

The BER also expected this weaker consumer demand to spill over into the semi-durable goods sector next year, and forecast the possibility of a difficult 1990 for many retailers and manufacturers.

● See Page 3



Manufacturing halts its downward trend

BDay 5/7/89 KAY TURVEY (180)

MANUFACTURING activity halted its downward trend and held steady in June, buoyed by a strong export drive as local consumption fell.

The FCI manufacturing index remained steady at a value of 106 — as in May — and there is optimism in the short- to medium-term outlook for manufacturing.

FCI executive director Ron Haywood said the determined move into exports underpinned confidence at a time when domestic consumer confidence had tumbled.

☐ To Page 2

Downward

BDay 5/7/89 (180)

☐ From Page 1

Manufacturers were marginally more optimistic regarding June production levels than during the previous month, and the regional activity index showed a flattening out of the negative business perceptions of recent months.

Coastal regions such as Port Elizabeth and East London remained particularly optimistic. Haywood said contrary to expectations, Port Elizabeth appeared to be benefiting from strong exports across the board and not yet from the Mossgas project.

Latest Reserve Bank figures showed Gross Domestic Fixed Investment remained relatively buoyant in the first quarter, posting the highest seasonally adjusted rate since 1985.

Seasonally adjusted figures relating to the volume of manufacturing production showed a decline of more than two percentage points for the first quarter of 1989 compared to the final quarter of 1988, mainly due to a weak export performance.

Haywood announced that the FCI had launched an ad hoc survey to determine the potential for improving the current utilisation of capital productivity in SA.

Sluggish factory growth points to overkill in economic curbs

180

Star 5/7/89

By Derek Tommey

The manufacturing sector ran into heavy seas in the first four months of the year.

Figures issued by Central Statistical Services (CSS) show that although industrial production spurted by 5,5 percent in April — probably as a result of increased export sales — total output for the first four months rose only 1,7 percent (6,1 percent in the same four months last year).

This follows on a year when the net profit of manufacturing firms in 1988 increased by 45,4 percent compared with the previous year, according to the CSS.

The production figures suggest that after being hit by successive increases in interest rates and taxes, the economy is running out of steam.

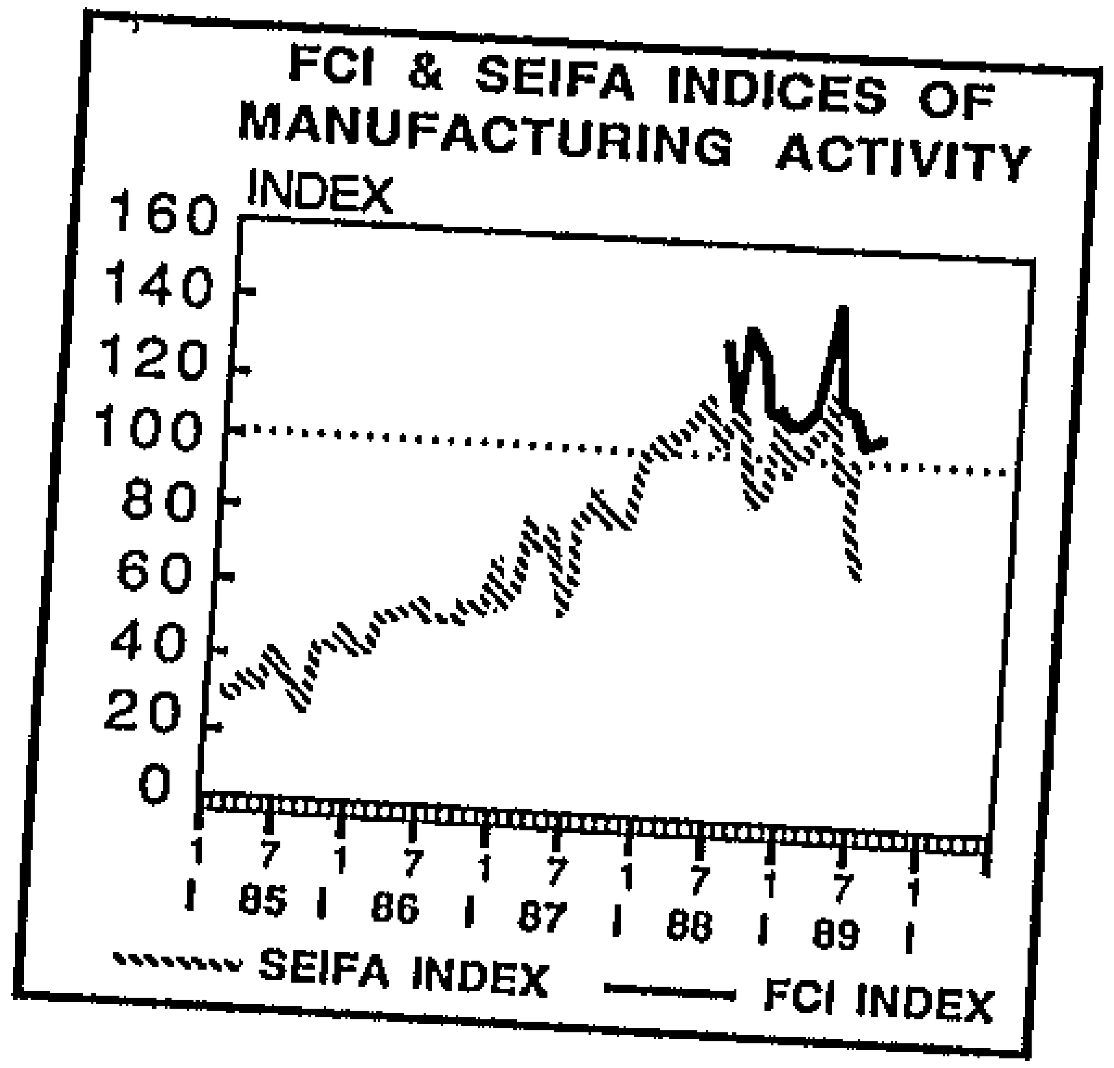
In therefore seems possible that the May 5 austerity package, which included the 10 percent loan levy and pushed prime interest rates up to 20 percent, might contain an element of overkill.

CSS figures show that the iron and steel industry had the biggest increase in output in April with a gain of 22,6 percent on a year ago.

This probably reflected the restoration of full production at Iscor and its huge export sales.

Associated with this, output of metal products rose 11,9 percent.

The next biggest gain was shown by rubber products where output rose 20 percent. The tobacco sector increased output by 10,5 percent and the beverages sector by 9,3 percent.



Against this, production of glass and glass products fell 24,2 percent, while output of transport equipment fell 11,4 percent. The figures tend to highlight the divergent trend in the economy, with export and import-replacement industries and their suppliers enjoying a high level of activity.

On the other hand, the increase in taxes and interest rates is taking a big chunk out of white consumer buying power and reducing demand for the more sophisticated products.

However, it is conventional economic policy to curb consumer spending after a major devaluation such as South Africa experienced last year in order to hold down wage demands and inflation and retain the benefits of devaluation for as long as possible.

But there now seems some doubt about whether the May measures were really needed. This will be known only later this year.

It means the authorities will have to keep a close watch in order to introduce restorative measures as soon as there are signs of the economy going into a real depression.

The sharp downward trend in the volume of new orders for manufacturing was halted last month — still marginally above the critical line that marks the division between optimism and pessimism about the short-to-medium-term outlook.

The Federated Chamber of Industries said last night that its index of economic activity, which was toppled from a high of 140 points at the start of the year to 106 in May, had steadied and remained unchanged in a June survey, writes Michael Chester.

Executive director Ron Haywood said an especially encouraging feature about the longer-term outlook was evidence of a continued surge in new fixed investment in the industrial sector.

Total new investment was now running at no less than 18 percent in real terms, compared with a year ago.

The robust level of investment and the check to the downward spiral in key indicators appeared to confirm earlier suspicions of overkill in recent measures to cool the economy.

In fact, he said, there had been a marginal improvement in optimism among manufacturers about current production levels, where indices had lifted from 112 to 114 points.

The index relating to the business outlook over the next 12 months, however, had slipped from 122 to 116 between May and June, marking the fifth monthly decline on the run for forecasts of actual sales in the year ahead.

"Still, it is gratifying to note that all of our key indicators, despite their retreats under various economic squeezes, remain inside the optimist zone of the optimism/pessimism border," said Mr Haywood.

He believed much of the renewed relative stability of indices was due to growing enthusiasm among manufacturers about planning new export initiatives and seizing new opportunities for import-replacement schemes.

180

BUSINESS DAY, Thursday, July 6 1989

Top JSE performer keeps building on its success

LONGMILE is one of the JSE's best kept secrets.

While being one of the JSE's star performers in terms of profits and being almost large enough to feature among SA's top 100 companies, the company is relatively unknown, even in the western Cape where its head office and many of its major operations are based.

The company comprises four divisions — tyres, silencers, fasteners and clothing — and has well-known brand names like Silencer Services, Mastertreads, Utility Bolt &Nut, and Wolpe Fashions in its stable.

In the tyre division, Mastertreads and Trentyre deal in new and retreaded tyres; in the silencer division, Grapnel and Silencer Services deal in vehicle exhaust systems; the clothing division handles women's apparel through the brands Raoul, Wolpe, Caviar and Park Avenue; and Utility Fasteners and Utility Bolt & Nut deal in fasteners.

In the financial year-end June 30 1983, Longmile produced attributable profits of R3,319m, with EPS of 7c.

The following year it more than doubled, with attributable profits of R6,693m for earnings of 13c on a higher issued capital.

But by June 1987, attributable profits had reached R8,580m or 17c per share.

The group was listed on the JSE in November 1987, less than a month after the stock market crash that sent prices reeling.

A total of 50-million shares were listed, 8-million were privately placed and 2-million taken by public subscription at 230c a share just prior to listing.

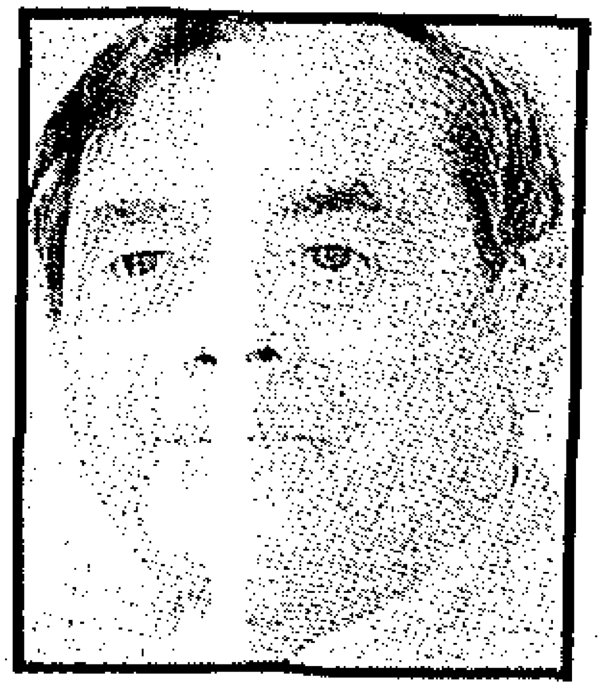
Attributable profits at the June 1988 year-end were 75% up, giving EPS of 30,1c, well above the 24c forecast in the prospectus.

The pre-tax profit level of R36,8m placed the company well up among the top 100 industrial companies based on profit and performance.

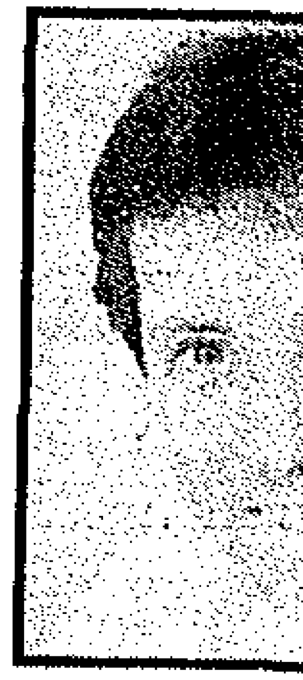
The group has continued to perform well into the 1988/89 financial year with earnings for the half-year ended December 31 1988 up by 41% at 17,2c per share.


H F POTGIETER
CHAIRMAN


N J VAN DEN BERGH
DEPUTY CHAIRMAN


D M RIBBANS
DIRECTOR


G N KRONE
DIRECTOR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FSI Corporate Services buys slice of Reichmans

BDay 6/7/89 ZILLA EFRAT (180)

FSI Corporate Services, an FSI Corporation subsidiary, has acquired a 32% stake in international trade finance company Reichmans for R20m.

In terms of the deal, FSI Corporate Services has bought 11 574 400 Reichmans shares for cash from Emzed, a company controlled by Reichmans non-executive chairman Milton Levine, who is living in London.

The purchase price is 175c a share, excluding the interim dividend to be declared by Reichmans for the six months to August. A similar offer to be made to other Reichman shareholders, is expected to take the form of a stand-by offer.

In addition, FSI and Reichmans' management will form a company to acquire 20% of Reichmans, or 7,2-million shares, equally from management and from Emzed.

FSI chairman Jeff Liebesman says the terms of this purchase are the same as those in the FSI purchase.

Through an arrangement based on Reichmans' earnings growth until December 1991, management's stake in Reichmans could well increase to about 25%.

FSI offering 175c in Reichmans deal

180

Star 6/7/89

Finance Staff

A R20 million deal which marries the foreign capital base of Reichmans, the international trade finance company, with the commercial muscle of FSI Corporation, was announced last night.

Through its wholly-owned subsidiary FSI Corporate Services, FSI has entered into a partnership with the management of Reichmans that sees FSI take a direct 32,2 percent investment in Reichmans. A further 20 percent of Reichmans' shares will be held by a joint management-FSI company.

The transactions represent the sale of all Reichmans shares controlled by Milton Levine, non-executive chairman of Reichmans who is now resident in London. He will now be succeeded as non- executive chairman by FSI chairman Jeff Liebesman.

The transaction results in no changes whatsoever to the executive team at Reichmans. In addition Mr Levine remains on the Reichmans board as a non-executive director and retains his responsibilities as an executive director of the Reichmans companies outside the country.

UAL Merchant Bank announced that FSI Corporate Services is acquiring for cash 11 574 400 Reichmans shares held by Emzed, a company controlled by Mr Levine. The purchase price of 175 cents a share excludes the interim dividend for the six months ending August 31.

UAL said a similar offer will be made to all other shareholders in Reichmans. It is expected to take the form of a standby offer.

Mr Liebesman said FSI's association with Reichmans has great potential for both companies.

"With FSI's stated intention of becoming a South African-based manufacturing and distribution group of world stature, it is important for us to develop links with a group with access to foreign finance.

Bold reporting from Saficon

Star 6/7/89 (180)

One of the delights of the Saficon annual report is its profit forecast. Not the usual bland statement about how the board expects an increase in profit (real or nominal?) as long as there are no adverse, unforeseen political and/or economic developments.

Diagonal Street

ANN CROTTY

Instead, the lucky Saficon shareholders get a specific forecast with precise figures relating to the coming year's turnover, earnings per share and dividend. The underlying assumptions are also stated specifically. So if shareholders do not agree with the assumptions they can make whatever adjustments they feel necessary to the forecast.

The downside to this candid offering to shareholders is the initial reaction when the forecast is off the mark, particularly when reality falls short of the board's expectations. But important to remember is the fact that the forecast is not written in stone. This is why the inclusion of the underlying assumptions is crucial to the whole exercise — it recognises the dynamic nature of the environment.

The Saficon board accepts the inevitability of getting things wrong, something they do fairly frequently. But their primary objective is not 100 percent accuracy, it is to inform shareholders to the best of their ability.

In each annual report the previous year's forecasts are stated alongside the actual figures achieved and the percentage variance. Also given are the underlying assumptions and where necessary the percentage variance with the actual.

For financial 1990 the Saficon board are looking to a 22 percent increase in turnover, mainly due to price increases and a variation in product mix; earnings up 2 percent to 224c a share and a dividend of 67c.

The underlying assumptions include: a prime overdraft rate which averages 20 percent; further weakening of the rand against the dollar but a less volatile position vis-a-vis the Deutschemark, sterling and yen; an increase to 18 percent in the inflation rate as reflected by the CPI; lower personal disposable income; continued high government spending and more modest growth in corporate profits.

This candid approach is well received by analysts who believe that sophisticated shareholders appreciate being provided with as much decision-making information as possible.

Also provided in the Saficon annual report — which must also make for a much better informed shareholder — is an explanation of the board's approach to some key business concepts, chief of which is sustainable growth rate.

In Saficon's case SGR is "a result rather than an objective". It is the result of the implementation of the group's financial policies and objectives. Thus, it is group policy to pay dividends of between 25-30 percent of earnings per share which implies earnings retention of at least 70 percent. This and the group's gearing target of 75 percent establishes a level of new investment and if an after tax return on net assets of at least 17,5 percent is achieved then the group's sustainable growth rate should be around 16 percent.

"In the absence of very high levels of inflation over time (above 12 percent) this is adequate to meet the expected growth in net assets required for our existing businesses, and to provide funds for new projects."

Given the group's present asset mix a 16 percent growth in net assets can sustain a growth in sales of well over 21 percent.

A significant and worrying point referred to in the annual report is the cost of replacing the group's trading assets which, at an average of 23 percent, was considerably above the CPI figure of 13,8 percent for the year to end-March. "It is for this reason that it is important the group continues to grow its ordinary shareholders' equity at a rate which will permit it to continue financing its required trading assets."

All of which is definitely award-winning material.

B/Day 6/7/89 (180)

UAL stable's portfolio performs well

LIZ ROUSE

The UAL stable's major general unit trust was inactive in the June quarter, but its high-quality portfolio performed well.

The general trust, UAL Unit Trust, added only 50 000 Amic shares to its equity portfolio, whose worth rose to R277,9m (85,1% of total assets) from R251m (85,7%) at the end of the March quarter. Liquid assets were little changed at R48,6m (14,9% of the total assets) compared with R39,6m (13,5%) and other assets of R2,3m (0,8%) in the previous quarter.

● COLQUHOUN

UAL Mining & Resources was more active, adjusting its portfolio through disposing of the small holding in Barnex and introducing a new holding of 120 000 in Northam. The existing positions in ET Cons and Palamin were increased.

The portfolio worth increased to R202,6m (85,8%) from R185,1m (81,3%). Liquid assets were reduced to R33,5m (14,2%) from R40,2m (17,7%).

However, managers of the UAL Selected Opportunities Unit Trust established new holdings in Crulife, T & N, Rainbow Chickens, Combined Motor Holdings, Kohler, Sunpak and Unitrans. Liquid assets were static at R6,1m, but the percentage of total assets of R73,8m (R59,4m) declined slightly to 8,3% from 10,2%.

The Gilt Unit Trust's worth declined slightly to R58,6m (R61,8m). A high percentage of its assets remained in cash — R38,7m (66%) compared with R46,9m (75,9% in the March quarter).

Seen against a 3,75% rise in the JSE overall market index over the June quarter, a 5,4% increase in the financial and industrial index and a 3,7% fall in the all gold index, UAL Unit Trust and UAL Mining & Resources prices recorded gains of 7,8% and 6,4%. UAL Selected Opportunities posted a 1,2% gain.

Income distributions were higher in the funds distributing in the June quarter with UAL Unit Trust paying 18,95c a unit and UAL Mining & Resources 4,79c a unit.

UAL Unit Trust increased its year's income distribution by 38,2% to 61,2c (41,3c) a unit and UAL Mining & Resources' income distribution increased 30,5% to 16,5c (12,7c), both record distributions.

Executive director of the managers at UAL Merchant Bank, Alister Colquhoun, says some period of consolidation is to be expected and portfolio managers anticipate a more modest level of corporate earnings and dividend growth over the next 12 months.

Key factors which will influence the market will be the dollar-gold price direction and domestic interest rates. They are optimistic the influences will be positive.

Business Challenge makes major strides for black efficiency

THEO RAWANA

BUSINESS CHALLENGE, the organisation founded to create a capital base, provide professional services and educate blacks to become efficient business people, has made major strides since its inception last December.

The Johannesburg-based national organisation is the brainchild of Phil Khumalo, a former Wits Business School lecturer and the first black to be granted a franchise by Nashua SA.

In six months BC can boast a R100 000 car-wash venture in Benoni, a R90 000 social club (Club BC), a membership of more than 2 000 and more than R1mln its bank account, says Khumalo.

A contribution from Allied involves matching every R1 it makes with R1, and assurer Metropolitan Life has invested R250 000 towards small business promotion.

● KHUMALO

Next Tuesday, at the Carlton Centre, BC and Playboy SA are to launch a range of toiletries and cosmetics designed to set up business opportunities and create employment.

BC membership entails a R60 membership fee and opening a transmission account into which R50 is paid monthly. This money goes into the BC trust fund and serves as collective collateral for loans.

Allied Bank has agreed to provide financial assistance to members even where they would, under normal circumstances, not qualify for such financing.

The BC constitution stipulates that no member will be granted a loan through the organisation until he has completed a six-month membership. Also, no member is allowed to withdraw his savings before the end of three years. However, a member is allowed to sell his shares to someone else before expiry of that period.

Khumalo says lack of proper financing is not the only problem facing blacks. "The fact that most retailers have not had the kind of training needed to function in today's business world has been another stumbling block to successful business management."

BC has set up its own retail training programme at Stellenbosch University. It has also set up a professional services team consisting of a legal adviser, a business strategist, a marketing consultant and an accountant.

Khumalo sees the joint venture with Playboy as "active participation", in terms of which big business assists small business development towards wealth and job creation.

Khumalo, as BC's CE, works closely with a 12-member board of directors.

(180)

MACHINE TOOLS Fm&M

(180)

7/7/89

BTI on the rack

The Board of Trade and Industry (BTI)'s policy of protecting industries against foreign competition has left some strange skeletons in the cupboard.

A quarter of a century ago the BTI imposed a 30% surcharge on imported centre lathes in the hope that it would foster local manufacture. While the machine tool industry languished under its protective umbrella, it strenuously resisted pressure to open up the market to outside competitors. The end result was pretty predictable:

- SA is still dependent on imported lathes;
- Other than a few companies that make a small range of eccentric presses, the surcharge — and others since imposed on other sectors of the R200m-R250m a year machine tool industry — has not succeeded in creating a SA machine tool industry;
- A climate has been created in which shrewd manufacturers can claim large percentages of local manufacture to get preference in government tenders; and
- The surcharges and duties imposed on imported machine tools have increased their capital cost, and the cost of machine time, which has contributed to inflation. Despite the duties and surcharges, a fully imported 45 mm pedestal drill retails at R9 670 while the locally manufactured equivalent, fitted with an imported head, costs R24 700.

It seems something of a lost cause, but Bobby Skok, doyen of SA's machine tool merchants, is again pointing out to the BTI — as he has on numerous occasions — "that to artificially interfere with the normal workings of the market is impractical and self-destructive."

Skok notes that in the 25 years the 30% tariff has been in force, not a single centre lathe has been wholly manufactured in SA. Australia and Canada tried to create indigenous machine tool industries using protective tariffs and failed. Even countries with major machine tool manufacturing industries, like West Germany and Japan, still have to import some equipment.

Worst of all, the 30% protective umbrella has encouraged the establishment of what Skok claims is "cosmetic lathe manufacture in SA."

Some companies make one or two heavy components which account for 75% of the weight of a lathe. Pricey components, such as headstock and saddle, which constitute 75%-80% of the value of lathes, are imported — yet manufacturers still claim their products have a 75%-80% local content.

Based on these claims, the 30% surcharge on imported components is waived and a duty rebate given. And, because the lathes are claimed to be 75%-80% locally made, manufacturers get up to 8% preference in government tenders.

Skok claims this could be construed as fraudulent misuse of the BTI regulations, because local content calculations are on weight when they should be on value.

Tubby Berkeley, chairman of the Machine Tool Merchants' Association, which has also petitioned the BTI for the repeal of the surcharges, says the tariffs and duties force "local users to pay well over 45% more for every lathe brought into the country."

The 690 lathes with an fob price of R7,9m imported into SA in 1988 signifies, to him, that the market is big enough to warrant a manufacturer making an entirely SA lathe.

BTI chairman Lawrence McCrystal says the board is investigating the machine tool industry. "The experience of other countries, including some Far Eastern countries which have successfully developed machine tool industries, will be taken into account. The local industry can be regarded as under-developed, and our investigation is to see whether anything significant will come of it." ■

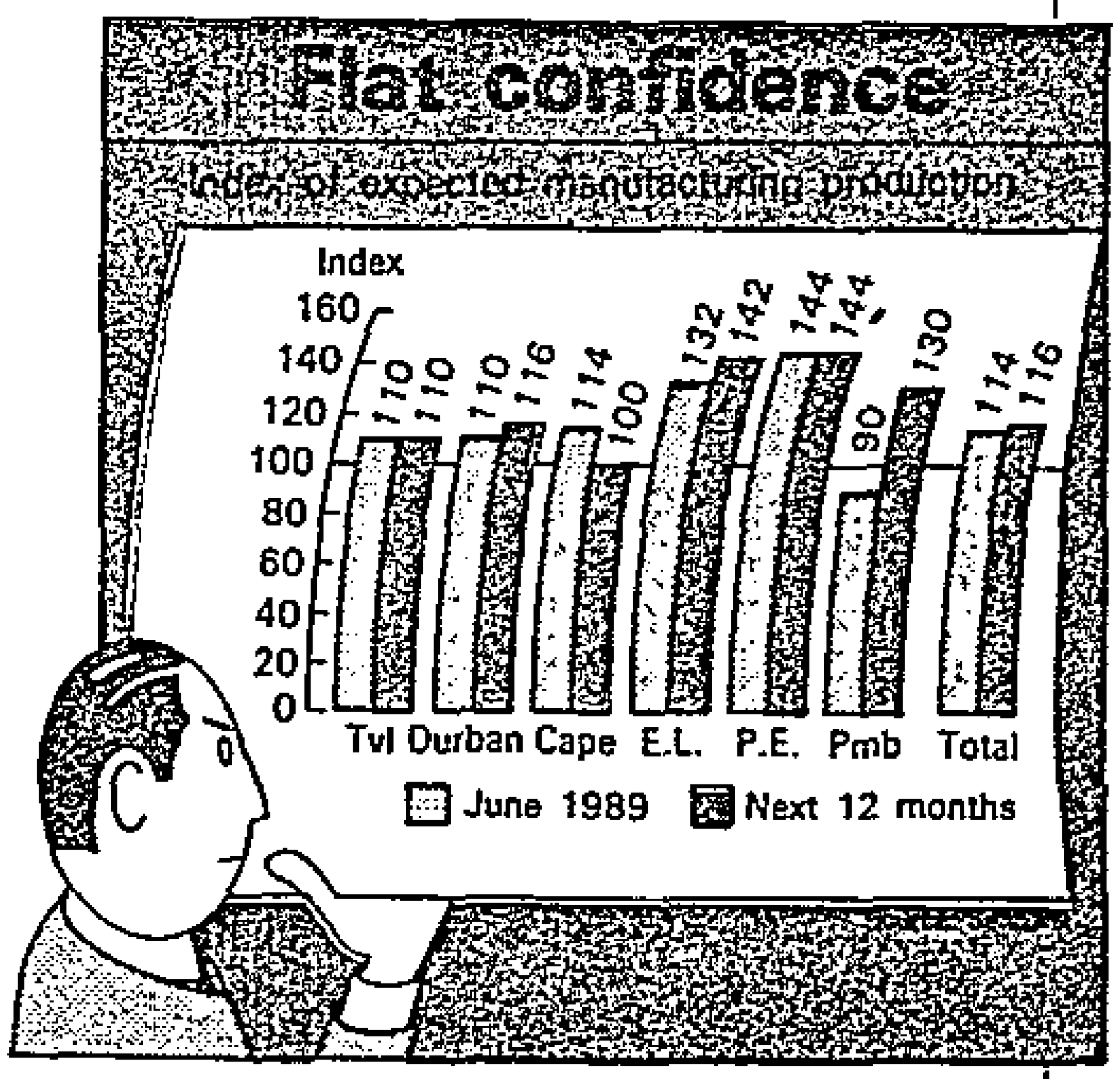
FCI SURVEY (180) (2) Fmail 7/7/89

Hanging in there

There is a marked contrast between confidence among consumers and that in the manufacturing sector.

The latest Bureau of Economic Research consumer confidence report plunged by 12% to 88 points for the second quarter of the year, which is 12 points below the neutral point of 100.

The Federated Chamber of Industries (FCI) survey of manufacturers' expectations told a different story. Manufacturers who were canvassed in early June registered 114 points for their expectations of the month ahead — two points more optimistic than their expectations for May.



FCI executive director Ron Haywood says the difference is understandable.

"Many manufacturers have been exporting to take up the slack in the local market, and they've also enjoyed a certain amount of import replacement. Bond rate increases and HP restrictions have an immediate and perceptible impact on the consumer's pocket and mood. Manufacturers take a longer-term view," he notes.

But while manufacturers are still optimistic about the 12 months ahead, there has been a sharp fall from May. The index fell from 166 to 122.

There are considerable regional variations. Port Elizabeth (at 142 points) and East London (144) are more optimistic about the year ahead than the rest of the country. Haywood attributes this to growth in exports of pharmaceuticals and clothing as well as spin-offs from the Mossgas project.

The western Cape was most pessimistic as it most closely relates to local consumer expenditure. Its industries, such as clothing and textiles, are heavily orientated towards the local market. ■

(180) (2) Fmail 7/7/89.

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Assocom-FCI decision soon

BDay 31/7/89 (180)

JOHANNESBURG — A decision on a possible merger between the Association of Chambers of Commerce and Industry (Assocom) and the Federated Chamber of Industries (FCI) is expected around October this year.

This follows a decision by both organisations' executive councils to enable a steering committee to go on investigating a merger.

According to a Wits Chamber of Commerce and Industries' report, a statement by Assocom and the FCI says the committee's recommendations could be realised later this year. — Sapa.

Political comment in this issue by John Stewart. Newsbills by Trevor Bisseker. Headlines and sub-editing by Michael Moon. All of Times Media Ltd, 11 Diagonal Street, Johannesburg.

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Speculators promote tin share index to new heights

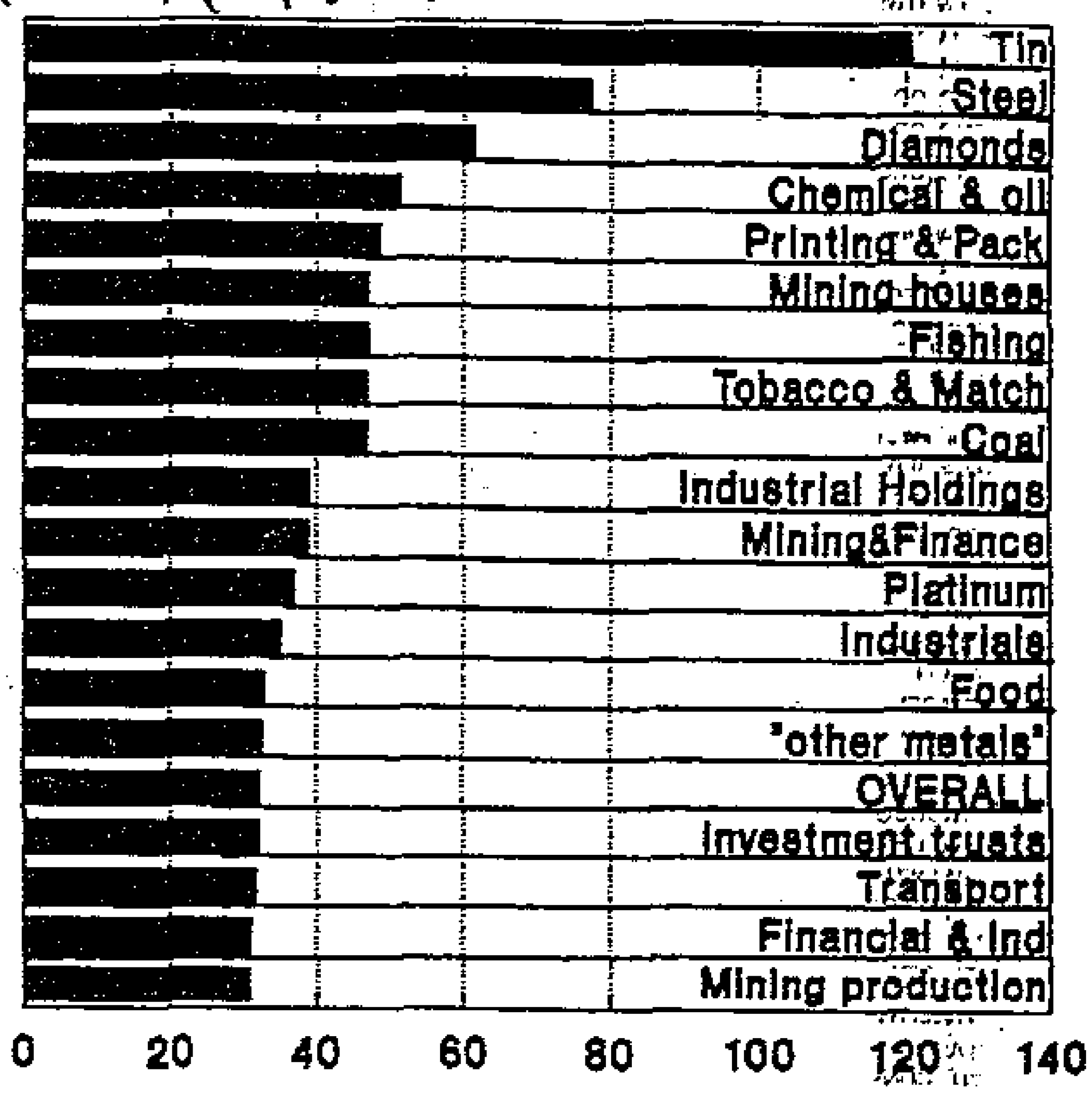
Star 7/7/84

Finance Staff

The tin share index was the most buoyant on the JSE in the first six months of this year (see graph), with an overall growth of more than 120 percent.

However, this steep rise did not reflect improved conditions in the tin market but heavy speculation in tin share Zaaiplaats that it would be a vehicle for the Zimco group.

This caused Zaaiplaats' shares to rise from 120c at the start of the year to over 800c in mid-May. Last Friday the share closed at 600c.



The 77,4 percent rise in the Steel index in the first half of the year was the result of booming export sales following the sustained rise in world steel production.

The rise in the Diamond share index was due mainly to the sharp rise in De Beers on growing world demand for diamonds, while the rise in the paper and packing index was fuelled by the strength of Sappi and Consol.

The 47 percent rise in the Coal index was the result of booming export sales at higher prices. The Mining Finance index rose 39 percent, also as a result of the rise in Cons gold and Minorco shares.

The 35 percent increase in the Industrial index reflected the strong rise in profits reported by many companies.

At the other end of the scale the Rand Mines sector showed a 6,6 percent loss, owing to mining profits being hit by the lower gold price and rising inflation.

The Banking index showed the smallest rise in the six months period of only 3,4 percent.

Media spending goes up despite economic downturn

180

Star 8/7/89

MEDIA spending continues to show healthy gains on figures of a year ago and after four months this year is still over 25 percent ahead of January to April last year.

Among the major categories, alcoholic beverages, tobacco products, engineering and industrial, food products, office equipment, medicinals and toiletries are all above this average, with retail the largest category of all. It accounts for a fifth of all spending, being up an impressive 30 percent.

The second-biggest category of motor-vehicles, at 10 percent of all spending, shows a disappointing 11 percent gain until April 1989, but this is expected to increase strongly in the next few months due to the effect of a number of major new car launches in May and June.

David McKinstry, chief executive of Young & Rubicam (Y&R), says: "Although a drop in general business confidence is being reported, it is clear that major advertisers continue to invest in their brands. Faced with a possible reduction in overall consumer demand, marketers are, and should, continue to spend on advertising and promotion. Those who don't will probably lose brand share and have a lot of expensive catching up to do when the upturn cones."

All set for No 1 accounting firm after SA merger

(180)

S/Times 9/2/89.

Business Times Reporter

FOUR mergers between Big Eight accounting firms in the US and Europe have given birth to dominant giants in SA.

SA's biggest firm will come about if merger discussions between Deloitte, Haskins & Sells and Pim Goldby succeed.

The talks started on Friday after it was announced that parents Deloitte, Haskins & Sells and Touche Ross International had agreed in principle to a global combination of the two firms.

Colin Brayshaw, managing partner of Pim Goldby, and Tim Curtis, senior partner of Deloittes, welcomed the merger of their foreign associates. They said there could be synergies in SA, but there were many areas to explore before a merger could be clinched.

Income

If Deloittes and Pim Goldby do get together, they will have 200 partners in SA compared with Ernst & Young's 175 in SA, Zimbabwe and Malawi.

One accountant estimates that Deloittes and Pim Goldby could earn fee income of R150-million compared with Ernst & Young's R100-million.

Ernst & Young merged after Ernst & Whinney and Arthur Young merged abroad.

Third biggest in SA will be Aitken & Peat, formed after the merger between Peate of the US and KMG of Europe.

Fourth-biggest firm by number of partners will be Theron du Toit, followed by Anderson & Price, which was

TIM CURTIS

formed this week after the merger of Arthur Andersen and Price Waterhouse.

Wiehahn, Meyer Nel ranks fifth and Coopers & Lybrandt sixth.

Where SA firms have merged, their names have changed and their offices have been rationalised.

An accountant, who may not be identified, says that some clients are worried that after a merger they could lose contact with the partner or partners who had served them for years. Clients will probably find themselves dealing with the same partners as before, even if they move offices.

He says that merger mania among accountants internationally was triggered by the get-together of Peates, the biggest firm in the US and KMG, the largest in Europe. The merged firm is twice as big as its nearest rival and this caused the other big leaguers to jump into bed.

Consultancy

The globalisation of international business, the rising importance of consultancy as an income source for auditors and expensive information technology were other causes.

Internationally, the biggest firm will be the Arthur Anderson-Price Waterhouse combine with fee income of $5-billion, followed by Ernst & Young's $4,2-billion and the Deloitte-Touche Ross total of $4-billion.

The Anderson-Waterhouse combine will employ 83 000 professionals, and the merged Touche-Ross and Deloittes group would have 65 000.

Good progress for Sage unit trusts in June quarter

B/Day 10/7/89 (180)

LIZ ROUSE

SAGE unit trusts' portfolio managers take a less cautious view of stock-market prospects than other unit trust groups in the June quarter.

They believe the proposed substantial reduction in prescribed asset requirements for institutional investors, and renewed perceptions of structurally entrenched inflation, will cushion the effect of higher interest rates and clear signs of an economic downturn.

The positive factors resulted in sustained demand for equities, particularly in the industrial and non-mining sectors, in the June quarter.

Sage was relatively active in the market and liquidity was therefore relatively low at 12,2% (R68,8m).

The Sage Group's unit trusts made sound progress during the quarter.

Underlying portfolio performance was reflected in total returns (capital plus income) for the past year of 44,3% in Sage Fund and 43,8% in Sage Resources Fund.

Sage Fund's total assets at the end of June were R563m, 47% higher than in June 1988, while Sage Resources Fund's total assets of R45,9m were 60% above the level a year ago.

Sage Fund has declared a record distribution of 35,5c a unit for the six months to June, up 41% on the previous comparable period's 25,2c.

Total distribution for the past 12 months is up at 64,5c from 47,1c.

Sage Resources Fund has declared an income distribution of 2,8c a unit, up 16,7% on the previous half-year's, bringing total distribution for the past 12 months to 5,1c a unit.

Goodyear say no to 'disinvestment pay'

180

By Joe Openshaw

Several hundred Goodyear employees staged a peaceful sit-in strike on Monday after a deadlock over demands by the National Union of Metalworkers of South Africa (Numsa) for a minumum of R5 000 "separation pay" on the disinvestment of the company's U S parent.

A company spokesman said yesterday that management met union officials when 700 of the company's 1 000 employees staged the sit-in.

The company opened its gates yesterday with a limited working schedule and a skeleton staff and by mid-morning 400 employees had arrived in dribs and drabs and continued their sit-in on the premises. Many union members did not come to work at all.

"There will be no concessions because we consider there has been no change in the position of employees as a result of disinvestment," the company spokesman said.

He said last week's settlement with the Chemical Workers Industrial Union Union in which employees of Mobil would receive at least R2 000 from the departing parent company had raised Goodyear employees' expectations.

"Goodyear's view is that the sale of the local company to Consol involves merely a change in ownership of equity. The employment relationship will not change and there is no reason for employees to receive separation pay," he said.

● The National Union of Metalworkers of South Africa has accepted the offer of a minimum 56 cents per hour wage increase following negotiations between the union and Seifsa yesterday.

Star 10/7/89. (180) (789)

Pooling export knowledge

FCI task force aims to boost overseas trade

By Michael Chester

The Federated Chamber of Industries has assigned a special task force of experienced exporters to work out radical new strategies to boost overseas trade and find more routes to avoid sanctions.

The task force forms the core of a new committee created to pool the experience of companies that have devised new tactics to beat political trade gauntlets — or found alternative markets to keep exports flowing.

Even rival companies will be encouraged to share overseas contacts when the chance emerges to parcel bigger export packages with a wider variety of products known to be needed in specific markets.

Warnings

One objective will be more effective use of unconventional trade deals — countertrade and barter agreements aimed at two-way trade with foreign markets, particularly when balance of payments snags can be overcome.

The new export offensive has been launched as warnings come from the SA Reserve Bank that at mid-year South Africa was falling behind 1989 targets of running a surplus on the current account of the balance of payments of at least R4 billion.

That is the level the Reserve Bank sees as necessary to handle commitments on foreign debt repayments and bolster gold and foreign reserves by adequate margins.

The FCI committee is headed by Mr Roy Jones, managing director of steel exporters RIH International. Mr Robert Herbertson, marketing director of Highveld Steel, is deputy chairman.

The SA Foreign Trade Organisation is also sitting in, with representatives from a number of giant companies from the industrial sector.

Overall planning to put more muscle into export is due to be discussed with top officials from the Department of Trade and Industry, to ensure close ties with the network of DTI trade offices in key overseas markets.

FCI executive director Mr Ron Haywood says stress is also being put on strategies to ensure strong export links with Western Europe beyond the 1992 deadline for full integration of the European Economic Community. Another priority is seizing the opportunity of an improved political climate to increase trade with the rest of Africa.

"The aim is to nurture a totally new export culture among manufacturers — and we are beginning to show successes," says Mr Haywood.

"One particular large company has already set the pace by laying out a policy that insists that 20 percent of all of its output must find export markets, whatever the ups and downs of local business cycles.

"The message to sales teams is loud and clear: if you have no export markets, find them. That is where our special committee may be able to come in," Mr Haywood said.

Japan imports more SA maize

Foreign Staff

TOKYO — Imports of South African maize by Japanese manufacturers soared to an estimated 150 000 tons in the January-May period.

This represented a 57,1 percent increase from last year, despite government exhortations to Japanese businessment to reduce ties with South Africa.

OUTBURST

The Japanese government faced an outburst of international criticism in early 1988 when it became known that the country had surpassed the US, West Germany and the UK, to become South Africa's largest trading partner.

The government attempted to curb trade with South Africa by placing pressure on Japanese businessmen to think twice about their trade.

According to 1988 trade figures released by the Ministry of Finance, the government's efforts did bring some results because Japan's imports from South Africa were 17,3 percent down on the 1987 total.

However, exports dipped by only 7,8 percent.

HIGHER

Japan's imports of South African maize this year have risen because US prices are higher after a poor crop last year.

South Africa's prices, on the other hand, remain low.

According to an official at Japan's Ministry of International Trade and Industry (Miti), the increase in imports was justifiable because the volume of South African maize was relatively low.

For the time being, the ministry intends to do nothing more than continue advising companies to exercise caution and not to undermine Japan's relations with the US.

Last year, the Japanese government asked that maize imports from South Africa be limited to the 1986 figure of 1,2 million tons.

Analysts say this year's total will probably be reasonably within that limit.

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Star 10/7/89.

FCI aims to beef up support for exporters

ZILLA EFRAT

THE Federated Chambers of Industry (FCI) has formed a special export committee to formulate strategies that will strengthen exports.

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FCI executive director Rony Haywood says the committee will examine all issues related to international trade and will focus on a team scenario in line with FCI's theme "Team RSA". B Day 11/7/89

The aim is to build up a stronger export drive through co-operation between exporters and through increased liaison between the private and public sectors.

Where possible even strong local competitors will be encouraged to co-operate in export markets.

Exporters will be able to learn "how to do more and do it better" from each other, says Haywood.

RIH International MD Roy Jones has been appointed committee chairman, while Highveld Steel marketing director Robert Herbertson has been made his deputy. Other members include Safto CE Wim Holtes and representatives from large exporting companies.

"These are successful exporters who are willing to share their ideas," says Haywood. Companies wanting to get into exports will also be represented.

ecent accord that fails to al... nation, but the US, Japan, West Germany, Francois Mitterrand for a new allocation

JSE is reviewing second VCM application

B/Day 11/7/89 (180)

BRENT MELVILLE

THE JSE is reviewing the memorandum of a second venture capital company for possible listing on its venture capital market (VCM) board.

If successful, the unnamed company will follow Tecfin Investments on to this new board. Tecfin will be listed on the VCM early next month.

The JSE listings committee has given approval for the company to seek a listing on the VCM through an offer of 2,4-million shares at an issue price of 25c.

The offer opened yesterday and closes on July 31. The listing should commence on August 9.

Tecfin has three main subsidiaries:

☐ Industrial Fasteners, which manufactures and distributes specialised fasteners for both industrial and domestic use, including a locally developed expanding anchor and a chemical anchor based on a Du Pont patent;

☐ Tayson Engineering, which specialises in the manufacture of components for use in a wide range of industries; and

☐ Take-Home Products, which is involved in the manufacture and distribution of a range of products catering to the DIY market.

Tecfin MD Peter Bird says that the R600 000 raised will be used for further development of existing plant and infrastructure with about 50% earmarked for a chemical anchor plant expected to be on line by next year.

The JSE requires that any company which aspires to a listing on the VCM, while needing no profit history, has issued capital and reserves in excess of R1,6m.

Bird says that, following listing, the group would be strongly geared with no debt and equity of R3,6m — represented by fixed assets of R3m and current assets of R620 000.

In the year to February Tecfin posted earnings of R188 000 and with 14,5-million ordinary shares in issue at the time of listing — at a price of 25c — Bird expects earnings to jump 11,5c (1,3c) over the next three years.

This translates into attributable profit of R1,6m — equating to an earnings yield of 46% by 1992.

Launched in February, the response to the VCM was initially very encouraging, says JSE GM Doug Gair. However interest has waned and the Tecfin listing could be the catalyst needed, he says.

Tecfin chairman Peter Alexander sees the formation of the VCM as a positive step in terms of the development of small businesses in SA.

The listing will assist us in meeting growth objectives as well as offering the man in the street the opportunity to participate in a grass roots venture in a regulated environment," says Alexander.

US 'market for SA components'

(180)

ROBERT GREIG

B/Day 11/7/89

COMPONENTS, rather than products or raw materials, offer the greatest opportunities for SA exporters to the US, says Leon Snaid, a naturalised American lawyer who left SA eight years ago.

The tall, lanky ex-Wits lawyer, now practising in La Jolla, is chairman of the San Diego County Bar Association's immigration committee: his speciality is Business Law and Immigration Law.

The chief problem facing potential product exporters is the "Made in South Africa" label. For Snaid, this leads logically to establishing an American branch office, as many SA exporters have done.

The other problems, related to long-distance exporting of products and raw materials, are product liability and large retailers' return policies.

Obviously, Snaid remarks, these can be and are circumvented, stressing at the same time that he's "not into sanctions-busting".

Solutions lie in component manufacture, taking advantage of Foreign Trade Zones (recently ruled out for SA) and twin-plant structures, known in the southern states as "maquiladora". Properly used, these cross-border manufacturing structures, increasingly used by Japanese, control the taxable, labour value-added element in manufacturing.

Research

Snaid's advice to prospective exporters to the US is, first get rid of the novice's fallacy that if your product reaches one percent of the US market, you'll make a bomb. The market is too complex and competitive for complacent hopes.

Instead, he recommends heavy initial investment in market research, especially using the vast information resources of large and niche markets available through government ("the government prints 20 000 publications") itself and professional associations.

For example, the association that governs nursing recuiters boasts more than 10 000 member associations.

He says that fear of freedom besets many SA business people setting up in the US.

"Coming from SA, they find it hard to adapt to the relative lack of regulation," says Snaid.

Snaid's own position bears out the point: as an attorney specialising in California in immigration and business law, he has produced an award-winning guide for new American residents, "The Newcomers' Guide to Living in the USA".

But had he done the equivalent here, professional restrictions, backed up by law, would have severely limited his ability to talk publicly about his product.

The talking book — it is six cassette tapes and an accompanying booklet — was produced this year and was one of five finalists in the "Best Audio Book" category of the Publishers Marketing Association.

It grew directly from Snaid's and his clients' own bemusement at American customs, rituals and procedures.

Negotiable

It covers business, employment, buying, housing, credit, investment and taxes, health and insurance and government.

Information ranges from formal observation: "Government Auctions of Low-Cost Vehicles" and "Sources of Specialised Business Information" to the informal "everything is negotiable in the US," and "don't mess around with your taxes".

£13bn hostile offer for UK giant

(180)

Massive bid sparks fears for SA firms

BIDay 14/7/89

BRITAIN's biggest takeover bid — for tobacco and financial services giant British & American Tobacco Industries (BAT) — has sparked fears of a R228,9m sale of interests in SA.

Three of the world's richest businessmen launched the bid yesterday, offering around £13bn through a takeover vehicle, Anglo Group.

It is controlled by Anglo-French financier Sir James Goldsmith, his long-time banker friend Jacob Rothschild of Britain and Kerry Packer of Australia, reports Sapa-Reuter. It said a combination of loan stock and secured notes valued BAT shares at £8,50 each.

BAT, a huge business enterprise operating in 90 countries, rejected the offer, which it said was of "dubious value" and showed a "significant misjudgment" of BAT Industries' current performance and long-term potential, reports AP-DJ.

The group is expected to finance the bid by selling off substantial parts of the conglomerate not related to tobacco.

BAT said it considered the suggested break-up as "most disadvantageous to the company, its shareholders, customers, policyholders and employees".

"It is no more than an ill-conceived attempt at destructive financial engineering," BAT chairman Patrick Sheehy said.

KAY TURVEY writes that in SA the break-up proposal cast a shadow over the future of short-term insurer SA Eagle, tobacco manufacturing and marketing company Utico and snack food company Willards Foods.

SA Eagle is 59% held by BAT through its subsidiary Eagle Star Insurance, whose interests in the company are currently valued on the JSE at about R166,3m. The other majority shareholder in the local

Business Day Reporters

subsidiary is Anglo American.

Last night SA Eagle assistant MD Brian Wilkinson said the company was awaiting more details from London and he could not comment.

BAT also holds 63,6% of Utico — a stake currently valued at R62,5m. Utico directors and chairman Fred Haslett, who is also chairman of SA Eagle, were unavailable for comment.

The third SA subsidiary, Willards Food, controls more than 36% of the local snack food market.

The BAT offer is about four times larger than the previous record, held by Hanson for its recent £3,5bn agreed offer for Consolidated Gold Fields (ConsGold).

Goldsmith, Packer and Rothschild said there was no logic in retaining unrelated businesses under the same group ownership, as the financial consequences of this "strategic error" was "pedestrian earnings growth and a traditionally low tobacco multiple". Restructuring was the only logical course, they said.

□ BAT, Britain's third largest industrial company, has worldwide interests in tobacco, paper, department stores and insurance that make it a rich prize for stock market predators, reports Sapa-Reuter.

The hostile offer of £13bn ($21bn) is the world's second largest takeover bid following last year's $25bn offer for RJR Nabisco in the US.

BAT's group pre-tax profits in 1988 rose 17% to £1,64bn on turnover 3% higher at £17,7bn.

Market analysts have described BAT's shares as cheap in recent months and forecast a steady increase in profits to £2bn or more in 1990.

Fund managers cautious on equities

180

By Sven Lünsche

The unit trust industry showed a net inflow of R106,5 million in the second quarter of the year, but Unit Trust Association chairman Roy McAlpine warned that the current quarter could be one of consolidation.

Commenting on figures released by the Association of Unit Trusts, Mr McAlpine said: "After the very sharp rise in the equity market which took place during the first quarter of 1989, the fund managers of the various unit trusts are currently adopting a more cautious investment policy."

During the first six months of the year industrial share prices have risen by over 30 percent, propelling the overall index to a gain of 32,1 percent over the period. Star 13/7/89

But many fund managers said that the deteriorating economic fundamentals behind the industrial sector would not provide support for the market in months ahead.

GuardBank fund managers pointed out that there was no doubt that the rate of growth in corporate earnings and dividends to be reported in the year ahead would be meaningfully lower than those reported in recent weeks.

Signs of the volatility currently influencing the JSE were already evident in the second quarter, and many portfolio managers agreed that it was becoming increasingly difficult to assess the likely trend of equity prices in the near future.

But the buoyancy on the stock market so far this year saw gross unit trust sales at rise to R333,8 million, its highest level since the last quarter of 1987.

However, repurchases were increasing and reached R222,7 million in the period.

At June 30, the total assets controlled by the industry amounted to R5,63 billion, reprsenting a 6,8 percent increase in the quarter and a 51,1 percent rise over the past 12 months.

The enormous assets represented the savings of more than 537 000 unit holders, Mr McAlpine said, adding that that over the past five years the six general equity funds had grown at an annual average compounded return of 23,3 percent.

The specialist equity funds had growth of 41 percent over the past 12 months. The six longer established specialised funds grew by an average compound return of 47 percent.

Liquidity levels were generally lower in the wake of higher equity prices.

The general equity funds at the end of June had R3,95 billion under their control and 16 percent of their portfolios was invested short-term assets.

Specialist equity funds had 14 percent of their total of R1,44 billion in liquid assets, while income funds, which had R242 million under their control at the end of the quarter, invested 49 percent in short-dated assets.

Change of emphasis at bustling Hudaco

180

Star 13/7/89

Diagonal Street

ANN CROTTY

Hudaco's announcement of the acquisition of Norton Abrasives at the beginning of this year made some investors a bit nervous.

Their concern was that management, which during financial 1988 had successfully bedded down a number of fairly sizeable acquisitions, had finally taken on more than it could handle.

Norton looked like quite a handful — it had good products but it had serious systems problems in both the manufacturing and finance areas.

At the end of financial 1988, the old management at Norton completely cleaned up the balance sheet which resulted in the income statement showing a R6 million loss for that year.

Early in 1989 Hudaco announced that it was paying an effective R33 million (R15 million in cash) and the assumption of R18 million debt. The immediate effect was a massive increase in group gearing.

At the time, analysts believed that it would take the new owners at least 2-3 years to sort out the problems at Norton and that meanwhile Norton's low margins and the high related debt-carry cost would seriously dull Hudaco's record.

Hudaco chief executive, Kevin Clarke was more confident. Norton had been bought on the assumption that the abrasives industry would be rationalised with a number of the manufacturers getting together to streamline operations and allow for longer production runs.

So rationalisation was set to reduce capex requirements and boost margins.

In early June the 50:50 joint venture deal between Norton and M&R's abrasive subsidiary, Cumar was announced. The new company will be proportionately consolidated by Hudaco.

As a result of this master stroke (some five months in the making), Norton has acquired excellent management from the Cumar stable, and the combined operation will run much more efficiently. In addition the debt picture at Hudaco will look far healthier at year-end.

One analyst speculated that debt (R40 million at mid-year) could be as low as R20 million at the end of the year. This reflects the benefits of the Norton re-organisation, which included the issue of 2 million additional shares, as well as the cash generating capacity of other parts of the group.

The abrasive interests add a fourth arm to Hudaco. The other three are: Deutz Dieselpower (DDP); bearings and; the power transmission division. By financial 1990, the abrasive division is expected to make a significant contribution to group turnover and some contribution to earnings.

Hudaco's other acquisition this calendar year was oil seal manufacturer Angus Hawken for R2,4 million. This fits well into the bearings division and has exciting earnings potential assuming the new management can lift capacity utilisation. Mr Clarke has little doubt about his team's ability and points out that within just four months of taking over, they have already managed to lift production utilisation from 25 percent to 40 percent.

This year's two acquisitions represent a shift in emphasis for Hudaco — which to date has chiefly been a distribution operation with excellent working capital management.

The acquisitions are in line with the group's objective of reducing reliance on imports to around 50 percent. They have resulted in a reduction in the dependence on imports, which now account for about 65 percent of sales — down from 75 percent.

The strengthening of the balance sheet following the establishment of the Norton/Cumar joint venture deal means that from a financial perspective Hudaco could take on another acquisition.

But the group's amazing success to date does not appear to have locked the executive team into a dizzy takeover trail. Mr Clarke states that they are currently looking at a number of possibilities. He likes operations with high local content and strong market share that produce basic, strategic items.

But right now he does not appear to be an aggressive buyer. This is probably due to his awareness of the dangers of over-extending.

It's the kind of attitude that endorses the general market feeling that Hudaco management is "tops".

The Star Finance

Star 13/7/87

Businessmen starting to act on importance of black consumers

180

By Ann Crotty

The growing sense of socio-political awareness on the part of businessmen has little to do with altruism and lots to do with the realisation that blacks are an increasingly important segment of most consumer markets.

On the production side there is an awareness of the importance of blacks in the workforce and the need to avoid an antagonistic environment if production is to run smoothly and profitably.

On a wider front, hostility towards the socio-political situation has made trading with the international market a difficult task, both in terms of sourcing raw materials and selling locally produced goods.

The absence of foreign capital has also placed constraints on growth potential.

Only executives with a corporate death wish would dare to ignore developments on the socio-political and economic fronts.

Keeping tabs

But attempting to keep tabs on trends is far from easy. Few political analysts, let alone businessmen, would have predicted the recent meeting between PW Botha and Nelson Mandela, a meeting that seems bound to have some impact on sentiment both within SA and towards SA.

Like so many other developments, it may not have an enormous or immediate impact, but it helps form attitudes.

Sankorp chief Marinus Daling accepts the need for businessmen to look beyond their own economic environment at socio-political issues, but stresses the need for executives to be flexible about strategic planning:

Marinus Daling

"The world is changing so fast it is impossible to make accurate predictions."

He questions the extent to which predictions made by chief executives five years ago have materialised and suggests that the most appropriate approach for businessmen should be "informed opportunism".

This requires businessmen to be well informed on a broad range of issues and "be able to act and react in a flexible manner and without delay".

As Mr Daling sees it: "The better informed businessmen are, the better the quality of the decisions they make."

But he warns about the danger of making assumptions because of the extreme unlikelihood of these assumptions being on target :"Businessmen must always keep their minds open and not fall into the trap of believing their assumptions."

Having acknowledged these pitfalls, he says his own broad view about the future is optimistic. "Privatisation is a fact; deregulation will happen sooner or later; the informal sector will become increasingly important, but there will be a continuing need for big corporations so that large investments projects can be undertaken."

At Anglo Vaal Industries, Bill Keen, executive director of finance and planning, says AVI's strategic plans are based on the following assumptions: the industrial relations environment will remain positive; privatisation will continue at an increasing rate; there will be a continuation of the freeing of the economy to all population groups and a more market-related economy with reduced government intervention will be achieved.

Demographic trends

Jan Pickard of Picbel stresses the importance of blacks in consumer markets and the need for awareness of demographic trends.

He highlights the need for greater participation of blacks in the economy: "It is not acceptable for blacks to be used as fronts for white businessmen. Greater real participation by blacks at ownership/control level will lead to far greater acceptance by the black community."

Next week's Mega-Trends conference will bring together speakers from a wide variety of social, political and economic backgrounds, including Aggrey Klaaste, editor of Sowetan, Dr CJ van der Merwe, Minister of Information, Frank le Roux chief whip of the Conservative Party, Mark Orkin, director of the Community Agency for Social Inquiry and Bob Tucker, managing director of the Perm.

It will provide delegates with opinions on issues that are crucial to strategic planning.

A slight matter of pulling strings

180

Star 17.11.89

Bottom Line

MICHAEL MENOF

A useful question for potential investors to ask is who pulls the strings and how fair is a company's JSE price?

Management should hold a reasonable number of shares, but not to the extent that the public becomes a worthless minority.

I always thought companies were listed on the JSE to raise capital. A true marketability test for shares is that a decent number are freely available for trading purposes.

When management or holding companies control an unduly high stake in a listed company I query why such a company is listed and whether a delisting to private status might not be desirable.

Annual reports

Analysing three annual reports in recent days, I found Carlton Paper's 15,8 million shares are held 80,5 percent jointly by Kimberly-Clark and Malbak, with a further 16,3 percent in the hands of the Metal Industries group and SA Mutual.

This means only 3,2 percent, or 505 000 shares, are available for the public.

Aberdare Cables' 14,5 million shares are held 89,4 percent by Philips and Powertech, leaving only 10,6 percent, or 1,5 million, for institutions and the public.

In 1988 Powertech increased its stake from 44 to 55 percent.

In Yorkcor, 747 840 shares are held by directors.

Management and institutions comprise the 10 largest shareholders, leaving only 83 776 shares out of a total of 896 000 for the public.

Annual reports prepared by PR firms usually go to great lengths to say how management is looking after shareholders.

They should really say the controlling shareholders are being cared for.

CARTLON PAPER: Chairman Klaus Zirker was thrilled that his boast of strong corrective action to restore earnings growth predicted in 1987 had worked.

Remedial action reduced overhead costs, increased market share, restored price levels and improved operating margins.

"These plans led to a remarkable turnaround in the group's performance," he says.

What were Carlton's problems? In the past eight years the bottom line had been a consistent R7 million to R10 million.

Then in 1988 management really went to town with record sales and profits.

Certainly the Government is not alone in pushing up inflation. While sales rose only 16,5 percent to R258,2 million (1987: R221,7 million), operating income increased 75 percent to R31,8 million (1987: R18,2 million).

Interest declined to R2,9 million (1987: R3,34 million).

Tax was R13,9 million (1987: R7,7 million) and the bottom line of R15,02 million more than doubled 1987's R7,13 million.

Earnings per share were 95,1c (1987: 45,1c), with dividends up 52c (1987: 25c).

Debt declined to only R16,58 million (1987: R28,99 million) and shareholders' funds increased to R56,57 million (1987: R49,76 million) at end-December 1988.

Mr Zirker feels 1989's growth will not be as buoyant as in 1988.

Disposable income will decline because of higher interest rates, increased inflation and higher tax revenues to fund state expenditure, he says.

Carlton is budgeting for real growth in earnings, even though modernising plant to raise productive capacity and quality will mean lower production in the first quarter.

Subsequent to year-end, wholly owned subsidiary Lipron Industrial was sold for R4,2 million — a profit of R3,3 million.

With such sparkling results, Kimberly-Clark of the US should remain in SA, even though the figures are a drop in the ocean of its worldwide results.

ABERDARE CABLES: This group, ultimately controlled by Bill Venter's Altech group, has made great strides in the cable industry.

In three of the last five years shareholders have received extraordinary dividends.

Last year was no exception.

Aberdare owes it success to its broad customer base which includes Eskom, SATS, the Post Office, municipalities, other public bodies and the mining industry.

In 1988, the potential benefits of the ASEA/Scottish merger and the restructuring strategies of the past two years were brought to fruition, says chairman Peter Watt and MD Peter Wilson.

Aberdare has now entered into a joint venture with Berzack—Ilman in the electric cable accessories market.

Sales increased to R321,1 million (1987: R256 million), with net operating income growing to R39,8 million (1987: R23,3 million).

Effective rate

Despite the effective tax rate increasing — tax R19,22 million (1987: R10,3 million) — the bottom line almost doubled to R20,6 million (1987: R12,95 million).

Earnings per share were 142c (1987: 89c), with ordinary dividends up to 71c (1987: 45c).

An extraordinary dividend of 44c (1987: nil) was also paid.

The balance sheet is superb. Ordinary shareholders' funds rose to R124,6 million (1987: R120,7 million) at December 1988.

There is no debt at all.

Working capital increased to R71,8 million (1987: R64,6 million) and included significant cash and short-term investments of R32 million (1987: R16,7 million).

Management is optimistic for 1989, given its technological knowhow in reticulating low-cost mass housing projects, the experience gained on the Mossel Bay offshore contract, new product developments for the mining industry, the speciality cable needs of the data communications field and export potential.

With a net asset value of R8,58, against a JSE price of R11, is the lack of scrip hindering true marketability?

I have ignored Yorkcor's annual report because non-distributable reserves make up 60 percent of the net asset value and management's total dominance really makes it little more than a private company.

Search is on for top unlisted company 180

B/Day 17/7/89.

Business Day Reporter

THE search is on for SA's top non-listed company, which will be honoured again this year in a contest sponsored by Business Day, Arthur Andersen & Co and the Wits Business School.

The SA Non-Listed Company Award will be presented at a banquet in Johannesburg *on November 20.*

An entry form appears today on Page 6. It includes all the details.

This is the fourth time the competition is being held. Previous winners were Mercedes Datakor, Macsteel and Natal-based clothing manufacturer, A M Moolla.

Chairman of the judges will be Prof Colin Firer of the Wits Business School, who will be assisted by a panel of top businessmen.

"The award seeks to recognise the role of SA's non-listed companies in the economic growth and development of the country," said Graham Rosenthal of Arthur Andersen.

"While considerable attention is given to companies listed on the JSE, the part played in the economy by non-listed companies is often under-estimated. This competition has, we believe, done much to remedy that."

The award will go to the company that, in the opinion of the judges, has best demonstrated creativity and entrepreneurial skills in meeting the challenges of business.

Entries close on August 22, after which a more detailed questionnaire will be sent to entrants. Confidentiality will be respected throughout the judging process.

Twenty finalists will be named on October 25, and the winner will be announced at the banquet on November 20.

● Entry form: Page 6

Goodall's stake sells for R2,9m

180

BD 13.7.89

BRUCE ANDERSON

SCHARRIGHUISEN Holdings is to be listed on the JSE through a reverse takeover of DCM-listed vehicle sales operation Goodall Group, Columbia Corporate Finance has announced.

In terms of an agreement in principle, the Goodall family, present controlling shareholders of Goodall Group, have sold their 80,9% holding in the company for R2,9m in cash (35c a share) to a consortium made up of three members of the Sharrighuisen family.

Goodall will acquire the business interests and operations of the Sharrighuisen Group for R29,2m.

The purchase price is to be met by a cash payment of R3,3m and the issue of 73,8-million Goodall shares of 35c each. The 84-million shares in issue as a result will then be consolidated on a 1-for-4 basis.

Goodall's name will be changed to Sharrighuisen Holdings and application will be made to the JSE for the transfer of the listing to the industrial holding sector under the abbreviated name Sharrig.

Management of the newly constituted Goodall Group forecast pro forma earnings for the period to end-July 1990 of not less than R6m, which would give earnings a share of 28,6c compared with pro forma 15,7c per consolidated share earned by the Sharrighuisen Group for the year to December 1988 and 16,8c earned by Goodall for the year ended June 31.

Minorities have been offered the equivalent of 35c a share before consolidation.

Star 18/7/89 180

The Star Finance

Anglo set to spend R8 bn over 4 years

GAVIN RELLY

Finance Staff

Anglo American is set to invest R8 billion over the next four years in Southern Africa, says chairman Gavin Relly in his annual review.

Anglo has already earmarked R2,5 billion for planned and projected capital expenditure by the corporation's gold, coal and industrial interests this year, he says.

An additional R200 million is going towards prospecting new gold mining areas in in South Africa.

A large chunk of the remaining R5,7 billion will be used to develop new technology to make mining of the mostly deep and costly new ventures less expensive.

Anglo American, Mr Relly says, is also pursuing a vast range of other investment programmes in Southern Africa:

- Several new mining ventures in the non-precious metals field are expected to be announced in the next 18 months.
- Mondi Paper has just announced a R110 illion greenfields timber project in the Eastern Cape and is planning a second pulp line at Richards Bay.
- Highveld Steel, with Samancor, is examining a project to produce stainless steel for export.

Anglo is also keen to help develop Mozambique and might resume responsibility for part of the cashew nut industry, which became a state activity after independence.

In a more stable security climate opportunities would exist for forestry, mineral and agricultural development and the exploitation of natural gas.

Commenting on new rules in Zimbabwe governing private investment — minimal since the country became independent nine years ago — Mr Relly says that while clearer definition is needed in some areas, they reflect the government's firm intent to facilitate and encourage private investment.

Anglo's associates in Zimbabwe, he says, have been enjoying more prosperous times thanks to higher international commodity prices. Chrome, nickel and sugar operations have benefited.

Investments in Zambia have done well in local currency terms, but the chronic shortage of foreign exchange has limited dividend remittances, he says.

While favourable copper prices have enabled Zambia Consolidated Copper Mines to declare its first dividend in eight years, payment to shareholders have not yet been cleared.

In Botswana, Mr Relly says, favourable prices and record production enabled Selebe-Pikwe copper/nickel mine to reduce its debt, the burden of which continues to preclude dividend payments.

The R900 million soda ash venture at Sua Pan, near Francistown, in which Anglo American is participating with AECI and the Botswana government, will meet Southern Africa's soda ash and salt needs, thus saving substantial foreign exchange, he says.

New equity investments in Namibia during the 1988-89 financial year included funding for the developing gold mine at Navachab.

Despite its committment to the Southern African region, Mr Relly says Anglo's policy of building up its overseas interests within its own relatively limited foreign resources, and based on its technical and financial skills, will continue both directly and in support of Minorco.

Although Hanson's acquisition of Minorco's stake in Consgold will not promote Minorco's plan to become directly involved in natural resources management on an international scale, it will enable the company to take advantage of new investment opportunities.

Finance

Market for local leveraged buy-outs is ready to take off

180

Star 18/7/89.

By Ann Crotty

The investment community tends to have a fairly dull time of it. Every so often comes news of a disinvestment or another acquisition by a corporate giant.

But no chance of the announcement of a billion-rand deal in the nature of the BAT bid or the Hanson move on Consgold.

And little chance of a head-office management team fighting off a hostile takeover bid.

It's not that there aren't opportunities for conglomerates to be broken up and sold off to generate considerable cash for shareholders.

There are many similarities between the development of the BAT and the creation of SAB.

If the latter were not operating in conditions peculiar to SA, its head office might perhaps be nervous of a similar unfriendly bid to de-conglomerate it.

Chief executive Meyer Kahn says he would be surprised if SAB were subject to a BAT-type attack: "A consortium of shareholders owns 35 percent of SAB. If you included other institutional shareholders, this would rise to over 50 percent."

He says the control situation in SA is much tighter than in the US or UK. More important is that there is very little incentive for institutional shareholders to sell what in the SA context are strategic investments for cash.

Despite the structural constraints, brokers Frankel, Kruger, Vinderine, together with Joel Kier and Stepehen Lipschin respectively of Thomas H Lee Co and Berkshire Partners, two Boston-based LBO firms, believe the market for management buy-outs (MBOs) and leveraged buy-outs (LBOs) is set to take off and will offer attractive investment opportunities.

In an effort to inform players about the issues (and thereby help develop the market) they are holding a one-day conference entitled Management Buy-Outs, Leveraged Acquisitions and the Financial Entrepreneur.

They have invited five of the key players in the US industry to address the conference. They include Glenn Hutchins, MD of Thomas H Lee; Kim Davis, a partner in Kohlberg & Co, and Sven Wehrwein, MD of Drexel Burnham Lambert. All have enormous experience in the 15-year-old industry.

Also speaking will be Jeffrey Cole of Cole National Corporation, chief executive of a successfully leveraged company. Andre Roux, Michael Katz and Simon Oliver will discuss the issue in relation to SA.

The typical attitude in SA is that the scope for MBOs is chiefly restricted to foreign-owned companies wanting to sell off the SA operation.

Messrs Kier and Lipschin say the exciting opportunities, in the shorter term, are presented by family-owned firms where management is keen to invest in an asset it is helping to grow.

Conglomerates such as SAB, Barlows, Malbak, Tradegro, AVI and Amic must also become targets for leveraged buy-outs.

This will happen when controlling shareholders feel some subsidiaries no longer fit strategically into the conglomerate or when alternative investment opportunities become available.

FirstCorp's Andre Roux agrees that development of LBO activity in SA is constrained by the control situation.

He says there is a lack of understanding by a lot of senior financial people about the extent to which a company can be geared up. "Debt focuses attention on cash flow. That means that working capital management is very tight, costs are held at a minimum and this lifts productivity and competitiveness."

This points to the key benefit of an LBO. The change of control is not significant. What is important is that over time the assets under management increase in value.

This is achieved chiefly by leaner and meaner management and is helped by the tax advantages of using debt, rather than equity finance.

Simon Oliver of Frankel, Kruger, Vinderine feels the LBO market will become more active when the return on financial instrumentscome more more attractive to institutional investors.

He argues that merchant banks in SA are currently making good profits on LBO activity.

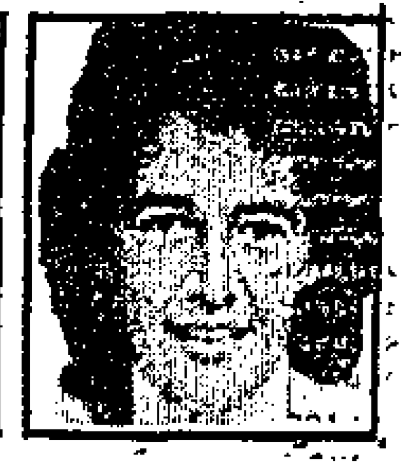
By helping to inform the major players of some of the issues involved, the conference will provide a major step towards creating a larger LBO market.

Those interested should call Viccy Baker at (011) 726-5161.

LBO under spotlight

Diagonal Street

ANN CROTTY



The stage is almost set for the leveraged buy-out (LBO) business to take off in SA. All the relevant players are here: good companies with strong management teams; well established institutions to provide funding and; an established merchant banking system.

If it does take off it could result in the creation of a substantial private capital market as an alternative source of funding to the JSE or commercial banks and lead to leaner and meaner management styles.

But one crucial factor that will be needed before MBOs or LBOs become commonplace in SA is a change in attitude.

Star 10\7\87

The local financial community is almost terrified of debt.

By contrast, Americans who are past masters at devising ways to get an extra turn out of their assets, seem to be quite comfortable with high gearing under certain circumstances.

But despite the local conservatism, a lot of people in SA are making a lot of money in the LBO business. Not just in situations where overseas' owners are disinvesting but also in a number of instances where the management has acquired a stake in private SA-based ownership situations.

To extend the potential market beyond disinvestments and family-controlled situations will require a change of attitude from two local power groups: the controlling management of the major conglomerates and; the institutional investors.

The ideal situation for all concerned would be where a conglomerate decided that company A no longer fitted into its long-term strategic plan. Then there would be a willing seller (presumably with the support of the institutional shareholder) and, assuming managment had faith in its own abilities, a willing buyer.

Next step is to find an investor to fund the deal — typically involving a small amount of equity and an enormous amount of debt. The ability to do this will reflect management's ability to persuade investors that it can boost the company's cash flow sufficiently to cover the heavy debt payments.

Where the conglomerate is an unwilling seller, an MBO is almost a non-starter.

The head office is often quite wary of looking at a proposal put to it by a management team that has immediate access to all the relevant pricing material.

Reflecting this is the fact that some indicate to their subsidiary managements that no MBO discussion will take place unless management is prepared to resign and discuss the issue at arms length.

If one considers the number of conglomerates that have been created as a result of institutional rescue operations then the establishment of price becomes even more difficult as the owner's carrying cost is likely to be considerably higher than the current market value.

On the institutional side, the official response is that they are prepared to look at any reasonable investment proposal. In reality it would probably be extremely difficult to persuade any of them to let go of even a reasonably good quality equity holding in exchange for debt.

This situation could become much more fluid if SA investors had access to the international investment arena and the debt instruments being offered were flexible. But at present there is no incentive to replace hard assets with debt.

On 3 August stockbrokers Frankel, Kruger, Vinderine are holding a conference on LBOs. Experts from US and SA will discuss all aspects of the issue and deal with all the queries from the local investment community.

Bad management destroys

(18D) (06)

COMPANIES that are badly managed in any sphere of operations, not only in credit control and management, are the ones to fall out when the economy goes into a downswing.

PHILIP REYNOLDS

High interest rates and exchange rates are only catalysts to liquidation, but they do not cause it, says Ernst & Young partner and liquidations division head Philip Reynolds.

Poor management, propped up by easy conditions in good times, makes it difficult for a company to survive a downswing.

The profits of well-managed companies may decline during a downturn, but these companies survive as they identify problems and take corrective action earlier on.

B/Day 20/7/89

Exposing

Badly managed companies wake up too late and keep borrowing themselves deeper into debt, says Reynolds.

The problem of poor management allows for over-gearing, exposing the companies to interest-rate fluctuations.

Reynolds says Ernst & Young is very often involved in the redistribution of resources to better management, particularly when it is a good business that has been badly managed.

Possibilities for takeovers limited by tight controls

B|DC4 20|7|S4

(180) NEIL YORKE SMITH

SA COMPANIES afford prime opportunities for aggressive investment tactics, says an analyst for a leading stockbroking firm.

Many trade at below net asset value, are overgeared and have strayed from their core business.

But UAL Merchant Bank's Alister Colquhoun says the potential for SA takeover artists is limited by concentrated control of SA business and the use of corporate pyramids to control companies and ward off predators.

Under such circumstances independent investment teams have little chance of influencing company policy.

This is in contrast to America and Europe where undervalued companies are prone to takeovers and "strategic block investing" techniques which yield high returns for investment teams.

A Fortune Magazine article discloses how dynamic investment groups look for overgeared but undervalued companies in which their "strategic block investing" technique can be used to generate large profits.

The team acquires a large portion of the target company's shares and uses its leverage as a major shareholder to influence management decisions.

The team requires management to act in the shareholders' best interests. This involves restructuring the undervalued company and ensuring a re-rating of the share price.

Management is encouraged to slash expenses, sell underperforming assets and improve returns on shareholders' equity. Overheads are cut, operating margins improved and the company becomes highly profitable.

Selling under-performing assets and non-core businesses enables the company to strengthen its balance sheet and reduce debt.

Debt is reduced and excess funds are used to finance further profitable investments. The interest bill is reduced.

The "strategic block investing" technique is used to transform an inefficient company into a lean, profitable and often acquisitive group.

The company undergoes a market re-rating and the investors dispose of their holdings, earning high profits.

Star 28/7/89

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Bop coup trial goes to London

Own Correspondent

MMABATHO — The legal team which has been involved in the mass treason trial heard in the Supreme Court here leaves for London next week to hear evidence from Mr Rocky Malebane-Meitsing, the self-proclaimed leader of the abortive coup in Bophuthatswana in 1988.

Mr Malebane-Meitsing fled to Harare after the coup attempt and is now in London.

He has refused to return to Bophuthatswana to give evidence, but has agreed to do so in London, even though in affidavits to the court he has claimed political assassins were out to kill him.

The hearing begins on August 1 in London.

Mr Justice W A Friedman will head the State's team, which includes Bophuthatswana Attorney-General Mr J J Smit.

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Funds raised on JSE down on last year

B/Day 21/7/89

NEIL YORKE SMITH

THE amount of funds raised on the JSE in the six months to June 1989 was substantially down on last year's figure.

Figures issued by the JSE showed nine rights issues worth R229m took place in the six months to June this year. This compared with 16 rights issues which raised more than R575m in the period to June 1988.

The number of new listings fell to eight (14), representing market value of R279m (R287m). New companies listed via rights issues raised R118m this year as opposed to over R236m in 1988.

JSE president Tony Norton said the 1988 figures reflected a large degree of carry-over from the 1987 listings boom. Having decided to list, many companies were committed to going through with it, in spite of the depressed market.

The lower figures reflected poor market sentiment as well as a depressed gold price, said Norton.

However, he noted the growing number of backdoor listings taking place. The benefit of a backdoor listing was the company involved did not expose itself to an issue price, thereby avoiding weak market reception.

Gencor's rights issue and the Iscor listing would substantially improve the figures for the next six months, said Norton.

He expressed confidence in the market. He said a stronger gold price would significantly boost JSE confidence which would have a corresponding effect on the number of companies raising capital via the JSE.

180 Fmail 21/7/89.

CONFIDENTIAL REBATES 180

Levering inefficiency

The divine right of the country's supermarket chains to dictate terms to their suppliers is being challenged.

In a bold move, Lever Brothers is introducing a Distribution Efficiency Incentive Scheme, which will link discounts to improved productivity in distribution. Up until now incentive discounts, or "confidential" rebates, have been linked purely to increased sales.

Says Lever Brothers sales director Louis Meyer: "The whole distribution logistics area is one of high cost and inefficiency. Our stores compare with the best in the world, yet the distribution system in this country leaves much to be desired."

Grocery Manufacturers' Association executive director Jeremy Hele describes manufacturers' grievances in this way: "We believe discounts should be more tightly linked to efficiency in every sense. We seem to have forgotten that performance can be measured in any other way than total turnover.

"An enormous lump sum payment is riding on the achievement of a particular figure, and it is quite common for the payment to be demanded — even when the target is not made."

Hele says there is nothing to prevent "back door inefficiencies" in the present system. For example, if an order is made it is sometimes not accepted at the back door of the store if it was made without the store manager's knowledge; trucks are often left hanging about for hours; and poor management of returns and late payments are a further problem. However, manufacturers have no means of penalising the chains for bad administration at this stage.

Their problems are compounded by the absence of central warehousing, which means that goods are delivered to the individual stores in the two main grocery chains Pick 'n Pay and Checkers.

Those chains which have central distribution facilities are keenest on Lever's proposed scheme. Jazz Stores MD Bob Williams supports it wholeheartedly, adding his group expects to get good incentives as it does its own distribution through its own depots.

Spar group marketing director Brian Beavon says it's got to be right to reward efficiencies, but says further incentives should be awarded for chains which redistribute to smaller stores. There are 520 stores in the Spar group, operating through five distribution centres.

Checkers, which has no central warehousing but is considering setting up warehouses run by a third party, generally approves of the scheme. Says Deputy MD Serge Martinengo: "We know that suppliers add a percentage of their costs for wastes in distribution. And there is no doubt that multiple deliveries lead to greater shrinkage."

The most fervent opponent is Pick 'n Pay chairman Raymond Ackerman: "I offered central distribution to the suppliers 10 years ago and I was turned down. We were forced to put store rooms in all our branches. I would lay the blame for inefficiency directly at the suppliers' doors." ■

Black consumers are now driving white business

180

B/Day 21/7/87

MIKE PERRY

THE STRONG and winning companies of the 1990's are being made right now by the black consumer. The purchasing power of the black consumer is reshaping the fortunes of companies competing in markets as diverse as groceries, clothing, electrical appliances, minibuses, second-hand motor cars, petrol, building materials, personal financial services, entertainment and travel.

This increasing power can offset a major strategic issue for many business executives — how to get real growth.

A view of the growth in turnover of many companies quoted on the Johannesburg Stock Exchange shows that, in the period since 1985 onwards, they have not grown in real terms.

Acquisitions aside, one finds that — after deflating the numbers to remove the masking affect of inflation — despite at least 18-months of up-swing, sales have not yet returned to 1984 levels.

But some companies are the exception and have grown. Why?

The business strategist searching for opportunity gets some hints from a survey of the characteristics of leading brands.

Be it footwear, clothing, soft drinks or alcoholic beverages it is pretty well accepted by marketers that it is the strength of appeal to black consumers that has got the brands to where they are.

Investigating companies that have grown well in real terms in the period from 1985 onwards, we have found the black consumer to be the cause — despite retrenchments.

Apart from the jubilation this causes in the marketing and sales department, strong growth at a time when others are standing still has a profound effect on the structure of an industry, the strategies, organisational designs and fortunes of the players in that industry.

Positive changes in market share which can result from the correct strategies in a restructuring industry are the portents of future improved profit.

Let's take a high profile example and consider the eventual repercussion for the players and the people who work in the industry.

The spaza store — an informal grocery shop operating out of homes in the black townships — phenomenon is now receiving wide publicity.

Spaza stores, of which there could be about 40 000 in southern Africa, received a boost during 1985 and 1986 because of political unrest and economic uncertainty.

At a time when boycotts of white-owned businesses were the vogue and retrenchments were rife it made sense to use one's severence pay to stock a spaza store at home.

Each new spaza store which opened was an example and inspiration for another entrepreneur. Despite greater political stability, the spaza stores established that they had a viable economic niche as convenience stores.

☐ PERRY . . . "Each spaza store which opened was an inspiration for another entrepreneur"

Rapid urbanisation — for example Durban, with its reputation for growing faster than any other city except Mexico city, which can be confirmed by aerial observation — is reinforcing the need and economic viability of the spaza store. Shoppers spend at least R3bn in spaza stores each year; R2bn of this is purchased from wholesalers.

This purchasing power has resulted in a change in the relative growth prospects for the formal retail grocery industry and those of wholesalers.

As can be seen from the chart, the market shares of these two sectors of the distribution channel changed dramatically in the period from 1985 to 1988 and it can be predicted that this trend will continue until 1993.

THE GROWING IMPORTANCE OF WHOLESALERS/MARKET SHARE

	1985 %	1988 %	1993 %
Retail	78,8	74,9	73,3
Wholesale	21,2	25,1	26,7

SOURCE: Trade Opinion Panel

The implications of this change for the food distribution business are extensive.

The era of rapid growth in the wholesale sector is attracting new entrants, so it is likely that there will be a battle for market share and some form of shake-out or rationalisation of the players by 1993.

In the low growth sectors of the market — including the retail sector — only the most efficient and fiercely competitive will be among the winners.

The informal trader purchasing from the wholesaler tends to be black and might have lower levels of literacy. This makes for communications problems which can best be offset by increasing the proportion of staff and managers in these outlets who speak a relevant black language.

Once you have got more black managers in the stores it makes sense to have more black salesmen from the manufacturer making the calls on their wholesalers and retailers. Better communication makes better sales.

As we realise that more and more of our sales are coming from the distribution channels dominated by black people, we will see more black executives in the marketing functions.

Not only will this increase the demand for black executives in service industries — such as marketing research and advertising — but it means that there will be more real black managers doing a real managerial job in retail, wholesale and manufacturing companies.

Only then will we rid ourselves of the mistaken concept of "the black market" and have strategies, organisational structures and marketing programmes which are based on the reality of "the market".

This will be to the benefit of business in general, because this should coincide with an era of sustained real growth.

☐ **Perry is MD of Perry & Associates.**

Star 22/7/89

Inside Out

180

ANN CROTTY

Institutions chasing golds

GOLDS and mining financials stole the limelight again this week although the gold price was looking a little dodgey. Some people think the dollar may come down and that this would help gold. Just about the same number of people think it won't come down and gold is stuffed.

But it seems the institutions — who continue to boost their coffers with enormous quantities of lolly — reckon they may currently be a little under-exposed to the gold market. The major beneficiaries of this sentiment include Gencor, Anglo, Dries, Western Deep and Minorco.

Myles reckons this state of affairs is expected to continue for the next week or two, which means that the industrial board may be neglected. But as ever, keen to avoid being accused of holding a firm opinion, Myles adds that everything could of course change by Monday.

His mum had a vision the other night — she saw gold bottoming at $355. Myles reckons this is as scientific a basis as any for an investment decision. But his Mum is a bit put out. Being a reasonably devout RC she puts a lot of store on apparitions and visions and what-have-you but reckons getting a glimpse of the gold price is decidedly infra-dig.

There seems to be a lot of take-over talk about a lot of companies in which the Krok brothers have a reasonably sized stake. There's Fleishman's —where talk is that Spareco is going to take control; it's not yet known whose shares they will be acquiring but the Krok brothers have 30 percent.

There's Lucem — where Ozz is speculated to be planning to buy out the minorities, chief of whomare the Kroks. And then a while ago talk about something going on at Furntech — in which the Kroks also have a stake.

But the Kroks are also involved in Twins with the Premier Group and there hasn't been any talk on that front — yet. Although, as Myles points out, there is a major reorganisation of Premier's interests currently on the go. He reckons that there could be plans for the Premier/Krok consortium to buy out the Twins' minorities — of which there are very few.

The FSI guys were very quick off the mark with Edworks — one of the benefits of having a very bright, keen and energetic management team.

Buying the shares should give them the edge over the other parties interested in the Edworks' assets. No indication as to whether Edworks will be redesigned to fit into the FSI structure or whether it will be maintained as a going concern.

What also seems uncertain at this stage is whether the assessed tax loss automatically falls to FSI. It must certainly be an attractive part of the deal.

Details of the Hunts/Natbolts/FS-Team deal are expected next week.

In the midst of all this action it seems a bit miserable to wonder when the FSI shareholders can expect to see the 1988 annual report.

Talk of a deal involving BTR-Dunlop. Myles' reckons that if there was to be a sale to a local party it's likely to be AVI rather than FSI because of size.

Kersaf has been strong recently, apparently on the back of expectations of good results. Myles heard a few whispers about Sol Kerzner and President Mangope wanting to lift their holding in Sun Bop through the acquisition of some of Kersaf's stake. But Kersaf's Ian Heron denies that there had been any discussions on this front.

Money supply growth slows

By Sven Lünsche

The rate of growth in the money supply is continuing to slow down, albeit at a very slow pace as credit demand showed a slight pick-up in June.

Figures released by the Reserve Bank yesterday show the growth in the broadly defined money supply measure, M3, is estimated at 24,56 percent for June after registering a seasonally adjusted 24,66 percent in May.

The growth rate in M3 was at 27,6 percent last December and has declined gradually to its current levels.

However, it still has some way to go before reaching the targeted level of 14 to 18 percent.

In seasonally adjusted terms M3 was at R129.517 million — almost R2 million outside the upper target limit of R127,816 million set by the Reserve Bank earlier this year.

The target ranges are for growth in M3 between the fourth quarters of 1988 and 1989.

Growth in the narrowly defined M1 in May was 16,98 percent and in M2 it was 29,92 percent.

The money supply figures indicate that expenditure in some quarters is still resilient — government spending surged in the first quarter of the current fiscal year — and that corporations in particular are still taking out loans ahead of expected tighter conditions.

However, consumers have tightened their belts considerably since the monetary and fiscal authorities introduced a series of restraining measures late last year and early in 1989.

In particular, expenditure on durable goods — cars, furniture, household appliances — and semi-durable goods, including clothing, footwear, household textiles has slowed down and could decline further in months to come.

Sanlam's economists expect that this process of adjustment will continue for some time.

"In fact, total domestic expenditure will have to decelerate to such an extent that the surpluses on the current account of the balance of payments needed for the repayment of our foreign debt and the strengthening of our foreign reserves can be assured," they say in the group's July edition of *Economic Survey*.

In view of this, it is essential that in the months ahead all citizens forego excessive wage and salary demands and that they avoid credit purchases as far as possible, they say.

It is also important that the Government do everything in its power not to exceed budgeted expenditure.

"And, equally important: the government must resist the temptation to relax fiscal and monetary policy before the election in September. If not, it can only make the process of correction more lengthy and more severe," Sanlam says.

Steelmaker sets aside cash to counter substitute materials

B Day 25/7/89

ROBERT GREIG

INTERNATIONAL steel demand is sparing the SA industry from imported competition but, if that changed, Iscor could seek a strengthening of tariff protection against dumping.

MD Willem van Wyk, speaking after a media presentation on Iscor's privatisation, in Pretoria yesterday, said the buoyant international market meant SA was not being subjected to dumping.

He added Iscor was facing competition from substitutes for all of its products.

Its R1bn capex plans for the next "couple of years" were to add value to existing products, for expansion and to help diversification to counter competition from substitutes.

The removal, through privatisation, of the state's dominant influence would stimulate Iscor's diversification.

Van Wyk said competition was across its product range, including its major item, railway lines. An effect of this competition was to keep down prices.

He was asked to comment on the view that, although Iscor was privatising, it was sheltering behind tariff protection to preserve domination of the local market.

He said: "Tariff protection exists which protects the SA steel industry against dumping. The protection is based on exchange rates which no longer apply."

Protection took the forms of *ad valorem* duties (3%) and tariff protection against dumping. This protection was based on out-of-date exchange rate figures.

"If the international market changed in such a way that we faced dumping, then we would apply for a revision of those figures," he added.

He said earlier the international industry was strong. Low real interest rates and real growth rates worldwide, and better supply-demand ratios, had strengthened it.

Distortions caused by government subsidies had been, or were being, eliminated.

Van Wyk said Iscor's record conformed to international patterns.

The organisation had been operating at full capacity since 1981; capacity had not been increased "for 15 years", though efficiency and productivity had been improved.

In 1988 Iscor had a 13,5% return on assets; in 1989, it was expected to be 19%. Assets — now worth R4,5bn — were revalued annually.

Futures industry 'misunderstood'

NEIL YORKE SMITH

ATTACKS on futures brokers and on the futures industry as a whole are the result of a low level of awareness, claim industry figures.

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Brokers say the fledgling futures industry is prone to attacks by people who do not understand it. The industry is working to educate potential investors in all aspects of futures, they say. This is reflected by the number of training courses and seminars available. B Day 25/7/89

A booklet published by the SA Futures Industry Association (SAFIA) confirms the importance of investor education. Investors are encouraged to study the details of futures contracts and to deal only with reputable brokers who are SAFIA members and who subscribe to its code of conduct.

Brokers point out the risks of futures investing. High returns are possible but so are losses. Investors are urged to view their futures investments as risk capital.

The SAFIA confirms the risks involved and emphasises the term "risk capital". Investors should be prepared to lose their capital and its loss should not result in a change in their living standard, says the association.

Bad publicity has not deterred serious investors. Both Anglovaal and Rand Mines have profited by futures trading. A spokesman for Rand Mines says the existence of liquid futures markets can be used to great benefit. Speculators are essential in ensuring such liquidity, he adds.

Sources stress the need for industry education as opposed to futures retailing. The long term benefits of such a view will accrue to all parties whether long term investors or speculators, they say.

Lone-listed Adcorp shows 23% earnings increase for half-year

BRENT MELVILLE

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DCM-LISTED Adcorp Holdings has posted a healthy 23% rise in earnings to 8c (6,5c) a share for the six months to end-June.

The lone JSE-listed recruitment advertising group improved its margins slightly to 7,5% (7,4%), increasing operating profit by 20% to R948 000 (R790 000) on a turnover rise of 19% to R12,7m (R10,7m).

Profit after tax was accordingly higher at R504 000 (R410 000), and with current liquidity improved to 127% (117%) financial director Tony Worthington is cautiously optimistic of real growth for the remainder of the year.

"The market in which the company operates remains firm, and given a reasonable economy in the second half of the year, the rate of increase in earnings per share should be maintained for the full year," he says.

B|Day 26|7|87

Disinvestors' trademarks still under threat

B/Day 27/7/87

SUSAN RUSSELL

COMPANIES disinvesting from SA who leave behind registered trademarks face the threat of having "counterfeit" goods produced under their name in this country and exported with impunity, says to a Pretoria attorney.

O H Dean has drawn his conclusions from a court case between local company Image Enterprises CC and US multinational Eastman Kodak last year.

In an article published in the July issue of the attorneys' journal, De Rebus, Dean said a disinvestor might, by his disinvestment, find himself promoting an unassailable source of what he would perceive to be "counterfeit" goods.

Abandonment

Image Enterprises applied to the Supreme Court for an order which would effectively give them the right to use the Kodak trademark following the company's departure in 1987.

"The question of the 'abandonment' of the trademark was the central issue," said Dean.

Image Enterprises had submitted that according to evidence before the court, Eastman Kodak had stopped trading in SA under the trademark and no longer intended doing so for the present, and indefinitely into the future.

Kodak argued, however, that while the company's products were not sold in this country after June 30, 1987, SA retailers were likely to continue selling stocks for months to come.

The company submitted, therefore, that it had not stopped using the trademark at the time relevant to the court proceedings and intended to keep its trademark registrations in force in SA.

Mr Justice MacArthur found in favour of Kodak, ruling that the evidence did not show that the company had abandoned its trademark.

"In the light of (Kodak's) declared intention not to abandon permanently these marks or/and other rights in SA, I would be loathe on the evidence before me, to come to a contrary conclusion," the judge said.

Dean said the judge had granted Image Enterprises leave to appeal and this was expected to go before the Appellate Division at the end of this year or early next year.

He pointed out, however, that the court had found in Kodak's favour because on the evidence before it abandonment of the trademark had, as a factual question, not been established.

"There is nothing to prevent Image Enterprises or any other interested party making a fresh atack on the Kodak registrations and adducing further and better evidence from which abandonment can be deduced," said Dean.

"As the case is under appeal I will refrain from commenting on the merits of the judgment.

"However, it flows even from the judgment favourable to Eastman Kodak that if the facts of a particular matter can justify that disinvestment amounts to an abandonment of registered trademarks owned by a trademark proprietor, those trademarks are liable to cancellation by an interested party."

Dean said this could give rise to what the disinvestor would probably regard as "counterfeit" goods being produced in SA and exported worldwide.

"He could not blame the SA legal system or its intellectual property laws," Dean said, "because amongst the best and most sophisticated legal machinery in the world is available to him to protect himself against this sort of activity if only he chooses to play by the rules."

Whatever the outcome of the Kodak case, Dean said, there was a lesson to be learnt by would-be disinvestors from SA.

Big business has faith in NP, claims Babb

Star 28.7.89

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The National Party's goal of an economy based on free market principles would stimulate growth, create jobs, maintain job stability and contain inflation, the NP candidate for Randburg, Mr Glenn Babb, said yesterday.

Speaking at a house meeting, he said these policies carried the country through several years of drought, two years of unrest and unavailability of capital, "and still achieved a growth rate of close on 3 percent".

"Even now, Anglo American and Gencor are investing billions of rands, while Sappi and Mondi are planting thousands of trees which will only provide a return in eight years' time. It certainly shows big business' confidence in a future under National Party government.

"At the same time, the creation of regional services councils served as a channel for development in black cities and towns. Basic infrastructure is being provided, changing the face of places like Soweto and Alexandra."

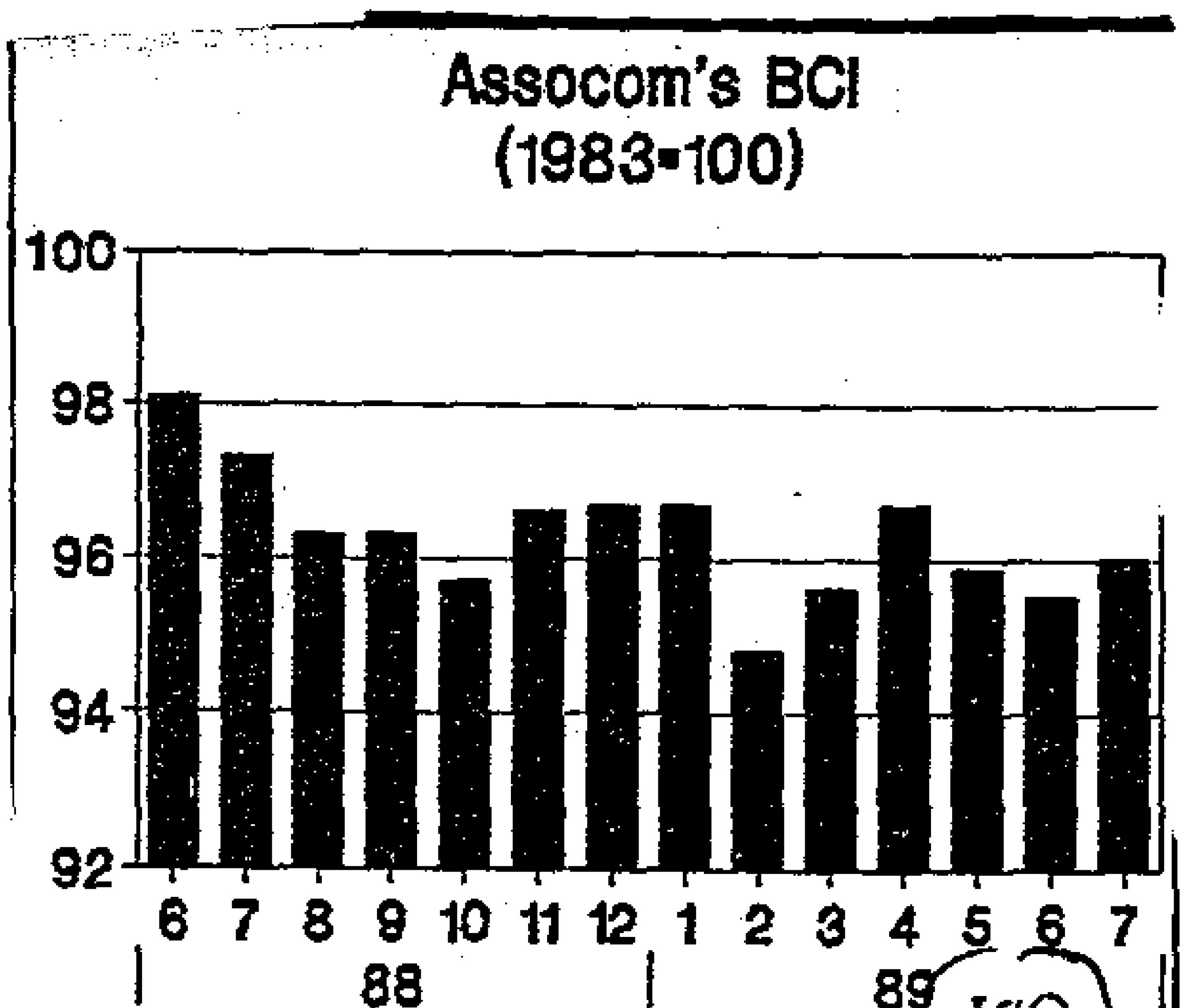
Referring to the Democratic Party, he said the party's economic policy was "schizophrenic".

"While the one co-leader espouses economic motherhood, one of his co-leaders is dreaming of a welfare state and a redistribution of wealth on behalf of the Mass Democratic Movement."

Mr Babb called DP members "dreamers", saying they "dream of dishing out bananas when they haven't even planted a tree".

"The electorate are not monkeys; the DP should remember it." — Sapa.

(News by G van Oudtshoorn, 141 Commissioner Street, Johannesburg).



Star 28/7/89 (180)

Business confidence takes unexpected turn for better

By Sven Lünsche

Resistance to economic restraints has given business confidence a slight boost.

Assocom's Business Confidence Indicator (BCI) showed an increase of 0,5 points to 96 in July, which the association suggests is the result of the economy not decelerating as fast as was thought.

Assocom said yesterday: "Although some sectors such as consumer durables are feeling the effects of the slowdown, the economy as a whole is moving sideways.

"The economy is poised between boom and recession and the overall businesss oulook for July appears to be one of cautious optimism. It seems the strength of domestic spending has been under-estimated."

But Assocom said data on money supply, imports and inflation suggested the trend was only a "hiccup" in the downswing.

"It could just be a question of time lags, especially with regard to private fixed investment.

"It is traditional for investment to lag behind trends in consumption. The economy may have paused momentarily on a new plateau before resuming its downswing."

Assocom said the pause was also the result of a perception that the gold price had bottomed out, while state spending had temporarily held up the downward trend in consumption expenditure.

It said the balance of payments still remained tight, but that a "soft landing" was still expected.

"On present evidence, the gross domestic product (GDP) growth rate in 1989 is likely to be two percent, with the possibility of a one percent growth rate next year."

Assocom said positive influences on the BCI were:

- The slight improvement in the gold price and the rand-dollar exchange rate.
- A rise in imports and exports.
- Higher JSE share prices despite firmer interest rates.

Negative influences were:

- The rising inflation rate.
- A fall in retail sales and the value of building plans passed and a rising insolvency rate.
- A rising rate of unemployment.

Star 29/11/89.

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Inside Out

ANNE CROTTY

Mum all agog about Iscor's share listing

MYLES' Mum is terribly excited about the Iscor listing and is thinking of pouring all her Consgold winnings into it.

But she has one major reservation: is Iscor environmentally friendly — what's its position vis-a-vis the ozone layer?

It seems that she's thinking of cleaning up her equity portfolio and only holding "green" counters.

So far she hasn't found anything that qualifies, she says that most of the stuff on the JSE is decidedly non-green.

Myles isn't too sure if this atttitude reflects amazing foresight on her part, but thinks that it has probably more to do with her being wired to the moon.

On a more immediate, although perhaps more pedestrian, front Myles reports that there was considerable difficulty getting Premier shares this week, ahead of the release of reorganisation details due out early next week.

There's never much trade in Premier, but the price had to be pushed up to R50 to get some investors to part with even a few shares.

On the mining front, it appears that the excellent figures from Rusplats didn't surprise too many investors.

Talk throughout the market in the days before the results were released was that earnings would be 480c, with a dividend of 250c. The actual figures were 475c and 300c respectively. Myles' Mum thinks that the market must be very, very clever to have guessed so closely.

Myles hears that one or two of the mining analysts are feeling a bit frustrated by Anglo's rather paternalistic attitude to disclosure of information.

It seems that they're having difficulty analysing Zaaiplaats' acquisition of Annesley Andalusite (and half a foreign company involved in andalusite marketing believed to be the French company, Mircal) because Anglo won't reveal what base price it used to value the andalusite deposits.

And his Mum wants to know if andalusite is environmentally friendly.

DiData turned in a very good set of figures this week and the share seems to be well-supported at its current level of 200c.

Myles was unable to check out rumours of a deal being struck at well above that level.

Also in the electronics sector, there's continuing speculation about the M&PD/Siltek plans. An announcement may be out late next week or the following week.

Meanwhile, the speculation is that Tilman Ludin is retiring and Mike McGrath taking his place at the head of Siltek. There's also talk of some personnel changes at M&PD subsidiary, Elex.

It seems that the rumoured deal between Bivec and Elcentre may be more significant than was initially thought.

In the absence of official comment from any source, the favourite speculation is that Elcentre will be acquiring Bivec's cable activities. Bivec's other interests include sewing machines, a labelling division, a property division and a household division.

The Hunts/Natbolts/FS-Team deal should be announced early this week. It seems that the reorganisation will be paper-based.

Myles was unable to get any details on the Rabie cautionary except that it was quite a good deal and fairly significant in terms of long-term strategic fit.

But he doesn't think it'll affect the share price because there's quite a lot of stock around.

It was also impossible to get any gen on what Micor planned to do with the Adco cash shell.

There was tremendous excitement in the middle of the week. Myles got a tip-off that Murray & Roberts was making a bid for Group Five.

He dug out the files... spoke to a few people... thought what a good idea it was. Then called Mr Clogg (who heads the management consortium that bought out Group Five from D&H some years back)... and there it ended. "Not at all likely" was Mr Clogg's view.

An announcement is expected from Colfin within the next week or two about what the plans are for the Cashworth cash shell.

It is expected to be worth 60-67c a share when all the assets are sold. It seems that management is currently finalising the details of the sale of its last remaining non-cash asset.

According to Myles, last week's announcement by Manserv has nothing to do with Cashworth, but could be about another acquisition.

Loan levy loophole for some companies

S Times 30/7/89 (180)

Business Times Reporter

COMPANIES and close corporations may still challenge their liability to pay loan levies — due tomorrow — if they believe they can claim a reduction on normal tax assessments.

Ron Rankine, a partner in chartered accountants Aiken & Peat, says companies must be sure that the tax rate they are objecting to or appealing against was applied and posted by the Receiver of Revenue before July 15.

A company must have a "reasonable prospect of succeeding" before the taxman will consider allowing the loan levy to be based on a lower assessment.

Mr Rankine says the possibility of relief came to light in a case where a company received an assessment which showed the Receiver had "added back" a large sum, which had expensive implications for the company's 10% levy commitment.

The basis for the "add back" was open to question. But before the Receiver would agree to the levy's being calculated on a reduced amount, he required the company to lodge a formal objection to the assessment.

Companies which believe their assessments warrant an appeal or an objection will have to move fast if they wish to take advantage of paying a levy on a lower rate, says Mr Rankine.

The relief could also be obtained if the Receiver is satsified that the normal tax for a company's latest assessment is due to an error.

There is also the possibility that loan levies could be handled as negotiable financial instruments. A register of loan levy certificates will be drawn up by the Treasury each six months.

Upside for Unidev after the fall from grace

S/Times 30/7/89 - (180)

By David Carte

UNIDEV'S annual report shows that the conglomerate has considerable recovery potential — but fails to answer all of the questions about the group.

For a while after its listing in the great spate of 1986, Unidev was something of a darling of the JSE. The company seemed to pick up some of the charisma of its personable chairman, former Springbok swimmer, Geoff Grylls.

The first disappointment was the disclosure that Milly's profits and assets were overstated. Unidev had less than 25% of Milly's, which constituted about 3% of its assets.It could have walked away. In honourably picking up the pieces, it picked up up some of the stigma attaching to Milly's.

Pyramid

Then Prestige Housewares produced profits a million rands lower than expected. The group interest bill sextupled to R3,1-million, resulting in a 7% earnings and 42% dividend cut in the year to December 1988.

The announcement that a pyramid was to be formed to consolidate management control and that there would be an 80-for-100 rights issue did not fill the investing public with joy, even though management will be putting R20-million of new money into the bottom company. The share price slid from 400c to 125c and has since moved up to 150c.

Arriving nearly eight months after the yearend, the annual report is late. But that is because Cortech bought Control Data, complicating preparation of the final numbers.

Mr Grylls says in his review that Unidev has changed its operating philosophy. Initially, it sought to find promising companies that could be listed and helped to super-profitability by Unidev financial strength and management skills.

The report says: "The focus now is on substantial investments in more mature companies and consequently we have commenced selling off our interests in smaller companies."

Mr Grylls does not define the limits of Unidev's investment interest. Nor does he say whether stakes are held in companies with a view to a capital profit or long-term earnings growth. The use of the word investment and the tenor of the annual report give the impression that acquisitions and disposals enjoy higher priority than operations.

Associates

In Mr Grylls' absence abroad, managing director Richard Stein tells me that Unidev will stay with its more important investments, but everything has a price.

Several companies are merely associates. Equity-accounted earnings of associates will thus continue to be an important part of income.

More and more analysts are taking a sceptical view of associate earnings, so the rating could continue to suffer under the present structure and philosophy.

Another question that hovers over Unidev, and every conglomerate, is: what is the

GEOFF GRYLLS

top company doing to add value to the underlying investments.

Unidev comprises four divisions — property (68% of Natprop and 50% of Equikor), electronics (76% of Cortech), industrial (25% of Debonair, 29% of Furnfair, 50% of Medicor, 22% of Milly's, 80% of Prestige) and financial services (30% of Mercantile Bank and Securities, 30% of Newfin Productions, 50% of Quaestor IV and 70% of Unidev Registrars).

Sketchy

There is a sketchy breakdown in the report of operating profit, which includes equity-accounted earnings of associates, totalling R12,7-million.

Financial services (R7,8-million) was the biggest contributor, followed by project development, hospital development and property (R6,1-million), electronics (R2,3-million) and housewares (R1,9-million). "Other", comprising interests mercifully sold, lost a stupendous R5,4-million.

Mr Stein tells me that the financial services profit does not represent big one-off deals and is eminently repeatable. Cost of closure and disposal aggravated the loss of companies sold. He is confident that all operations should do better in the current year.

Unidev subsidiaries have assessable tax losses of R46-million, so it does not expect much of a tax burden for some time.

Queries

A note to the accounts says the Receiver queries share and property dealings from 1981-1985. He has agreed not to pursue the queries on the understanding that the assessments may be reopened at any time.

At issue is a liability for R1,6-million of additional tax. In addition the tax loss available for set-off against future income could be reduced by R14-million to R1-million.

At the yearend Unidev had R50,5-million (R18,7-million) of debt. Shareholders' funds were R60-million, but the market value of listed shares was R6,5-million less than cost.

If that, plus the higher directors' value of unlisted shares, is taken into account, equity was R55,3-million and debt:equity 91%. Total interest costs were R6,2-million. But thanks to interest received, net interest was R3,1-million. Still, this was covered only 3,6 times by pre-interest profit. The rights issue funds will remedy this high gearing.

One question not answered is where management found R26-million to buy control of Garcon, which will become the pyramid. Whether management is in hock to the eyeballs is a material question for other shareholders.

Deep

Mr Stein says the main contributors were the executive directors — Grylls, I Hirschon, L S Phelps, L H Willmore and himself. They must all have deep pockets. Non-executives of obvious means, such as Norman Bank and Norman Lowenthal, are not large shareholders. But, as Mr Stein says, the capital infusion is evidence of management's commitment.

Mr Stein says all divisions can do decidedly better in the current year. The R5,4-million loss of sold operations will not recur.

Inflation

These statements permit an interesting, though admittedly tenuous, profit calculation. Start with the year's operating profit of R11,5-million. Add back the loss of R5,4-million and we are looking at a R16,9-million standstill situation.

Add 15% of growth (equal only to inflation) and we get to R18,4-million before tax, the minority and earnings of associates. That compares with R8,3-million last year.

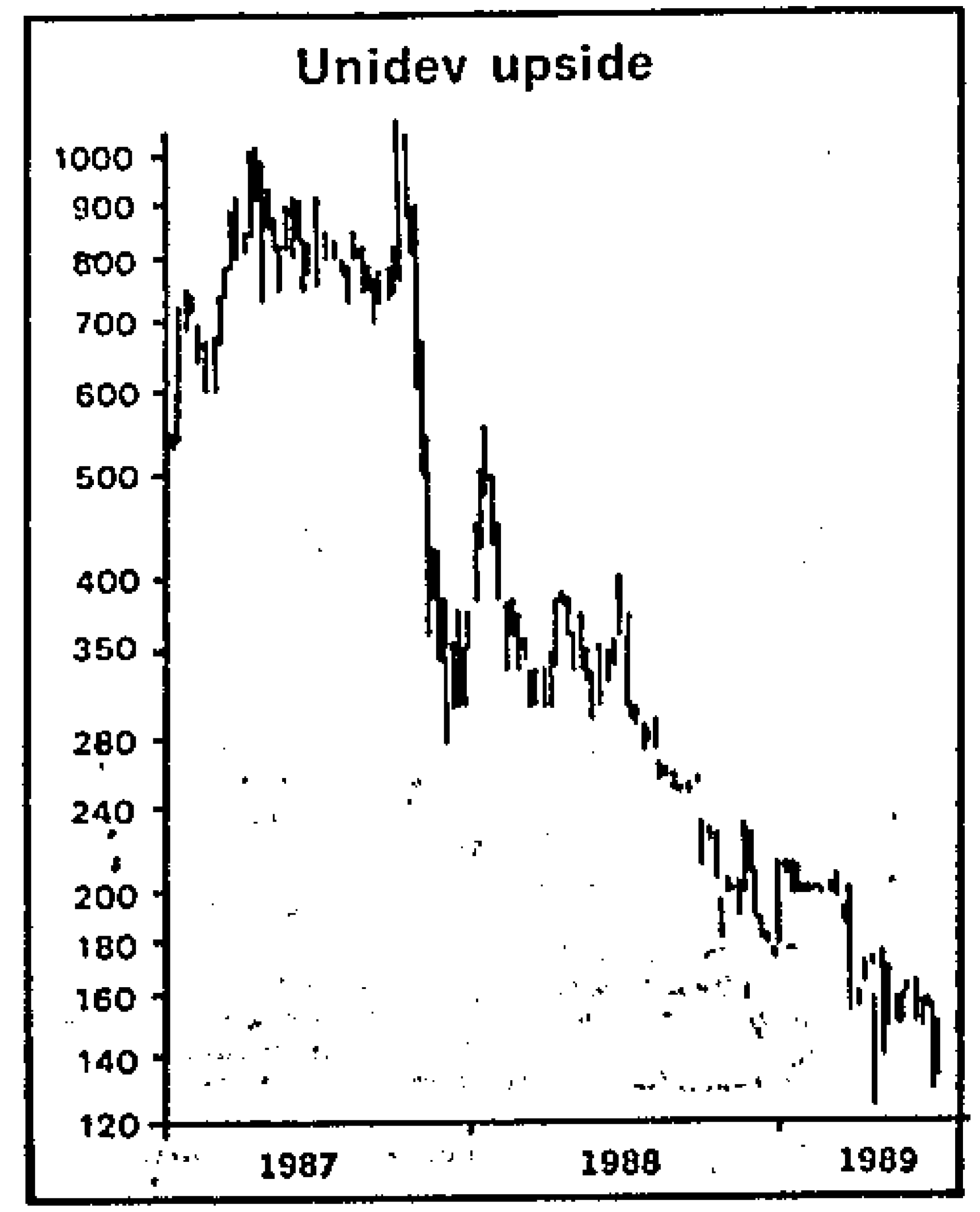
After that, the calculation runs into trouble. The tax rate will be low, but is incalculable. So is the minority slice of profits. The R20-million from the rights issue will save at least R3,5-million in interest, but will raise the number of shares in issue by 80%.

Assuming no tax, the new shares will thus effectively "earn" 26c each. On a net basis, therefore, the new shares will dilute earnings. Still, we could well see earnings a share rise more than 50% to about 75c — in spite of the rights issue. The forward PE is thus around two.

It will take some time for stale bulls to be removed from the system and for management to restore its early rating.

But this surely has to be a bottom for Unidev. Provided there are no further disasters, upside is considerable.

Unidev upside



Nissan wants a clean-up

S/Times 30/7/89

By Don Robertson

MANUFACTURERS of large and medium trucks are insisting that body panels fitted to their vehicles be inspected by a dealer if the warranty is to be honoured.

Many trucks have experienced mechanical problems related to the incorrect fitting of bodies. The makers are seeking greater co-operation with body-builders.

In most instances, vehicle manufacturers supply only a chassis and cab and bodies are fitted by outsiders.

The problem has become so important that Nissan Diesel has produced a 35-page brochure directed at the body-builder.

Dave Scott, managing director of Nissan Diesel, says that closer co-operation with body-builders is required.

He insists that all vehicles be inspected and signed off by an accredited representative of Nissan Diesel before leaving the premises of a body-builder. The vehicle should go to several companies for equipment fitting, be inspected and approved by each.

Mr Scott says cases have arisen where a transmission, differential or engine has broken down, even after 100 000km, because of an incorrectly fitted body. Bodies which are too heavy for the engine size have also caused problems.

Nissan is worried about electrical systems, safety, quality, the installation of the sub-frame, brakes and weight distribution.

DIAGONAL STREET by

Fedvolks warms up in a cold climate

(180) S/Times 30/7/89

JOHAN MOOLMAN

NOW that Fedvolks has sorted out its refrigeration troubles, it is high time the shares came in from the cold.

Investors have long and unforgiving memories. They cannot forget that Federale Volkbeleggings wiped out a fair whack of shareholders' funds a few years ago. Gearing was huge, earnings were negative.

Now the group's portfolio of five consumer-based divisions is doing well, the balance sheet is stout and the prospects for organic growth coupled with privatisation opportunities make the shares look alarmingly underpriced.

LEADER

The most recent move by Fedvolks was to buy out minorities in Ocean Appliances and inject the refrigeration leader into 52%-owned subsidiary Tek.

Tek's deal with Defy three years ago never really got to the bottom of the problems regarding refrigeration, and the losses from that area were a chilly R6-million in the year to March 1989.

The Ocean deal looks good for Fedvolks. Ocean has 18 years' experience in fridges and freezers, superior technical capability, and the offers the chance of rationalisation with Tek's operations.

For example, production at Tek's East London Plant has climbed from 250 units a day to 400 since the Ocean deal.

Fedvolks' other domestic consumer interests are 75% of furniture retailer Morkels, 27% of television rental company Teljoy, and Continental China.

MOTORS

The clamps on consumer spending do not affect all consumer divisions. Fedvolks chief executive Johan Moolman believes a company such as Teljoy is contra-cyclical. Fewer people can afford to buy television sets on credit when interest rates and deposits are high, so they will rent instead.

The same goes for motor components, which is an identified growth area for Fedvolks. It has about 14% of leading spares dealer Midas, which bought control of Associated Diesel for R15-million this week.

When vehicle prices rise, people repair their cars instead of replacing them. Fedvolks intends to invest where more than 60% of turnover comes from the replacement market.

It owns tyre company Firestone, 35% of Gabriel shock absorbers, 47% of Raylite batteries and 92% of Fedmech, which makes agricultural machinery and material-handling equipment.

Fedvolks also bought into Champion spark plugs and is the only manufacturer of windscreen wipers and blades.

CINEMAS

Motor interests contributed 20% to profits in the year to March 1989, and consumer goods 24%.

Fedvolks' service division made 26% of profits. It comprises 93% of Avis — which also benefits from higher vehicle prices because more car users opt for full maintenance lease vehicles — 43% of Interpark car parks, 41% of Priceforbes Federale Volkskas, 46% of Fedics and 39% of Interleisure.

These businesses would be interested bidders should the Government Garage or municipal parking lots be sold off, or hospital and other catering privatised.

Sunday cinema seems to be around the corner, and could boost Interleisure's business.

Two years ago Fedvolks retained 68% and listed SA Druggists, one of SA's leading manufacturers of health-care products. Not only is there high potential for internal growth, but exports play an increasing role.

SA Druggists, which accounted for 28% of profits, is on the verge of going ahead with new plant to make intravenous solutions.

FOOD

Chipping in 32% of attributable income the mightiest contributor to profits is 71%-owned Fedfood.

Fedfood owns and runs bakeries, biscuit factories, edible oil, animal feed, wheat, malt and maize mills, fisheries, snacks and frozen food companies.

Its products are sold under leading brand names such as Niknaks, Harvestime, Bobtail, Glenryck, Simba, Renown and Table Top.

Food is a recession-proof industry if ever there was one, and growth comes automatically with more mouths to feed and the higher incomes earned by black workers.

Fedfood is to spend R18-million on a bakery in Pretoria to meet the increasing demand for bread.

It would not be surprising to see Fedfood get into chickens, in which it has no interest at the moment. Growth in chickens has been good and the potential for more is high.

BOOSTER

A sixth, small area of activity is the mineral fibre division, which made 5,3% of group profit last year.

Mr Moolman does not see the need to establish another division in Fedvolks when the growth potential in existing businesses is so high.

The group's R100-million rights offer in 1988 of one share for every four at 300c boosted the balance sheet and gave Fedvolks the muscle to back its companies' expansions.

Some of the proceeds went to Teljoy, some to Midas and other motor component interests, and more will go to Ocean.

Sankorp owns 66% and Southern Life 5% of Fedvolks. But its shares have been shunned by institutional investors although almost every stockbroker's research report I have seen has been positive, rating Fedvolks a best buy.

That is the reason I investigated its prospects. It still offers value for money coupled with low risk.

The return on group assets improved to 20% in the year to March 1989 — the own target is 22%. The other financial ratios achieved also approach management's objectives.

DISCOUNT

Yet the return to today's investors is more important. The shares picked up this week to 380c, but were 440c in January. The trend has been down even though results did not disappoint.

With 13% more shares in issue on a weighted average basis, earnings grew from 70c to 85c. Analysts expect between 95c and 100c for the current year because more shares need to be serviced. There are now 168-million in issue.

If the dividend reaches 25c the forward yield to March 1990 would be 6,8%. But the current share price is lower than four times prospective earnings.

It has always traded at a large discount to net asset value. The share might not deserve as high a rating as Barlows on a PE of 9, or Amic on 10, but neither should it be so poorly prized.

Golden Primrose path

S/Times 30/7/89.

PRIMROSE gold mine hit an all-time record production of 487kg in the year to June 1989 — 25% more than the previous year's result.

Control of the mine was taken over from the Boshoff family in 1987 by Simon Malone's Metorex group.

General manager Jomo King says productivity from each miner improved from 0,27 tons milled a manshift to 0,32. The long-term objective is to improve productivity by 5% a year. Costs a kilogram fell by 1%.

Mr King says there are many areas where costs can be curtailed, especially in haulage of ore. There is also scope for people with skills to help in other tasks.

Morale at the mine has improved since the new management took over, and the workforce — 45% of which is Mozambican — is stable.

Centralised plant will be commissioned early next year.

Primrose has bought tributing rights to the next-door Simmer & Jack mine. Mr King believes the grade from these areas could lie between 5g and 6g/t with careful mining.

The mine earned R2,5-million before capital expenditure. A dividend statement will be made with the annual report in September.

OM In[…] the to[…]

S/Times 3[…]

OLD Mutual Investors unit trust has been the top performer for 10 years, according to figures from the University of Pretoria's Unit Trusts Survey June quarterly wrap-up.

On one-year repurchase to repurchase — such as accrues to an existing unitholder — the fund climbed by 53%. It was up by 43% on a selling to repurchase base-line.

In three years the fund showed annual compound growth of 26,8%, over five years it was 28,2% and over seven a handsome 33,2%.

The rates of inflation for one, three, five and seven years were respectively 15,5%, 15,1% 15,7% and 14,6%.

GROWTH

Other yardsticks are the JSE actuarial indices. Over one, three, five and seven years the All-Share index has climbed by 56,4%, 25,7%, 26,3% and 35,2% respectively.

When the JSE indices boom, the unit trusts are just behind, but on average the funds provide better growth than do the indices.

The well-tabulated survey shows how general equity funds have outperformed the specialists in all instances over the 12 years for which comprehensive data are furnished.

Liquidity of the funds has varied since the quarter to December 1987, during which many unitholders cashed in. Among general equity funds, Guardbank's liquidity

Wed Thu Fri

Norton anticipates more M & A's on JSE

BD 31/7/89 By Des Parker (180)

DURBAN — JSE president Tony Norton believes the rapid growth of the industrial sector is precipitating South Africa towards Minorco-Consgold-style takeover bids, which he says could involve major corporations.

"We could well see a situation where the majors could become very aggressive contestants for assets. And when the big one hits, we had better be prepared for it," he said at a seminar in Durban yesterday on the subject of mergers and acquisitions.

The seminar, on the eve of the introduction of a takeover panel on the stock exchange, was sponsored by the SA Institute of Chartered Accountants.

"Certainly, we can expect our mergers and acquisitions (M & A's) climate to become much tougher."

Contested M & A's in this country could be "counted on the fingers of one hand and most involved cosy, agreed transactions. London, on the other hand, experienced 30 to 40 contested takeovers a year.

"That seems to be the market phase for which we are headed. Obviously it won't happen overnight, but there will come a time when a predator appears and makes a bid," Mr Norton said.

"When that happens to a public company, it will have to do something about it."

Mr Norton said in an M & A, the JSE had jurisdiction over only the listed company in terms of its listing contract and stockbrokers in terms of their membership of the exchange. In reality, the JSE was "a toothless dog" and visibly so, which led to it being held "in contempt".

The high concentration of corporate power in the Republic meant few companies were "lying loose" as takeover targets, but the growth of the industrial sector would present desirable acquisitions in the future.

The JSE had embraced the concept of a takeover panel, said Mr Norton. "Our whole business is wrapped up in trying to send investors information that is correct and, equally, we always try to ensure that people in such transactions behave in a responsible way."

Aggrandisement by the acquirer often underlay an M & A resulting in too much being paid. Frequently there was of public shareholders' money, which was unacceptable, said Mr Norton.

He shied away from anticipating the rules of the takeover panel, but said they would require greater disclosure to remove grounds for suspicion.

Reichmans standby offer takes effect from today

Star 31/7/87

180

Today sees the opening of the standby offer under which shareholders in Reichmans, the international trade finance house, can sell their shares to FSI Corporate Services at 175c each, plus the Reichmans' interim dividend to be declared for the six months to August.

Reichmans says the offer follows the announcement that FSI Corporation (through its wholly owned subsidiary FSI Corporate Services) has entered into a partnership with the management of Reichmans that includes FSI taking a 32 percent investment in Reichmans.

A further 20 percent of Reichmans' shares will be held by a joint management-FSI company.

The transaction represents the sale of all Reichmans shares controlled by Milton Levine, non-executive chairman of Reichmans, who is now resident in London.

It results in no changes whatsoever to the executive team at Reichmans.

Mr Levine remains on the board as a non-executive director and retains his responsibilities as an executive director of Reichmans companies outside SA.

Commenting on the transaction, which places 32 percent of the company in the hands of one firm investor, Reichmans chief executive Clive Cohen says he is delighted.

"Management has been seeking an alliance with a strong local investor for some months, and this association with FSI suits us perfectly." — Sapa.

Who audits auditors?

SHeV 31/7/89

Auditors are capitalism's handmaidens. Unless they provide, and are seen to provide, accurate, honest and impartial information on companies, the whole structure of competitive market economies will be threatened.

There is therefore a strong public interest in ensuring that accountancy firms themselves are in good health. Unfortunately, they are intent on merging into ever larger, fewer Leviathans.

Before the process goes any further, trustbusters should satisfy themselves that the public interest will be preserved. And companies and their shareholders should insist they will not let a cartelising profession charge them cartelised fees. (180)

The "Big Eight" firms will become the Big Five if proposed mergers such as that between Arthur Andersen and Price Waterhouse go ahead. They will audit 95 percent of the firms listed on US markets, 70 percent of quoted companies in Britain and over 50 percent of those listed on European bourses.

In Australia, Canada and South Africa, the equivalent figure is 70 percent. All of which adds up to fee income of $20 billion a year.

Do not blame accountants entirely for their lucrative grip on auditing. Their hands were placed there by governments and stock exchanges that demand (rightly) that companies be audited by professionals.

Nor damn them for wanting to grow. But is there any advantage, beyond kudos, in being even bigger? Will the merged firms be more efficient? Will there be more choice for clients? To each of those questions, the answer is no.

Any economies of scale were there ten years ago, when much the same eight firms dominated the field. Then, any one of them could audit the books of any multinational. A widget-market in Kent or Kentucky might ditch its local auditor when it expanded abroad; but will Megacorp Inc really dump one of the big eight just because another has more offices in Pango-Pango? Mergers may even lose clients: when KMPG was formed from Peat Marwick and KMG in 1987, the new firm lost 10 percent of the business of its constituent parts.

Synergy may be just as elusive. On the face of it, Arthur Young's strong European practice should enhance Ernst & Whinney's weaker one; brash Arthur Andersen is strong in consulting, straitlaced Price Waterhouse in auditing. But such seemingly natural fits have a history of going wrong.

What of the clients? Until five years ago, there was a rule in Britain which stopped an auditor that was taking over a new account from charging less than the previous firm. The spirit of that price-fixing still lingers.

So, too, does the peculiar notion that auditorsneed not publish figures of their own. If their clients could see how much the auditors were making, they would surely insist on lower fees.

It is not as though auditors are doing everything right. In both Britain and America, more and more negligence cases against auditors are getting into the courts. British accountants have been criticised in trade-department reports and in inquiries at the Lloyd's insurance market.

But when was a big firm of accountants last censured, let alone fined, by one of the profession's self-governing bodies? Like doctors and lawyers, most accountants have been free to carry on with no more than a nod and a wink from regulators.

Now, as accountants get involved in businesses far away from auditing, they should be trusted less and regulated more.

As a minimum, partnerships should be required to give details of where their profit is earned. Better, they should scrap their partnerships and incorporate instead.

The partnership system was designed for that Puritan breed, nineteenth-century Scottish auditors. Incorporation would require accountancy firms to publish the same financial information about themselves as other businesses do.

Next, eliminate conflicts of interest. An account-consultant may be asked to pick holes in accounts which another member of his firm has prepared. Can he do so impartially?

And should accountancy firms be advising on takeovers? These problems will increase as the merger-made Leviathans persuade customers to use more than one of their services.

The key is to separate the professional service that accountants provide — auditing — from their other financial businesses. — *The Economist.*

Import and manufacturing trends show spending slowing down

180

Economy on way to soft landing

B Day 1/6/89

GRETA STEYN

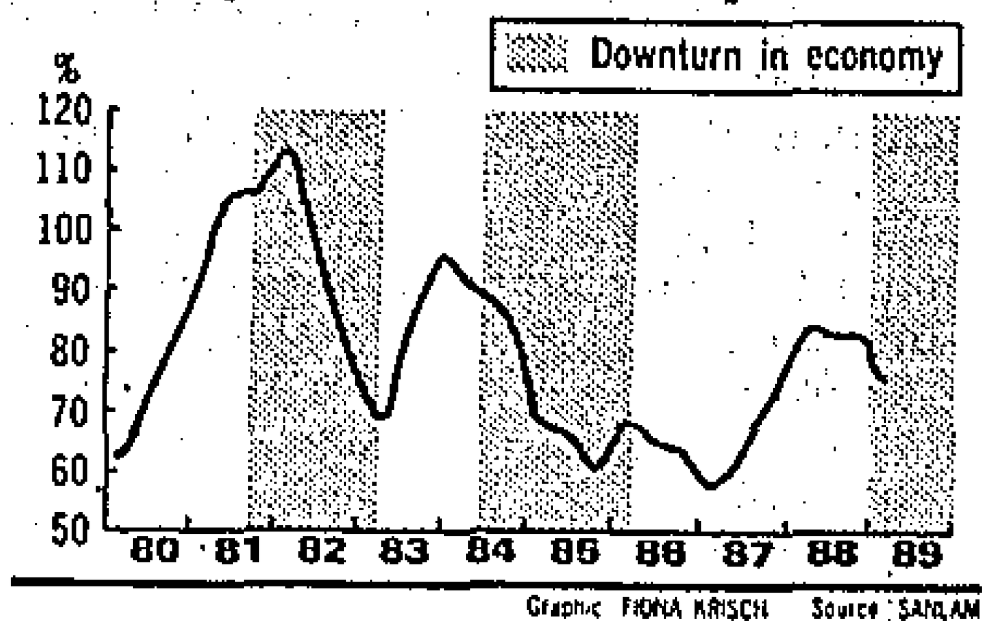
THE economy has started its descent towards a soft landing as more signs emerge that the downswing is in place.

The latest trend on imports, manufacturing, retail trade and motor vehicle sales shows the rate of increase in spending is slowing down. This is confirmed by latest Reserve Bank statistics on the business cycle.

The Bank's coincident indicator, an index which shows the current level of economic activity, is no longer rising at a dizzy rate. The index rose by only 1,7% between October 1988 and January this year, compared with a much faster increase of 6% between July and October last year. The indicator stuck at 132,2 in December and January, the latest figures available.

The indicator is derived by combining the trend on statistics which show

Imports as % of exports



the current point in the business cycle. These statistics, such as retail sales, manufacturing production and GDP, are grouped together to form a new index, but separately they exhibit the same cyclical trends.

Even if this indicator does not yet show a decrease — figures for more recent months are not yet available — it does indicate some slowdown in the rate of spending growth.

An indicator showing the descent has probably already started is the ratio of imports to exports. In times of economic slackness, imports increase considerably more slowly than exports, and vice versa. Sanlam, drawing attention to the graph above, says in its latest Economic Survey: "By these standards the economy is already in the early stages of a downturn; the ratio of imports to exports should therefore decline further during the course of the year."

An area in which a slackening is apparent is manufacturing production. Latest GDP figures show the manufacturing sector registered a decline of 0,7% in the first quarter from the fourth quarter of last year, at seasonally adjusted annual rates. At constant prices, the contribution to GDP by the manufacturing sector was R7bn — down from R7,8bn in the third quarter last year and R7,3bn in the last quarter.

Retail sales shows spending has fallen back from the frantic levels seen a few months ago. Although retail sales are still at a high level, latest figures are a strong indication the top has been reached and a descent lies ahead.

CSS figures show real retail sales for May are expected to be 2,2% down from April. On a seasonally-adjusted basis, preliminary figures show a real decrease of 2,4% in the three months to May, compared with the previous three-month period.

The United says in its latest Economic Perspective that a rise in real spending in the second-half of the year is expected only from the government sector and foreign demand for SA exports.

180 Fmail 2/6/89

MANUFACTURING ACTIVITY

Waiting for clarity

180 Fmail 2/6/89

Uncertainty about government's intentions is fuelling fears of a slowdown in manufacturing investment growth.

Despite the latest backdown on the imposition of certain import surcharges, manufacturers say they have no clear picture of what government intends.

Lack of co-ordination, stop-go policies and a growing perception that it is the Department of Finance, rather than Trade & Industry, that is calling the tune for SA industry, are behind the uncertainty.

What particularly concerns some industrialists is that the confidence-sapping decisions come at a time when government is actively encouraging import replacement and a full-scale export drive.

Many companies are seeing the benefits by being able to use previously surplus production capacity. But that benefit may be limited and new plant will ultimately be required — either because increased activity is stretching capacity, or because equipment is out of date and must be replaced if the company is to compete with hi-tech foreign competitors.

Says a senior executive whose industry is the subject of a Board of Trade & Industries investigation: "Government wants us to reduce forex spending, move towards import replacement and develop exports. We have no problem with that.

"But to do it requires importing sophisticated production machinery that is not available in SA. It's bad enough buying with the rand as it is, but when government starts imposing import surcharges, it penalises the very people it purports to be supporting.

"Even when some of those surcharges are lifted, you're no longer sure when they will come back. There seems to be an ad hoc basis about decisions these days."

The Industrial Development Corporation predicts growth in real fixed manufacturing investment should be sustained because of import replacement demand and a relatively stable level of business confidence.

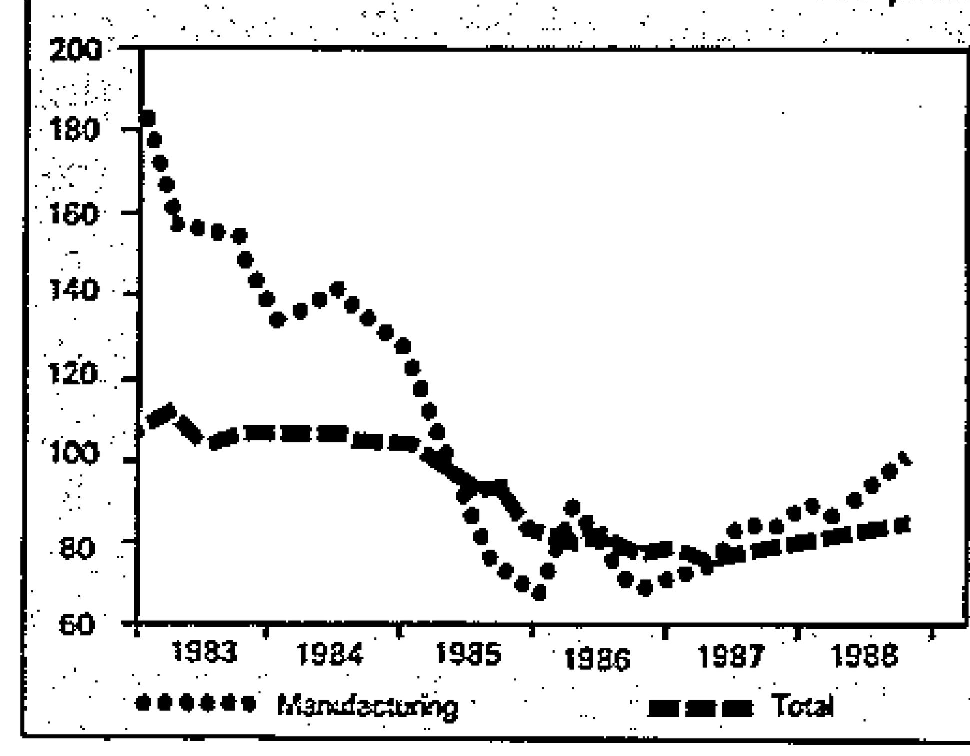
The Federated Chamber of Industries' latest industrial confidence survey, however, indicates that confidence may be diminishing.

Part of the reason is the recent series of economic measures, including tighter HP credit restrictions.

Some industrialists warn that this, allied to local inflation and rising interest rates, threatens to reduce local demand which in turn lowers factory capacity utilisation.

Producing the goods

Gross domestic fixed investment at constant 1985 prices



"Government says it hopes these will be only short-term measures. Unfortunately, SA is full of short-term economic measures that have become permanent features," says one. "Even if they are short term and are repealed, what assurance do we have they won't be slapped back on again at a moment's notice. We can't plan that way. We need a clear picture of government's intentions." ■

T & N loses on disposal

Bottom Line

MICHAEL MENOF

UK-listed T & N PLC's restructuring of its SA interests has cost minority shareholders dearly.

Clearly, T & N PLC has elected to minimise its risk in SA by plundering both its listed subsidiaries, while still staying around.

Last week I dealt with UK's T & N selling off its 76 percent stake in Asseng to T & N (SA). This week I concentrate on how T & N (SA) found the funds to pay T & N (UK) for Asseng.

A questionable management decision has caused shareholders to suffer. T & N (SA's) 25 percent stake in Everite was sold effective January 1 1989 at *a R15 million loss.*

The R50 million in funds received was used to pay T & N (UK) for Asseng.

If it had waited until May 1989, when Everite's market price was R3,60 a share, a total of R80 million could have been realised on its sale and a profit of R15 million made.

UK's T & N, holding 51 percent of T & N (SA), made a big mistake (or perhaps panicked) with a premature decision, which cost T & N (SA) R30 million in urgently needed cash flow.

Debt has increased by 50 percent and management must now be embarrassed because the R30 million it didn't make could have reduced debt by 50 percent.

With interest rates in the 20s, 1989's income statement will suffer by around R5 million in interest expenses that could have been saved.

The loss on selling Everite resulted in a bottom-line retained profit of only R4,77 million.

But strangely, R10,17 million in dividends paid meant a retained loss of R5,4 million for the year.

Of the R10,17 million in dividends, T & N took 51 percent.

Shareholders are being asked to approve a R10 000 fee for chairman Sir Francis L Tombs — he deserves nothing for the way he has treated minority shareholders in SA.

The big question is what will T & N (UK) do next to T & N (SA) and its newly acquired subsidiary Asseng?

Sales increased to R234,7 million (1987: R145,6 million), with operating profit R26,9 million (1987: R21,7 million).

Export sales were R8 million (1987: R3,38 million). Interest expenses virtually doubled to R6,07 million (1987: R3,11 mil lion), with technical fees to overseas parties sharply up at R4,17 million (1987: R2,53 million).

Various allowances helped reduce tax to R6,24 million (1987: R7,7 million), leaving taxed profit of R14,17 million (1987: R12,46 million).

After equity-accounting Everite Investments' R6,35 million profit (1987: R3,36 million), attributable earnings were R20,25 million (1987: R15 million).

But it didn't end there because the loss on sale of Everite — R15,48 million (1987: extraordinary gain on sale of building products division R26 million) gave a bottom line of only R4,77 million (1987: R41,75 million) — a staggering decline of almost 90 percent.

Nevertheless, dividends were raised to 44c (1987: 34,5c).

All three divisions made strides in 1988. Automotive was the star with sales of R151 million (1987: R84,5 million) and operating profit of R19,4 million (1987: R14,5 million).

Both Chemicals & Plastics and Industrials & Mining increased operating profits minimally.

Being predominantly in auto motive components, like its listed subsidiary Asseng, surely it should be shown in the Motors section of the JSE rather than in Industrial Holdings.

Without disclosing any numbers, it appears that Silverton Engineering, acquired from Asseng two years ago, is thriving.

Sir Francis Tomb's report was a load of hot air. To make the figures look more attractive, no provision for deferred tax was made and land and buildings owned by Silverton Engineering Properties were revalued upwards by R4,6 million.

However, this did not improve the balance sheet — shareholders' funds have declined to R99,97 million (1987: R101,28 million), debt has risen to R46,4 million (1987: R30,3 million) and working capital has declined to R11,86 million (1987: R18,6 million).

The group intends spending R7 million on a new office block and factory/warehouse.

If only management had been a little patient, that extra R30 million from Everite could have made all the difference to the numbers.

No forecast is given for 1989, apart from the usual guff about improving employee relations.

I was intrigued by the statement of mission and values for "Our Shareholders". T & N (SA) *believes they "should be as*sured of long-term success and growth and that they should receive a competitive and fair return on their investment".

Obviously this was drummed up by a PR company since the way T & N (UK) (holding 51 percent of the company) has acted, it is interested only in itself and not the minorities shareholders in SA — a sorry state of affairs, to say the least.

Fixed investment outlay tapers off

Star 5/6/89

By Sven Lünsche

Fixed investment spending is one of the lifeline's of an economy as it ensures the steady creation of employment opportunities.

However, after picking up steam for the first time in almost four years last year, expenditure on fixed investment is already showing signs of tapering off.

Uncertainty about the economic outlook and the resultant decline in business confidence are causing a marked slowdown in capital spending on fixed investment by the private sector, in particular.

Investment expenditure, as measured by gross domestic fixed investment (GDFI), usually lags the economic cycle. Economists say such investment represents deferred consumption.

But economists are now predicting that GDFI will decline along with the expected slowdown in the overall economic performance.

After many years of declining growth — the average annual growth rate in GDFI over the period to 1983 to 1987 was a negative 6,6 percent — fixed investment showed positive growth of 6,4 percent last year.

Most of this growth was generated by the private sector, which increased its captial spending on investment by 16 percent in real terms in 1988.

Investment by private businesses thus increased from 50 percent of total investment in 1975 to 66 percent last year.

But this increase has brought with it a certain negative trait, says Senbank economist Keith Lockwood.

"Since such investors are more likely to base investment decisions on prevailing economic conditions, the movement of total investment is likely to correspond more closely with that of GDP," Mr Lockwood says in the *Senbank Economic Review*.

"In additon, the Government has become increasingly reliant on the revenue windfalls that tend to occur when the economy is more buoyant to finance what little capital expenditure it does undertake.

"If these factors remain in evidence in the coming years, the level of investment will increase at the slower rate of four percent in 1989 and could decline in real terms in 1990," he says.

His forecasts are in line with those of the Bureau for Economic Research at Stellenbosch University (BER), which predicts a 3,1 percent rise in GDFI this year and a fall of 0,9 percent in 1990 (see chart).

Much of this can be attributed to uncertainty about the economic outlook. Both Assocom and the Federated Chamber of Industries recently reported business confidence was declining and that one of the first effects would be a scaling down of investment spending.

Some evidence of this is already emerging, according to latest available Reserve Bank figures.

Quarter-to-quarter growth in real gross domestic fixed capital spending in the private sector tapered off rapidly from 25 percent in the first quarter of 1988 to 22,5, 6,5 and 3,5 percent in the second, third and fourth quarters respectively.

BER predicts that this year private sector GDFI will increase by a modest 3,7 percent and decline by 1,8 percent in 1990.

While investment spending by public corporations and the public sector is likely to recover from last year's lows, it will not be enough to prevent an overall decline in GDFI.

Both the BER and Mr Lockwood urge the Government to adopt policies which encourage the private sector to take up the investment challenge in order to promote demand and employment.

"Clearly, some investment priorities need to be set by the Government," he argues.

"The new local content programmes and encouragement of exporters, together with privatisation and deregulation porgrammes appear to indicate that the authorities are at least headed in the right direction.

"Investment can be encouraged by raising the level of expected profits or by reducing the costs of the investment," Mr Lockwood says.

"In the former case, some options are available to the Government, which could include policies aimed at stabilising the political situation, tax relief for investors, privatisation and deregulation.

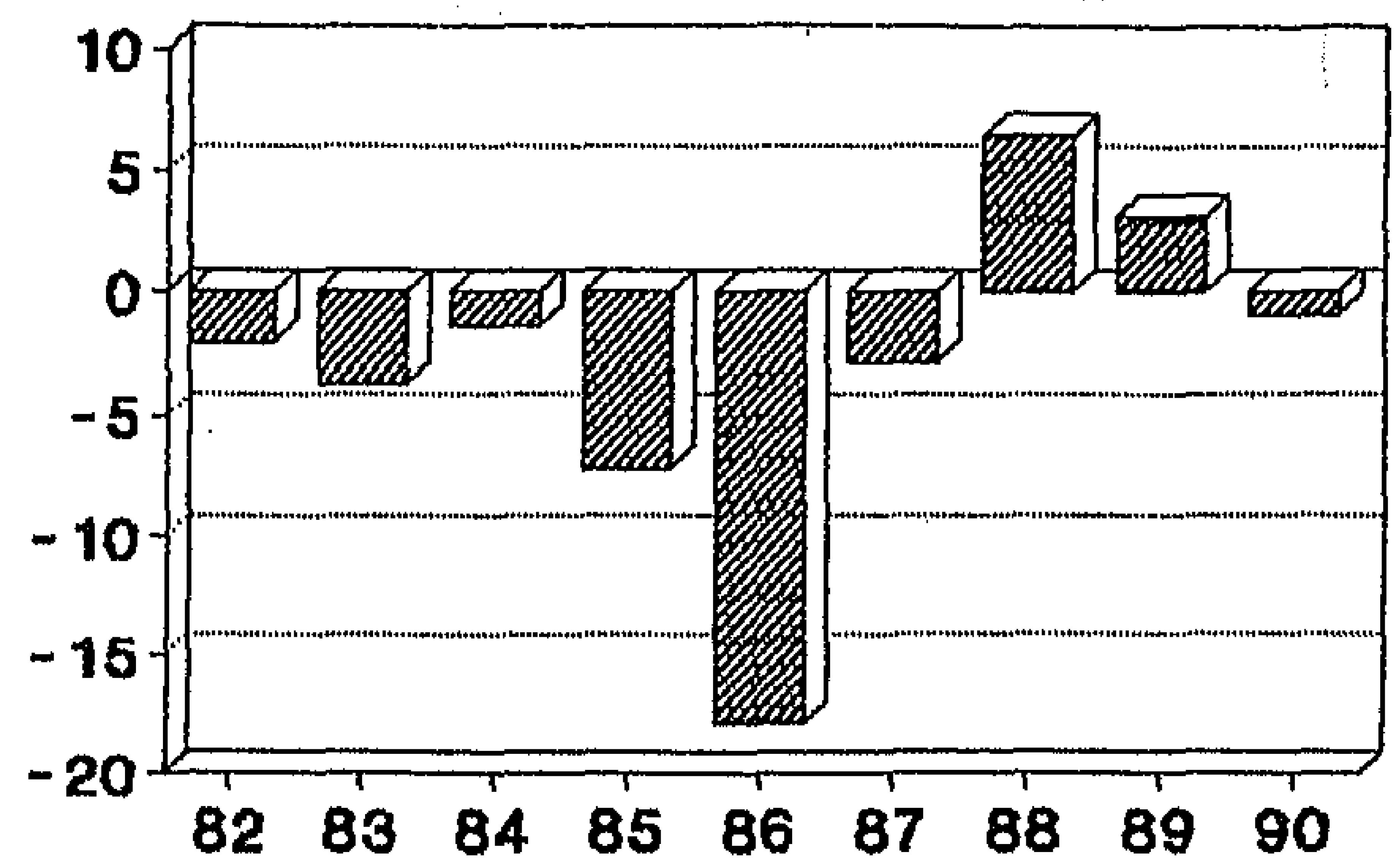
"In the latter, the reduction of customs and excise taxes and monetary policy offer some scope for reducing the cost of capital goods to investors."

Mr Lockwood adds, however, that without large-scale inflow of foreign funds, the simultaneous expansion of investment in all sectors to the levels which might be necessary to return the economy to a state of prosperity, appears to be beyond reach.

GROSS DOMESTIC FIXED INVESTMENT BY TYPE OF ASSET

(1985-prices in millions of rand and % change)

	1986	1987	1988	1989
Total, Rm	23 925	23 247	24 729	25 498
% change	-17,9	-2,8	6,4	3,1
Residential buildings, Rm	3 415	3 365	3 726	3 756
% change	-12,7	-1,5	10,7	0,8
Non-residential buildings, Rm	3 834	3 279	3 568	3 671
% change	-11,7	-14,5	8,8	2,9
Construction works, Rm	4 570	4 238	4 053	4 045
% change	-12,0	-7,3	-4,4	-0,2
Transport equipment, Rm	2 162	2 266	2 603	2 629
% change	-26,0	4,8	14,9	1,0
Machinery, Rm	9 365	9 388	9 953	10 490
% change	-22,9	0,2	6,0	5,4



Annual percentage change in gross domestic fixed investment (1989, 1990 — BER forecasts)

Groprop bent on acquisitions

180

STar 6/6/89

With the marked increase in demand for space in industrial, commercial and office property sectors, Grove Property Fund (Groprop) is poised to invest nearly R7 million more in acquisitions.

In his chairman's report, Mr DJ Kotze says the bulk of these funds will be invested in property during the company's current financial year.

"Due to the unsatisfactory conditions prevailing on the stock exchange during 1988-89, the group has decided not to continue with the proposed rights issue," he says.

Groprop expects current demand to result in rises in rental levels at review dates and termination dates of leases.

This should have a beneficial effect on future earnings.

"The need to increase South Africa's manufacturing capacity has improved the demand for industrial space," says Mr Kotze, "particularly for smaller and medium-size factories."

This is area in which Groprop has concentrated.

While he sees substantial rises in retail rents, the chairman is concerned aabout a possible oversupply of shopping space in certain areas.

Office rentals have increased to the extent where it is now possible to develop office complexes in high-demand areas and get a reasonable return on investment.

Groprop's earnings per share rose from 24,72c to 28,17c.

Analysts divided over prospects

(180)

Star 6/6/89

Diagonal Street

ANN CROTTY

Analysts are in two minds about prospects for the industrial index for the rest of the year.

Bearish factors affecting the mood of investors include a lower gold price, high interest rates, slower growth and a rise in unemployment.

Some analysts expect a major correction on world markets, starting in Tokyo, which would impact negatively on the local market.

Bullish factors include a shortage of quality scrip, massive institutional cash waiting to be invested, high inflation which makes alternative investments unattractive and the possibility that the gold price might have bottomed out.

The industrial sector may not look too enticing, but any investor who moved into it at the beginning of 1989 is enjoying an advance of 23 percent.

If the market does nothing better than move sideways for the remainder of the year, investors will enjoy good real returns in terms of capital appreciation. In addition there is dividend income to consider.

A significant feature of the industrial market in 1989 has been the strong relationship of its performance, the performance of gold and changes in the BA rate.

The industrial index began the year on a strong note. In February it seemed a little hesitant and in March it surged past the previous record of 2 265 set in October 1987.

From there it moved steadily upwards to a peak of 2 581 at the end of April — the week before the Government announced a new set of consumer restrictions, which sent institutional investors scurrying to the sidelines.

Throughout May (in the absence of serious institutional interest) the index was on a downward trend, but has yet to drop below the post-Crash record level of 2265.

The closest it came was late last month when it dropped sharply to 2287 from 2353. Since then the index has recovered 200 points.

Gold began the year at $413 and remained above $400 until the last day of January. For most of February, March and April it traded between $380-390.

In the first half of May it moved down to $370, before dropping to $360.

The 90-day BA rate was at 15,60 percent at the start of the year.

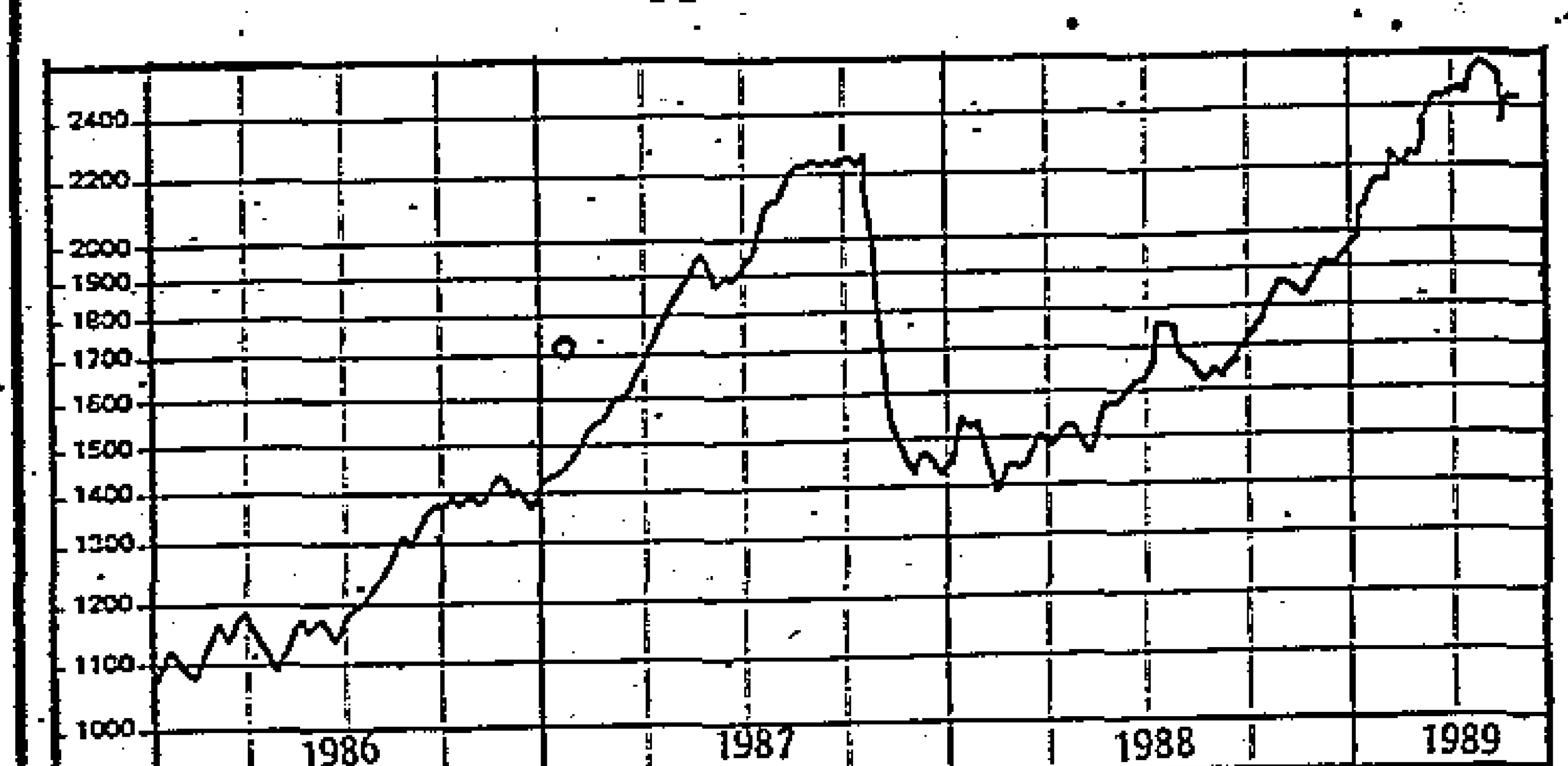
In February it dropped to a low of 15,20 percent, but moved above 16 percent before the end of the month. At the end of March it broke through 17 percent, but traded just below 17 percent for most of April. In May it moved up above 17 percent to reach a high of 17,60 this week.

Among the sectors that seem most likely to suffer from the squeeze on consumers, industrial holdings, retailers and furniture and household have so far survived with little adverse impact on their earnings and dividend yields.

This would seem to suggest that investors have not been demanding higher returns to compensate for what many must see as higher risk.

But, more accurately, it probably reflects the fact that the index in each instance is dominated by the blue chip, which also hides the less spectacular results of smaller companies.

The strong performances by blue chips reflects a number of factors including strong management, strong balance sheets (after a number of tough years) and their attraction for institutional investors, not only because of earnings performances and prospects, but also because of their tradeability.



Industrial index movements

FSI and Spectrum call off deal

FSI and Spectrum Industrial have announced that the proposed takeover of Spectrum has been cancelled by mutual agreement. Star 7/6/89.

According to Jeff Liebesman, CE of FSI and chairman of Hunts: "This development will in no way affect the streamlining of Hunts which is currently under way.

(180) "We have conducted a strategic review of Hunts subsidiaries FS-Team, Natbolt and Tarrys and are in the process of regrouping these into logical operating units."

Shareholders have in the meantime again been requested to exercise caution in their dealings in shares of FS-Team, Natbolt and Tarrys. — Sapa

CG Smith undervalued

Star 31/6/89

Sharespot
LYNNE PEACH

180

CG Smith, a member of the Barlow Rand Group, is looking on the cheap side compared with the ratings of its subsidiaries. According to their respective contributions to group earnings and present price-earnings ratios, CG Smith should be trading at a price of around R64,65.

This is 13 percent higher than its current price of R57. At the former price the PE ratio would be 9,3, as opposed to 8,2 at present.

CB Smith especially provides a cheaper entry into CG Smith Foods which is 82 percent owned by the group and is trading on a PE ratio of 10,7.

This subsidiary allows the group to benefit from the relatively recession-proof food and pharmaceutical industries. (CG Smith Foods owns 100 percent of CG Smith Sugar, 69 percent of ICS and 53 percent of Tiger Oats).

This division accounts for some 55 percent of group attributable profit and over the years has established a consistent pattern of steady growth off an increasingly high base.

The second most important division is paper and packaging, specifically the 64 percent stake in Nampak, which contributes about 37 percent to group attributable profit. Despite a highly competitive scenario, it is expected to continue to achieve steady growth.

It's performance should be enhanced by the buy-out of Metal Box minorities last August. Executive director Bill Shorten says that the acquisition has allowed better utilisation of manpower, and has provided rationalisation and cash flow benefits.

The carpets and textiles division accounts for a lower eight percent of group attributable earnings and comprises a 60 percent stake in Romatex. The contribution from this division has been falling and local sales are expected to continue to come under pressure due to credit curtailment by the authorities.

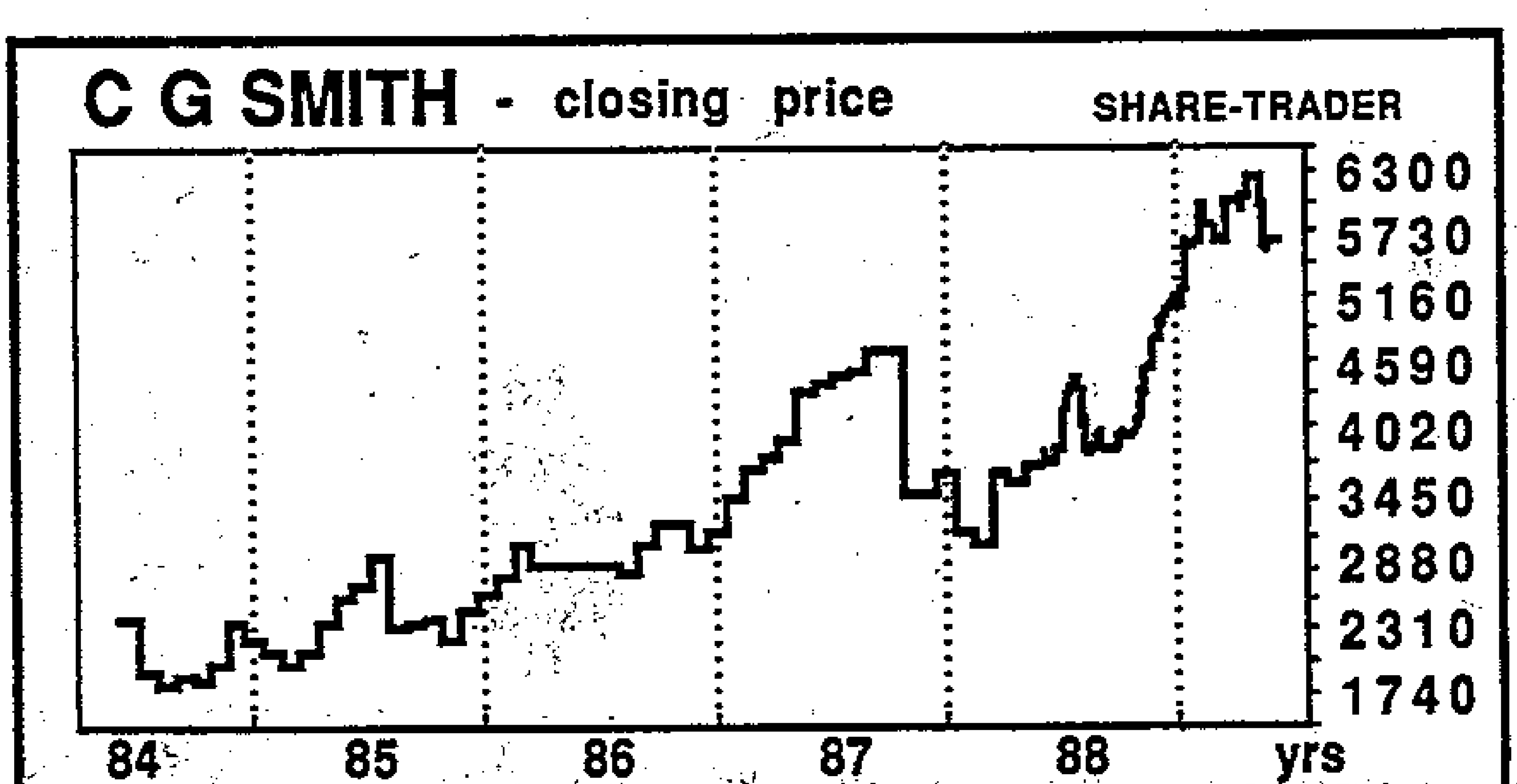
Mr Shorten does, however, believe that Romatex has high growth potential in the export arena. He also says that CG Smith Foods has a big export market while Nampak has just got into the export market.

In view of this, Mr Shorten envisages that group export business should continue to expand strongly. In financial 1988 foreign currency earnings contributed 15 percent to attributable profits, compared with only eight percent in the previous year.

In the six months to March 1989, group turnover grew 25 percent to R6 billion while improved efficiencies prompted pre-interest profit to rise 35 percent. After interest payments more than doubled to R81 million, earnings grew 28 percent to 368,9c and the dividend was increased by 25 percent to 102c.

The debt-equity ratio rose to 47 percent, compared with 44 percent six months earlier. Mr Shorten attributes the increase in borrowings to capital expenditure, and to the funding of the Metal Box purchase and other acquisitions. He says the group is satisfied with a ratio of between 50 percent and 55 percent.

Although earnings growth in the year to September 1989 is not expected to match the 40 percent rate of last year, it is generally anticipated that earnings will grow by at least 25 percent. These next few months will be telling as the groups big selling months are June-September, according to Mr Shorten.



CG Smith is the type of share one buys and holds on to indefinitely. The primary price trend remains favourable, despite the recent correction from R63. There does not appear to be any reason why the share should not be accumulated, especially as it is relatively cheap when compared with its subsidiaries.

Anglo gives black businesses a boost

Star 7/6/84

(180)

By Jabulani Sikhakhane

Anglo American has ordered goods worth R1,2 million from black businesses over the last five months, with others worth R600 000 still being decided on.

The intention is to place R400 000 worth of new business each month, on a competitive basis, with black businesses.

Gareth Penny, co-ordinator of Anglo's small business unit, told the "Spotlight on the Black Market" conference in Johannesburg yesterday that Anglo had recently established the unit to make use of smaller companies to a greater degree.

"The philosophy behind the corporation's encouragement of small business is not one of philanthropy.

"It is based on sensible and rational business decisions aimed at improving profitability, at least in the longer term," he said.

Anglo's initial experience was that there were distinct benefits to be had by buying goods from and subcontracting services to small businesses.

"We estimate that cost savings of five to 10 percent on average are currently being achieved."

Problems occurred with existing major suppliers, he said, and one could not expect a flawless relationship with new small businesses, which may be crossing the threshold into formal business.

"Small businesses, too, must rise to meet the challenges given to them. If they prove capable of doing so, within a short period of time we will attain in South Africa the kind of synergy which has been the basis for the economic success in the newly industrialised countries of the Far East," he said.

In dealing with smaller firms a number of problems had to be dealt with, he said.

Many entrepreneurs required assistance with costing and pricing.

Frequently they quoted prices too low to be viable.

The second problem was the purchase of raw materials.

Small businesses were at a disadvantage when it came to bulk-buying. To alleviate the problem, Anglo had established a fund to buy materials for businesses with which it had contracts.

Other problems included the storage of bulk items, transport of goods, lack of cash-flow to survive 60- or 90-day payment dates.

Another problem relating to payment was the need to teach entrepreneurs accounting procedures.

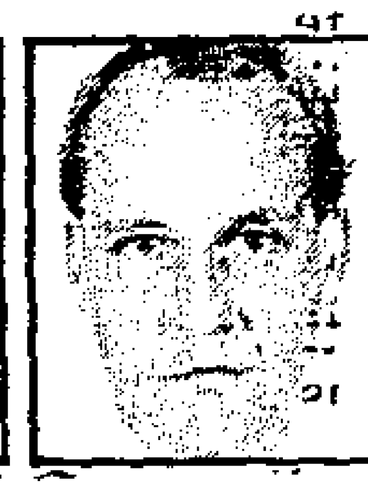
Anglo had standardised waybills, invoices and statements and provided contractors with specific instructions on what paperwork had to be completed before delivery and payments could take place, he said.

Industrials shrug off the downturn

Star 21/6/89 (180)

Diagonal Street

MAGNUS HEYSTEK



Industrial shares look surprisingly solid despite prospects of a downturn in economic activity.

However, most analysts expect some period of consolidation before the JSE adjusts to a weaker economic outlook.

During the last six weeks or so the all market index has traded predominantly between 2500 and 2600, with similar narrow trading ranges experienced in the industrial index (2450-2550) and the all gold index (1450-1600).

But, says Mike Brown, an analyst at stockbroker Davis, Borkum Hare, such a period of consolidation often presages a an upswing in share prices.

However, deteriorating fundamentals in the form of a lower gold price, tighter economic policies, with a concomitant slowdown in economic activity, suggest that this current "regrouping period" might continue for some time and that the various share indices could be vulnerable to some downward movement as the JSE adjusts to the changing economic environment.

It might, however, be that the solid performance of leading industrial shares such as Barlows is signalling that the economic downturn is not going to be as severe as the 1985/86 scenario.

On May 20, the JSE seemingly went into a tailspin and Barlows' share price dropped to as low as R34,50.

But on Monday the price soared to a record high of R40,10c before dropping back slightly yesterday to R39,90c.

The same goes for bluest of blue chips, De Beers.

After dropping back to just below R60 a share, it has since recovered and yesterday rose to R63,90c, just below its record highs.

If this is a market waiting to crack, the news has certainly not got through to investors.

Despite the severe one-day shock on May 20, the market is still not showing any signs of nervousness, with all blue-chip scrip being quickly gobbled up by equity-hungry institutions.

The answer to this surprising buoyancy is that the market is discounting the expected downturn and is looking ahead to the Nineties.

Developments on the political front, coupled with the Government's privatisation and deregulation moves, could perhaps presage a decade of higher growth in the next decade.

The proposed visit to the US and Britain by the new leader of the National Party, Mr FW de Klerk, is raising hopes that South Africa could be be moving out of its period of isolation, with a return, albeit slight, of foreign capital and investments.

Many businessmen and even some normally cynical economists now suggest that the Nineties could be a period of higher growth than the Eighties as a result of renewed foreign investment, an end to the State of Emergency and meaningful political development.

New look for Unidev group

Star 7/6/89 . (180)

CAPE TOWN — The executive management of Unidev has bought the listed cash shell, Garlicks Consolidated Holdings Limited (Garcon) and plans to convert it into a pyramid holding company for a new-look Unidev group.

The R26 million Garcon cash shell, formerly the holding company of Garlicks Limited, was bought by a company controlled by the executive management of Unidev for a cash consideration of 455c a share.

Unidev, a Cape-based investment holding company with extensive interests in the industrial, electronic, financial and property sectors, intends to make a R20 million rights issue to facilitate the changed group structure.

The Unidev rights offer of 80 new shares for every 100 Unidev shares held, will open at the middle of July. The price and the last day to register is still to be announced.

The Unidev rights offer will be underwritten by Garcon. The executive management and certain institutional shareholders of Unidev have undertaken not to follow their rights. These rights will be taken up by Garcon which will then hold about 30 percent of Unidev.

Garcon will acquire the remaining 20 percent of Unidev required for a pyramid company by means of a share swop.

All Unidev shareholders will be given the right to exchange 20 percent of their Unidev shareholding on the basis of 1 Garcon share for every 3 Unidev shares.

Shareholders will also be given the right to tender additional Unidev shares on the same basis to ensure that Garcon acquires at least 50 percent of Unidev's new issued share capital.

Garcon will be relisted on the Johannesburg Stock Exchange and renamed Unidev Consolidated Holding Limited (Unicon).

Mr Ronnie Stein, managing director of Unidev says the new group structure comes after an extensive re-organisation, designed to strengthen the group's management and infrastructure.

Assocom, police meet over robberies

Star 8/6/89

Crime Reporter

Assocom is scheduled to meet police today about the continuing spate of hold-ups on the Reef.

An Assocom spokesman earlier confirmed the meeting would take place today.

Items on the agenda include the expansion of the Business Watch scheme and talks about deploying Johannesburg's SAP Robbery Reaction Unit to suburban areas to prevent heists at supermarket counters.

Assocom has said it is "extremely concerned" about the hold-ups.

Premier may raise R280-million (180)

Star 8/6/89

Finance Staff

The Premier Group is considering making a rights offer of new shares to raise approximately R280 million to facilitate the development of its core business.

At the same time the company announced today the future restructuring of certain of its underlying interests.

A decision regarding the proposals is expected before the end of June.

Premier's core business consists of four major divisions; food and fishing; entertainment, information and leisure; pharmaceuticals and wholesale/retail.

The food division is the largest of the four, contributing 61 percent to both sales and earnings.in the 1988/89 financial year, on the basisthat SA Breweries' results were excluded from Premier's figures.

There has been renewed market speculation that Premier Food would be listed seperately on the JSE but now it seems that the food division will receive the bulk of the funds raised by the rights offer.

Premier intended to list its food subsidiary to raise R250 million last year, but the plans were abandoned when market conditions turned sour.

77% profit lift for Reichmans

S Times 11/6/89

180

By Ian Smith

INTERNATIONAL trade finance company Reichmans Ltd, which has achieved an outstanding 43% average compound annual growth in earnings in the past five years, is still climbing.

The company increased net attributable income in the year to February 28 by 77% to R12,8-million. Earnings rose from 22,8c a share to 35,7c and dividends from 9c to 15c.

Reichmans is looking for further growth from its traditional operations, helped by the opening of an office in Hong Kong, and its sortie into investment.

Steel

The group now holds a 20% stake in successful steel distributor Van Reenen & Nicholls. Last year it acquired a 10% stake in listed leatherware and camping products manufacturer and distributor IB Joffe, established 76%-owned Reichmans Factors and, in the current year, has taken a new 50,1% stake in short-term insurance broker Van Flymen & Associates.

Chief executive Clive Cohen says in the annual report that successful as investments have been, they must meet stringent criteria on returns, potential and quality of management.

"Investments should not and will not detract from the mainstream of our business, which remains the provision of trade finance and related services."

Chairman Milton Levine says the Hong Kong office and investments in Reichmans Factors and Van Flymen & Associates will "enhance the services we provide our clients and, consequently, our profits".

Yearend assets, including R31-million in cash, totalled R297-million, "achieved from a growing and diversified client base".

The conservative gearing and the company's foreign capital base of R28-million enabled it to renew and negotiate new lines of credit, both foreign and local.

Mr Cohen says there are indications of a growing awareness and use of specialised trade finance houses.

"We believe that with the dramatic increase in the number of financial service institutions there remains a role for a focused group like ours to provide an important range of trade-related services and finance on a personal basis."

Reichmans Factors expands the group's services, and should show good earnings fairly soon. The stake in Van Flymen & Associates, which specialises in marine insurance, will benefit Reichmans' client base.

On the investment side, he says VRN has expanded and increased the number of its outlets. Taxed profits grew by more than 100% in 1988 — confirming Reichmans' confidence in the company.

The investment in IB Joffe has "excellent growth prospects", says Mr Cohen. The company increased earnings by 27% last year, the benefits of the acquisition of Telek Manufacturing still to be felt.

Anglovaal on a spending spree

S/Times 11/6/89. 180

By David Carte

ANGLOVAAL emerges as one of the most acquisitive companies in South Africa after the purchase this week by subsidiary Consol of Goodyear for R178-million.

The mining house, controlled by the families of chairman Basil Herzov and Clive Menell, and its subsidiaries have spent nearly R600-million on seven acquisitions and five minority takeouts in the past year.

The free-spending house is expected to announce the go-ahead for a R2-billion gold mine at Bothaville in the Free State soon. It may also have to contribute to De Beers' R800-million Venetia mine, in which it is a partner.

Cash

Nearly all Anglovaal's acquisitions have been for cash. At last balance sheet Anglovaal had debt of R956,3-million — but it had cash balances of more than R1-billion. It could thus have paid off all debt and had R52-million in the bank.

Anglovaal's aggressive spending has triggered speculation about a rights issue, but a complication is that the Hersov and Menell families have 51% of top company Avhold. They would have to contribute to any rights issue to maintain outright control.

Jan Robbertze, head of Anglovaal Industries, stresses that subsidiaries follow their own strategic plans and arrange their funding.

There was no group master plan to build up cash of R1-billion and then to buy aggressively. Each acquisition

BASIL HERSOV

was made by the relevant subsidiary on its merits.

Mr Robbertze says: "One lays one's corporate plans over time. You can land nothing for years, then several things in only a few months."

He says Consol needed to diversify out of packaging to maintain a strong growth record. With R55-million of cash in its balance sheet, Consol could afford Goodyear, but there could be additional financial arrangements.

Ideal

Goodyear is ideal for Consol. "It is medium weight in terms of capital intensity, like Consol.

"Consol's talents in technology transfer and in industrial relations will be valuable to Goodyear.

"Like Consol, Goodyear is not cyclical and prospects for the industry are bright. Tyres are consumable durables. They are used virtually regardless of economic conditions."

Consol managing director Peet Neethling says Goodyear could be listed on the JSE.

Mr Neethling says: "Consol is not merely an investor. Although we don't know much about tyre making, we will become involved in aspects of management, such as market positioning, etc."

Mr Neethling says Goodyear will be able to take a dividend equal to total earnings in the six months to June out in commercial rands over and above the R178-million of cash from Consol, which will go out at the finrand rate.

Anglovaal Industries has been criticised for paying too much — R78,2-million — for Mooi River Textiles, but Mr Robbertze says the outlay was based on published historical profits.

Now that management and technology fees are no longer payable, Mooi River will justify itself. It has gone into Avtex, alongside SA Fine Worsteds, Gelvinor, Risa and Universal Knitting.

Moratorium

Anglovaal Industries used the moratorium on transfer tax to take minorities out of South Atlantic and its subsidiaries, tea and coffee major TW Beckett, Globe Engineering, Steelmetals and Avbak Food Holdings.

Beckett went into Avbak to form a giant food group, which dominates tea, coffee and biscuits — Bakers, Baumanns and Pyotts.

This exercise cost R43-million cash plus 2,8-million AVI

● To Page 2

P.T.O.

CARTE BLANCHE

By David Carte, BUSINESS TIMES Editor

S/Times 11/6/89

Naught for our comfort

At a lunch this week, I noticed that some eminent tablemates found it hard to contain their glee over "threatened civil war" in China and riots in Russia.

I suppose this reaction from South Africans, who themselves have experienced riots and the threat of revolution in the past decade, is understandable — however tragic events in China and Russia have been in human terms.

Some may have felt good merely knowing that we are not the only ones finding reform exceedingly difficult. They might have hoped that there was a lesson in these experiences for a world expecting too much change too quickly.

Some were gleeful because they thought turmoil in these countries was evidence that communism was dying.

Others took comfort from communist discomfort on the not-unreasonable ground that if the Reds were in turmoil, political and economic pressure on SA would be reduced.

Some worried that peace between the super-powers would lead ultimately to an imposed "democratic solution" of the SA question, much like the one being "foisted" on Namibia.

Events in China and in Russia would cause the West to take a much more cautious approach to apparent cordiality from behind the bamboo and iron curtains.

But the main reason for suppressed happiness was the possibility that trouble in the Far East would lift the gold price.

Gold bugs were banking on frightened investors in Hong Kong, Taiwan, Singapore, South Korea, not to mention mainland China itself, converting their money hoards into gold before rushing for their sampans ...

... peared to be dumping. Communism probably is in its death throes, but this could be violent and ever so nasty for all of us.

The best outcome in Russia and in China for the whole world, including ourselves, is a peaceful one and a gradual move to a more democratic and capitalistic society. In that scenario, a fifth of the world would move gradually from Second World to First World living standards.

That would imply much more of a bonanza for us than a short-lived gold boom. As reliable suppliers of all sorts of commodi-

M & A grabbing the limelight

B Day 12/6/89 (180)

MERGERS and acquisitions (M & A) are under the spotlight again as the listings boom prior to the October 1987 crash fades to a memory.

However, FirstCorp's Stuart Jones says M & A business has not necessarily increased dramatically since the crash.

"M & A business was always there — it was just overshadowed by the brouhaha of the listings boom."

But the crash did mean a shift towards M & A, partly because companies now seeking a listing often go to the JSE through a reverse takeover.

A current example of a reverse takeover is the acquisition by New Bernica, listed in the investment trust sector, of the entire issued share capital of Karos Hotel Holdings for R28m. FirstCorp is the merchant bank behind the deal.

Some companies listed during the euphoria of the listings boom have now become targets for acquisition. A recent example is Barplats' acquisition of the majority shareholding in Lefkochrysos. Again, FirstCorp did the deal.

It is now common cause that many DCM companies should never have been listed. SMB's Mark Barnes says many of these have now become prime targets for a takeover.

Some have turned into shells which are being used for backdoor listings.

FirstCorp's Graham Drinkwater notes another reason why there is a shift towards M & A business after the crash.

"Many private companies might prefer to go for a listing when there is a boom on the JSE, because they can get a better price than they would by selling to a major company.

"But when the market disappeared, the prices of vendor companies became more reasonable and the deals came through."

Investec manager John Snider expects difficult economic circumstances will further encourage rationalisation through mergers and takeovers.

He says the focus of the merchant bank's business has shifted from raising equity capital to M & A business.

Much of the activity is among private companies, but among the listed companies, Investec has been to one to advise Rabie on the takeover of the Zozo businesses.

Business Day SURVEY

There was after all life for corporate finance divisions after the crash, and things are set to become even livelier as the implications of high interest rates filter through. Analysts predict a spate of rights offers this year as borrowing has become an expensive form of finance. **GRETA STEYN** *reports on the field of Corporate Finance.*

Moratorium helps rationalisations

180

GOVERNMENT's moratorium on the payment of stamp duties on the transfer of shares, first announced in the 1987/88 Budget, gave groups the opportunity to rationalise.

The moratorium was extended in this year's Budget with obvious benefits for corporate financial advisers. The importance of the moratorium was recently underlined when Anglovaal Industries announced a major rationalisation in which five ot its subsidiaries would be de-listed. The rationalisation, which cost R43,2m, is expected to yield substantial savings in the long-term.

The major listed companies which rationalise get most of the publicity, but they are not the only ones benefiting from the moratorium. FirstCorp's Stuart Jones says many private companies are capitalising on the moratorium on stamp duties in a big way.

Although Jones welcomes the extension, he feels the moratorium could have been available to more listed companies wanting to rationalise if the rules had been less rigid. A holding company has to have a 75% stake in a subsidiary for the moratorium to apply.

UAL GM Nico van Heerden agrees the 75% rule could be inhibiting but believes it is aimed at ensuring that only genuine restructurings take place. He says the extension of the moratorium for a further year is likely to see rationalisation activity continue or even intensify.

SMB GM Mark Barnes says the moratorium has prompted everyone to take a look at how their companies are structured. "It focused minds on bigger issues and people were asking themselves: Where are we going?"

Investec manager John Snider notes the moratorium gave the listed Investec Holdings (Inhold) and its subsidiaries the opportunity to restructure.

In terms of the restructuring, Inhold became purely a holding company and its stake in Metboard and the Investment Management Co were transferred to Investec Bank, which was listed separately.

BDay 12/6/89 (180)

Reichmans set to maintain growth record

LIZ ROUSE

TRADE finance company Reichmans, which had an excellent year to February, is forecasting further growth in the current year.

The annual report shows Reichmans achieved an average compound growth in earnings of share of 43% for the past five years.

The company's attributable income rose by 77% to R12,86m in the year to February from 1988's R7,28m or 35,7c (22,8c) a share. The dividend was raised to 15c (9c).

Chairman Milton Levine says Reichmans enjoyed a successful year, opening an office in Hong Kong, making an investment in Reichmans Factors and Van Flymen & Associates, all of which will enhance the services to clients and the company's profits.

Gearing at 5 remains conservative and this, together with Reichmans' foreign capital base of R28m, has enabled it to renew and negotiate new lines of credit, both foreign and local.

After the successful investment in the specialised steel merchanting company, Van Reenen & Nicholls, Reichmans made a further investment, and has expanded the range of activities in areas related to its core business, the provision of trade finance and related services.

It acquired 2,5-million shares (10%) of listed company I B Joffe as a result of the disposal of a secured claim against Telek Manufacturing to I B Joffe. This investment looks promising for Reichmans, says CE Clive Cohen.

Reichmans also established a factoring business, Reichmans Factors. It holds 76% of the equity.

B Day 12/6/89 180

They should never have been listed

QUALITY is the name of the game when it comes to raising new capital on the post-crash JSE, be it through a new listing or a rights issue.

Before the crash, three or four listings a day were not a strange occurrence, but merchant bankers are unanimous — many of those companies should never have been listed.

It is common knowledge that many did not even come close to meeting their forecasts.

The DCM is a victim of the October 1987 crash and it has not yet recovered. It has become a source of shells through which other companies can obtain a listing on the JSE.

Euphoria

As UAL's Nico van Heerden puts it: "One is tempted to say the DCM has become a graveyard."

While the listings boom has come to an end, merchant bankers expect quality companies will raise capital either through new listings or predominantly through rights issues this year.

They do not expect anything like the euphoria of 1986/87, especially given the uncertain economic conditions.

But they believe significantly more companies with good track records will raise finance this year than during the lean period that followed the crash.

Van Heerden reports the bank already has "a number of listings and rights issues on the drawing board", scheduled for this year. He talks of two listings before the end of the year and possibly a third.

"But the quality of the companies is excellent. In these uncertain times, that is very important."

He says a spin-off of the uncertainty about the stockmarket and the economy in general is that companies wishing to raise finance want to do so sooner rather than later.

Many companies are finding their share prices are high enough to enable them to make a rights issue. With interest rates at high levels and uncertainty over when the cycle will turn, Van Heerden says rights issues are becoming a viable alternative to borrowing.

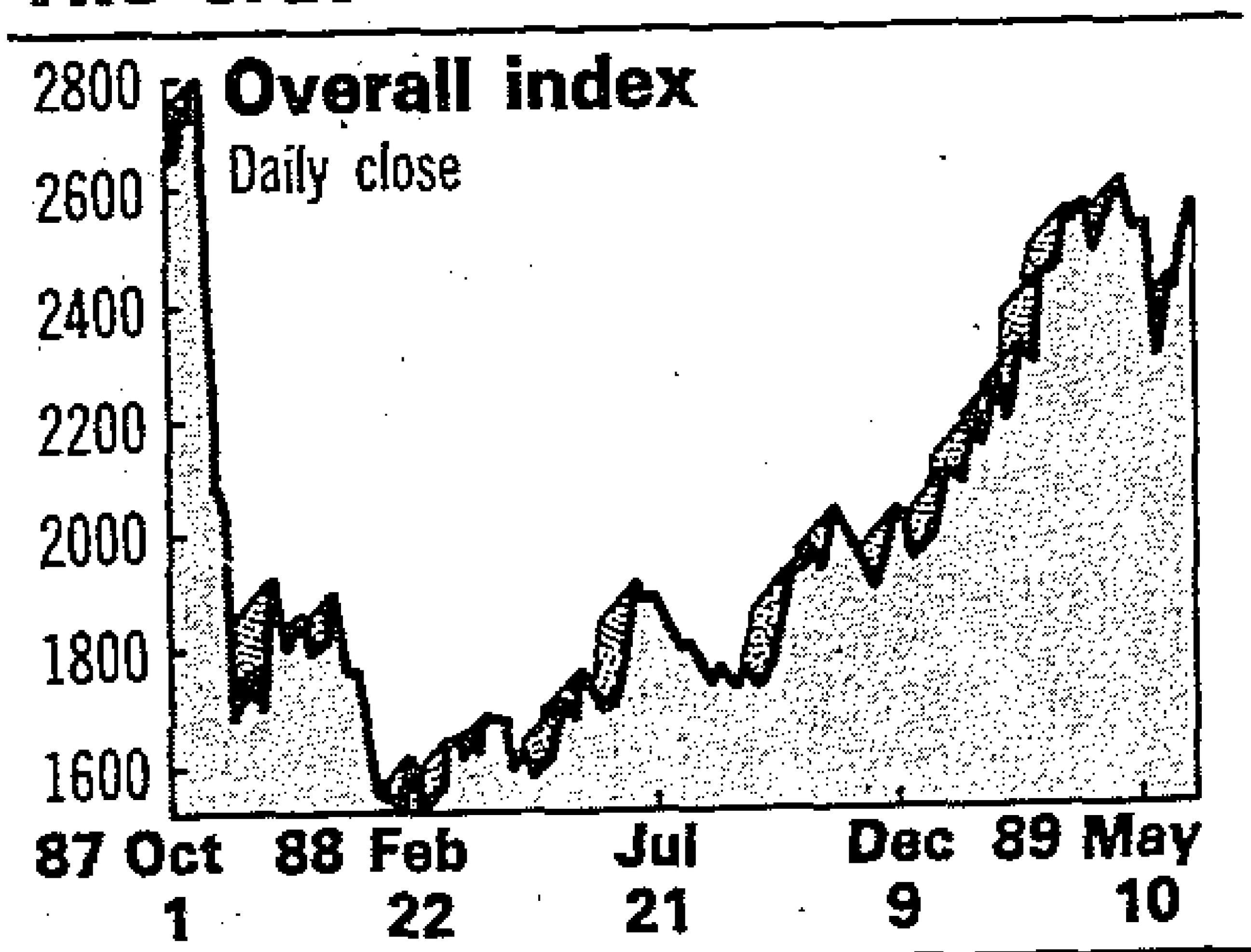
New listings, too, are being considered by quality companies needing capital for further expansion.

SMB's Mark Barnes says: "The quick capital gains available in 1987 are obviously no longer available. The fundamental reasons for going public are being examined very critically."

This is all the more necessary because of the uncertainty and unpredictability of the SA equity market. This uncertainty, Barnes believes, is often not based on any fundamental reasons, but is more psychological.

Barnes says: "Timing has become crucial. A badly timed listing can be disastrous. But the question is not only when — but why?"

The crash...and after



Graphic: FIONA KRISCH Source: JSE

FirstCorp's Stuart Jones also notes that high interest rates might cause more top companies to go for rights issues rather than increase their debt.

The last time interest rates were very high was in 1985 and companies raised capital to "de-gear". Although the level of gearing is not as high as it was then, Jones does see a shift towards equity financing rather than borrowing.

"The blue-chip companies will be able to raise capital with ease. The institutions are flush with cash and are looking for vehicles which will put their capital to profitable use.

"Dividend yields are still relatively low, which means equity can still be issued at a reasonable price."

There is more capital available for investment in equities since prescribed asset requirements were abolished.

However, Jones' colleague Graham Drinkwater believes new listings will be difficult for companies other than Rand-hedge stocks or high-profile food and beverage companies.

Criticism

"I am reasonably confident about the market, but I believe the institutional support will focus on the blue-chips."

Rand Merchant Bank's Piet Botha agrees investors have become ultra-sensitive over quality. But if the quality is there, the demand is there.

He points to the imminent listing of Rainbow Chickens, which has drawn criticism of a too-high share price.

"But the price of the Rainbow shares only proves that institutional investors are prepared to pay for good scrip."

Small companies will find it difficult to raise capital through listings.

But Botha notes the possibility that they will raise finance through convertible debentures, rather than borrow more and worsen their gearing.

Dissatisfaction at new 'insider' Bill

180 BDay 14/6/89

MANDY JEAN WOODS

THERE had been "significant dissatisfaction" among members of the securities industry over a clause in the Companies Amendment Bill preventing company insiders from trading on confidential information for 24 hours after it became public, Wits Professor Michael Katz said yesterday.

The clause is part of the newly gazetted Act which provides for the establishment of a securities regulation panel to monitor insider-trading, mergers and take-overs.

Speaking at a conference on business ethics and morality organised by the Institute of Directors of Southern Africa, Katz said the dissatisfaction stemmed from misunderstanding of the clause.

● See Pages 2 and 8

"The clause was introduced to allow the market time to digest information before insiders traded on the information," he said. A situation could arise where information was published in a small circulation knock and drop in the platteland.

In theory, this would remove the taint against insiders trading on the basis of the confidential information.

"The market place must have time to digest the information before the taint of insider trading is gone," Katz said.

The new Act would also force companies with the dual functions of corporate finance and portfolio management to jealously guard information gained from one division from being passed to the other.

Katz said if, for example, an institution had its corporate finance division investigate a company and found something amiss, then passed that information on to clients through its portfolio management division, the institution would be guilty of insider trading.

"At the same time, if it failed to pass on such information, the institution would be accused by the clients whose portfolios it managed, of negligence.

● KATZ

"The solution is to 'erect a Chinese wall' where absolutely no information was passed between divisions within a company. There are many financial institutions aware of this who have self-imposed this 'wall' as a good management practice. But now it will become a matter of legal necessity," he said.

JSE president Tony Norton, also speaking at the conference, said the new legisla-

☐ To Page 2

'Insider'

180 BDay 14/6/89

☐ From Page 1

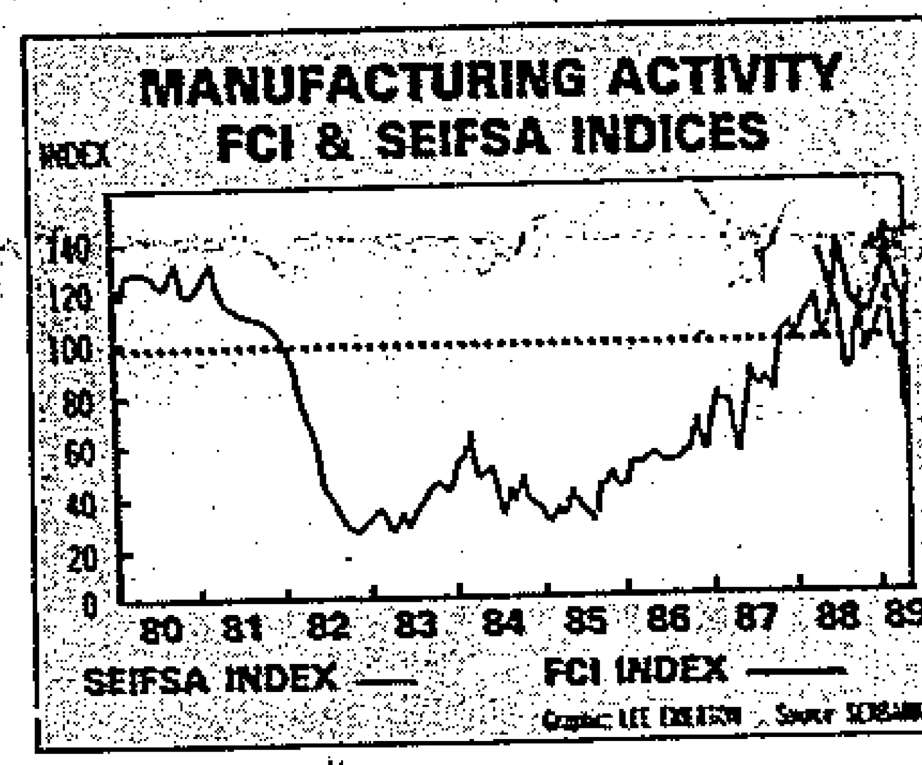
tion was lacking in one aspect.

"We need a clause authorising the panel to investigate relevant cases on advice from competent bodies abroad and to hand over such evidence." This would lead to reciprocity which would benefit the JSE.

One international problem with insider trading has been the inability of investigators to gather evidence. Quoting the US Securities Exchange Commission director of enforcement, he said in many instances the only person with first hand knowledge of securities violations were perpetrators themselves, who could refuse to testify.

He said by allowing the panel to be made up of members who were directly involved in the securities industry, government had "put the powers in the hands of the players and that will make it successful in gathering evidence".

The panel will be comprised of the Registrar of Companies, the chairman of the Competition Board and representatives of the JSE, the AHI, Assocom, the Association of General Banks, the Merchant Bankers Association, the Shareholders Association of SA, the Pensions Institute of SA, the Chamber of Mines, the Life Offices Association of SA, the Institute of Chartered Accountants, the Association of Law Societies, the SA Federated Chamber of Industries and the Clearing Bankers' Association of SA.



FCI warns of overkill after May index falls

BDay 14/6/89 KAY TURVEY (180)

MANUFACTURING confidence — dashed by the May 5 austerity measures — fell sharply that month leading the FCI to warn of a possible overkill in the economy.

The FCI monthly index, which rates manufacturers' confidence on the strength of their order books over the next three to six months, fell to 100, the border level between optimism and pessimism.

The equivalent index for Seifsa fell more sharply to a level of 68.

FCI executive director Ron Haywood said FCI was concerned about the possibility of overkill after the restrictive policy measures which had been implemented over the past 12 months.

Referring to import surcharges, he said they should be kept more selective and flexible.

Although there was a need to protect the balance of payments from an economy that possessed a relatively high import propensity during growth phases, it was also important to maintain momentum in the manufacturing industry.

In joint representations to government FCI and Seifsa had pointed out SA's foreign debt problems appeared to be easing, in view of an improved export/import ratio and the rescheduling of $2,5bn in debt.

FCI economic consultant Gad Ariovich said there was still plenty of employment opportunity in capital intensive industries.

The index for manufacturing production remained in the optimistic range, with a value of 112 in May.

Star 14/6/89 (180)

Manufacturers not so optimistic

By Jabulani Sikhakhane

The Government's restrictive policy measures have led to a downturn in the economy with the Federated Chamber of Industries's (FCI) indices on manufacturing activity for May 1989 showing a marked downturn.

The FCI index for orders received, which is a barometer of production and sales performances three to six months hence, barely managed to remain above the 100 point mark — the border between what FCI considers a pessimistic and an optimistic outlook on future conditions.

The equivalent index for the Steel, Engineering Industries Federation of SA (Seifsa) declined even sharper to a level of 68, but the index related to manufacturing production remained in the optimistic range with a value of 112.

FCI has expressed concern over the possibility of "an economic overkill following the series of restrictive policy measures which have been implemented over the past twelve months".

"In realising the need to protect the balance of payments from an economy that possesses a relatively high import propensity during growth phases of business cycle, it remains important to also maintain some degree of momentum in manufacturing activity," it says.

The FCI has pointed out in joint representations by the FCI and Seifsa to the Ministers of Finance and Economic Affairs that South Africa's foreign debts problem seems to be easing, especially in view of the improved export/import ratio and the rescheduling of $2,5 billion of foreign debt.

"In view of this the FCI has suggested a greater degree of selectivity in the application of stabilisation policy measures," the FCI said in a statement.

Mr Roelof Botha, FCI's senior economists, said yesterday that the government's restrictive measures are impacting widely on the economy and could seriously dampen the demand for low-cost housing for instance.

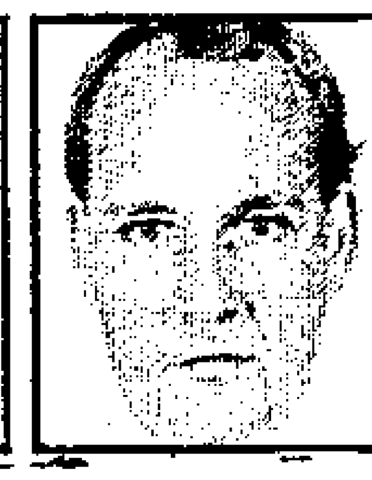
He said the FCI welcomed government's recent announcement to assist the homeowners. However, he said the government could go a step further and make interest on the mortgage bonds tax deductible.

Disclosure requirements inadequate

180

Diagonal Street

MAGNUS HEYSTEK



Star 14/6/89

"When it comes to disclosure standards, the JSE has a long way to go. This is the other and more important side of insider trading — timeous disclosure of quality information intelligible to the average investor is critical to prevent insider trading.

"We lag badly here as our accounting system is too elective, our traditional reporting language too stilted and equivocal, and our ethical and legal culture not strong enough to bring directors up to responsible levels of voluntary disclosure of 'ripe' price sensitive information."

No, this is not just another attack on the JSE but the words of Mr Tony Norton, chief executive of the JSE.

At a conference of the Institute of Directors, yesterday Mr Norton drew attention to the inadequate disclosure requirements for companies listed on the JSE which, according to him, was one of the more important contributing factors in the too-high incidence of insider trading.

He also has this to say about annual reports: "These are often expensive, uninformative technical expositions and, in the worst cases, opportunities for ego trips by chairmen. The damning indictment is that separate documentation is often necessary to brief staff."

Too true, one is tempted to say. Some JSE-listed companies are notorious for their reluctance to inform shareholders about what is going on in the companies. The Rembrandt-group of companies is a good example. Its annual reports must be the thinnest of any listed company. Apart from a very condensed income statement and abridged balance sheet, nothing more is disclosed.

Last week Rembrandt announced its annual results. When asked to comment one of the directors is reported to have declined, saying: "It would be unfair to give this information before everyone else."

There are many other examples and Mr Norton has quite rightly raised the issue. Companies and company directors generally treat minority shareholders, and by implication the investor-in-the-street, with a fair degree of disdain. They are usually the last to learn about price-sensitive matters.

No wonder so many small investors who participated in the 1986/87-listings boom have since turned their backs on the JSE as an investment avenue. The spate of mergers, take-overs and disastrous results has left them with large losses.

It is doubtful whether this generation of small investors will ever again return to the JSE directly. Rather, they have handed their investment decisions to large financial institutions, which compounds the existing problem of a concentration of financial power in the hands of the few.

Pressure should be brought upon companies to improve their disclosure standards. Company directors cannot be relied upon to exercise their stewardship duties efficiently anymore. The Company Act should be altered to legally force directors of publicly traded companies to promptly disclose "ripe", price-sensitive information.

Failure to do so should be made just as punishable as insider trading.

...borrowers or dol- nearly double the to ...ebts.

...and central banks should stop worrying about inflation. Instead they should fear the coming recession.

Construction losses trim HCI's profits

180

Star 14/6/89

Finance Staff

Hoskens Consolidated Investment's (HCI) attributable earnings for the year to March were up by 16 percent to R15,4 million (R13,3 million), boosted by the performance of its two listed subsidiaries, IGI and Saflife.

Earnings per share grew by 10 percent to 148,7c (135,1c), while a final dividend of 16c (14c) was declared bringing the total for the year to 28c (23c).

Chairman Michael Lewis said that both IGI and Saflife performed well, but the poor showing by construction subsidiary R McCarthy took its toll of group profits.

Mr Lewis said if it had not been for the losses incurred by the McCarthy division, attributable income would have amounted to R21,4 million, representing growth of 61,5 percent.

He added that the losses in the division had now been halted and that the division would no longer have anything more than a minimal effect on group earnings.

The group would now be able to focus attention on its mainstream business in the financial services market.

Mr Lewis pointed out that total assets of the group had grown to R778 million from 1988's R393 million.

Indigenous lending scheme helps 'small' entrepreneurs

By Winnie Graham

The Get Ahead Foundation, which assists "small" entrepreneurs with loans to start new businesses, is using an indigenous lending scheme — the stokvel — for loan distribution.

It has already lent more than R1 million to 3 000 people, all members of stokvels.

The recovery rate is estimated at 98 percent but could be higher as no bad debts have been written off in the year the scheme has been operating.

So pleased is Get Ahead with initial results, it is looking at ways and means of involving First World banking institutions in stokvel loans schemes.

RISK ENVIRONMENT

Mr Israel Skosana, deputy managing director of the foundation and head of the commercial division, said bankers did not regard small loans "in a risk environment" as a viable proposition. As a result, would-be entrepreneurs were forced to look elsewhere for assistance. Yet, once they had made the grade, they were wooed by bankers wanting their business.

He said South Africa's 500 000 "new" businessmen were increasingly asking: "Just how necessary are First World banking institutions which refuse to grant loans to emergent black businesses without complicated feasibility studies?

"Unless the Third and First Worlds find a common meeting ground, bankers who remain aloof from grassroots customers are in danger of being dismissed as irrelevant."

The stokvel, Mr Skosana said, might provide the solution to the problem. The indigenous lending scheme involved groups of people who pooled a set amount each month. Members collected the lump sum in rotation.

"Some stokvels exist to help members buy cars, others to buy groceries and others to start businesses," Mr Skosana said. "Some put in R5 or R10 each, some R100 a month. They survive only because members have total confidence in one another. Members screen applicants wanting to join the stokvels themselves..."

With the aid of a visiting Brazilian, Get Ahead had determined techniques of perfecting a loan arrangement to members.

"We will give two loans to any stokvel, but members are jointly and severally responsible for the debts," he said.

Mr Skosana has just returned from a pan-African conference in Kenya where he outlined the stokvel scheme to delegates from many parts of the continent.

"We stole the show with the presentation," he said. "Stokvels are an accepted form of financing throughout Africa and, in fact, many parts of the world, but our adaptation caused enormous excitement."

So popular has his talk been he has been invited to speak on the lending scheme in Tanzania and Uganda.

To illustrate the success of the stokvel lending scheme, Mr Skosana tells of the Atteridgeville mother who expanded her business fourfold within four months.

The woman was providing a tuckshop service to children at a neighbourhood school, but lacked the capital to expand. She applied for a loan thorugh her stokvel and was now operating four "tuckshops".

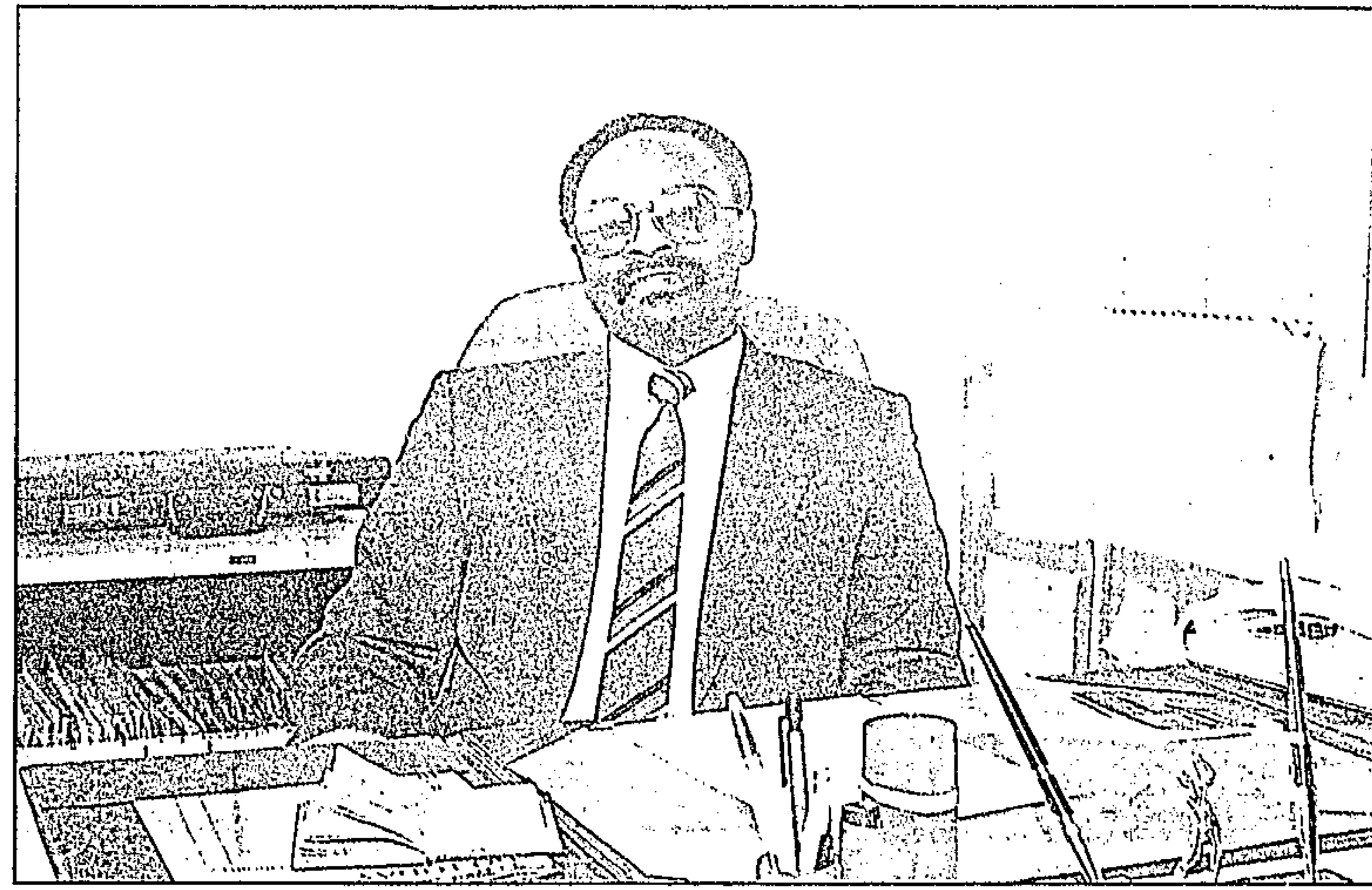
Mr Skosana said that between 1960 and 1974 the formal sector created 160 000 jobs a year.

UNDERGROUND ECONOMY

Since 1974, this figure had dropped to 60 000. On the other hand, experts estimated there were now 500 000 informal businesses employing 3,5 million. They were part of the so-called "underground economy".

Estimates of their contribution towards the gross domestic product varied from 40 percent to three percent, but the bottom line was that they were making a contribution.

"We don't want Government interference, but why is the State not providing tax incentives to big business to encourage assistance, or providing small business with, say, relief from GST?" Mr Skosana asked.



Created big impression ... Mr Israel Skosana, deputy managing director of the Get Ahead Foundation, whose recent presentation outlining the Stokvel lending scheme stole the show at a Pan African conference in Kenya.

Star 15/6/87

The Star Finance

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Business back-up for black entrepreneurs

By Jabulani Sikhakhane

The Southern Transvaal Chamber of Commerce (Soutacoc), one of the biggest affiliates of the National African Federated Chambers of Commerce (Nafcoc), is to launch an incubator programme to provide business management back-up services for its members.

Soutacoc president Joe Hlongwane said yesterday: "We have talked for too long. Now is the time for action."

"The country's Gross Domestic Product has gone down because of the restrictive nature of the Group Areas Act, lack of incentives and assistance. But in a small way we can motivate our people."

Soutacoc had met 32 chief executive's of financial, mining and industrial companies to solicit their support for its programmes, he said.

"We have received their support for the incubator offices, a concept which I experienced in the US. The offices, to be spread in the five regions of Soutacoc, will provide management and secretarial services for our members. There will also be trained people to help members with preparation of business plans, provision of tendering services and general training in their various areas of business," said Hlongwane.

From its central office, Soutacoc will run a business procurement centre which will liaise with the incubator offices. The procurement office will compile a list of all manufacturers and their type of products and help them with marketing.

"The corporate world has been very co-operative. Some of the big corporation have given us a list of their needs. We have to locate the manufacturers who can produce those goods."

"We are also looking at the service sector," said Hlongwane, "The cleaning of offices, catering, printing can be done by the small black entrepreneurs."

Believe it, consumers know best

180 088 Star 17/6/87

STAN KENNEDY

COUNTRIES, like South Africa, which are heavily dependent on a single commodity, are the first to be subjected to world vibrations or world synergisms, says Professor Ken Greenwood, former head of the department of communications, Tulsa University, Oklahoma.

"It is fascinating that what happens in Beijing these days reacts immediately in Johannesburg and a few hours later in New York.

"The computer has a lot to do with it because it has provided the world with a common language. It is a great equaliser. It has taken away our guns and our spears and any superiority we might have enjoyed and made us all very much equal because we get the same number of bytes from different machines.

"I think that in being nationally competitive with ourselves, we have become internationally competitive, in a business sense."

In the past, he says, the areas of marketing, promotion and advertising — these are his specialties — were highly structured as they attempted to move goods in the world economy. But now these structures are being challenged.

Take daily newspapers. They are up against specialist publications which cover solely business, entertainment, computers, electronics and even automobiles. This is a reflection of the changes in the marketplace to meet the individual needs of consumers.

Professor Greenwood is in South Africa at the invitation of the Forum of Business Expertise and Radio 702 to talk to the advertising fraternity, marketers and salespeople on understanding human behaviour and on the shifts that have taken place in the marketplace over the past 20 years.

Customised selling

"If the 1950s and 1960s were periods of mass marketing, when we tried to sell one thing to everybody, the 1980s is a more customised marketplace where the customer wants a product or service that is designed for him," he says.

A major change has been the move from the traditionally top-down type of operation when companies developed the strategy first and the sales team were told to go out and implement the strategy.

If management wanted to sell a product because the profit margin was higher, the salespeople were instructed to sell the product whether or not the consumer wanted to buy it.

"That is not true today. It's a bottom-up market and companies have to find a niche and see whether their product or service can satisfy a need or benefit to a buyer.

"In many instances, management today is using its field force as an antenna to the rapid changes taking place. In the past, it was the manufacturer who dictated what the consumer should buy, today the consumer is making his own decisions.

"This is particularly true in the field of fashion. Fashion houses have had their fingers burnt, believing that they knew best and that women wanted shorter or longer skirts when they didn't."

Professor Greenwood says the sales force should understand when they go out to see potential clients that "these people buy for their own reasons, not yours".

Salespeople must get into the minds of customers and be sensitive to their preferences and not be so ego-driven, thinking they know all the answers.

"Face-to-face meetings are better than the impersonal thrusts of direct mail and advertising."

Another adaptation in business is that autocratic decisions are becoming less and less and more people are taking part in decision-making.

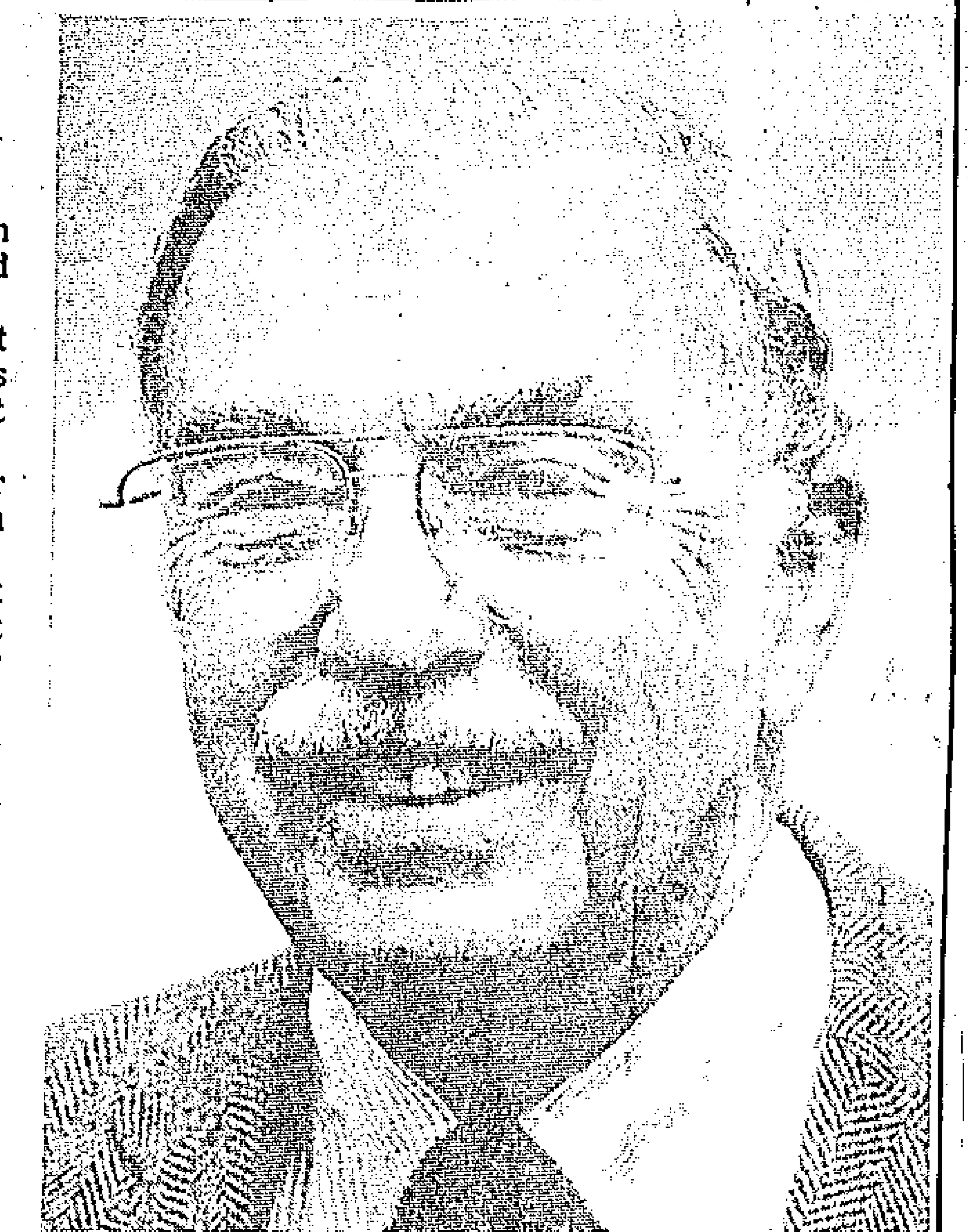
"I understand that it is still a rather autocratic form of management style in South Africa.

"Companies which practise it feel that if they can teach their salespeople about their product, how to present it and how to close sales, that is all they have to do.

"That was effective 20 years ago. Today it is not working. They now have to go in and ask what the customer needs, what he wants and why he is buying."

A notable change has been that one person no longer makes the buying decisions. A group of people study a product and look at a number of different makes, although there may not be much difference between them, such as computers.

A system, a concept is bought because the salesperson makes it fit the needs of a company and not because some whizz-kid came and presented all the facts and features of a particular machine.



KEN GREENWOOD — "Consumers are making their own decisions".

DIAGONAL STREET

Unidev revamp injects R26m

S Times 18/6/89

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UNIDEV'S executive management is to consolidate control through Garlic Consolidated (Garcon), the listed pyramid.

Management had more than 50% of Unidev until Cape Town property entrepreneur Benny Rabinowitz chose to exchange his holding for shares in Frasers.

The move left the executives insecure, especially with largely dissatisfied institutional shareholders owning 38% of the company.

Unidev will also hold a rights offer of 80 shares for every 100 at a price to be announced — probably 150c — to repay debt, build capital for acquisitions — and to effect outright management control.

JSE rules say minorities must be offered access to the pyramid at least in proportion to their holding in the operating company and on the same terms as applicable to the controlling shareholder and subject to compliance with other provisions considered desirable.

As the diagrams show, minorities start off with 37% of Unidev. But after the restructure is complete, they end up with 14% of the top company and 29% of the bottom one.

Because they are not taking part in the first leg of the deal — acquisition of the pyramid — it could be contended that the rules are not being observed.

VALUE

Heavyweights, such as JSE president Tony Norton, sponsoring brokers Davis Borkum and Martin & Co, Standard Merchant Bank and Quaestor IV, say no rules are being broken. Mr Norton points out an important practicality — R26-million of new money is going into Unidev.

Unidev's executive management has bought control — 99%, or 5,54-million shares — of cash shell Garcon from Jack Garlick's Jano Retail Holdings. The price of 455c a share was settled in cash.

Garcon's current value is R26-million or 455c a share in cash, and its minorities will receive the same offer.

Unidev chairman is Geoff Grylls and new managing director Ronnie Stein.

In terms of the deal, Garcon is assured of holding 50% or more of Unidev. Garcon will underwrite Unidev's rights offer. But Unidev's executive management, representing 25%, and certain institutional shareholders representing 38% of Unidev, have renounced their rights in favour of Garcon.

Therefore, Garcon will initially acquire at least 8,6-million shares, or 28%, in Unidev.

Simultaneously with Unidev's rights, Garcon will offer to buy 20% of minority shareholdings in the company. The terms are one Garcon for three Unidev, valuing Unidev at nearly 150c a share.

RATIONALE

Unidev shareholders will be offered the right to tender shares on the same terms as for their 20% to ensure that Garcon comes to own more than 50%.

Minorities will come to hold, at best, 14% of Garcon. The deal promotes the executive management's de facto control to de jure.

Garcon will be accorded pyramid status. That means if a subsequent change of control in Garcon were to take place, no similar offer need be made to Unidev minorities.

One could worry that if the group comes up with a really good acquisition, it is likely to go into the top company. But corporate financial adviser Ridge Riley says there is no such intention. Mr Norton said that would convert the company from a pyramid into a holding company.

The rationale for the whole move could be that Garcon paper is worth more than Unidev's. At present, management cannot sensibly issue Unidev shares without further diluting its stake because its holds only 25%.

But under the proposed deal, the management will have control of Unidev through Garcon, and will own at least 86% of Garcon. This could be reduced to 51% without fear of losing control.

Mr Stein says he does not think Unidev minorities have been prejudiced.

"We complied with all the conditions the JSE laid before us. We want to consolidate our security as management. If we do well, all the shareholders benefit."

Garcon will change its name to Unicon — Unidev Consolidated Holdings — and will be relisted on shareholders' approval for the transaction.

A spokesman for Davis Borkum Hare says the proposal was a contentious issue with the JSE, but won approval.

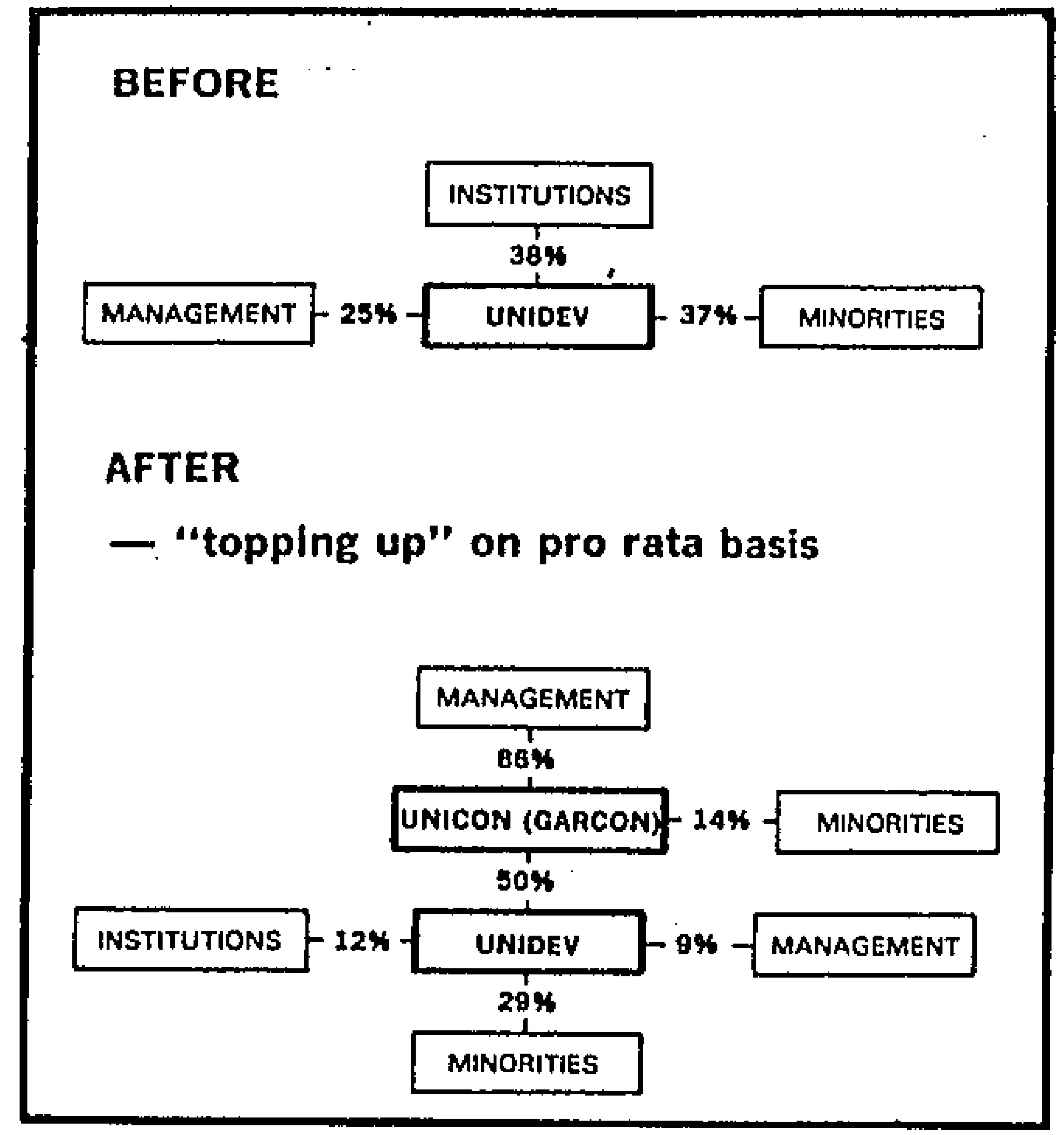
INJECTION

Unidev shares lost 5c to 155c on the announcement. The low was 125c in April after results disappointed investors, falling from earnings of 60c to 53,5c a share.

Unidev has four main arms. In property, there is Natprop and in electronics Cortech. Under industrial it has Prestige, the cookware company, and in retail Furngro, Debonair, Medicor and Milly's. The financial services arm comprises Mercantile Bank, Quaestor IV and Unidev Registrars.

Mr Riley says Unidev will earn taxed profits of R12-million in the year to December 1989. Earnings a share should be 55c. An interim dividend of 6c will be paid and an 8,5c final is expected.

The fact that institutions representing 38% of Unidev have declined to follow their rights suggests a lack of confidence. When they can earn more than 17% on gilts, it is hard to convince them to buy low-growth equities.



by JULIE WALKER

TDL holders in for a hangover

(180) S/Times 18/6/89

TRANSVAAL Distillers (TDL) is to be listed on the JSE through the reverse takeover of Agricultural Services (Agserv).

Before the listing, TDL issued shares to the public in a series of rights offers. Their price rose from 50c each to 125c and later 175c before falling to 80c. The last offer valued the company at R22-million.

The shares were promoted by Share & Property Brokers — of Swiftsure notoriety — and sold by the firm Miles McMillan, whose Alan McMillan declined to comment on the fact that they went for vastly inflated prices to the net worth of TDL.

He told me he had spoken to one journalist who "twisted his words around". On that comment, I may assume that if all journalists are to be tarred with the same brush, so must all the companies in which Mr McMillan sells shares.

One investor says he placed his retirement savings of R30 000 in TDL. He first bought 24 000 at 80c. He was urged to buy more because "the price had already risen to 175c".

Instead of asking to sell his 24 000 at 175c each, he bought another 6 000 at 175c through Miles McMillan. Understandably, he wants to know what has happened to his money.

Now that the company is to be listed on the JSE, the value of his investment could be as little as R2 000, using the net tangible asset value a share of less than 7c.

TDL forecasts earnings of R1,5-million, or 1,6c a share, for the year to February 1990.

Another R4-million was to have been raised by the issue of 5-million shares at 80c each to fund the building of premises for subsidiary Rico Breweries near Pretoria.

PROFIT

Now Agserv has acquired the entire undertaking of TDL with effect from March 1, 1989, for R11,5-million — equivalent to net asset value. This will be settled by the issue of 54,3-million Agserv shares of 21,23c each.

Two Agserv shares will be issued for every TDL, giving TDL shares a notional value of 42c. It is hard to imagine TDL trading at that level — it would represent a price 26 times forward earnings.

Trade about the tangible valuation of 7c seems more likely, being about four times forward earnings.

TDL's audited profit for the year to February 1989 was R852 000 and net asset value 12,6c a share, but it includes goodwill paid for subsidiaries.

SUSPENDED

Trade in Agserv was suspended a year ago after it ran into financial difficulties. A scheme of arrangement between Agserv and its creditors was sanctioned; and Agserv disposed of all its assets and was released from liabilities.

After this, Agserv issued 30-million shares for Minwale — a property company which has since been sold.

Agserv became a cash shell, into which TDL is now being reversed.

When trade resumes on June 26 under the new name TDL, there will be 94-million shares in issue — 30-million for Minwale, 54,3-million in respect of TDL, and the balance being the original Agserv stock.

According to an advertisement in July 1988's Investing Today, which seems to endorse everything that pays for space, TDL's assets comprise distilleries at Tzaneen producing mampoer — a clear, fruity liquor — and neutral spirit, Liquor International and Rico Breweries.

The company profile says: "TDL ... has a record that can stand any amount of scrutiny.

"Projections are that profit after tax should rise from R657 000 in 1988 to a healthy R5,37-million by 1991."

If that is the case, the company's latest forecast of R1,5-million for the year to February 1990 is either pessimistic or realistic. I suspect the latter.

DRINK

Even if TDL turns out to be a great company — drink never goes out of fashion — it will not provide a return on investment for the hundreds of members of the public who took the risks and put in most of the capital at the highest prices for a minority holding.

Chances are there will be another rights issue in TDL before long.

At least there is something to be salvaged for Agserv shareholders, who will probably get more than the offer to minorities of 2,5c.

But there will be many dissatisfied TDL shareholders hoping to wake up from the nightmare, and they are all going to have bad hangovers.

Cape Town office rents soar in face of massive demand

(180) Star 19/6/89.

By Tom Hood

CAPE TOWN — Companies are being hit by soaring office rents in Cape Town as a result of an unprecedented scramble for offices by expanding businesses and the growth of government departments.

Landlords have doubled rentals in 18 months where some leases were renewed for top-grade offices and annual escalations have risen to as much as 12 and 15 percent.

Property people believe office rentals in most major centres could leap as the cooling of the economy fails to curb the take-up of space.

A major factor has been the take-up of office space by the bureaucracy — the House of Representatives boosted a flagging market by the complete takeover of a brand new foreshore building known as Project 166 and the transfer of work from Cape Provincial Administration to other agencies has also created a need for more offices.

Strong demand has left prime office vacancy in Cape Town's CBD at only 600 square metres — the size of one floor in a big building — says Robert Klinkhamer, regional manager of Old Mutual Properties.

He says Cape Town market conditions are similar to those in Durban and Pretoria, where prime CBD office vacancies have been slashed to 1 000 and 550 square metres respectively.

"The CBD market is buoyant following 1988's dramatic 35 percent increase in rentals, the largest rise in the country."

He believes the current low vacancy and strong demand could see rental levels soon overtake those in Johannesburg. These are currently at R28/m2 gross for prime CBD space, and lease escalation rates of 15 percent a year are becoming more common.

Mr Klinkhamer points out, however, that Durban has now displaced Johannesburg as the most expensive city for offices.

Durban's premier office address, The Marine, a block with panoramic views over the harbour and beachfront, now commands R33/m2, with two other developments, Kingsfield Place and Durban Bay House not far behind at R29/m2 and R28/m2.

"It is unlikely that there will be any new building in Cape Town or other major cities unless rentals show the required growth. CBD office buildings need to show a minimum rental of R28-R30/m2 to give an acceptable return on investment, but this could be higher in buildings with better finishes and services which impact on the operating costs."

With pent-up demand for space, no new prime developments under way and a lead time of two to three years before a project can be completed, pressure on current rental levels will continue, he says.

Mr Klinkhamer notes there are substantial decentralised developments and some major refurbishments under way in the greater Cape Town area. The three major life offices are extending their headquarters.

These may create a vacancy in the CBD area as operations move, he says, but overall expectations are that pressure on existing prime space will continue.

Divaris Real Estate managing director Tyrrel Fairhead says, however, a lack of parking is still inhibiting the letting of otherwise acceptable offices and creative solutions to this problem are being investigated.

The company's latest survey shows 15 of the 22 top office buildings in the city centre are fully let at between R17 and R25/m2.

Little space is available but 15 000 square metres will come on stream this year from major refurbishment programmes at Southern Life Centre, Medipark and 51 Wale Street.

However, this will represent a vacancy factor of only six percent of A grade office accommodation.

The Castle Mews building in Sir Lowry Road, an old factory renovated by Divaris and converted into 8 100 square metres of offices at a cost of about R3 million was quickly let at about R9/m2.

The southern suburbs also have few vacancies, says Mr Fairhead, but the situation will ease tremendously when Sanlam's giant Sanclare block in Claremont is completed at the end of the year.

More space will come on the market when Southern Life gives up offices in Tannery Park in Rondebosch and in The Perm in Claremont and moves into its new headquarters.

Companies are also seeking offices in Wynberg and will benefit from the first phase of a new office park development in Brodie Road being ready by September.

Premier seeks R280-m in major restructure

Star 26/6/89 (180)

By Sven Lünsche

The Premier Group is to split its core business and its holding in SA Breweries in a major restructuring programme, which includes a R280 million rights offer.

Premier chairman Peter Wrighton said yesterday the group's 33,8 percent holding in SA Breweries had obscured the performance of the core business and the market had subsequently understated the true value of those interests.

While attention would be focused on the core business, the stake in SA Breweries would henceforth be held in an investment company, which has yet tobe named.

Premier shareholders will receive shares on a pro-rata basis in the new company, although Premier itself would have no stake in the group.

The restructured group will raise R280 million through a rights offer, details of which will be announced next month.

Shareholders taking up their rights will once again be offered shares on a pro-rata basis in the new company.

Peter Wrighton

Yesterday's announcement was the final step in the restructuring programme, which Mr Wrighton implemented when he took over the reins from Tony Bloom about a year ago.

The steps included rationalisation of the group's poultry interests and a cut-back in head office staff.

More important was the split of Premier into four focused areas of operation:

- Food (through Premier Food Holdings).
- Pharmaceuticals (through Twins and Gresham).
- Entertainment, information and leisure (through CNA Gallo).
- Consumer wholesaling and retailing (through Gresham and Score).

Mr Wrighton said that the restructuring would enable investors more easily to identify the respective value of the investment in SAB and that of the core businesses.

In addition, the prospects and management of the core businesses could be assessed on its own merit.

He said Premier's earnings from its equity-accounted investment in SAB had tended to obscure the performance of the core businesses whose earnings this year had improved by 42 percent to R92,3 million on a 29 percent rise in turnover to R4,15 billion.

The core businesses had posted substantial increases in earnings since 1984 of 130 percent, 135 percent, 50 percent and 42 percent respectively.

This had progressively reduced the contribution of SAB from 90 percent in 1985 to 65 percent in 1989.

Mr Wrighton said: "I suspect that the market has been somewhat confused by the existing structure and accordingly understates the true value of Premier.

"This view is supported by the fact that if the market value of the SAB investment had been stripped out of the Premier share price shortly before we made the cautionary announcement, then the traditional core businesses would have been valued at 620c per share.

"This represents an earnings multiple of less than five times, well below the average for equivalent stocks in the market."

The rights offer, according to Mr Wrighton, would ensure that Premier was properly geared and that the subsidiaries could finance expansion opportunities when they arose. He said, however, that no major acquistions were planned at present.

Unit trusts show more confidence

Diagonal Street

LYNNE PEACH

5/c 21/6/89 180

The equity unit trusts are more confident about investing in the stock market than they were a year ago.

According to stockbrokers Max Pollak & Freemantle the most sought after area of investment has been industrial shares, and the most neglected the gold sector.

They point out in their March 1989 Quarterly Unit Trust Review that the general unit trusts have decreased their non-equity holdings (liquid assets, gilts and semi-gilts) to account for 16,8 percent of total portfolio value, compared with 20,4 percent a year ago.

The total value of the non-equity assets held by the equity unit trusts has increased from R766,2 million at the end of September 1988, to R886,3 million six months later.

As a percentage of total assets, however, their exposure in this area has declined from 20 percent to 18 percent.

They do not expect a reduction from this level in the short/medium term and say the percentage could even be raised in order to take advantage of the high interest rates prevailing.

There was a decline in rand-hedge holdings and Max Pollak & Freemantle attribute this to the exclusion of the Rembrandt companies from the the rand-hedge list, and not to any improvement in the long term outlook for the rand.

The review goes on to reveal that during the year to March, the general unit trusts increased their percentage investment in industrial shares from 35,9 percent of total assets, to 40,1 percent.

In the three month period to March, the review mentions several popular industrial shares including Richemont (bought by NBS Hallmark, Southern, and Syfrets), South African Breweries (bought by Guardbank, Metfund and Syfrets), Sasol (bought by Guardbank, NBS Hallmark, Sage and Syfrets), and the Rembrandt companies (bought by Metfund, NBS Hallmark, Sage and Sygrets).

Over the past 12 months the equity unit trusts have been steadily turning their back on gold shares in favour of other mining shares.

The stockbrokers disclose that the general unit trusts have decreased their gold exposure from 9,3 percent of total assets to 6,5 percent at March 31. At the same time, their holdings of mining stock, including gold shares, has been maintained at 35 percent. Financial exposure has also remained more or less constant at 7 percent of total assets.

They are in support of the reduction in gold holdings and in fact recommend that the general unit trusts reduce their exposure further over the next few months to around 5 percent of assets.

There is, however, a light at the end of the tunnel for gold. They envisage a gold rally from August towards the end of the year on the back of increased gold demand for jewellery purposes and a further sharp reduction in the volumes of scrap gold coming on to the market.

Companies' SA links under fire

Star 23/6/89

180 The Star's Foreign News Service

GENEVA — South African transnational corporations are controlling a growing number of foreign companies and thus "exporting apartheid", the International Confederation of Free Trade Unions (ICFTU) has charged.

The Brussels-based ICFTU said trade unions everywhere should "organise campaigns to prevent and expose attempts by South African multinationals to take over enterprises outside South Africa".

The confederation claimed that 88 South African transnationals controlled 437 companies spread over 44 countries.

These companies, it charged, play a large role in sanctions-busting with "fake companies established to avoid payment of taxes and to sidestep sanctions".

The ICFTU said the growth of South African-owned companies and subsidiaries abroad was also designed to give the Republic a foothold in the Europe of 1992.

The week on the JSE

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LYNNE PEACH

HIGHER than expected US inflation figures and international intervention halted the dollar's rise this week — and inspired a positive reaction from the bullion price. Star 20/6/89

But brokers say there is still no evidence of an imminent mass stampede into gold with institutions continuing to just nibble away.

However, there were some good gains in the gold sector over the week.Dries picked up 175c to reach 4050c, while Kloof advanced 35c to 3485c and Vaal Reefs was 10c higher at 30700c. Harties which paid a final dividend of 100c and went ex-div on Monday has, excluding the dividend, advanced 150c over the week to 2775 cents.

One of Anglovaal's top gold producers, ET Cons, saw its share price rise from 6300c to a new yearly high of 7200c. This is on the back of its dividend for the year to June being increased to 415c.

Unauthorised strikes at many US coal mines had a positive impact on local coal shares. Trans Natal's price edged up 10c to 700c while Wit Colls gained 300c to 6300c.

The diamond sector remained firm with Anamint advancing 500c to 81500c Friday, and De Beers rising 40c to 6350c.

Metals & Minerals companies Gefco and Msauli continued to go from strength to strength. Gefco's price appreciated by 85c to 365c, and Msauli's 25c to 825c.

In mining financials, the offer by Hanson Plc placed Consgold in the limelight. It's local share price leapt ahead 1050c to 9050c on the news.

Gencor has also remained firm, its price having risen from 8500c to 9200c. The market seems to be reacting favourably to the group's intention to split its shares after holding the largest rights issue yet to raise R1,47 billion for new ventures.

Another winner has been Fed Mynbou. Its share price has advanced 1000c into new high territory at 8200c.

Last weekend transport and motor group, Imperial, announced the formation of a fourth division — a finance, property and insurance division. The market did not repond favourably and its share price weakened from 680c to 675c.

Stockbrokers are expecting clothing manufacturer Trimtex to disclose earnings of 17c and a dividend of 7c, and are expecting news of a major deal. Trimtex is priced at 90c, having lost 5c during the week.

The JSE food sector continued to move ahead. ICG firmed to a yearly high of 1300c while Premier Group's share price increased 200c to 4900c on news of its restructuring.

New-comer Rainbow Chicken's share price advanced to 305c, compared with its closing price of 285c on June 15 when it was listed. CGS Food's price stagnated at 2700c as did Tiger Oats' at 19800c.

Speculation about Midas and Adco is rife. A stockbroker suggested that Midas may be buying Adco out, at a price in excess of 100c. Adco has moved up 5c this week to 90c while Midas's share price has risen by 25c to 1350c.

Inside Out

ANNE CROTTY

Ann Crotty who has been visiting her mum overseas, resumes her popular Inside Out column next Saturday.

CARTE BLANCHE

S/Times 25/6/89.

180

By David Carte, BUSINESS TIMES Editor

Premier moving at last

Premier's proposed restructure has added R500-million to the value of the company.

The Premier share price leapt from R41 to R49 after announcement of the capital reduction placing Premier's 34% of SA Breweries into a separate company to be owned pro rata by Premier shareholders plus a R280-million rights issue.

Together with hindsight, the transaction reveals multi-million rand mistakes by corporate power players since Associated British Foods disinvested in 1983.

First, it highlights that JCI, Anglo and Liberty paid far too much for Premier in the 1983 transaction.

They paid R25 a share for Gary Western's shares, then swopped SAB shares for more Premier, valuing SAB at about R8 and Premier at R25.

At that price, Premier without SAB was valued at R645-million. There was a rights issue of R100-million in 1985.

In the restructure announced this week, Premier without SAB is shown to have earned R92,3-million.

Let us assume that Premier today, without its SAB stake and before the rights issue, is worth ten times latest earnings of R92,3-million (compared to Tiger's forward PE of about 12).

Then Premier, less its SAB stake, is worth R923-million — only 24% more than the R745-million at which the original deal plus the 1985 rights issue valued the company.

Meantime the industrial index has virtually trebled from 887 to more than 2 500.

So Liberty, JCI and Anglo boobed in valuing Premier too highly — and SAB too conservatively.

They valued SAB shares for the purposes of the 1983 transaction and for the subsequent Southern Sun/Sun International split, at R8 odd.

Now the SAB shares are worth R24,25. Liberty, Anglo and JCI's loss was Premier's gain. The latter made a capital gain of R1,5-billion on its SAB shares, which are now worth R2,3-billion.

Minority shareholders in Premier at the time were advised by the Premier board against accepting the R25 a share. Those who listened must regret it.

The numbers now published reveal that the traditional interests of Premier performed appallingly from 1985-1988.

In 1985, taxed profit of the non-SAB interests were a meagre R7,9-million on sales of R2,3-billion and total assets of R1,3-billion. That gave earnings a share of 14c and put the R25 purchase price on a terrifying PE of 178!

SAB's great performance masked a multitude of sins in Premier and its subsidiaries, which were over-geared and producing miniscule returns.

I remember asking Tony Bloom how the non-SAB interests performed and he was always evasive, saying you could not strip out the SAB contribution to earnings, because of the interest cost in the holding company.

He said it was pointless to try to arrive at the underlying numbers for Premier because when a shareholder bought Premier, he got the SAB shares as well.

But had Premier shareholders seen the sorry picture in food, perhaps they might have made more fuss about margins in the tightly regulated milling and baking industries.

The numbers published for the first time this week may explain Mr Bloom's reticence. They raise the question whether he was not a better corporate politician than businessman.

There was a glaring inconsistency in the 1983 deal. JCI, Liberty and Anglo were prepared to affront the SAB board in doing the original deal without their knowledge — but they stopped short of letting Premier exercise its effective control. Perhaps just as well — but the reason was never given.

This week's transaction suggests that personalities got in the way of financial sense. Since separation of Premier and its SAB stake so obviously adds to the value of the group, it seems clear that this week's transaction should have been done years ago.

This transaction also brings to mind how SAB boobed in effectively swopping Sun International for Holiday Inn. That, and the indifferent track record of OK Bazaars in recent years, are blights on great performances in beer, Edgars, soft drinks and furniture.

There are two consolations for Premier holders. One is the capital gain on SAB. The other is that Peter Wrighton, Gordon Utian and team appear to be pursuing shareholder interests all the way. They have rationalised the group impressively and the rights issue will reduce gearing at last.

The rerating of Premier has come not a minute too soon for Liberty, whose investment performance has been impaired by the poor track record of Premier.

Old Mutual looked a loser back in 1983. It is still miffed at having been overtaken as the single biggest holder of SAB shares and thus being excluded from the power play.

But Mutual's consolation is that with great chunks of Safren and Kersaf in its portfolio, rather than piles of Premier, its investment performance actually benefited by the transactions of 1983.

Top executives enjoy year of rich pickings

Star 26/6/89.

180

By Derek Tommey

Company profits have risen sharply in the past 12 months — and so has the pay of top executives.

Many companies have reported increases in earnings of between 30 percent and 40 percent and top executives have seen their earnings grow by similar amounts.

The reason is that the pay of a great many executives is now linked to the performance of their companies, says Dr Trevor Woodburn, chairman of Woodburn Mann, a leading executive placement and management consulting company.

Complicated formula

However, a complicated formula is used to ensure that the company's earnings growth is healthy and that top executives, in their bid for higher profits and bigger pay packets, do not run their companies into the ground.

The result of linking pay to performance is that in a good year, top executives in South Africa can earn fairly substantial salaries running well into the hundreds of thousands of rands and sometimes into millions of rands.

Dr Woodburn says he knows one top executive who earned R3,5 million last year.

But he says this was somewhat exceptional.

When the executive was appointed to the company it was in difficulties.

He demanded half a percent of profits over a target figure.

The people appointing him laughingly acceded to his demand because they believed the target figure was unreachable.

But the executive's happiness at being paid so well was somewhat dashed when almost half went to the Receiver of Revenue.

Mr Woodburn says that South Africa's high income tax rates will ensure the continuation of share incentive schemes.

Executive salaries in South Africa do not compare favourably with those overseas when converted at current exchange rates.

But when purchasing power parities are compared, South Africans are not so badly off.

This is illustrated by the fact that many people in Europe are keen to work in South Africa.

The group's German office is receiving CVs from thousands of people every year who are interested in working in South Africa.

Mr Woodburn says he is recruiting many senior West German executives for South African companies.

Their ages range from the early 40s to the early 50s.

They are highly skilled and highly experienced people who, because of the intense competition overseas, have not quite made the top there and want to move to South Africa.

As "1992" approaches (the year in which trade barriers are swept away in the European Common Market) and companies in the EC start rationalising their operations, even larger numbers of top European executives are likely to be looking for jobs in South Africa, he says.

These people should be very welcome.

Lacklustre growth

It has been estimated that even at South Africa's current lacklustre growth rate, it will need some 120 000 top executives by the year 2000.

White South Africans will fill about 40 000 of these places, while the rest will have to be filled by blacks, Asians, coloured people or by immigrants.

It would not be possible in the next 11 years to train enough blacks to fill the gaps in management.

As a result South Africa would still need to bring in people from overseas.

Growth rate slows as financial curbs bite

Star 29/6/89

180

By Sven Lünsche

Financial curbs have succeeded in restricting growth in consumer expenditure, but have been partially undermined by a rise in Government spending.

The Reserve Bank's *Quarterly Bulletin* shows the growth rate declined from three percent in 1988 to 1,5 percent in the first quarter of this year.

But the rate of real gross domestic expenditure, after dropping in the last three quarters of 1988, grew at a rate of six percent in the first three months of this year.

"The return to a relatively rapid rise in real gross domestic expenditure in the first quarter of 1989 reflected essentially a spurt in real government consumption expenditure in the final quarter of the fiscal year 1988/89," the Reserve Bank says.

The surge in government spending was due mainly to a large rise in expenditure on goods and services, but can also be ascribed to a rise in outlays on salaries and wages.

The consumer, however, has been hard hit by the measures and the Reserve Bank sees the steady decline in consumer spending in the first quarter as indicative of an imminent longer-term cutback in household spending.

Real private consumption expenditure increased by only two percent over the quarter, with consumer durables taking the brunt of the cutback.

Real household spending on consumer durables, which had risen by 14,5 percent in the fourth quarter of 1988, declined by about two percent in the first quarter.

Spending on new vehicles fell by almost 15 percent, but there was little change in real outlays on furniture and household appliances.

The Reserve Bank says that after rising by seven percent in the fourth quarter of last year, spending on semi-durable goods rose only marginally in the first quarter of 1989.

The main area where the cutbacks took place were in clothing and footwear.

On the balance of payments, the bank says the surplus on the current account fell to its lowest level for nine months.

The annualised surplus for the quarter was R2,7 billion, compared with annualised surpluses ofR4,6 billion and R5,4 billion in the last two quarters of 1988.

The bank says this shrinkage was as a result of a significant decline in the value of merchandise exports, a moderate decline in the value of net gold exports and continuing merchandise imports.

The outflow of non-reserve-related capital was significantly higher.

The outflow in the last three months of 1988 was R1 billion, but surged to R1,9 billion in the first quarter of this year.

The Star Finance

Star 30/6/89 (180)

Businessmen upbeat on economic outlook

Finance Staff

Most businessmen are expecting a shallow recession and a soft landing for the economy, says Assocom in its *Business Confidence Report*.

The report, which shows that the Business Confidence Index (BCI) fell by 0,4 points to 95,5 in June, says this sentiment is one of the major reasons for the bouyant performance of the industrial sector of the Johannesburg Stock Exchange.

Assocom says: "This perception is, however, qualified by an understanding on the part of many businessmen that a great deal could still go wrong — externally and internally.

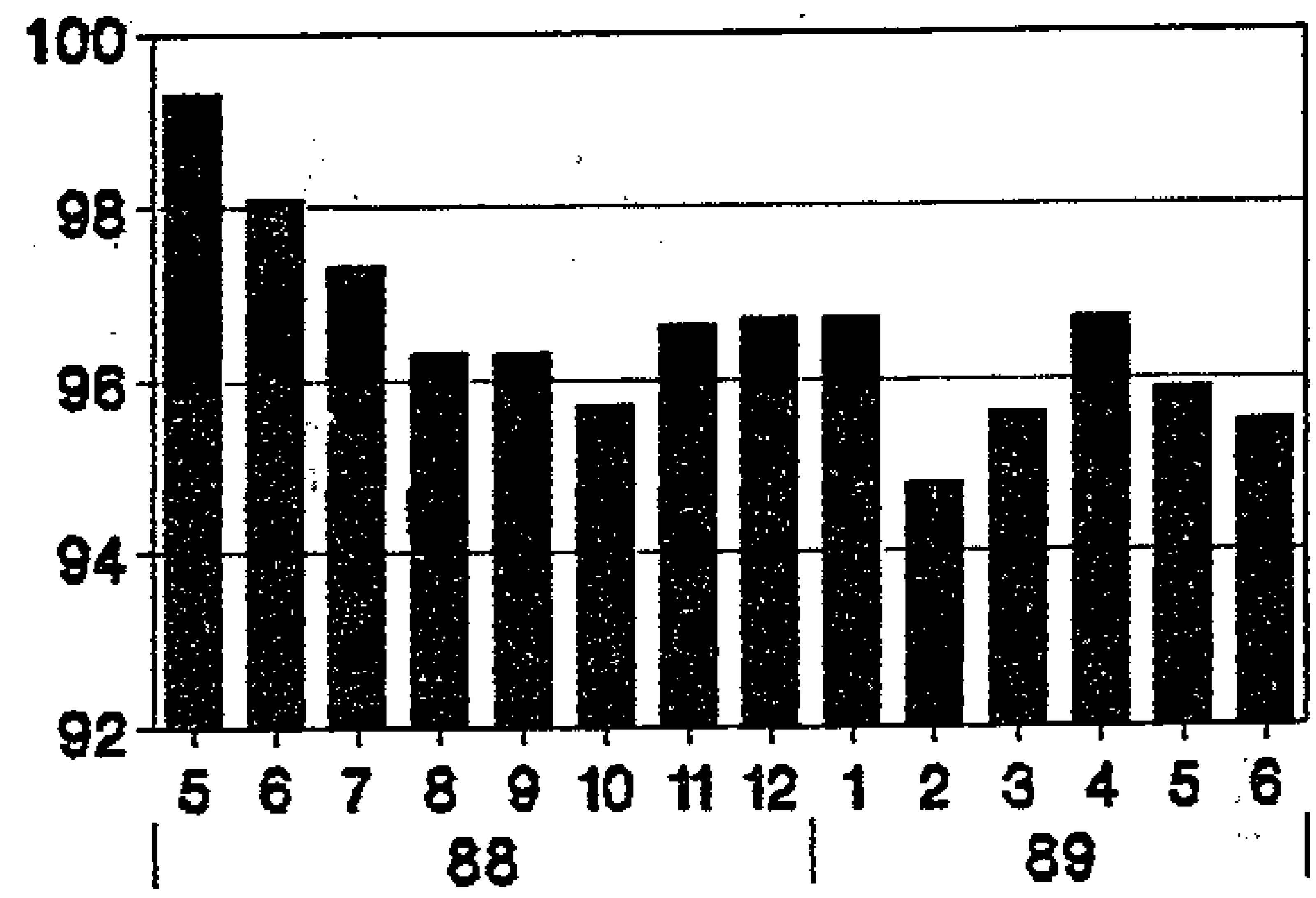
"There is still some way to go before the economy is out of the woods and existing policy measures must be given and opportunity to work properly".

The report says the decline in the index reflects less optimism rather than increased pessimism.

"This is partly because the impact of the business slowdown is currently unevenly spread through the total economy.

"Some sectors are feeling the slowdown in consumer spending more than others.

"In addition, many companies believe their balance sheets are stronger than they were at the commencement of the 1984/85 economic downswing.



Assocom's confidence indicator (1983 — 100)

"There is also a perception among many businessmen that interest rates have peaked, even though economists are divided on the question of future interest rate trends."

Evidence suggests that durables have been the hardest hit so far.

It says car sales are moving sideways and that the motor industry expects to be hit in the second half of this year.

There is a declining trend in the building industry and manufacturers are being hit by retailers de-stocking.

But demand for semi-durables and non-durable goods is still positive.

The negative factors in June were:

- The decline in the dollar price of gold and the rand/dollar exchange rate.
- The rising consumer price index.
- The rise in the 90-day BA rate and the completion of the first full month with the prime lending rate of banks at 20 percent.
- Manfacturers' physical volumes of production, the value of building plans passed and exports all registered declines
- A rise in the number of insolvencies.

These factors were somewhat offset by positive factors such as a rise in stock market prices, a slight improvement in retail sales, a decline in unemployment and a rise in the number of companies registered.

Fmail 23/6/89

MANSERV

Don Gray firms bought back

Of the many computer companies which rushed to the JSE in the heady days before the 1987 Crash, few received the enthusiasm that greeted Don Gray Computer Holdings (DGCH).

Shares in the computer services business were oversubscribed a record 292 times when it was listed on the DCM in September 1987. The DGCH shares, issued at 40c, rose to a high of 160c in weeks. But the company's dalliance with the stock exchange has proved to be short-lived. Less than two years after DGCH made its stunning debut on the DCM, its four original components — Don Gray Careers, Don Gray Contracting Partners, Don Gray Systems and Don Gray Training — have been bought back by their managements.

Gray ... listing decision was correct

Management Services Corp (Manserv) — formed by the merging of DGCH, Punch Line Columbia Training and Columbia Corporate Finance (Colfin) in October — has also shed labour relations consulting firm Levy, Piron & Associates (LPA). DGCH acquired LPA (formerly Andrew Levy & Associates) soon after it went public in September 1987. The only DGCH subsidiary that remains in the Manserv fold is microcomputer payroll specialist Accsys.

According to Don Gray, founder and former chairman of DGCH, the four companies which bear his name are back to where they were before the listing. Each of the businesses is going well, says Gray, but their managements wanted to be free of the pressures and restrictions on listed companies. Gray has acquired a stake in each of the companies but control will rest with the day-to-day management. The Manserv shares held by these parties have been relinquished as part payment for the businesses.

At the time of its listing DGCH was keen to position itself as not just a computer services supplier but a broad-based human resources group. LPA and Accsys were acquired soon after DGCH went public in an attempt to fulfil this ambition. However, few of the synergies which were expected to arise from these conglomerations actually materialised. To make matters worse LPA and Accsys — which were bought with highly valued DGCH shares — outperformed the original Don Gray companies in the first year of trading. By October last year, when DGCH merged with Punch Line Columbia Training and Colfin (later to became Manserv), the company's shares had fallen to 40c. Under the terms of the Manserv deal DGCH shareholders were offered one Manserv share for five DGCH shares.

Management services group Manserv, which was listed on the main board of the stock exchange in April, has seen its shares slip from 150c to 65c and is now undergoing a major restructure. The company's management, headed by Colfin executives Harry Spain, Phil Tunstall and Jeff Wiggill, are to buy Columbia Consultants' 33,73% shareholding in Manserv to acquire control of the group. Management will also make an offer to minorities. Manserv's largest minority shareholders are Datakor (20%) and Punch Line (8,43%).

Manserv, which has retained Accsys, Punch Line Columbia Training and Colfin, is to use the cash from the sale of the Don Gray companies to make strategic investments outside the services business. The company is expected to change its name and increase its focus on corporate finance.

Don Gray Contracting Partners, Don Gray Careers and Don Gray Training will revert to providing the computer industry with contract and permanent staff and consulting and training services. Don Gray Systems will continue to develop and market the Educos and Bottom Line software products. The synergy between the four companies will continue as in the past, says Gray. He still believes the decision to list the group was correct. "It might be a strange thing to say. If we hadn't (listed the group) we wouldn't have known what it was all about. It was an experience we all benefited from."

And the shareholders? "It is a concern to me. Unfortunately it is one of those situations over which one doesn't have any control. I didn't have control over the share price. As their equity reduced in value so did mine. We were in the same boat."

SA PHILIPS

Setting new targets

SA Philips has long been established as a major player in the consumer electronics, lighting, office automation and telecommunications markets but has made little impact on the local computer industry. Its revenues from this sector have by and large been limited to the sale of automatic teller machines (ATMs) manufactured by Diebold in the US.

However, the local subsidiary of the Dutch electronics giant now intends flexing its muscles in this market. SA Philips subsidiary Philips Telecommunication & Data Systems (TDS) is confident it can emulate its European parent and provide financial institutions with not just ATMs but also front- and back-office systems. The company is also targeting the insurance and travel/transport sectors.

"In Europe Philips is one of the largest suppliers of automated banking systems," says TDS computer systems GM Rex van Olst.

In order to penetrate these markets, in Europe and elsewhere in the world, the company has developed a broad range of PCs and mini (mid-range) computers which support applications based on Unix as well as IBM's OS/2 operating system. It has also forged close links with leading computer vendors such as networking specialist Novell and database developer Informix.

Van Olst, former marketing director at TSI subsidiary Perseus, believes Philips must position itself as a systems integrator — a company that provides communictions links between different systems — if it is to be successful in the local computer industry. The company is looking for allies particularly software and services companies, to help it achieve success in its three main target markets.

The range of IBM-compatible PCs — launched in SA last year to provide an upgrade path for the company's large base of dedicated word-processing systems — is expected to form a key part of TDS's systems offering.

Van Olst says more than 500 Philips PCs were sold in SA last year and believes this

Van Olst ... looking for allies

Business can be engine of reforms in Republic

180

Star 30/6/89

MURRAY HOFMEYR, chairman of JCI and S A Breweries, recently addressed a conference on the role of business in a changing South Africa, organised by the Transvaal Indian Congress. In this edited section of his speech he says business can be one of the forces pressing for political change and, ultimately, greater prosperity for all.

Mr Murray Hofmeyr ... sending world's bankers a signal.

If business can create normality with stability, there is no reason why we should not achieve growth rates far in excess of anything we have dared to talk about. Business has so much to offer.

But it all goes back to our willingness to become the agents for change. While recognising the need to change, business has favoured incremental change by piecemeal reform as a safer and less painful process, both in relation to the conduct of its own business and in regard to political and constitutional reform.

It would be foolish to deny the considerable value of incremental change, but it is simply not adequate to reverse generations of discrimination and domination.

Just as economic adjustments are no longer adequate to deal with the future, so too political adjustments and concessions are no longer adequate. In my judgment, the "adequate progress" of change which the Governor of the Reserve Bank, Dr de Kock advocated recently, can be no less than a commitment to a non-racial democracy.

This is precisely where business has a unique responsibility and opportunity, which I cannot stress too much. It would be completely naive to believe that the introduction of a universal franchise would automatically result in foreign capital flooding into South Africa.

However, if business is to be seen to be setting an example by recognising the need for a transformation strategy, both in regard to its own affairs including industrial relations and in regard to political empowerment, the rest of the world, not least its bankers, would see this as a powerful indication that the changeover to a normal society need not lead to instability or turmoil.

This action would also send a message of hope to the thousands of outstanding young people, who would desperately like to be part of a non-racial South Africa, but are just not prepared to be part of an apartheid society with military service and other commitments to support a system they believe to be immoral and indefensible.

I wonder whether we have any conception of the growth that could be achieved in a normal society? Has anyone attempted to quantify the funds that could be released for training and housing the people of South Africa, if taxation could be applied to these purposes, rather than to defence and to financing the completely non-productive superstructures of apartheid?

Are we really inferior to the Japanese and others, who have achieved fantastic progress for themselves and their neighbours by a proper utilisation of their human resources? And we have the additional advantage of being the richest country in the world as far as minerals are concerned.

BIDCorp looking for a target

S/Times 6/8/89

By Ian Smith 180

FAST-MOVING entrepreneur Brian Joffe is accustomed to acquisition talk after his every move.

But the ink was barely dry on the good results this week from his BIDCorp vehicle, which disclosed near-cash of R33-million, before suggestions of another merger or acquisition surfaced.

Mr Joffe says he is talking to other companies in pursuit of his aim to develop BIDCorp into a national trading and distribution operation. But he denies that Score Food Holdings is the target.

"We are always talking to someone, and we will do something sooner or later. But we have not opened negotiations with Score."

Halt

Score managing director Carlos dos Santos says: "We are not looking to buy anyone right now and we will never be sellers."

Score has been out of favour in the market since Grand Supermarkets halted the group's profit climb last year. A 19% fall in earnings to 81c a share in the year to February 25 did nothing to change sentiment. The share price is languishing at 550c, down from 1 400c a year ago. This week it put on 20c.

On the other hand, BIDCorp, which emerged from cash-shell Iclef nearly nine months ago, has gone from strength to strength.

First, Mr Joffe reversed respected food and catering supplies distributor Walter A Chipkin into the shell. Then he brought in frozen-food distributor Sea World and acquired control of Curries from March 1. From July 1 the group acquired 100% of National Spice and Erle and Stephens.

BIDCorp beat Mr Joffe's earnings forecast for the eight months to June 30 by 24%.

Turnover of R120,4-million produced earnings of R5,4-million — 92c a share against the forecast 74c. A dividend of 22c, covered 2,5 times, was declared.

Mr Joffe says the impetus will be maintained.

"Despite the slowdown in the economy I believe attributable earnings will grow in excess of the inflation rate in the next year of operation."

180 Bday 9/8/89

Soft landing in sight as austerity shock fades

KAY TURVEY

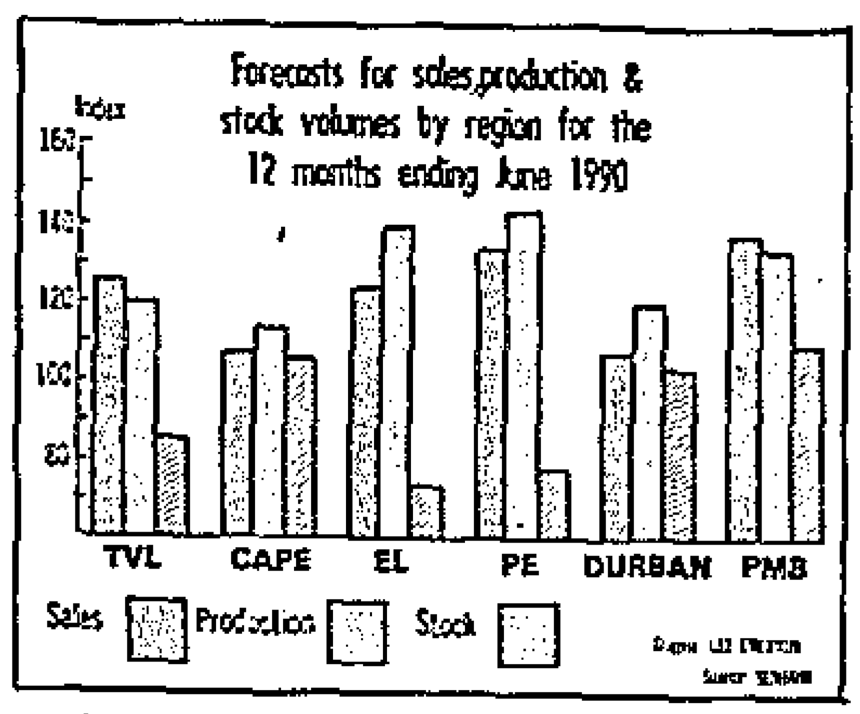
MANUFACTURERS expect a relatively soft landing for the sector as the shock of the May austerity measures appears to have dissipated.

The Federated Chamber of Industries (FCI) manufacturing index remains in the optimistic region above the 100 dividing point at 108 for July.

FCI economist Roelof Botha attributes industrialist's optimism to continued acceleration of economic activity in Japan, Western Europe and most newly-industrialised countries.

These economies are expected to show growth rates of 3% to 4,5% for the year, which will exert a multidimensional positive influence on SA's economy.

SA's positive export performance, led by a strong demand for base metals, showed no signs of abating, making a current account surplus of more than R4bn for 1989 a probability.



Capital investment as a result of strong growth last year continued. Botha said reports of significant productive investment projects were being received from all over the country, as firms were running at full capacity and needed to expand or replace obsolete machinery to remain competitive.

Rigid stock level control and the resulting better returns on operating capital had bolstered confidence, as manufacturers were not seeing money tied up in stock.

FCI industrial consultant Gad Ariovich said stocks held by manufacturers in SA had fallen 20% in the last decade as a result of computerisation and "just-in-time" delivery.

FCI has begun to survey stock levels in different regions. Although the sector as a whole remains relatively optimistic, regional confidence levels are widely disparate. In the Transvaal, sales are expected to outstrip production, reducing stock levels.

Seifsa's index of manufacturing activity, which is reported with FCI's, remains below the 100 borderline because of a fall-off in demand for products and as production capacity remains inhibited by the shortage of skilled labour.

The industry was not training any more people than it did in 1981, and this shortage was likely to be aggravated by a commitment to training when Iscor and Sats were privatised.

Business confidence takes turn for better

Star 9/8/89 (180)

By Magnus Heystek
Finance Editor

Fears of a sharp downturn in economic activity seem to be evaporating.

Indeed, in some quarters of the business community, among industrialists in particular, the level of optimism is slowly rising.

This much is evident from the latest Federated Chamber of Industry (FCI) opinion survey completed late last month.

A surprising feature of the survey, conducted among FCI-members on a countrywide basis, is that manufacturers generally expect both sales volumes and capacity utilisation to be higher in the next 12 months than they were in the past 12.

In the previous downswing the manufacturing sector was particularly hard-hit and underwent significant rationalisation.

This, together with improving export prospects, is likely to reduce the impact of the expected slowdown in domestic demand.

The FCI says this shows the economy is poised between an upswing and a mild recession.

The observation is supported by other business confidence surveys, which all have pointed to a halt in declining levels of optimism.

It would seem that the shock of the May 5 austerity measures has dissipated in most sectors, without seriously impacting on levels of activity.

The persistence of this net level of optimism, albeit marginal, according to the FCI, leads to the conclusion that businessmen in general are expecting nothing more than a soft recession.

Contributory factor

An important contributory factor in the re-emergence of confidence among manufacturers includes the continued resilience in Japan, Western Europe and most of the newly industrialised economies.

Increased activity in these countries is more than counteracting the decelerating US economy.

The Japanese economy is expected to grow at a rate of 4,5 percent this year and Western Europe's at three percent.

The FCI estimates increased exports to these countries should result in a current account surplus for South Africa in excess of R4 billion for this year.

The surge in capital expenditure in 1988 shows no signs of abating.

Reports of significant productive investment projects are being received from across the country, says the FCI.

This has been necessitated by optimal capacity utilisation in certain industries, coupled with consistently improving end-demand.

Another factor has been the need to replace obsolete equipment, especially in industries competing in the international market.

Port Elizabeth remained the most optimistic region in the survey period, both in regard to July's performance and expected manufacturing production for the next twelve months.

In the absence of any further austerity measures, confidence levels are unlikely to undergo significant revision until after next month's election.

(180) Finmail 11/8/89

FCI INDEX (180) Finmail

The mood improves

The mood in manufacturing industry continues to be positive. In the Federated Chamber of Industries (FCI) latest index, none of the regions recorded scores below 100 which marks the border between optimism and pessimism.

While Maritzburg's expectations for manufacturing production in July were on the 100 mark (thanks to unrest, boycotts and strikes), manufacturers remained very optimistic (134) for the year ahead. Similarly East London, hit by motor industry strikes, was only mildly optimistic for July (104) but felt buoyant about the year ahead (140).

Port Elizabeth, seemingly in terminal economic decline only two years ago, was the most confident of all the regions both for the month of July and the year ahead (144 in both cases). The buoyant mood is attributed to the strong export performance of its pharmaceutical, textile and tyre industries — and Mossgas.

But perhaps most significant was the increased confidence in the country's southern Transvaal economic heartland. The outlook in the region for the year ahead improved by 10 points (110 to 120). Nationally, the outlook for the year ahead improved from 116 to 122.

Says FCI chief economist Roelof Botha: "It seems that the shock of the May 5 economic austerity measures has dissipated. Several sectors seem to have absorbed these measures without serious impact on activity levels."

Botha says SA should benefit from the strong growth in the economies of her trading partners — Japan at 4,5% and Western Europe at more than 3% — even though unbeneficiated metals and minerals would gain more than the manufacturing sector.

He adds that capital expenditure has been strong this year and significant investment was taking place, both because companies were increasing their output and because there was a need to replace obsolete equipment.

The main cause for concern is that the engineering sector is not enjoying the same boom as the rest of manufacturing. The Steel and Engineering Industry Federation of SA index was 30 points into the pessimistic field. Seifsa economist Michael McDonald says consumer demand for flat steel products has levelled off and many companies have reached saturation point — skilled labour isn't available to take on more orders. ■

11/8/89

Isn't THIS what we should expect from business?

S/Times 13/8/89

180

by Peter Searle

the chairman of Volkswagen South Africa

THE primary role of business is business and not politics or matters of a socio-political nature.

However, in the circumstances in which we find ourselves in South Africa today, it is not possible to ignore political and socio-political factors, although I must hasten to add that businessmen generally seem to make rather indifferent politicians.

Underlying any initiative is an understanding that business needs to legitimise itself through demonstrable action. We have unfortunately reached a stage where we stand to lose goodwill while scepticism is mounting among black community leaders.

It is necessary to accept the inevitability and desirability of a nonracial South Africa, regardless of white election results and government five-year plans. What are five years of the same going to do that the past 40 years hasn't managed?

Survival

This is an absolute minimum and esssential point of departure. Any business leader, and indeed any South African who believes that it is possible to continue within the basic ambits of own and general affairs, group areas, co-option politics, patronage and consultation rather than negotiation, has lost touch with reality.

Both the demographic realities and socio-political and economic aspirations of the vast majority of black South Africans reject this process.

The choice for business is, therefore, one of survival in an apartheid society, or relevance in a post-apartheid society.

The first option offers short-term gains and medium-term disaster. The latter requires short-term courage and offers great opportunity and challenge. Relevance in a post-apartheid society will, however, be determined by the stance and actions taken in the current apartheid society.

Business can, and should, be instrumental in the identification and propagation of common interests that bind the majority of South Africans. Business is positioned to participate in processes which are aimed at rallying the majority of South Africans around common interests and principles that could ensure an equal, just and nonracial society.

The keys to success are twofold. Will enough business leaders rise to the challenge and commit resources to a short and medium-term endeavour and, especially, will black community and political interest groups accept the sincerity of such business leaders?

Reality

This remains to be seen, for while current initiatives are in the offing, they are still supported by too few, with too much suspicion and too little willingness to set aside the past and work towards the future.

We often express concern about black perceptions of political and economic realities. However, the political and social illiteracy of whites dare not be underestimated.

Those ingrained attitudes cannot be changed through theoretical processes. Only exposure to reality and each other can succeed. Business is possibly the only vehicle through which this crucial re-education process can take place on a large enough scale.

There is obviously a role for a company to play in participation with other companies, on projects such as housing, education and transport. But there is also a major need for companies to become more closely involved with the needs of their immediate environment and community.

The challenge for success is yet again to desist from unilateral or paternalistic actions, but rather to work with, and through, one's own employees and their communities. Obvious focal areas are poverty, education, housing and transport.

Oblivion

Union leaders seem to have become so embroiled in their day-to-day struggles that they have failed to open their eyes to the momentous economic developments of the '80s.

There seems little recognition of the restructuring process sweeping through eastern Europe that some would otherwise emulate; no recognition that the struggle for socialism has brought only economic devastation to southern African countries that have tried it; and complete oblivion of the fact that the only prosperous countries in the world today have predominantly free economies.

And it may be even harsher in South Africa, a decade behind the rest of the industrialised and newly industrialised world.

Union negotiations must be extended beyond mere wages and benefits. The problems of housing, health care, education, training, job creation and ways of keeping alive the unemployed need to be addressed. (These are the issues which trade unions and management need to be addressing).

Challenge

More pointedly, given their continued desire to hamper growth through sanctions, let the trade unions explain where the resources for such programmes are to be found.

The challenge is clear. Business either ensures its relevance in a post-apartheid society by taking unambiguous action, together with its workforce, aimed at the achievement of a nonracial society — or it capitulates to the forces of polarisation and conflict.

The only legitimate means of expressing black political aims and frustrations currently is through the trade union system.

The motor and allied industries, which have always been a prime target for labour movements throughout the Western world, are again experiencing a wave of unrest in South Africa, the root cause of which we are totally incapable of addressing. Only government can do that together with genuine black leadership.

It seems very clear that the type of industrial action that has been experienced nationwide in recent years and which has steadily grown in intensity will cripple the South African economy and South Africa's international competitive position far more effectively than sanctions if a more genuine attempt is not made to meet black aspirations through genuine negotiation.

EARNINGS PER SHARE (cents)

SUI

JULIE

S/Times 13/8/89

Property loan stocks in the sun

180

PROPERTY loan stocks are in great demand because investors expect a change in their classification.

Loan stocks are listed in the property sector of the JSE, but they are more closely allied to the property trust sector.

They differ from true property trusts in that they can borrow within limits, and pay for acquisitions by the issue of units.

A property trust is restricted from borrowing, and from issuing units, whereas property companies can be managed as the directors see fit, and as such are associated with higher risk.

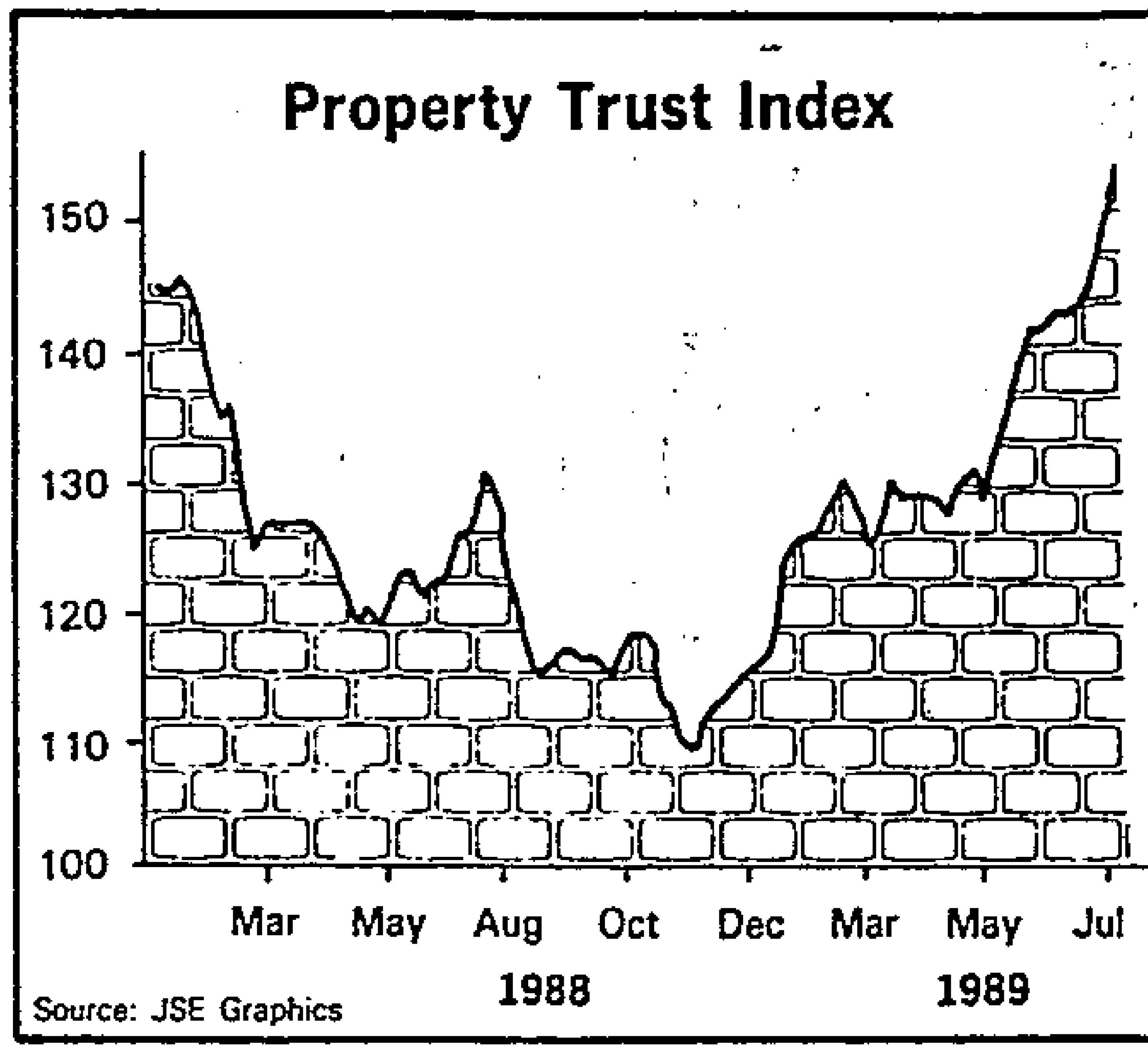
Property-share analyst John Rayner of stockbroker Max Pollak & Freemantle describes the JSE's property sector as schizophrenic.

He refers to the inclusion of companies whose operations range from mine dump retreatment to construction and broad investment trusts.

The misunderstood loan stocks got together and formed an association of which Retprop's Howard Schachat is chairman.

Mr Schachat says loan stocks were specifically designed to get around the restrictions placed on property unit trusts, but in such a way that investors gained a spread in prime property.

On Monday, the association warned that the Registrar of Financial Institutions had favourably received representations that loan stocks be classified as fixed property for the purposes of prudential investment guidelines regarding the new prescribed asset requirements.



AVERAGE

Under the new requirements, insurance companies may have up to 65% of their funds in equities and up to 30% in physical property.

But the average insurer has only 12,5% in property, and pension and provident funds average only 9%.

Mr Rayner explains the significance.

"When property trusts were reclassified as physical property it allowed institutions more cash for direct investment in equities. The property trust index has boomed by 50% since November last year."

It reached a high of 169 last week when all the counters were well bid.

Loan stocks are going the same way.

Since March, Retprop debentures are up 95c at 525c and Pangbourne at 510c is up from 360c last September. Higate has climbed from 400c to 550c since December.

Mr Rayner believes that yields on property trusts and loan stocks will look even more attractive when interest rates start to fall. This is because rental income growth is built in. Rents have accelerated rapidly in the past three years.

Mr Schachat says the association is lobbying the JSE to consider a separate property sub-sector to house loan stocks in order to overcome their identity crisis.

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Tecfin could tell a lot more

By David Carte

TECFIN, which this week became the first venture capital company listed on the JSE, has two things in common with Interboard.

First, it is controlled by foreign interests whom its executives do not know or do not choose to disclose.

Second, Tecfin deals with the same lawyer as Interboard — Paul Egerton Vernon of Nigel Harris & Partners, in Jersey, Channel Islands.

Bankrupt fertiliser company Hanhill also once used Mr Vernon. Tecfin managing director Peter Bird was a director of Hanhill when it went into liquidation.

But there is no connection between Interboard, Hanhill or Tecfin, says Mr Bird.

Lanseria

Mr Bird tells me he does not know who controls Jersey-registered Trevallyn, 100% owner of Icicle Engineering, which controls Tecfin. Trevallyn is also the name of a cluster of smallholdings near Lanseria Airport north-west of Johannesburg.

Trevallyn's investment in Icicle came through solicitors Nigel Harris & Partners of St Bernard, Jersey.

Mr Bird says he will introduce me soon to Mr Vernon and his foreign principals. They wish to put more money into Tecfin to fund the acquisition of four more specialised fastener companies. (Interboard also received lots of foreign investment capital.)

The JSE has been criticised for permitting Tecfin to produce a prospectus which fails to disclose the company's ultimate controller.

But JSE president Tony Norton says ultimate controllers are hardly ever mentioned in prospectuses.

Foreign control of Tecfin would ordinarily mean that its borrowing powers are limited, but this is not spelt out in the prospectus.

The prospectus omits other information — for example, that Icicle Engineering, immediate holding company of Tecfin, went insolvent and was rescued by Trevallyn in an offer of compromise.

Icicle, says Mr Bird, had assets of R9 000 against loan creditors of R480 000, trade creditors of R280 000 and preferential creditors of R2 000.

Mr Bird says Icicle's insolvency predated Trevallyn's involvement. Trevallyn made an offer to the creditors. Its R400 000 assessed loss was one attraction.

Background

Good public relations consultants would have advised a full explanation of the Icicle history in the prospectus.

Another omission from the prospectus is that Mr Bird was a director of Hanhill when it went into liquidation.

Describing Mr Bird's background, the prospectus says: "Joint managing director of a public company, appointed by the liquidators and the major creditors to monitor the liquidation of the company and its subsidiaries."

Mr Bird elaborates: "I went to Hanhill in September 1983 — well after it got into trouble. George Allison of Murray & Roberts asked me to see if I could find out what was going wrong. I came at the 11th hour.

"The position was hopeless, and I was retained by the liquidators and the creditors to supervise its liquidation. We did not mention Hanhill because of all the controversy over that company."

Mr Allison, now retired, confirms Mr Bird's statement.

Once again, good PR people would have advised Tecfin to deal with the past head on.

Potential

Tecfin makes much of the potential of its Klingbolt expanding wall fasteners. On page 8 of its prospectus, Tecfin says: "According to recent tests performed by the SA Bureau of Standards, the new Klingbolt recorded higher pull-out values than are needed in typical applications. In all the tests carried out, the set screw fails and not the anchor itself."

But the test report shows that anchors broke in three of the 13 bolts tested.

Seven of the 13 bolts tested were made of high-tensile steel — but Mr Bird confirms that Tecfin does not sell high-tensile steel bolts.

Mr Norton says: "I have read the prospectus and was satisfied. We put Tecfin through a helluva hoop on disclosure. The VCM is a high-risk, high-return market and the prospectus contains every health warning.

"You cannot expect the same standards of information on the VCM as on the main boards. It is important not to set such rigorous standards that you put people off.

"You know what a minefield venture capital has been in the past. The more VCM companies that step forward and subject themselves to our scrutiny and discipline, the fewer scalpings we will have of little old ladies."

There are 15,6-million shares in issue, of which only 2,48-million were issued at 25c to the public in the listing. Another 1,12-million were issued preferentially. The listing brought in R900 000 and valued the company at R3,9-million.

Tecfin comprises several interests, among them FS, which holds patents and trademarks for Klingbolt and a Du Pont chemical anchor. Tayson has a factory (cost R1,4-million) to make Klingbolts.

Mr Bird says strategy is to concentrate on specialised fasteners. He and his team are more financial than technical people, so the emphasis will be on acquisitions of companies with compatible niche products.

Biggest

The prospectus forecasts taxed profit of R193 000 in the current year, R274 000 in 1990 and a leap to R977 000 and R1,66-million in 1991 and 1992 respectively. The forecast is thus for earnings of 12,4c a share. The share price reached 30c hours after listing — 2,4 times forecast earnings.

A spokesman for the FSI Group says that one of FSI's companies or its pension fund bought a million Tecfin shares — roughly 6% of the company — shortly after the listing. He will not say which FSI company or pension fund made the purchase.

FSI's Natbolt is also SA's biggest fastener manufacturer, but the FSI spokesman stresses that it is purely a portfolio investment and that there is no strategic implication in the move.

"We do not want to be blamed for a lot of minorities rushing in to buy the shares on high expectations and then burning their fingers."

Autogen calls off rate war

By Robyn Chalmers

SHORT-TERM insurer Auto & General has taken the first step to end the rate war by increasing premiums by up to 30%.

The war has lasted 18 months. SA Insurance Association chairman Ron Carter describes it as the most intense he has seen.

Insurers slashed premiums to gain a greater share of the soft market, but the recently released results of SA Eagle, Commercial Union (CU) and Fedgen show how badly the rates war dented underwriting profits.

In the six months to June, SA Eagle reported a 71% slide in its underwriting surplus to R4,1-million from R14,3-million in the comparable time the previous year.

CU's surplus dropped by 20% from R10-million last year to R8-million for the six months to June. Fedgen turned its 1988 interim underwriting profit of R1,3-million to a R1,2-million loss for the same time this year.

Managing director Steve Klinkert says most of Auto & General's motor premiums will be increased by between 15% and 30% from September 1, but household policies will not be affected.

"We monitored our claims and found marked upward pressure on claims. We do most of our business in the summer rainfall areas, and claims soar in the wet season.

"Inflation and an increase in crime have forced us to charge more."

Mr Klinkert says many companies have been trying to expand their business in a market which is not growing much.

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Corporate

Standard Bank Insurance Brokers (SBIB) marketing director Gavin Almanza says many other factors contributed to the rate war.

"Some insurers have focused their marketing drive on low premiums, making the public price conscious. The ordinary person's disposable income has been falling.

"Insurers have paid increasing attention to the personal insurance market. Many previously concentrated on the commercial and corporate markets."

Mr Almanza says increased market share has been made attractive by high interest rates. The so-called cash-flow underwriting approach has been adopted by many underwriters.

This form of underwriting means high interest rates are used to make up the difference where premiums do not relate to risk. Mr Almanza says this is both a short-term and dangerous ploy. If interest rates fall, premiums are inadequate to cover risk.

Tall order

MUST Overseas Investments is contsructing one of the tallest buildings in Windhoek. Sanlam's R30-million project is 13 storeys high and will contain a 15 000m² office block and shopping area of 6 000m².

From Page 1

could influence production programmes at component industries.

The introduction of Phase Six of the local content programme will help to reduce foreign-currency pressures, but domestic price rises will play a more important role.

Mr Vermeulen says the motor industry pays some of the highest wages in SA. The

Strike toll

minimum is between R4,85 and R5,50 an hour compared with other industries where pay is from R2,50 to R3 an hour.

S/Times 13/8/89

Toyota says its lowest wage is R5,67 an hour, equivalent to R1 105 a month. This compares with R950 a month for a matriculated clerk starting in the public service.

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Big aid plan for SA

THE United States and Canada are considering a "massive" investment in black business ventures in South Africa.

The US programme is part of the campaign to support the "victims of apartheid" as laid down in the US 1986 comprehensive Anti-apartheid Act.

Barry Walkley, Press information officer at the US Embassy in Pretoria, confirmed this week that Aid (Agency for International Development) was investigating the feasibility of a private venture capital company to make "commercially viable investments" in black business.

The project is part of Aid's seven-year Black Private Enterprise Development Project (BPEDP) launched in 1987.

Financial assistance will be targeted at initiatives supporting micro and small black enterprises, facilitating black participation in the primary economy, and strengthening the capacity of black business institutions to describe and articulate alternatives to the economic inequities caused by apartheid.

Aid has also had discussions with the US Export-Import bank (exim-bank) to investigate the feasibility of making the bank's services available to black business.

The emergence of black business institutions, according to a USAID document, is critical to the development of a successful black-controlled South African economy.

Such ventures, the document says, can serve as vehicles for building black managerial talent and as catalysts for further black economic empowerment.

"Moreover in a community where capitalism often connotes racism, these institutions can provide visible examples of business working for, rather than against, the interests of black South Africans," it says.

Cape Times 16/8/89 (180)

SBDC Entrepreneurs of the Month

By AUDREY D'ANGELO
Financial Editor

SUCCESS in the export market is not restricted to large firms, Wolfgang Thomas, regional director of the Small Business Development Corporation (SBDC) in the Western Cape, pointed out yesterday.

A survey by the SBDC Cape Town office has confirmed that some of its clients are doing well with overseas sales — and the weakness of the rand is boosting their exchange rate profits.

Urging other small manufacturers to consider exporting, Thomas said that in addition to high rand returns it could mean more stable demand for industries with seasonal local markets, and protection against cyclical downturns in SA.

The Western Cape SBDC Entrepreneur of the Month award has been shared between three companies with growing export sales — Filmair, Firefite and Gabler Medical.

Filmair was started by Ken and Deanne Eddy, both of whom have an engineering background but have been in the film industry for many years, when Ken discovered that imported equipment for aerial cinematography was too expensive for the SA market.

Ken Eddy and his wife Deanne (above), of Filmair, demonstrate one of their light, versatile cranes which are used by film crews in Europe and the US.

He manufactured a helicopter mount which he used to shoot all the footage for the multi-award winning Satour production "A World in One Country". Deanne, who is believed to be the first woman in Africa to hold a helicopter pilot's licence, did the flying.

They started exporting helicopter mounts and cranes with immediate success. When the "Shaka" epic was being filmed Ken designed and manufactured a light versatile crane, the Giraffe, with more reach than any other available. Overseas companies were immediately interested.

Reiner Gabler of Gabler Medical, which is steadily building up exports of hospital equipment.

Filmair has a London office and its turnover has increased tenfold in about five years. It is currently building new premises in Paarden Eiland for further expansion.

Firefite was started 20 years ago by Robert and Margerett MacFarlane working from home. In the beginning, they installed imported fire detection equipment in factories and offices.

Margerett Macfarlane, an executive director of Firefite, with some of the advanced fire detection equipment exported to nearly 20 countries.

Then they began to manufacture their own and now they have 70% of the SA market and export to nearly 20 countries.

Robert's brother Malcolm and his wife Minnie, who joined Firefite 10 years ago, now run a technical support centre in England.

Margerett concentrates mainly on the export market, working closely with the office in England, and stresses that it is vital never to fall down on delivery dates.

Firefite, which is believed to be still the only SA manufacturer of fire detection equipment, divides its market equally between export and domestic sales at present. It employs 160 people.

Gabler Medical was founded 26 years ago by Reiner Gabler's father, to repair and maintain hospital equipment. It began to manufacture its own products and gained a major share of the SA market.

About two and a half years ago, soon after Reiner Gabler joined the firm, it was decided to search actively for export markets. Reiner has spent about five months abroad in the past two years, achieving export orders amounting to 5% of annual turnover.

This is expected to reach 20% of turnover in the coming year.

Reiner stressed that it was important to research target markets, gaining a thorough understanding of local conditions and finding out the key players.

The Star
Finance

Star 17/8/89

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Corporate sector is warned: don't ignore black interests

As South Africa approaches the post-apartheid era, there will have to be a restructuring of the ownership of the corporate sector along with an end to paternalistic and "swart gevaar" attitudes which once called for the rolling back of the black tide.

This was the challenge handed out to the business community by Mr Murray Hofmeyr, chairman of Johannesburg Consolidated Investments when he gave the Andries van Riet address at the opening of the South African Property Owners Association conference in Johannesburg yesterday.

"If the reorganisation and survival of the market system is conducted without regard to black interests, the result will be an aggravation of political conflict," he said.

"We cannot escape the fact that blacks, comprise three quarters of our total population and that their current entrepreneurial exclusion is a grave defect of our economy."

Calling for new ways at working with, rather than against, black ideological preferences, Mr Hofmeyr said this might have to mean the helping of blacks in the establishment of co-operative enterprises as a means of achieving greater black entrepreneurial participation.

Pointing out that big business had shown no evidence of responding cohesively to changing political circumstances, mainly because it has been "unable to reconcile its diverse political strains", the JCI chairman said:

"Business has looked to the Government to do the job and Government has failed because it is, itself, trapped in power conflict."

CAPITAL OUTFLOW

Quoting the late Dr Gerhard de Kock, former Governor of the Reserve Bank, Mr Hofmeyr said the runaway growth in net capital outflow of R25 billion between 1985 and 1988 was the direct result of a marked deterioration in overseas perceptions of the political situation in South Africa.

And he referred to Dr de Kock's reminder that "the ideals of optimal growth, low inflation, a strong currency and a rising standard of living will not be achieved without adequate progress in the field of political and constitutional reform and a consequential easing of the stresses and strains in relations with other countries".

Referring to the "moment of truth" facing the country at the September elections, Mr Hofmeyr said: "In an extreme case, economic failure could produce a reaction under the present constitution which could result in returning the Conservative Party to power and all that implies with white domination, forced removals, labour unrest and a breakdown in our external relations."

Squeeze brings wave of debt judgments

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Star 17/8/'89.

By Derek Tommey

The ugly side of the Government's squeeze is starting to emerge, with thousands of individuals and hundreds of under-capitalised companies finding they can no longer pay their debts.

Debt judgments against private persons reached a record 79 183 in May — almost 20 000 more than in May last year.

In the first five months of this year judgments were made against 352 000 people — 31 percent more than a year ago.

At the same time, some businesses report that up to 45 percent of their outstanding debts are overdue.

However, there has as yet been no increase in the number of businesses being sued for debt.

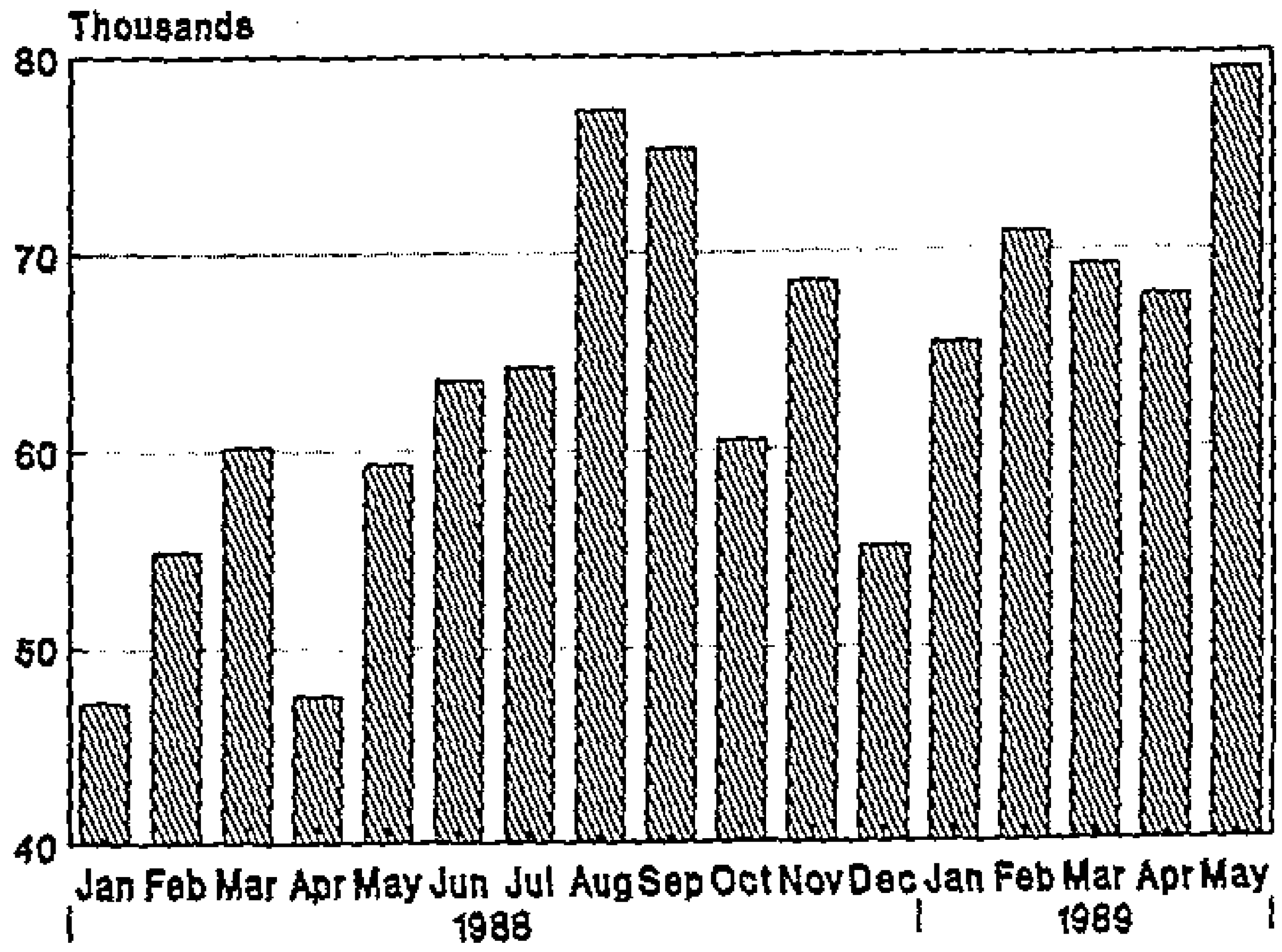
But bankers say this is just the start of a period of hardship for many firms and individuals and that the figures are likely to worsen in the months ahead.

Individual debt

The jump in individual debt judgments is blamed to a great extent on the steep increases in interest rates over the past 20 months.

At the start of last year it was still possible for people to buy a house with a 100 percent bond at 13 percent.

By the end of last year mortgage rates had reached 17 percent and are now 19,75 percent to 20 percent.



Debt judgments against individuals rise steeply.

Last year's homebuyers are having to make much bigger repayments than they ever expected and, in a great many cases, were able to afford.

Building society officials say the last increase in mortgage rates tipped the scales for many buyers and resulted in a jump in arrears payments.

These figures are not yet reflected in the official statistics for debt issued by Central Statistical Services, but are likely to show up in the next month or so.

KreditInform, a leading financial information services company, is finding similar hardship among businesses.

Managing director Ivor Jones says figures abstracted from its information sharing system show that of the R884 million owed by 65 000 debtors to more than 70 subscriber companies, some R300 million is overdue.

If this amount remains overdue for a year, it could cost the subscriber companies R60 million in lost interest — almost R1 million each.

"This highlights the fact that companies often lose more revenue to slow payers than to bad debts."

Mr Jones says the building material suppliers are among the worst hit, with 45 percent of their accounts overdue.

Many small builders are running into difficulties.

While the suppliers have an excellent level of credit management, the building industry is vulnerable to high interest rates and inflationary price increases.

A large number of small contractors belong to the pick-and-bakkie brigade. They are under-capitalised and when making quotes often fail to take into account price escalations.

Mr Jones says he expects many problems in the industry in the months to come as the effects of high interest rates filter through and as the downturn in takes its toll.

Other areas where overdue payments account for more than 40 percent of outstanding debts are the textile and clothing manufacturing sectors.

Slow-paying retailers are hurting both the clothing and textile industries.

"If a clothing manufacturer is being paid slowly there is no way he can afford to pay his creditors any faster," says Mr Jones.

The problems faced by retailers is highlighted by the fact that 27,1 percent of companies under compulsory liquidation in May were from the wholesale and retail trades.

Radio and TV suppliers and financial services companies report overdue payments comprise more than 30 percent of their outstanding debts.

Mr Jones says whenever interest rates start to rise, there is an upsurge in under-capitalised companies running into trouble.

So you think you made a nice profit

Star 19/8/89

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DEREK TOMMEY

SINCE 1981 industrial share prices have risen 148 percent on the Johannesburg Stock Exchange. But in spite of this huge rise, anybody with industrial shares who believe they have become any richer in this period are living in a cloud-cuckoo land.

For while share prices have been rising so, too, has the consumer price index — by 188 percent since 1981. This means in real terms holders of industrial shares today are some 20 percent poorer than they were in 1988 in spite of the apparent strong gains they have achieved.

This point is strongly brought home by Johannesburg stock broking firm, E W Balderson, which has calculated the "real" industrial share price index since 1960, by adjusting the monthly closing statistics provided by the JSE with the movements in the CPI.

The results are quite startling. Not only do they show that in real terms the industrial share price index has shown hardly any growth at all in the last 30 years, but that anyone who bought shares at the height of the 1969 boom would still be showing a capital loss in real terms.

However, for investors the problem goes much deeper than this. In the long-term share prices are determined by the level of company earnings. And if share prices have not grown in real terms it seems the same can be said about company earnings.

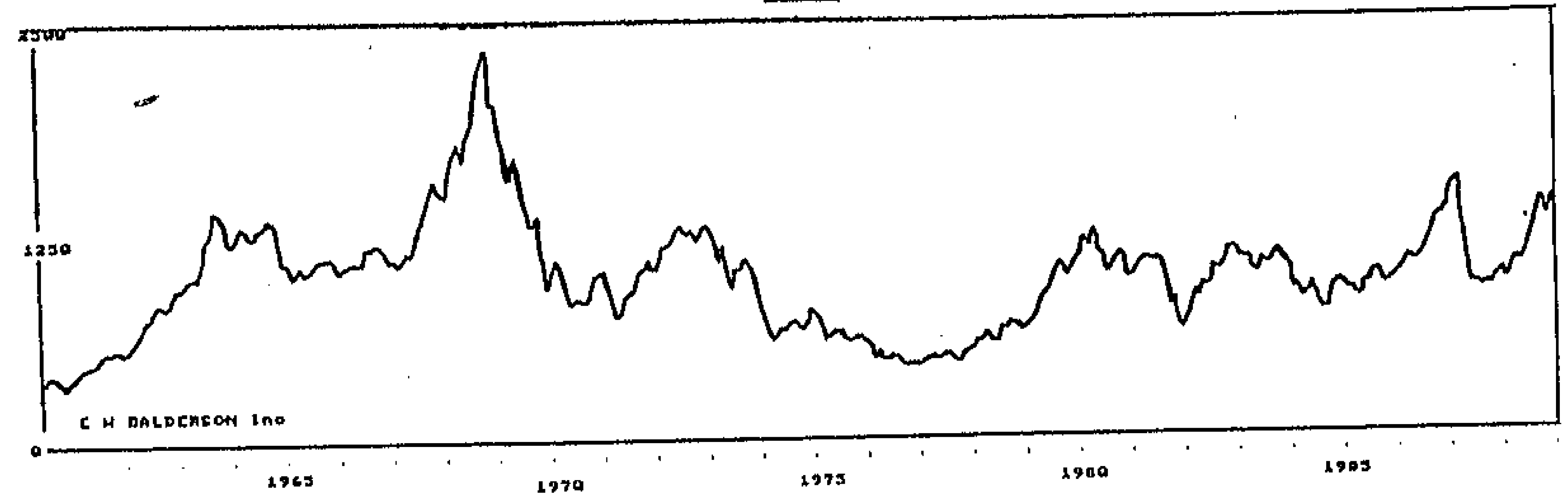
In fact, there is considerable concern in accounting circles and investment houses that because inflation falsely inflates profits some companies may have been paying taxes and dividends out of these "phantom" earnings — which means out they have been paying out their capital.

This has led to another move being made in South Africa to make companies adopt a form of inflation accounting. This was attempted some 10 years ago but for many reasons was not successful.

Draft proposals are being circulated among the accounting profession and there are hopes that accounting for inflation could become law in the not too distant future.

One of the world's leading exponents of inflation accounting, Mr Ahron Fass, a practicing chartered accountant in Israel and who is on the staff of the Tel-Aviv University spoke in Johannesburg this week about the need for inflation accounting, or as he prefers "accounting for changing prices".

Inflation accounting tries to measure the real profit — that is, after taking into account the effects of inflation on the purchasing power of the monetary unit.



The Industrial index is climbing, but look what has happened in real terms.

Mr Fass said that management was unlikely to implement inflation accounting as this usually meant they would have to report lower profits.

Speaking at a presentation by Kessel Feinstein, Mr Fass said that South Africa must not expect to be able to introduce a perfect form of inflationary accounting overnight.

"We are talking about a totally new approach to basic accounting, an approach which has not been used by accountants in the past, and they have to be educated and prepared for it which takes time.

He added that the exposure draft recently published in South Africa, whether it was implemented in one, two or three years, would need to be changed in time. "But you have to realise one thing. Those changes cannot be worked out on a computer. You cannot get a think-tank to say what the changes should be. They have to be worked out by trial and error."

Some investors and accountants might query the need for inflation accounting for public companies. Although investors in equities might not have become as wealthy as they imagined, they are still far better off than if they had invested in other mediums and, in the end, that is what really matters.

But not having equity accounting is a form of self-deception. It prevents South Africans from being fully aware of the ravages of inflation — something which foreigners with investments here appreciate only too well — for inflation eventually shows up in a lower exchange rate.

South Africa badly needs foreign capital. But it will not get it unless investmest in South Africa is commercial attractive, let alone politically attractive to foreigners.

While South Africans may fool themselves that the smaller rands they receive are making them wealthy, foreigners know this is not so. German investors have lost 49 percent of their capital invested here in the past three-and-a-half years, British investors 33 percent and American investors 17 percent.

Under these conditions South Africa has little hope of getting more foreign investment.

Second stringers worth a nibble

SlTimes 20/8/89

180

Business Times Reporter

IT is time for investors to focus on the shares of smaller, second-tier companies.

That is the advice of Metfund chairman Ian Kantor in the unit trust's report for the year to March.

He says prices for these shares have been lagging behind those of top-quality industrial stocks.

"We also believe that they do not yet reflect the enormous potential of the South African economy and spin-off from the increased exports, import replacement and deregulation currently taking place."

Mr Kantor says the prices of SA shares have risen remarkably in the past year.

"Price earnings ratios still offer value on a historical basis and prospects for long-term capital growth remain encouraging.

"We would add, however, that given the prospect of some slowdown in the near term in the world economy that we would now switch our emphasis to the smaller second-tier companies."

He says fixed-interest investments offer excellent value internationally, but the same does not hold true for the SA market.

"Interest rates remain clouded by political intervention and do not offer the same kind of real value domestically as they might do internationally. We would remain cautious on interest rates and the gilt and semi-gilt markets."

Mr Kantor says Metfund was well received by investors in its first full year, attracting more than R5,1-million from new unitholders. The unit trust's repurchase price increased from a low of 88,91c in April 1988 to a peak of 121,06c in March this year — an improvement of 36,2%.

He remains optimistic about the SA economy, but warns that if it is to have the hoped-for soft landing attention must be paid to structural problems.

"A re-focus on added value exports and, most importantly, increasing deregulation in every area of the economy, from job reservation through privatisation to the deregulation of prescribed assets for financial institutions, provide a foundation for ongoing improvement in the SA economy.

"The prioritisation of economic issues ahead of political issues is critically important as it allows political change to naturally follow economic change."

JSE share prices powered upwards by Wall Street

Star 21/8/89 180

By *Derek Tommey*

It is no coincidence that the value of shares quoted on the Johannesburg Stock Exchange last week broke through their 1987 peaks to a new high just when US share prices were doing the same.

An analysis of the factors that have carried the JSE upwards in the past 18 months to a new peak shows fairly convincingly there has been a major change in the forces affecting South Africa's economic situation.

The analysis shows that current growth in SA is probably linked more closely to the health of the economies of the US and other major countries than ever before.

The JSE appears to be increasingly driven by the American economy and affected by the same factors that are moving Wall Street.

This suggests that the JSE is now Wall Street-driven.

The JSE's all-share index spurted 23 points on Friday to reach 2811.

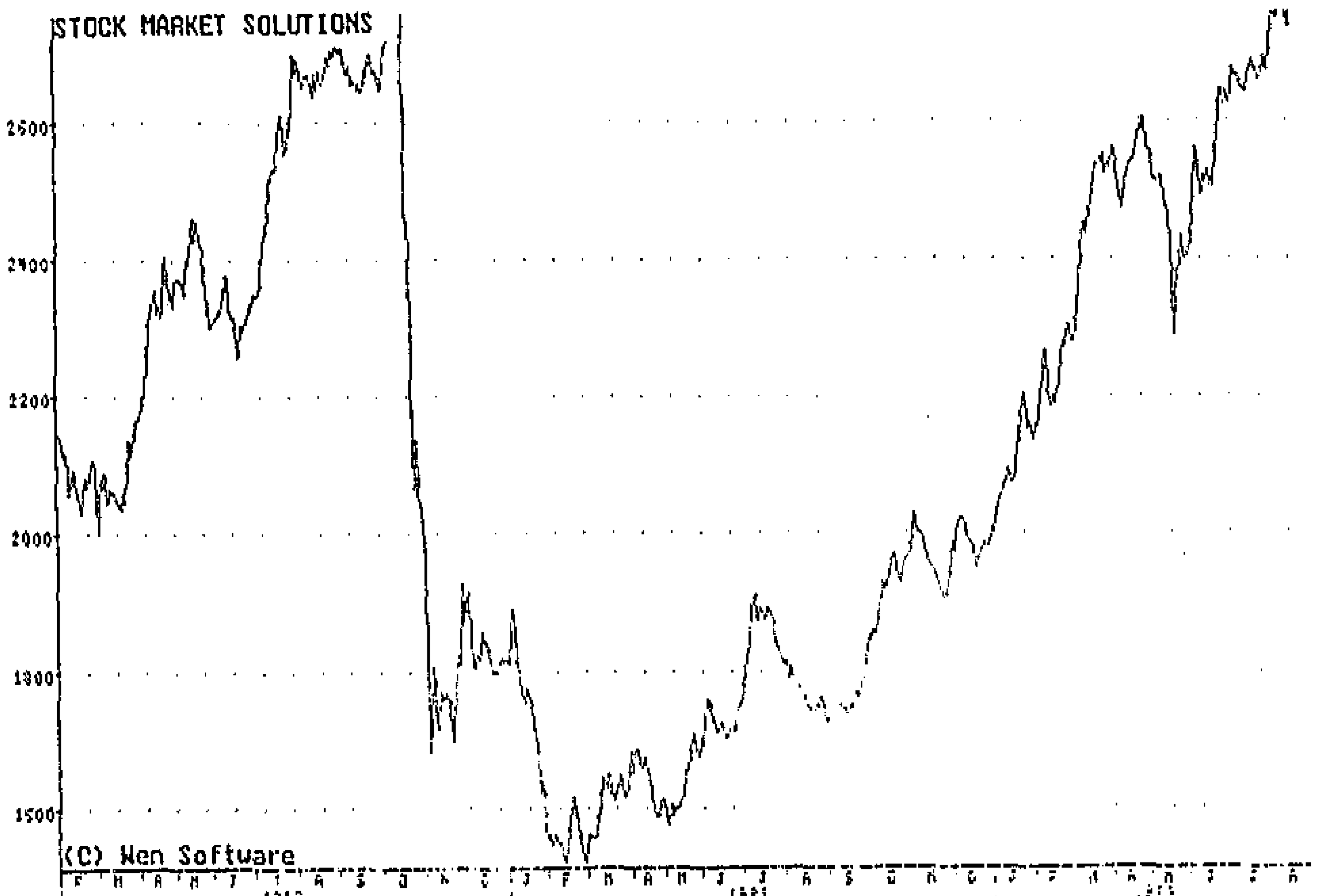
This was seven points higher than the 2804 reached in October 1987, just before Wall Street and the rest of the world's share markets staged a major collapse.

After this unhappy development the JSE all-share index plunged almost 1300 points before bottoming at 1512 early last year.

Looking back, this was the perfect buying opportunity — if one knew what to buy.

Since then the index has risen 85 percent, which must be one of the strongest share market recoveries SA has known.

The running has been made by steel shares, which are 138 percent above their 1987 peaks, by tobacco shares (135 percent higher), copper shares (75,7 percent), manganese shares (67,3 percent), paper shares (62,2 percent), fishing shares (57,5 percent), coal shares (54,5 percent) and food shares (50 percent).



The all-share index has surpassed its October 1987 level

The improvement in all these sectors is entirely the result of good economic conditions overseas.

The price of steel and managanese shares has soared in the wake of the worldwide steel boom, which has provided a strong market for South African steel and for materials used in steel manufacture, such as vanadium and manganese.

The rise in tobacco shares has nothing to do with cigarette production or smoking in South Africa.

It is the result of increased investment overseas by the giant Rembrandt group.

The gain in the paper index reflects Sappi's outstanding export performance.

The improvement in fishing shares is also the result of increased sales overseas.

Rock lobster and other fishing delicacies sell well abroad.

The strong showing of the coal index is the result of increased foreign demand at higher prices for South African coal.

The rise in the food index partly reflects investment in fishing companies by the major food companies.

The 43,1 percent rise in the transport index is partly the result of Jowell transporting increased quantities of ore from the mines in the Northern Cape for processing for export.

If one looks hard one can find foreign developments behind much of the good performance of the other indices standing above their 1987 peaks.

However, this reliance on overseas developments suggests that South Africa and the JSE could be much more vulnerable to setbacks in the American economy than has previously been supposed.

In marked contrast to the strong behaviour of these "export" shares, many of the 1986-87 favourites have failed to perform this time around.

A great many people are still holding shares which cost them far more than they are worth today.

Electronics shares have not lived up to the great future that was forecast for them and the index of electronics shares is still 40 percent below its 1987 peak.

The twenty percent rate of interest and recent increases in taxes are are making life extremely difficult for the furniture, property, building, construction and footwear sectors.

The share indices for these sectors are 20 percent to 37 percent below their 1987 peaks.

Banks and motor shares shares still have some way to go before recovering their 1987 levels.

Gold shares too, are still extremely depressed and the all-gold index is 33,6 percent down on its 1987 peaks.

Many sectors will need to perform more vigorously before a large number of investors see any reason to cheer.

Percentage change in shares since 1987:

Steel:	[illegible]
Tobacco:	[illegible]
Copper:	[illegible]
Manganese:	[illegible]
Paper:	[illegible]
Fishing:	[illegible]

1.3 Community

1.3.1 Neigh

The developme ... sponsive to the
needs of the ... city at large.
Meetings wil ... feelings of the
community an ... s. Safety and
security on ... c, noise,
lighting, an ... eed to be
addressed in

Industrial Holdings:	[illegible]
Industrial:	24,0
Metals & Minerals:	21,5
Finance & Industry:	16,3
Sugar:	16,3
Insurance:	15,2
Engineering:	7,7
Diamonds:	5,5
Stores:	4,3
Platinum:	3,8
Mining Houses:	3,5
Financials:	1,3
Beverages & Hotels:	-0,4
Pharmaceuticals:	-0,7
Printing & Publishing:	-2,4
Mining Financials:	-3,7
Property Trusts:	-5,2
Chemicals & Oil:	-9,2
Mining Production:	-13,8
Banks:	-16,7
Motor:	-18,9
Building & Construction:	-24,0
Mining Holdings:	-26,4
Clothing & Footwear:	-26,6
Property:	-27,0
"Other" Metals:	-29,7
All Golds:	-33,6
Furniture:	-37,0
Electronics:	-40,5

1.3.2 Park

Police and f ... the site, fencing,
and area lig ... gated in the
promotion of ... city and the
neighbours v ... portant topic so
that all par ... have been
considered. Any pathways will accommodate police and maintenance vehicles. Special fencing to protect private property may be required in places.

1.3.3 Parking and Traffic

Parking requirements will depend on the access routes, park user type, and the method of transportation that park users choose. A thorough study involving communication with city and neighbourhood groups will be completed before final determination of the amount of parking necessary.

Access to the park should be designed to minimize impact on the neighbourhood. The reconstruction of Oak Drive will achieve this goal while at the same time maintaining acceptable traffic standards.

2 Scope of Work

The following scope of work and task assignment information demonstrates our approach to the designing and development of the park.

2.1 Phase 1: Data Collection and Analysis

Collection of information about the current state of the site will include:

* Field and photogrammetic survey and preparation of topographic map[1]

1 1"=20' with 1' contour intervals

Back export-boosting drive, FCI urges industry

Star 21/8/89

180

By Michael Chester

The Federated Chamber of Industries (FCI) is urging the manufacturing sector to join a new nationwide exercise code-named Team RSA — a four-pronged boost to the country's export drive.

Details of the exercise will be spelt out at a two-day conference in Johannesburg on September 19 and 20, which will be followed by identical sessions in Cape Town and Durban.

Much of the emphasis will be on the successes being scored by using unconventional techniques such as counter-trade to open new trade routes to find alternative markets to ones closed or restricted by sanctions — particularly tapping the potential of exports to the rest of Africa and behind the Iron Curtain.

Special attention will be paid to mapping out new strategies which may be needed as Europe moves towards the 1992 deadline for total unification.

FCI executive director Ron Haywood believes the entire export drive is on the brink of a fresh dynamism as new links are forged between the private and public sectors to clear the routes into overseas markets.

The four-pronged exercise will harness co-operation between the FCI, SA Foreign Trade Organisation, Department of Trade and Industry, and Department of Foreign Affairs.

All four will be sending its top executives to address the conferences and the new Cabinet, to be named in the wake of the September 6 election, is also expected to send a senior Minister to deliver each opening address.

"Political pressures and sanctions have already forced South African manufacturers to put on their thinking caps to devise new strategies to keep exports rolling," says Mr Haywood.

"The consolidation of Europe into a single market in 1992 raises still more vital issues for our exporters. Will they be frozen out? Or will Europe emerge as a giant, single new market that will provide even bigger trade opportunities?

"The series of conferences will show there is tremendous potential for South Africa to expand its overseas trade if we work as a team — Team RSA.

"A principal aim is to persuade rival manufacturers to bury old hatchets about competition from next-door neighbours and join forces to pool resources to hone a far sharper edge to drives into overseas markets.

"That is not just theoretical idealism. It's already working between a number of major industrial groups, with enormous success.

"The Department of Trade and Industry will also be spelling out the proposed new government incentive packages, which promise to give new clout to export efforts."

All three conferences will be joint exercises between the FCI, Deloitte Haskins & Sells and the Barlow Rand group.

TGH earnings soar by 196%

Cape Times 22/8/89

By BRUCE WILLAN

TOLLGATE HOLDINGS (TGH) earnings soared by nearly 200% on a turnover of R633 586 000, which puts it among the big league industrial conglomerates.

Shareholders should be more than content with the 11c final giving a distribution for the full year of 21c.

MD Hennie Diedericks and his team have clearly discounted criticism that it has grown too big too quickly.

Diedericks is also adamant to prove the assets the group has acquired can work harder and produce better results.

Shareholders will now probably see a period of consolidation following a hectic period of growth both organically and by acquisitions which saw Arwa, Drivetech, Entercor, and Gants, all becoming subsidiaries.

The year also saw Drivetech dispose of its chain division, the disposal of Multimoch by Drivetech to Tramway Holdings, and the reverse listing of Entercor into its own subsidiary, Deale and Huth. All divisions, with the exception of Gants, performed well.

Gants which was acquired earlier this year, has been restructured and the board is confident of a turnaround.

The group has no immediate further acquisition plans but will treat any opportunities on their merits.

Divisional contributions forecast for the year are seen as 30,2% from textiles, 24,1% from food processing, 14,4% from wholesale distribution 13,4% from leisure and the balance from Tramways' transport operations.

The income statement shows the remarkable progress that has been made. Turnover rocketed 210%, pretax profit was up 139% to R36 418 000 and earnings 196% to R22 609 000.

Only the retained profit looks less on a technicality — the sale of Rustenburg Bus Services last year produced an extraordinary once-off profit of R30m.

Commenting on the results, the board said Arwa is trading according to budget and the company expects to achieve its 25% growth in earnings.

Tramway Holdings has been undergoing a major review of its activities to eliminate unprofitable services.

Entercor's results are "most encouraging" and the reconstruction of Drivetech will provide a base for future growth.

Diedericks is confident that TGH will have a debt to shareholders' interest ratio of 55% by December, and with the strong cashflow position of the group shareholders can look forward to good results in the future.

FMail 1/9/89 (180)

MANUFACTURING (180) FMail

Eight-year lag

SA industry is characterised by low productivity, which not only inhibits exports, but often makes it cheaper to import goods than to make them here.

One reason for low productivity has been highlighted by a survey of the planning processes in 300 local manufacturing companies. Conducted by John Burmaz, head of the Operations Systems Management Department at the Technikon Witwatersrand's business school, the survey shows SA manufacturers to be lagging eight years behind those in the US in implementing manufacturing resource planning (MRP) systems.

This is important, Burmaz tells the *FM*, because such systems can improve customer service by at least 40% and stock turn by up to 55%.

MRP used to stand for material requirements planning. But as computers have become more powerful and software more capable, many new aspects have been incorporated into what has become known as MRP2. These include financial and business management and even marketing. "MRP2 is a planning tool to organise an entire company," says Burmaz.

It is only after successful implementation of MRP2 that companies can take full advantage of just-in-time manufacturing techniques that reduce a company's need for investment in inventory and warehousing, he says. "Seat-of-the-pants management is no longer good enough. Manufacturers need good forward planning to obtain high rates of efficiency and productivity."

A member of the national council of the SA Production & Inventory Control Society, Burmaz undertook the survey as a thesis for a master's diploma in technology. Companies surveyed were in a wide range of industries including automative, vehicle component, electronics and engineering.

Response showed that it is not just large organisations that can benefit from MRP2. Systems are now available on PC and are affordable by the smallest of companies. The problem, he says, is the skill level of the people using the system. The survey showed that even where MRP2 has been implemented, minimal training is provided.

Yet, to be competitive in world markets, SA needs thousands more managers with professional qualifications and few educational institutions are offering appropriate courses. Burmaz cites his own institution and those in Cape Town and Port Elizabeth as exceptions.

"But don't blame the academics," he says. "Industry must create the demand for training." ■

Donald Gordon lifts the lid on a stormy saga of boardroom battles

Business Times Reporter

HARRY Oppenheimer, Anton Rupert, Sir Michael Edwardes, Derek Keys and other princes of commerce and industry this week gathered at Liberty Life's head office in Johannesburg to celebrate the launch of a book expected to rock the business establishment. S/Times 3/9/89

In tribute at the launch, Mr Oppenheimer called Donald Gordon "perhaps the greatest businessman of the post-war generation".

There could be different responses from other heavyweights mentioned in the controversial book.

Titled Larger Than Life — Donald Gordon and the Liberty Life Story and written by former Financial Mail deputy editor Ken Romain, the book describes, in detail, the major deals that shaped Liberty Life over 30 years. Many of them, such as the Premier-SA Breweries transaction, were highly contentious.

Kersaf chairman Dick Goss, for instance, is reported to have fumed, "There's no way I'll ever allow Breweries to become the equity accounted appendage of a dog-food manufacturer" after being told Premier Group had become its new holding company.

Mr Gordon describes the first meeting of the SAB board after announcement of the proposals: "Everyone was there, the chairman Frans Cronje, Goss, Rosholt, Van der Horst, Waddell, Rapp, Kerzner, Kahn and all the executive directors.

"The tension was unbelievable and the atmosphere could have been cut with a knife. Kahn (who would succeed Goss) made a major statement by way of introduction. Then Goss spoke very emotionally and forcefully and the climax and thrust of what he had to say was that if the transaction was not stopped or restructured, he and six of his executive directors would walk out en bloc.

"Well, that just was not on and on my insistence, we adjourned for lunch. I had arranged for Sydney Kentridge, SA's most respected and able advocate and a senior counsel ... and Michael Katz to join Waddell and me at Liberty Life Centre next door to Breweries.

"Waddell and I returned to the meeting that afternoon to face Goss with Kentridge's firm opinion that if the Breweries directors proceeded with Goss's threat of mass resignation, then the company would sue them all for damages on the basis of dereliction of duty. It was all very dramatic and emotional but eventually things temporarily calmed down and wiser counsels prevailed."

TUNE 180

Before the SAB battle, Mr Gordon warned Gavin Relly of Anglo American that Old Mutual had control of the SAB board:

"I said to him: 'You could be about to lose control of Breweries. The executives there are so switched on to, and so much in tune with the Old Mutual that though you believe you have the most important stake, you don't really. I think Van der Horst has the Breweries thing tightly wrapped up'.

"Then I added: 'Jan van der Horst is forcefully ambitious and has his eyes on some of the country's key companies.' Relly retorted: 'You also show some signs of that.' 'That may well be', I replied, 'but I don't think I'm quite at the advanced stage of Van der Horst. But Gavin, if that's your feeling, there is nothing more I can say."

After that, believing Standard Chartered would one day disinvest, Mr Gordon offered Liberty's 8% stake in SAB to Old Mutual in exchange for Mutual's stake in Standard Bank.

See page

BSHELLS GALORE AS LIBERTY'S GORDON LIFTS THE LID ON 30 YEARS OF BOARDROOM BUSINESS INTRIGUE

vid Carte

and thrust ne biggest SA business bed in inti- l in a bomb- ess book re- week.

nain's Larger - Donald Gor- Liberty Life published by all, describes, erous items of drama:

over Premier veries, the split thern Sun and onal, SAB's raid founder Sidney ndergoing heart he US and the een early part- Gordon and

largely Donald w of the biggest Liberty Life in ears, is less than some of the hea- in SA business of those men- ntroversial pas- been shown been given a ply.

could be objec- lies to the book ries such as Dick af, Johannes van Old Mutual and my, formerly of book is expected equired reading ness elite.

gling

er-SAB transac- e threatened res- one stage of the oard, the actual of Sol Kerzner ss — and the de- huff of Jan van rom the Anglo oard.

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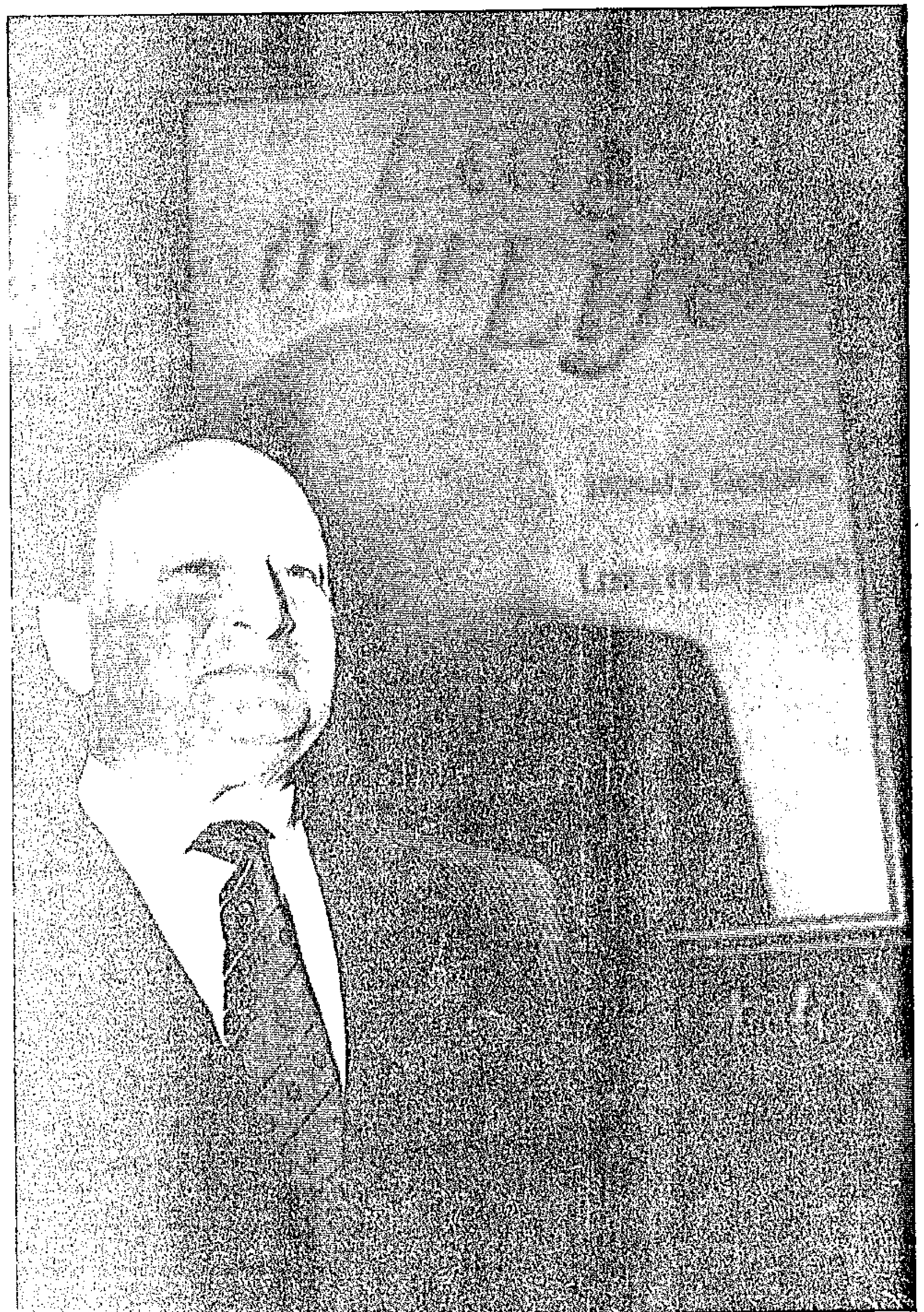
ction belongs to on by which Mr Michael Rapp rol of Liberty the Guardian nge of London in c a share com- he present price fore GRE agreed Mr Gordon came 's breadth of re- executive direc- ty.

ars earlier, GRE 0% of the group, e Schlesinger Or- stake, to become g Liberty's Big he UK, insurance were never direc-



DONALD GORDON . . . in the front line of the making and breaking of empires

Ernest Bigland asked Donald Gordon and Louis Shill to step down as directors and to become general managers. They refused and there were ... amazing shouting ...

... afterwards Mr ... became a director of the first executive ... a UK insurance ... Most UK com- ... followed suit, so ... an claim to have ... major change on ... of London by exam-

... Romain quotes a news ... had never went out ... Donald Gordon, the ... director and Mr

L Shill, whilst continuing as directors will over a period be released from their executive duties to enable them to concentrate on the development and promotion of Investors Mutual Funds and unit-linked life assurance contracts with Liberty Life."

Joke

After Guardian Assurance of the UK and the Royal Exchange merged in 1968, the two top men — Ernest Bigland of Guardian and Martin Wilkinson of Royal Exchange were made joint managing directors. Both wanted the top job.

Mr Gordon joked to his close friend, Mr Bigland that he could take GRE over and give Mr Bigland the top job.

Mr Romain quotes Mr Gordon: "Soon after that Bigland had a policy dispute ... with Wilkinson and in frustration went to the chairman, Kindersley, and said: 'Look sir, this is quite ridiculous, this joint MD thing is just not working. When I was in Johannesburg recently I was talking to Donald Gordon and he explained to me just how it would be possible for him to make a takeover bid for GRE and I'm convinced he can do it.

"'If I don't get the top job here and how, I'll do my level best to see that Gordon does take us over.'"

Bust-up at SA Brews and the Brits bashed

(180) 03/09/89 S/Times

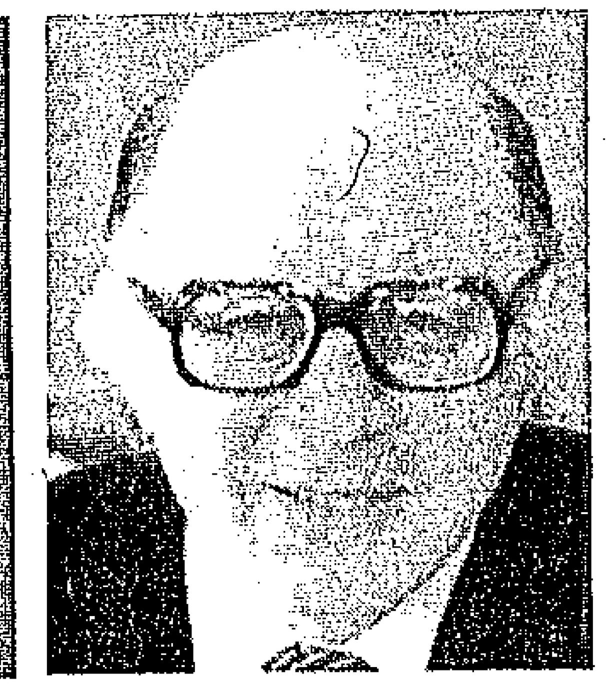
Mr Gordon continues: "Well, Bigland got the top job and Wilkinson retired as joint managing director... Apparently old Lord Kindersley was a nervous sort of character and actually took the threat seriously; he nearly had a heart attack at the thought of a South African takeover of the great GRE. Anyway, that's how I won my spurs in the City of London."

Guardian in SA became such an important income source to GRE that Mr Gordon was able to muscle his way on to a reluctant board.

JAN VAN DER HORST . . . quit Anglo American's board in a huff

DICK GOSS . . . wouldn't let SAB report to dog-food manufacturer

TONY BLOOM . . . as welcome as a dead fish at first SAB meeting



SYDNEY PRESS . . . lost Edgars as surgeons worked on his heart

MONTY HILKOWITZ . . . I couldn't grow in Donny's shadow

Overawed

Mr Gordon recalls his first board meeting at GRE in 1971: "I didn't say a word; I was totally overawed by the whole event. The GRE board room with its magnificent panelling, its ten-foot-high grandfather's clock, the enormous oval table and the overall ambience were enough totally to overwhelm an unsophisticated lad from Johannesburg, Transvaal.

"The chairman, then Colonel Kit Dawnay, went through the board papers like a meteor and I soon found myself battling to keep up — 10 pages behind. It was many many months before I dared open my mouth and then it was only when I was asked to speak.

"At the end of the meeting, all the directors stood up and gathered in small groups in the four corners of the boardroom and I quickly realised that this was where the major decisions were actually made. As nobody included me in their group, I rather sheepishly drifted out into the anteroom where prelunch drinks were to be served . . .

"I called over a man standing at one end of the room, who I took to be the major domo, and asked him to pour drinks for the guests. He obligingly, and very efficiently, did so, as the rest of the directors drifted in.

"At the lunch, as it was my first board meeting, I was given the place of honour on the right of the chairman. Halfway through the meal and feeling very much more relaxed I was glancing round the table when I suddenly saw the man who had poured drinks, sitting at the end of the table. To my consternation, on inquiring of the chairman as to the man's identity, I was told he was the Earl of Inchcape, a director of GRE, who, having missed the board meeting, had nevertheless come in for lunch."

Stabbed

Some other revelations in the book:

Donald Gordon thought Louis Shill had stabbed him in the back after a tug-o-war for Sage mutual fund.

Liberty broke with its lead bank, Barclays, because Barclays managing director Bob Aldworth would not accept R15-million of Liberty prefs to help fund Mr Gordon's management buyout from GRE. Nedbank made the loan, but did not become Liberty's main banker because it was too close to Old Mutual.

Eventually a close relationship developed with Standard Bank, which today shares control of the Liberty group with Mr Gordon. Liberty has 30% of Stanbic. The first time Mr Gordon took Stanbic chief Henri de Villiers to lunch, he called him Andre.

Mr Gordon on a confrontation with Mandy Moross of Schlesinger International Investments: "It was about a week before the flotation of SII, the holding company of Schlesinger interests, of which Moross, of course, was the driving force. We arrived a little late at the dinner and Moross was already pontificating, surrounded by a dozen sycophants clinging avidly to the great man's every word.

"As soon as he saw me, he called me over then turned on me viciously, accusing me of saying that the SII shares were worth only 50c compared with their issue price of R2. I denied this accusation vehemently, but Moross drove on, insisting that he had heard the story from all and sundry, including my great friend Max Borkhum.

"I again rejected his allegations and said mildly, 'Mandy, you've been totally misinformed. I have never said to anybody that SII shares are worth 50 cents. All I have said is that they weren't worth 50 cents.'

"Moross thereupon left the party in a fury . . . In time, however, my prediction of the SII share price turned out to be generous."

Mr Gordon offered partnership in Liberty in the early days to Anglo American and Sanlam's Andreas Wassenaar — and was turned down.

After Mr Gordon and Mr Rapp bought control of Li-

Basically I was not very settled in my job, good though it may have looked to be managing director of Liberty Life.

"I was 46 at the time and if I had left it any longer, it would have been more difficult to start a new career. Also there was Donald Gordon, who is an extremely competent and powerful person who casts a very big shadow and you know it can be hard to grow in those circumstances, particularly when one's own ambitions are to be number one.

"There were times when I felt that the only way I could grow was to face enormous inter-personal conflict. My relationship and regard for Donald were such that I would neither wish to, nor consider myself capable of engaging in such a conflict."

The Gordon-Shill split also came about because of the desire of both to be No 1.

Although Liberty came out exceedingly well on the GRE share buyback and in buying half of Eastgate for R27-million from Nedbank and UAL — it is now worth R300-million — there were two missed opportunities.

Parcel

A month after selling its stake in Sage, the value of Sage and Investors Mutual Fund soared to R25-million, in those early days a phenomenal amount.

In 1977 Natie Kirsh and Mr Rapp persuaded Mr Gordon to help bid $50-million for a huge parcel of New York real estate. There was a great cash flow from the properties, but New York's city government was hovering on the brink of bankruptcy and nobody wanted to buy.

The buyers needed to put down only $20-million. Cash flow would pay off the rest. Mr Kirsh and Mr Rapp were excited about a great deal.

Mr Gordon asked GRE to help finance the purchase, but Mr Bigland retorted that his SA partners were contemplating a truly stupid investment that had been turned down by every serious property investor in the world.

Mr Gordon was mightily embarrassed and rapped Mr Rapp over the knuckles. The matter was forgotten.

Those properties became the foundation of Reichmanns, a Canadian company which is today one of the world's biggest in property. The properties are now worth $4-billion.

Dog food too much for Dick Goss to stomach

DICK Goss, managing director at the time of SA Breweries, was livid when told that Premier Group was to become SAB's holding company.

He is reported to have fumed: "There's no way I'll ever allow Breweries to become the equity accounted appendage of a dog-food manufacturer."

because of the subsequent deal that Sol and Dick did with Safmarine.

"First, we were a brand-new management team — Dick was going and he was our mentor and our leader; Sol was going and he was a name known worldwide in the hotel industry; Bellamy had left . . . four of the top seven guys were new to their jobs.

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berty back from GRE of London, senior executives were given the opportunity to acquire 15% of top company Liblife Controlling.

Mr Romain writes: "All those who have stayed with the group have become multi-millionaires. Liberty Life today is run probably by more millionaires and multimillionaires than any public corporation in the Republic."

Monty Hilkowitz walked away from R12-million when he resigned.

His statement: "Contrary to what most people said, it was not the political situation or any one circumstance.

Tony Bloom says of his first SA Breweries meeting: "I was about as welcome as a frozen dead fish."

Sol Kerzner said of the deal and subsequent split between Southern Sun and Sun International: "I found ... that my motivation no longer was the same ... I ... came to the conclusion that ... I couldn't perform as Southern Sun deserved. So I came back, called Dick Goss, said I'm sorry but I'm no bloody good any more, so let's call it a day.

"It's all very well to look back and say, 'Hey man — look how much money Kerzner made, what sort of deal was that?' What people forget is the size of the risk I took."

Meyer Kahn: "First, let's be clear that the whole board of SAB — the whole board — supported us in recommending that transaction. The price was sweet, but it was willing. It turned out far sweeter than anyone anticipated

"Then remember at the time Holiday Inns was owned by Old Mutual; so Dick and Sol, on leaving us, were obviously going to lay their hands on Holiday Inns — and the Holiday Inns casinos ... And with them the possibility of the rights to a casino in kwaNdebele."

Gordon Waddell: "I felt uncomfortable with earnings coming from casinos. It may be a moral attitude, but I also suspect, especially elsewhere in the world ... that there has always tended to be a suggestion of a criminal element ..."

Liberty and Premier have been criticised for paying too much for Premier. But Gary Weston, head of Associated British Foods, was a reluctant seller.

Only after much badgering by his SA partners did he state a first price — R32 a share.

Gradually, he was beaten down to R25 a share, which was shown by hindsight to have been far too much.

The social duty of business is to create wealth for all in SA

BDay 7/9/89. 180

In their joint submission to the UN seminar on Transnational Corporations in Geneva this week, leading South African business organisations outlined their view of the positive role business plays in the country. This is an extract.

BUSINESS exists to create wealth in the broadest sense and, in SA, this is the most socially responsible duty it can perform. In particular, by paying fair wages, employing workers on merit, running skills enrichment programmes and promoting black advancement, business can greatly enhance the process of economic empowerment.

Business provides the main environment in SA where blacks and whites meet on a daily basis. The future competitiveness and profitability of business in SA requires that it win the acceptance of the whole workforce of the need for a truly non-racial work environment. The challenge will only be met with careful, sustained interaction and leadership over a long time. Observers demanding quick results will only be rewarded with symbolic or self-indulgent public gestures which will seriously retard progress.

The business community has long expressed its unequivocal opposition to apartheid and, together with others, helped secure major reforms including the recognition of black trade unions and the abolition of influx control. More recently in talks with the labour federations over the Labour Relations Amendment Act, business has demonstrated that joint labour-business initiatives have a greater impact on government willingness to reform than direct labour action alone.

Social responsibility spending is another area in which business contributes to the process of change. An estimated R600m is donated each year to a wide range of projects and initiatives which address the housing, education, health, welfare and development needs of communities across the country.

Some of the more innovative projects which business has supported in recent years include the redevelopment of District Six and the non-racial Nest schools. By strategic spending of this kind, business plays a unique role in supporting initiatives which are helping transform SA society.

Business has also promoted more informed and meaningful political debate within the country, both through its own efforts (for example, the Assocom study of constitution modes for SA and the FCI Business 'Charter) and its extensive funding of conferences, research and academic study.

Business has also been the central source of funds for the great number of institutes and projects which promote dialogue and reconciliation between the races.

The contribution made by Transnational Corporations (TNCs) in particular is vital, as they constitute an important avenue for international influence. The presence of TNCs in SA allows other concerned agencies, including foreign governments and trade unions, to influence developments more directly. The various Codes of Conduct and the Steinkuhler principles are excellent examples of this.

In the search for instruments to promote economic growth -- a challenge which unites the whole of the African continent — the presence of TNCs is increasingly being recognised as a force for economic development, political stability and good government. As the World Bank has demonstrated, the equity investment provided by foreign corporations is a far more effective form of foreign investment than institutional debt. Encouraged by the international community, countries across Africa are actively seeking investment by TNCs — what justice is there in denying the peole of SA the same?

If the international community wishes to facilitate the process of change and speed the emergence of a democratic, non-racial political order in SA, it is imperative that it reconsider the sanctions and disinvestment strategy. These punitive economic measures have failed to deliver any of the desired results because they are inappropriate instruments for securing change in the very fluid political circumstances of present-day SA.

Strategies for change which are driven by anger and impatience are fatally flawed, as the failure of efforts to make the black townships in SA ungovernable revealed so tragically during 1985 and 1986. Events in SA demonstrate that the country's problems are not amenable to instant, clinical resolution.

The opportunities do exist for the international community to exert positive influence for change, but this can only be achieved by appropriate forms of direct and on-going interaction with the chief actors, black and white.

The SA government is one such actor. By adopting a more measured approach, combining pressure and regard and setting goals which the authorities may realistically achieve, the international community can play its part in securing meaningful advance in the short term and real power-sharing in the longer term.

The international community must also help facilitate change through consistent, constructive interaction with key opinion formers in all sectors of the community. By lending moral and material support to the activities of the wide range of groups, and particularly the many different black groups, which are working to improve the political, economic, physical and social circumstances of the black South Africans, the international community can help to make blacks more effective agents for their own liberation.

Investment in the development of the country and its people will provide a further avenue for effective international action. SA will not achieve economic growth of the required levels without substantial foreign aid and investment.

In addition to the direct benefit foreign aid provides the relief of human suffering, it will also help address white fears of the consequences of change and greatly enhance the dynamic economic forces which are working to transform SA society.

Unless the economy can grow at a rate faster than the rate of population growth (presently 2,3% per annum) the country faces an increasingly impoverished future. There are already severe shortfalls in the provision of housing, education, health and welfare facilities for blacks. No government will ever be able to make up this backlog and provide for the needs of the growing population unless it can draw on the resources of an expanding economy. The scale of need is such that the savings in state spending following the abolition of apartheid will not be anywhere near sufficient to match demand as is sometimes naively suggested.

The economy must grow at a rate of least 5% per annum if it is to provide employment for the 350 000 work seekers who enter the job market each year.

Without economic growth, the racial gap in incomes will widen, and the black population will bear the brunt of increased unemployment and declining personal income. The effect on the informal sector will be devastating, as without increasing demand powered by an expanding wage bill of the formal sector, meaningful informal sector activity will be impossible.

In urging the international community to abandon sanctions, we are not asking that it also abandon or compromise its opposition to apartheid. What is proposed is a change of strategy not of principle -- a change which represents the best and only hope the world has of helping secure a peaceful, prosperous and democratic future for all the people of southern Africa.

☐ The submission was endorsed by the Afrikaanse Handelsinstituut, Assocom, Chamber of Mines, Federated Chamber of Industries, SA Black Taxi Association and the United Municipalities of SA.

Cape backs pressure to ditch surcharge

BDay 7/9/89

(180)

LESLEY LAMBERT

CAPE TOWN — The Cape Town Chamber of Commerce has thrown its weight behind Assocom's call for the abolition of the import surcharge, arguing that it has failed to curb imports and, in spite of amendments, is doing more harm than good.

The chamber argues that the impact of the surcharge appears to have been dissipated by higher prices. "As imports in SA are largely determined by the level of domestic spending, the effect of the import surcharge has been on prices.

"This has had a severe impact on the cost structure of the economy and has made it difficult to reduce the rate of inflation. The price effect has, therefore, outweighed any possible balance of payments effect," the chamber commented in a recent news bulletin.

At a practical level, the surcharge had had a detrimental effect on business decision-making and forward planning.

Efficacy

It had also proved to be disruptive and costly, the chamber said.

Assocom has made representations to Deputy Finance MinisterOrg Marais, Deputy Minister of Trade Theo Alant and Board of Trade and Industry chairman Lawrence McCrystal to ask government to review the efficacy of the measure.

"It is now a year since the import surcharge was instituted and no less than over 50 amending notices have been published. It is necessary to take stock of what has, or has not, been achieved by the import surcharge. It is Assocom's view that the stage has now been reached where the surcharge is doing more harm than good."

Assocom said a deficit before borrowing of 3% and 4% would be attainable even if the import surcharge was removed.

Star 9/9/89

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Inside Out

ANN CROTTY

Lordly Minorco seeks a fiefdom

THE elections are over, the rugby players have gone home and, if rumours are to be believed, Minorco is going to try and take over the world (except the US, cos of its strange legal system and also cos there really wasn't too much demand for it at board level.)

First there was talk that Minorco was going for BP's coal interests. Then it was Rio Tinto. Next it was RTZ. And finally it was Lonrho. All in the space of a day or two. It was impossible to get any verification but the speculation helped to move the Minorco share up quite strongly towards the end of the week.

Also on the mining front: the mines in the JMF stable have been performing reasonably well in recent days. Carrig, West Wits and Egoli have all moved up quite nicely but there hasn't been a stir at JMF which still languishes at 25c.

The market is understandably nervous about this counter but Myles reckons it's a bit strange that some of the jobbers haven't moved in — even in small volume.

Myles didn't waste much time pointing out to me that he was spot on about Malbak acquiring Arban and using it to house Malbak's mining supplies interests. He didn't seem to think that it mattered that he'd told me all of this last Christmas and the deal was only announced on Monday. His view is that the time dimension of truth is infinite.

He says it's difficult to estimate whether many shareholders will take up the offer of one Malbak share for every 24 Arban shares held. On the basis of the Malbak share price at the time of the announcement, Arban was being valued at around 36c compared with the market price of 28c-30c. During the week Arban moved up to 35c.

Lebowa Plats has been moving ahead quite strongly and, according to what Myles has heard, it probably didn't really need any additional help from one particular source on the JSE.

It may have been said before ... once or three hundred times ... but Myles says he is now certain that there will be an announcement about the Elcentre/Berzack deal in the coming week.

He also reckons that there'll be a third player at the party, namely HJ Cables. As far as he understands Berzack, Elcentre and HJ Cables are going to form a joint venture company which will be a major player in the cable industry.

There's speculation that yesterday's cautionary from Noristan relates to a change of control and that this change of control will be pitched at around 130c compared with the current share price of 100c.

Myles thinks that it should be stressed that its not just a knee-jerk reaction to takeover speculation that puts FSI at the head of the list of the possible buyers. He points out that when the FSI/Citizen deal was announced some time ago, the FSI team did indicate that they had plans to build up a health care division in the group.

Staying with the FSI group, the pricing of FS-Team (ahead of the swop for Natbolt shares) continues to point to a Natbolt share price of R18 compared with the current Natbolt market price of R22. It will be interesting to see what happens to the share price after the swop and the share split. Some think that the fact that the share is tightly held helps to support the share price. Others argue that the share would be higher if it was more tradeable.

Cortech's acquisition of FNB's stake in Ohio is expected to be announced next week.

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EXCLUSIVE TO BUSINESS TIMES: A TOP-LEVEL BOARDROOM AND SHOPFLOOR INQUI

In search of what makes winning companies tick

MANAGEMENT consultants are privileged parties to many companies' deepest secrets.

The more Stephen Asbury, 36, and Antony Ball, 30, were exposed to South African companies, the more they became intrigued by the question: What leads to corporate success?

What decides that one company will soar to the pinnacle of success while another in the same sector and environment and with similar, or even greater, resources will fail?

They set out to find the answers. The result of nearly 18 months of boardroom and shopfloor research in SA's superperforming companies is a remarkable book — The Winning Way, published by Jonathan Ball Publishers. It goes on sale on Tuesday.

The writers do not claim to have all the answers. But their investigations, with fascinating personal glimpses of the men behind the superperformers, provide riveting reading for every budding entrepreneur, every small guy trying to survive against tough odds and for the future Donald Gordons still trapped in the mailroom.

Because we believe the conclusions of Mr Asbury and Mr Ball will have wide interest among SA's businessmen, Business Times will publish extracts of The Winning Way for three weeks. The first excerpt appears today.

The authors, both members of the strategy unit of Deloitte Haskins & Sells management consultancy division, applied strict criteria in their selection of SA's success models:

- They wanted to learn from companies that had passed the acid test by making piles of money for shareholders.
- The companies must have shown they could sustain this.
- The authors were interested in things done by companies at operating level to build competititve advantage in the market (holding companies were excluded because their managers need to run their businesses by a different set of rules).
- If the lessons were to be translatable there was little point in selecting companies where success factors were specific to their own business context. This eliminated mining and exploration companies.

The selection base was used by Business Times for its 1987 Top 100 Companies: The share price at August 31, 1987, compared with five years earlier, with allowance for rights issues and share splits, and all dividends paid in the period with 12% interest for their reinvestment. This gives an all-in-return for the five years.

Cash shells and thinly traded shares were excluded.

The authors then discussed the list with financial analysts and commentators to add top-performing unlisted companies and good ones which had been listed for fewer than five years and to exclude those which had started from an exceptionally low base.

Allowance was also made to give a spread of significant sectors — "We didn't want eight retailers and no transporters," say the authors.

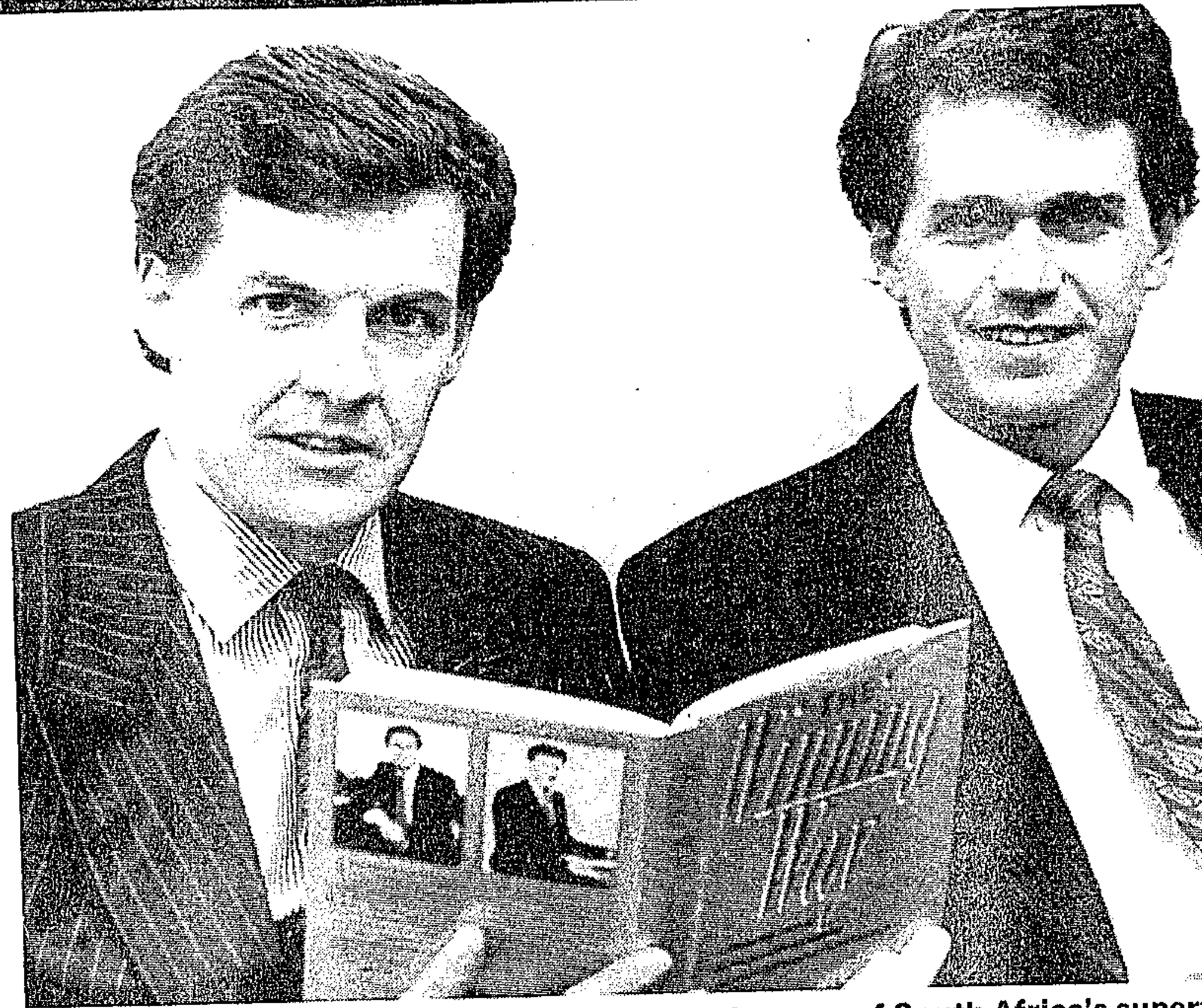
The list was: Retail and wholesale — Pick 'n Pay, Edgars Stores, Cashbuild, Foschini and Ellerine. Motor — Toyota SA and Volkswagen SA. Insurance — Liberty Life. Engineering — Edward L Bateman, Stocks & Stocks and Cape Gate & Wire Works. Beverage — SA Breweries beer division and Suncrush. Food — Irvin & Johnson, Langeberg Co-op and Cadbury-Schweppes SA. Transportation — Tollgate. Chemicals and oil — Trek. Banks and financial services — Sage. Clothing, footwear and textiles — Seardel Investments and SA Bias Binding Manufacturers. Tobacco and match — United Tobacco. Electronics, electrical and battery — Altech, Plessey SA. Office supplies — Mathieson & Ashley and Waltons. Hotels — Sun International. Cement — Pretoria Portland Cement. Packaging — Sun Packaging.

The authors say that Irvin & Johnson, Langeberg and Cape Gate preferred to "avoid the publicity", Edward L Bateman executives were "too busy" and Sun Packaging executives were "not in the country long enough to be pinned down".

An attempt to bring late entry National Bolts into the line-up failed because executives were too busy.

"We ended up with 24 companies which we believe have a lot to teach us," say the authors. "We are the first to admit that our basis is not rigourously scientific — perhaps these 24 companies are not the Top 24, but 24 out of the Top 50, or Top 100.

"But so what? We were out to learn lessons, not to prove a scientific theory."



STEPHEN ASBURY and ANTONY BALL . . . to the core of South Africa's super

Sol's helicopter vision of Sun Ci

S/Times 10/9/89

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DOMINATING the success stories that abound in The Winning Way is the vision of the entrepreneurs behind the companies — The Big V, the authors call it.

Sol Kerzner had it. Most of us have heard the story about Sol Kerzer scouring Bophuthatswana in a helicopter until he found the site for Sun City. It actually happened.

Towards the end of 1977 Sol had been researching the prospects in Bophuthatswana. Several potential sites had been suggested, but Sol was not completely satisfied with any of them.

Early in 1978 Sol and his childhood friend, the late Baba Selsick, then an architect with the firm SKM, boarded a helicopter for the Pilanesberg.

When they finally spotted the valley where Sun City stands today Sol was unequivocal: "This is it," he said. "No question about it."

The helicopter touched down precisely where the foyer of the hotel is today.

CRAZY

Everyone said Kerzner was crazy. But he had a clear and visionary picture of what he wanted to build, and, as it turns out, the cash that has flowed from Sun City has funded the birth of an international hotel and leisure empire.

There is a similar vision story in each of our superperforming companies.

Winky Ringo is taking Mathieson & Ashley into the electronic office — the office of the future. Chris Seabrooke had a clear view of a restructured garments accessories industry — restructured on SA Bias terms.

Frankie Robarts had a vision of Waltons being bigger than DRG. Vic Hammond now carries the flame lit by Adrian Bellamy in the early Eighties — to turn Edgars into a decentralised market-focused retail powerhouse.

Peter Searle has brought to Volkswagen the vision of a high-quality, market-orientated future. Bruce Edmunds has a clear picture of United Tobacco Co fighting back Rembrandt's onslaught.

Gerald Haumant at Cashbuild, Robin Hamilton at Suncrush, Bill Venter at Altech, Albert Wessels at Toyota, Raymond Ackerman at Pick 'n Pay — each of these men posses a powerful vision of his organisation.

Vision focuses attention on what the organisation wants to be and do, and the vision should look as far into the future as possible. It should take the long view.

As Aaron Searll of Seardel says: "What's 30 years in the life of a business?"

Of course, it's not enough just to have vision. We have all met the dreamers who will set the world on fire — one day.

You have to communicate that vision so that the whole company, and especially the top team, has a clear picture of the organisation you are trying to build.

Express the vision in value-laden language and talk about it often. Translate your vision into a set of hard objectives, and then act on the vision — achieve those objectives through strategy.

There are many ways to establish and implement strategy — but it must start at the top.

FLAGSHIP

There is a serious role for the strategic planning manager — a process intensive role. But don't charge him with strategy itself. Strategy must start at the top, with the chief executive, and it must be driven from the top.

Piet Beyers, managing director of Cadbury-Schweppes flagship Cadbury's, talks about top management commitment: "A lot of things that one talks about can slide without you really noticing it — unless the chief executive keeps on focusing on them, keeping them to the fore, creating structures to keep focusing on them."

Implementation of strategy is a complex task that needs the co-operation of many, and we also know that implementation will not succeed without the chief executive's committed leadership.

One of the key components of Volkswagen SA's amazingly successful strategy for the latter half of the Eighties and the early Nineties has been a programme to change the culture of the organisation. Chief executive Peter Searle played a major role in formulating the strategy and driving it home.

Literally for years now, Searle has phoned the person responsible for the change programme, Deon de Klerk, at least once a week to find out how the process is progressing.

Meyer Kahn of SAB says it all in his own inimitable style: "Shit rolls downhill. You start here and it impregnates the whole organisation."

Pick 'n Pay's Raymond Ackerman illustrates the importance of a clear, simple strategy. He put together what he had heard from US supermarketing supremo Bernardo Trujillo, of National Cash, with what he had learned about marketing from Professor Hutt at Cape Town University.

It all dovetailed perfectly with the ethics of customer care and courtesy drummed into him in his early days in the Ackermans stores: "Put the customer as Queen. To support her make a table with four strong legs — adminstration, merchandising, sales promotion/social responsibility and people."

SIMPLE

As Ackerman says "the philosophy of the table is really what has built P 'n P. The table is like a technique to achieve the strategy. The strategy isn't to make as much money as possible, or to be the best or the biggest — the strategy is consumer sovereignty."

It couldn't be clearer or simpler.

Suncrush, too, has a clear and simple philosophy: to put Coke within arm's reach of the consumer's desire. The product must be available, accessible and affordable. From this, all else follows.

Passenger transporter Tollgate espouses a classic low-cost core strategy to give the customer what he wants — punctuality, speedy delivery, frequent departures, cleanliness and comfort.

Walton's strategy has been even simpler — to take over loss-making stationers and turn them around. United Tobacco — to focus all its resources on just four block-busting cigarette brands. SA Bias — to cut out wholesalers and integrate backwards

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On September 28 our business section, *Sowetan Business*, will be launched marking another milestone in the growth of the Sowetan. In this article, senior assistant editor, THAMI MAZWAI, who will edit the section, places the coming to be of *Sowetan Business* in context.

Putting *Sowetan Business* in context

SOWETAN Business comes at a crucial moment in the history of the country. We are conscious of the challenges it will face.

There is no doubt that when future generations write the history of this country, the *Sowetan* will be among those lauded for having placed black business on the map and ensuring that black entrepreneurs participate fully in the economy.

Sowetan Business is a supplement of news on developments in the black business sector. But there is more to it. It has been launched to power the marketing of black entrepreneurs and their wares.

It is based on an intimate knowledge of the aspirations and frustrations of our people, and in this case the business community.

The major priority is the creation of a market for the hundreds of black entrepreneurs who live in the shadow of the economy.

Services

These entrepreneurs, like their counterparts all over the world, render the essential function of providing goods and services.

More than than 1,2 million people, at least 95 percent of them black, read this newspaper on any one day.

On Mondays we sell more than 200 000 copies of the *Sowetan*. For the rest of the week the figure fluctuates, but is never less than 150 000.

It is our duty to inform these thousands of consumers, who travel to towns for most, if not all of their needs, that some of the goods and services they need are available in their neighbourhoods and they do not have to travel to town.

We are referring to the plumbers, carpenters, florists, printers, panelbeaters, laundrette owners, electricians, welders, glaziers and whatsnot in the townships who do not have enough clients, simply because their potential customers do not know where to find them.

Appeal

The *Sowetan* has appealed to big business for funds to enable us to give cheaper advertising to the small men.

It is due to some of these corporations that Black Business will carry whole pages of advertising at cheap rates for certain forms of business in the township.

You will now know *where to get specific goods and services without getting into your car, taxi, bus or train.*

In supporting the cobbler in the township, you *will be improving life in* our communities. This, among many other developments, *is where* the world's richer nations started.

Now for a more global interpretation vision.

Most countries in the developing world - Africa, most of Asia and Latin America - are the world's debtor nations.

They buy from the rest of the world, but sell very little.

They find it diffucult to sell because their manufacturing industries are not as developed as those in Japan, the USA, Britain or West Germany to name a few.

As a result these third world countries are always borrowing money for development with little hope of ever meeting their obligations.

For instance Africa now owes more than R500 billion.

Our communities are in a similar position.

As we buy from the cities, the money we earn ends up in white areas to develop the Randburgs and Sandtons of this world.

Dingy

Very little of it comes to the Sowetos and KwaMashus.

As a *result our areas* have become dingy hovels while other localities bustle with life and facilities.

The scheme will divert *part of this money back to* the townships.

The advertisements on township business will create demand and orders will increase. Because of the increase in turnover, businesses grow and they will hire more people.

Our entrepreneurs, like other businessmen, will now be able to finance charity projects in their communities. Many facilities will be improved.

The adverts will also attract buyers from the cities, with major companies tendering for services provided in the townships.

For instance an embassy in Pretoria does its printing with a Mamelodi concern.

More of this will happen because many big concerns, conscious of their responsbility in eradicating the ills that beset this country; have long wanted to give sub-*contracting jobs to our entrepreneurs*, but could not because they did know where to go.

As our traders are not in the Yellow Pages directory, *Sowetan Business* will serve as one.

Thirdly, a campaign to force white concerns with operations in the townships to have at least 20 percent of the job done by black sub contractors will be launched.

Contracts worth millions of rands are given out to white companies, sometimes because there were no black companies with the capacity to handle the job, but often because of graft.

Not only will we fight for black companies to be given the first bite at the cherry, but we will also fight that when no black company has the capacity for the job or is unable to match the prices of rival white tenders, contracts will have to insist on a minimum percentage of township entrepreneurs to be used.

Training

It is interesting that the Department of Education and Training is not generous in giving work to black contractors.

As many of the technicians in our community were *trained at schools controlled by DET*, must we assume that it regards the training given by its institutions worthless?

If not why are most jobs in urban areas given to whites when the townships are full of graduates from DET training and technical schools?

Lastly, but definitely not leastly, we believe that the creation of a strong black business community is part of the struggle.

While many of our organisations are engaged in struggles within the community and on factory floors, let it be remembered that black business is also at the bottom of the scrapheap, and all because of apartheid.

A viable black business community must be created if all South Africans must participate as equals in the economy of our beloved country.

And the participation of all South Africans in the economy is our only guarantee for a future *peaceful* peaceful a prosperous South Africa.

We want to be among those who created the South Africa. This is our mission, and w *Sowetan Business* was born.

SAB is one of the major sponsors of *Sowetan Business*. Windsor Shuenyane of SAB and Thami Mazwai of the *Sowetan* enjoy a light moment.

Manufacturers confident about a modest upturn

(180) B/Day 12/9/89.

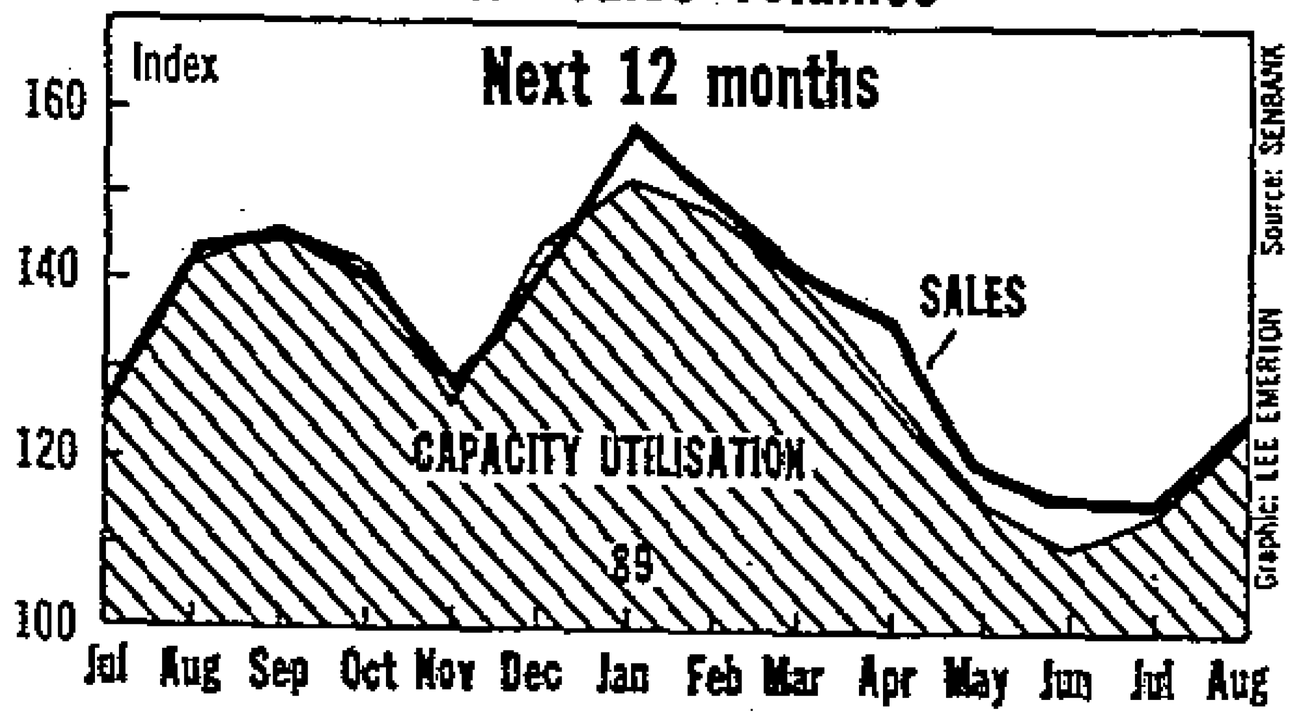
MANUFACTURERS' outlook remains confident on the view interest rates have peaked and on expectations of continued strong exports.

The Federated Chamber of Industries (FCI) index of expected sales volume for the next 12 months to July 1990 rose to 126 in August after stabilising at a level of 116 in July.

Sales and capactity utilisation expectations of 400 industrialists surveyed shows an uptick for August after falling since January.

FCI economist Roelof Botha warns not too much should be made of the upturn. He suggests there was perhaps an over-reaction to the May 5 austerity measures.

FCI index of expected manufacturing sector sales volumes



KAY TURVEY

He believes the index remains above 100 in the optimistic region in spite of fiscal and monetary measures to cool demand as exports remain strong and the level of gross domestic fixed investment is high.

Further the strengthening of the gold and foreign exchange reserves and the trade balance, make the likelihood of additional restrictive measures remote.

Yet, at the same time indications are that credit conditions will be kept tight and that interest rates are unlikley to decline before well into next year.

International Cold Storage economist Piet Haasbroek supports the view that confidence has improved on the general view that interest rates have peaked so borrowing on new investments can continue at the rate planned.

However, he warns an increased harmonisation between fiscal and monetary policy is required in order to relieve the pressure.

In the next 12 months a lot of new capacity in the steel, ferroy-alloys and manganese industries are expected to come on stream and this is also bouying optimism, chairman of the FCI International Trade Committee and Highveld Steel marketing director Rob Herbertson notes.

Star 1/9/89. 180

String of export successes boosts business confidence

By Michael Chester

The Federated Chamber of Industries (FCI) credits a chain of successes by exporters in driving deeper into overseas markets for a renewed upward tilt in the overall level of business confidence in recent weeks.

Its index of expected sales volumes from the manufacturing sector for the next 12 months, which steadily declined in the first six months of the year, last month gathered momentum.

With a base of 100 used to measure the acid test between pessimism and optimism, the index surged from 116 in July, when the recovery started, to 126 in August.

FCI senior economist Roelof Botha said yesterday, when results of the latest opinion poll were released, the strong export performance was expected to press ahead well into 1990.

The export drive was still developing, encouraged by signals of a strengthening global economy, a weaker rand exchange rate and a perception that the sanctions threat appeared to be on hold — at least temporarily.

He said: "It is clear that manufacturers remain relatively optimistic about the future despite measures taken by the fiscal and monetary authorities to cool down demand.

"The results of the general election are unlikely to impact significantly on confidence levels.

"In view of the improvements in the level of gold and foreign reserves and the trade balance, the likelihood of further restrictive measures is remote.

"At the same time, recent statements by the new Governor of the Reserve Bank suggest that credit conditions will remain tight and that interest rates are unlikely to decline before well into 1990.

"This, together with rising inflation, will preclude significant increases in real private consumption expenditure on manufactured goods.

"Expenditure on capital goods also appears to be slowing, with the result that future increases in expected sales will be increasingly dependent on export prospects."

Industrial consultant Dr Gad Ariovich said the pattern of share price movements on the Johannesburg Stock Exchange since February last year confirmed the optimism of investors in general about the muscle behind the export drive.

An analysis showed that most of the leading sectoral advances in JSE indices had been achieved by metals and minerals exporters.

The steel sector led the pack with an average climb of no less than 318 percent. Manganese was up 313 percent; metals and minerals 195 percent; platinum 193 percent, other metals 176 percent.

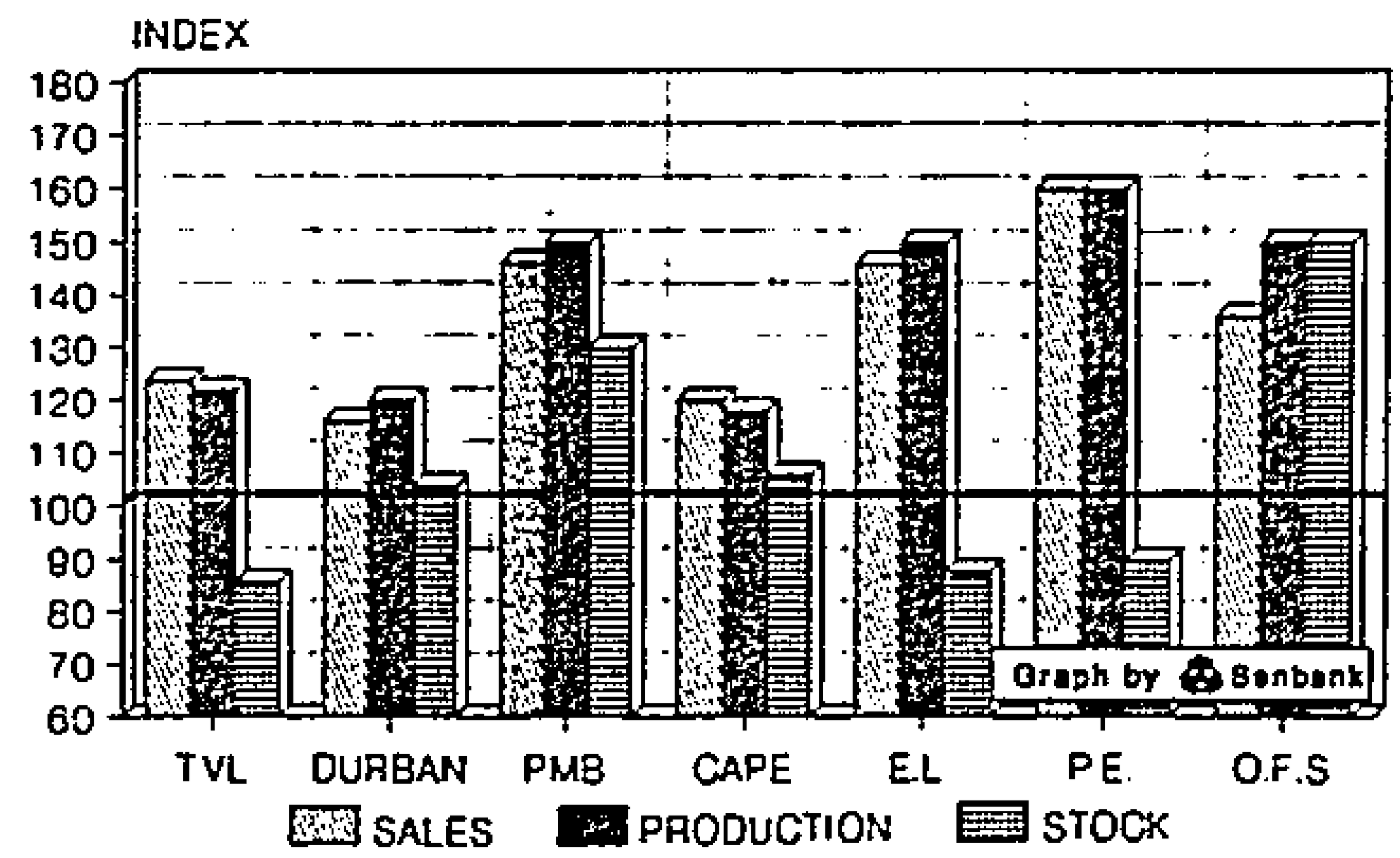
But Mr Botha advised caution about interpretations of the scale of the improvement in index readings.

He said many manufacturerers were feeling a bit jittery about how the Reserve Bank intended to tackle its counter-offensive against inflation.

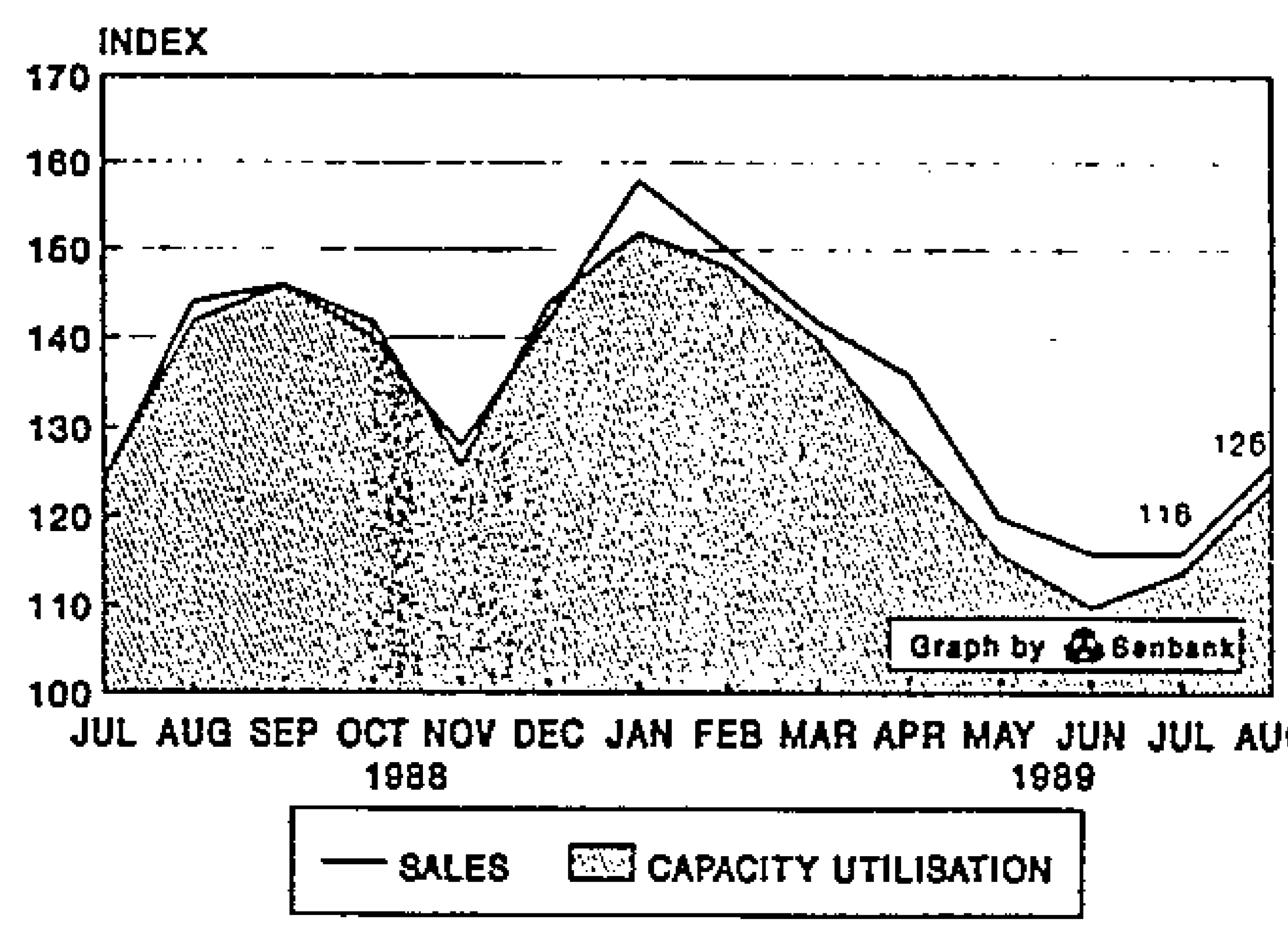
The export outlook looked good, however, especially as companies gained confidence that the extra production capacity created from recent surges in fixed investment was likely to be filled by a faster flow of orders.

Rob Herbertson, marketing director of Highveld Steel and chairman of the FCI International Trade Committee, forecast a continuing strong performance by exporters as they anticipated an expansion of international economies in the 1990s — and learned to cope with sanctions problems.

Much depended, though, on how the Board of Trade and Industry succeeded in finding the correct balance in its programme of structural adjustment in the industrial sector and the package of new export incentives.



Forecasts for sales, production and stock volumes by region for the 12 months ending July 1990.



Index of 12 month forecasts — total manufacturing sales and utilisation of production capacity.

Strong growth at W&A

Finance Staff (180)

FSI subsidiary W&A has reported a 25 percent advance in earnings per share to 393c (315c) for the six months to end-June. An interim dividend of 120c a share has been declared — 20 percent ahead of the previous year's 100c.

The 128 percent hike in turnover to just over R1 billion (R459 million) reflects the extent of reorganisation that has been undertaken in the past 12 months.

Finance charges shot up from R5,6 million to R26,3 million. Attributable profit was 80 percent ahead at R29,5 million (R16,3 million). Star 12/9/87

Waicor, the holding company of W&A, turned in a 40 percent advance in earnings per share to 165c (118c) as a result of having increased its stake in W&A from 47 percent to 51 percent. Waicor, which is a 94 percent subsidiary of FSI, has lifted its interim dividend 26 percent to 49c a share.

Matchmaker Services is registered as a company

THEO RAWANA (180)

MATCHMAKER Services, set up by the American, Southern Transvaal and Witwatersrand Chambers of Commerce in 1986 to expose small business to big business, has been registered as a company.

The concept — an annual small business exhibition at which buyers from large corporations could view products and services — was hamstrung by the lack of contact between the two parties after the show periods.

Matchmaker Services executive director Zuko Tofile said: "There was a need for a year-round organisation to maintain the links formed during the exhibition. Both suppliers and the corporations needed to maintain the momentum built on the spirit of black-white, large-small co-operation and to initiate new events."

The organisation's daily affairs are run by a small, permanent secretariat, based in Johannesburg.

The running costs are covered by the interest from fixed investments purchased with R250 000 worth of debentures of R5 000 each, sold to corporate sponsors which already include IBM and First National Bank.

The Johannesburg events, held annually at Nasrec, have grown from the initial 54 stands to more than 115 and the shows are now entirely self-funded.

Market holds up well in face of huge scrip supply

180

Star 15/9/89

By Ann Crotty

Investors on the Johannesburg Stock Exchange have poured an additional R3 billion into the market this year in the form of subscriptions to rights issues from a wide variety of companies.

Between now and Christmas they will be asked to fork out something like R6 billion — with Iscor alone accounting for a massive R3,7 billion.

In the face of all of this extra scrip, the market has not only held up reasonably well, but by mid-August it had surpassed the previous record reached in October 1987 — just before the crash.

The traditional sequence of events is for a series of rights issues to be followed by a market correction as investors digest the extra equity.

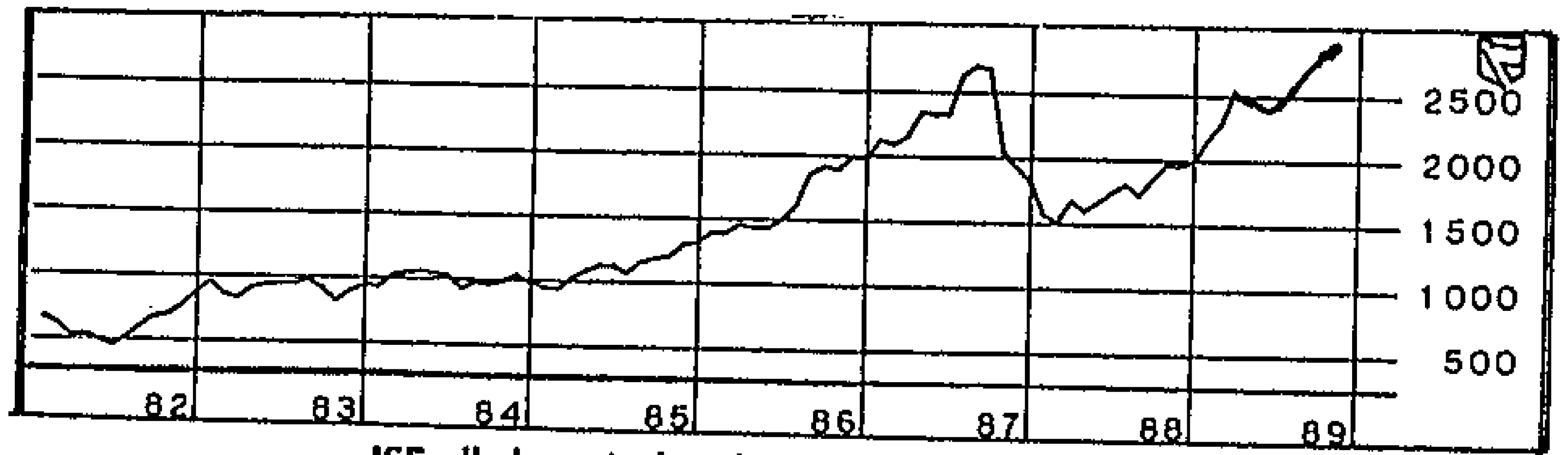
While a few analysts believe that the market is heading for a correction, the consensus appears to be that between now and Christmas the market will drift sideways with, at worst, a slight easing in prices.

International markets

But nothing as significant as a correction.

This assumes that international markets (particularly New York) hold up and that international economies remain strong.

The most important single factor underpinning the current market strength was the announcement in March that



JSE all-share index, base 1960 — 100.

the prescribed asset requirements (which obliged institutions to invest between 30 percent and 53 percent of their cash flow in gilts and semi-gilts) would be abolished.

The requirements have been replaced by guidelines designed to ensure that the institutions have a prudent spread of assets.

This meant that overnight the institutions had an additional R15 billion in the form of discretionary cash assets — funds which had previously been earmarked for the gilt and semi-gilt market.

Companies responded very quickly.

Announcements of rights issues came thick and fast.

Among those who have already come to the market are Cengold (R2 million); Unidev (R19,76 million); Nigel (R15 million); Staalchem (R4,3 million); Sunpak (R16,2 million); Premier (R28 million); Punchline (R51 million); Zaaiplaats (R7,5 million); Royal (R19,5 million); Huntcor (R107 million); HLH (R147 million); Federale (R828 million); Gencor (R1,5 billion); Springtex (R10 million); Rhombus (R26,4 million); PGA (R14,7 million); Sage for Sage Financial Services (R92,5 million).

Still to come are Genbel (R300 million); GFSA (R1,3 billion); Iscor (R3,7 billion); Bankorp (R390 million).

This week's release of the details of the Iscor share issue caused some hesitation.

Obvious signs

There are obvious signs that as the day to part with the big cash comes closer, investors are slowing down their chase for equity.

This mood is likely to dominate the market between now and Christmas.

And it is likely that the level of activity may move into an even lower gear as the large issues approach deadline and the Christmas lethargy sets in.

As one analyst said yesterday, institutions are not accustomed to having this amount of scrip available to them and it is bound to make them cautious.

But not to the extent that a correction is on the cards.

The institutions appear to be very happy with these developments.

As one of the majors says: "With the abolition of the prescribed requirements we now have considerable discretionary cash resources looking for investment opportunities.

"New share offers and rights issues give us the opportunity to move into a relatively expensive market without pushing prices even higher."

New opportunities

In the absence of these new opportunities, the institutions say that they would have had to wait on the sidelines for a correction.

All agree that in the context of the current institutional cash flow, the size of the issues is manageable, "but must take some steam out of the market".

From the companies' point of view, they have done well to avail themselves of the opportunities presented by a strong market and the change in prescribed asset requirements to get additional capital.

Although equity is considered an expensive source of capital — because it represents a permanent "cost" to the company — in view of the outlook for interest rates and the relatively high share levels, it has obvious attractions.

Those who have raised funds are now in the enviable position of having cleaned up their balance sheets ahead of what may be tough trading times.

AVI a little off market forecasts

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Star 15/9/89.

Diagonal Street

ANN CROTTY

Anglovaal Industries' 17 percent increase in earnings per share falls short of market expectations and suggests the unlisted interests did not perform as well as had been forecast.

In addition, indications are that the massive restructuring effected by the group — which must have taken up much of head office time and energy — took its toll on financial 1989 performance.

But on the bright side, the considerably cleaner and more efficient organisation structure should help the 1990 performance.

The acquisitions — of which there were many and some quite expensive ones — should be well bedded down, with some of them making good contributions.

Turnover for the 12 months to June was up 23 percent to R4,5 billion (R3,7 billion). Operating margins were little changed at 10,4 percent and operating profit showed a 22 percent increase to R476,9 million (R392,2 million).

Income from investments more than doubled to R48,8 million (R21,5 million).

Interest payments rose sharply to R44,8 million (R21,5 million). The directors say this is a result of the higher rates as well as the increased level of borrowings.

The tax rate was up to 44,2 percent from 43 percent, leaving pre-tax profit showing a 23 percent advance to R480,9 million (R389,8 million).

As a result of acquisitions, its share of associated companies surged from R5,7 million to R12,5 million.

Attributable profit was up 17 percent to R164,8 million (R140,3 million), equivalent to 657c (563c) a share, from which a dividend of 120c (120c) has been declared.

This overall performance does not look too good against the performance notched up by some of the group's listed subsidiaries.

Consol reported a 30 percent pre-tax profit advance; Grinaker was up 24 percent to R84 million (R68 million); Irvin & Johnson lifted pre-tax profit 28 percent to R102,8 million (R80 million); while Siltek's pre-tax profit was up — in line with group performance — by 22 percent to R37 million (R30,4 million).

On the balance sheet, capital employed rose 25 percent to R1,5 billion (R1,2 billion). Working capital was 18 percent higher at R656 million and net asset value increased by 16 percent to R29,41 (R25,27).

Gearing was up, in part reflecting acquisitive activity in the period, which included buying out minority shareholders in some group subsidiaries. It rose from 20 percent to a still conservative 29 percent.

The list of weak performers includes Steelmetals where a loss was recorded. The minorities in the company were bought out as part of the restructuring announced in March.

Pleasure Foods' earnings were unchanged. The directors say AVI's associated investment in Control Instruments performed disappointingly, but add that "prospects are encouraging and improved results are expected in financial 1990".

Although management is expecting a further slowdown in the current financial year, the group has budgeted for improved results, "provided there is no marked deterioration in the socio-political climate".

Two strong growth areas identified by analysts for financial 1990 are construction and the Goodyear investment.

The latter should help lift Consol through a reasonably flat period.

Siltek is expected to put in a steady performance, in line with financial 1989. I&J should also turn in a steady performance.

At a price of R48,50, the share is on a P/E rating of 7,4 times and a dividend yield of 2,5 percent, in line with market expectations.

Formal sector must heed people's needs

(180) B/Day 20/9/89

EDYTH BULBRING

THE formal business sector would lose the buying power of the lower income communities unless it started catering to their needs, Dave Gillam, MD of industrial relations consultancy Gillam Bruniquel and Associates said in an interview yesterday.

Gillam said lower income earners, of which the majority were seven million economically active black consumers, were still neglected and underestimated by the established formal sector.

This custom was increasingly being lost to "alternative business forms", which more adequately met the needs of these consumers, he said.

Gillam mentioned the example of minibus taxis, which had undermined Putco buses by catering to consumer needs by running a more accommodating and frequent service.

The alternative business sector was taking business away from the formal sector as it was rooted in the communities and sensitive to the needs and issues affecting the communities.

There was a shortsightedness and a non-recognition by the formal sector of the changes that would occur in a post-apartheid SA, Gillam said.

By ensuring short-term profitability, the formal sector was sacrificing long-term survival by being insensitive.

In a post-apartheid SA, established business would be judged by the communities and if they were found wanting, support would go to the alternative business sector, he said.

If established business was to flourish in an environment in which the Third World element was flexing its muscles, there had to be a greater reliance on upgrading and training of local workers.

The more responsibility and incentive workers were given, the more likely they were to support businesses similar to those in which they were directly involved, he said.

Unless companies took up the challenge to bridge the gap betwen the two cultures, they would find it difficult to survive, let alone prosper, Gillam said.

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ANN CROTTY

FSI moves ahead

No surprises from FSI. The market had expected it to report an improvement in earnings of around 25-30 percent. It got 25 percent — taking earnings per share up to 64c (51c), and the dividend to 12c (10c) a share.

Feeling is that the interim results have been conservatively accounted and include a considerable amount of "fat" at most levels of this massive organisation.

All of the group's major components reported eps increases in the region of 25 percent: Natbolts up 20,6 percent; Hunts 25 percent; W&A 25 percent. And now FSI has reported a 25 percent eps improvement. Nicely symmetrical, and suggests that the improvement in FSI's other interests was in line with that achieved by the W&A subsidiaries.

These "other interests" are Form-Scaff and International Operations. (The 32 percent stake in Reichmans was acquired too late to feature in this interim period.)

Stripping out the W&A results from the FSI figures shows that turnover from "other interests" was R106 million and operating profit was R43,4 million suggesting operating margins of an amazing 38 percent. (Compared with just 12,4 percent at interim '88 when Natbolts was included in the "other interests".

At the attributable profit level this sort of exercise indicates that "other interests" accounted for about 50 percent of the group total. Market sources believe that the year-on-year improvement in "other interests" was considerably stronger than the 25 percent suggested. In particular the international side would have enjoyed the added boost from the weaker rand in the six months under review.

Getting back to group figures, one important consideration is that the 1989 figures are comparable with those of 1988. (Unlike W&A where comparision was affected by all the restructuring that the group has undertaken.) So investors can get some idea as to how the FSI executive team has coped with the much larger asset base under its control since the massive W&A acquisition in September 1987.

The conclusion must be — very well indeed.

Turnover is up 47 percent to R1,1 billion (R784,4 million) and as chief executive Jeff Liebesman points out the bulk of this increase represents organic growth. Operating profit was up 66 percent to R147,6 million (R88,8 million) reflecting an improvement in margins from 11,3 percent to 12,7 percent.

After allowing for finanace charges (R47,3 million) and tax (R24,3 million), the advance at taxed profit level was 71 percent to R75,9 million. Outside shareholders and preference dividends took a massive R44,7 million (R23,4 million) which meant that attributable profit was up 48 percent to R31,2 million (R21,1 million). Equivalent to a 25 percent increase on an enlarged share base.

Some analysts believe that there is still something of a credibility problem surrounding the group and that this has prevented the share from enjoying the sort of rating appropriate to a blue-chip, rand hedge investment. In the short-term it is difficult to see what more Mr Liebesman and his team can do to counter this. In the long-term, doing what they are so ably doing now, will resolve the situation.

Mr Liebesman has no doubts that the group will be able to sustain its strong performance and achieve its long-term target of 35 percent return on assets managed (ROAM). Considerable progress has already been made on this front — up from 14 percent on acquiring W&A, to 18 percent for financial 1988 and, now at around 20 percent.

He points out that all the subsidiaries see the 35 percent figure as their target and are implementing strategies to reach it.

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ANN CROTTY

Latest MAP deal has good points

The MAP consortium shouldn't be too surprised if the complicated deal presented to shareholders earlier this week is greeted with a little scepticism and confusion.

The deal, which is the latest in a series from the team, changes a number of earlier plans, which is partly the reason for confusion and scepticism.

But there are two good reasons why the market should give the proposals some consideration. The first is the profit the MAP consortium has made on the acquisition and restructuring of Cashworths. The second is the profit it has made on the acquisition and restructuring of Manserv.

In addition, there's the fact that MAP now believes it has put together the most appropriate structure for implementing growth strategy.

Back in January, MAP bought control of the ailing Cashworths and made a 35c-a-share offer to minorities. At that time the plan was to streamline the operation and build around the units that had good potential.

But within a few weeks MAP received a very attractive offer for the major remaining Cashworths asset. It accepted the offer and decided to turn the company into a cash shell.

Sale of the last remaining asset was finalised last week. This left Cashworth with cash assets of R10 million, equivalent to 68c a share (compared with the earlier 35c offer to minorities).

In June, senior executives of Colfin (who are part of the MAP consortium) acquired control of Manserv and made an offer to minorities of 65c a share.

After selling off much of the asset base, Manserv was left with Punchline Columbia Training, Academy of Learning, Accys and cash of about R3 million.

This week's deal puts a combined value of R15,4 million on Manserv — including the R3 million cash — and equivalent to 106,7c a share.

Reason for the exchange of assets between Cashworth and Manserv (R12 million cash from Cashworth, including R2 million of borrowings in exchange for Manserv's non-cash assets) is to ensure that the R15 million cash is all in one home.

In the absence of this leg — which initially puzzled analysts — there would have been R10 million cash in one of MAP's divisions and another R3 million in another.

As MAP director Jeff Wiggill says, the restructuring ensures that Manserv has R15 million cash which can be used to pursue one side of the group's two-pronged strategy.

The overall objective is to build up a financial services operation with investment banking activities and to establish an investment holding company.

Cashworth will use the previous Manserv assets to develop the financial services division and Manserv will become an investment holding company using its R15,4 million cash as the base to fund acquisitions.

Mr Wiggill is not daunted by the apparent excess of players in the financial services market, saying MAP is very specific in its target market and will not be competing with the big players, but will be looking at medium-sized listed companies needing a much more hands-on approach from their financial advisers.

The investment holding division, which is looking at a number of acquisitions, will derive its income from dividends and earnings of the underlying investments.

The Merhold tie-up, announced last month, has been put on hold until all the parties involved see how this week's deal pans out.

B/Day 25/9/89. 180

Call to help black business take its place

TANIA LEVY

UNLESS black business is assisted in taking its rightful place in the economy there will be demands by a future black-dominated government for enforced redistribution of wealth, says black taxi development company Project Spear.

In a study entitled Creating the Economy: SA Business in the 1990s, it says a large and prosperous black business movement will assist and accelerate political change, a process known as black economic empowerment.

Action must begin now and show significant results by the end of 1990. Business must be restructured to form smaller versions of today's English and Afrikaans giants among black businesses.

The study says by 1994 black business must include a smaller version of Anglo and Sanlam conglomerates.

The three will together form the "new economy", an essential counterpart to the new constitutional dispensation to be devised by politicians.

The restructuring of SA business must take place at the same time as political and economic changes.

Whereas the 1980s have been the decade of grants, the 1990s' need is for investment, it says.

Time and effort

Investment will take two forms: large-scale financial investment, possibly from sources outside SA and development investment by established business and other agencies which wish to see black business develop.

They must invest not only money — though this is essential — but time and effort to ensure black business develops rapidly from the informal to formal sector.

There must be partnership at all levels between black entrepreneurs and white established business.

In the new economy the momentum must come from a combination of black entrepreneurs working with white entrepreneurs able to can offer the necessary business skills.

Two developments which show the way to the new economy are mentioned in the study.

First is Black Enterprise magazine's recently created New Economy Trust, an agency applying funding from local and overseas sources to the financial needs of black entrepreneurs.

Secondly, the paper says the SA Black Taxi Association has set up a joint venture with a white-owned company with specialist skills in business, training and transport.

The aim is to provide education and training for the taxi industry and new business opportunities

Representing R3bn in capital investment, the black taxi industry could become the leader of the new black formal business movement more quickly than any other group in the informal sector, the paper says.

B/Day 25/9/89. 180

Private sector goes to help of poor

TANIA LEVY

A MASSIVE drive by the private sector to raise millions in funds for the under-privileged has been bolstered by top companies and key businessmen.

Launched on Friday, the Ithuba Project's first event is a celebrity relay and telethon to be screened on TV for 11 hours on October 10.

Clem Sunter, Anglo American director and one of Ithuba's trustees, says corporate sponsorship will get the project off the ground with a huge injection of working capital.

Supervised by trustees from SA's key boardrooms, the project will channel funds to beneficiaries who promote education and training, small business development, sporting and cultural activities and job creation for South Africans of all races.

Sunter says the Ithuba Project focuses on people's development and training.

Beneficiaries of the launch event include, among others, the SA Cricket Development Trust, the Soccer Association of SA, the KwaZulu Training Trust, the Wilderness School and Get Ahead Foundation

The SABC has given free air time to Ithuba for its commercials and the event.

Leading advertising agency Ogilvy and Mather Rightford Searle-Tripp and Makin has undertaken to design Ithuba's communications Programmes without charge.

"We see our involvement in Ithuba as an opportunity to make a positive and significant contribution on both a corporate and personal level to the successful birth of a new SA," says Ogilvy and Mather deputy MD Mike Welsford.

Other sponsors include legal firm Webber Wentzel, accountants Coopers and Lybrand, Volkswagen SA and First National Bank.

Buoyant business reported

B/Day 26/9/89.

SYLVIA DU PLESSIS

MANUFACTURERS are still experiencing buoyant business conditions and business confidence prevails, but the industry is sliding into a period of slow growth.

This is the finding of the Stellenbosch University-based Bureau for Economic Research (BER) in its latest quarterly survey of the industry, involving 922 manufacturers nationally and representing 21 subsectors.

According to the BER, 59% of the manufacturers polled expressed satisfaction with their present business conditions.

Respondents said they were still experiencing "substantial" volumes of sales in the third quarter, with levels higher than in the same period a year ago, despite the demand restrictions of May 5.

This trend was expected to continue for the remainder of the year, albeit at lower growth rates.

Pressure

BER researcher Murray Pellissier said in a statement he expected the rate of increase in new orders placed for the rest of the year to "taper off" as the economy moved into the early stages of the cyclical downturn.

According to the BER, while there are signs of an easing of the pressure on production activity, more manufacturers experienced higher levels of production than anticipated during the previous survey.

Expectations are that the rate of increase in the volume of production will remain the same during the fourth quarter.

Manufacturers appeared to have already discounted the expected decline in demand by timely production planning and scheduling, with respondents expecting to lower production by laying off factory workers and reducing employment levels.

The survey — conducted prior to the September 6 election — also found that manufacturers' perceptions on issues such as sanctions and political policies causing business constraints had not changed dramatically since the previous survey, despite the "tension-filled" pre-election period.

The BER said the longer term influence of sanctions was reflected in manufacturers' expectations of increasing both their exports and imports over the next year, although at a somewhat slower rate.

Industry ups use of production capacity

180

TERRY WILKINS

SA INDUSTRY increased its utilisation of production capacity in May by 3,2% over May 1988, according to figures just released by the Central Statistical Office.

Increases in utilisation rates occurred in 15 of the 27 manufacturing groups, with the relatively largest increase in the industrial chemical industry — 19,6%.

Reasons for the under-utilisation of 15,1% were a shortage of raw materials, skilled labour, semi-skilled and unskilled labour and insufficient demand.

The food, metal products, motor vehicle and machinery and equipment industries were the main contributors to the 2% under-utilisation — from shortages.

Metal products, food, machinery and equipment and electrical machinery industries contributed to the 10% under-utilisation due to insufficient demand.

B/Day 28/7/89

Assocom looks at industry

180

Star 26/9/87

A survey on investment intentions in the manufacturing industry is to be undertaken by the Bureau of Economic Research of the Stellenbosch University (BER) at the request of Assocom.

According to Assocom, no such reliable information exists at present and there is a lack of data on overall future investment plans for the manufacturing industry.

It says that it is now necessary to take a forward look at the projected plans for industry in ways which would be helpful to manufacturers themselves.

"Assocom is breaking new ground with the survey, as together with the BER we have identified a gap in our statisical information about investment intentions in the industy," says Assocom chief executive Raymond Parsons.— Sapa.

Anglovaal Industries plans R239m capex expansion

(180) BDay 2/10/89

BRENT MELVILLE

ACQUISITION-happy Anglovaal Industries (AVI), after showing a taxed profit for the year of R281m — a 23,4% improvement — is planning to spend R293m on capital expansion this year.

The continuance of its expansionary phase is in spite of the fact that chairman Basil Hersov expects an economic downturn in the coming year, although he says in the group's annual report AVI will show substantial improvement in results.

Capex last year was R282m and R161m in the preceding financial term.

Following restrictive monetary measures introduced recently by government, consumer spending is likely to fall off during the coming year, says Hersov in his annual review. "And there is unlikely to be a meaningful decrease in the high level of inflation in the short term."

"Compounding this rather bleak outlook is the ever present threat of increased sanctions. Although the threat of draconian sanctions legislation in the US has lessened this year, the respite may be tenuous," he warns.

Hersov says government — despite its reduced majority in the general election — must move rapidly towards a political dispensation acceptable both domestically and abroad to avoid the probability of intensified sanctions.

Overseas capital investments in SA continue to be limited, but free capital inflows are essential for sound economic growth and these will come about only if satisfactory progress is made on the political front, continues Hersov.

He says that although AVI has predicted a strong rise in the current year, "any marked deterioration in the socio-political climate could temper this forecast".

Last year AVI spent substantially on replacement of fixed assets, which are now valued 27,6% higher at R708,6m (R555,1m).

Despite this, and costs totalling R44m — incurred in acquiring additional shareholdings in group companies as a result of the rationalisation of AVI's investment holding structure — gearing remains at 29% (20%), says Hersov.

He says the group was able to take full advantage of the moratorium on stamp and transfer duty during the year by rationalising its structure.

"Certain investments were moved into the sectors under which they are managed, while schemes of arrangement were implemented whereby the minority interests of T W Beckett and Company, Globe Engineering Works, South Atlantic Corporation and Steelmetals were bought out, thus making those companies wholly-owned subsidiaries," says Hersov.

Borrowings had a notable effect on income — with a hike in the interest rate chopping R44,8m (R23,9m) from operating profit of R525,7m (R413,7m).

Divisionally, the group showed strong growth across the board. Grinaker achieved a turnover surge of 38% to R1,2bn (R886,3bn) with earnings jumping by 50% to 107c (71c) a share. Its construction arm experienced improved trading conditions, even though its profit margins have not yet reached acceptable levels, says Hersov. Grinaker is operating on a margin of 7,5% (8,1%).

In addition to the acquisition of Hewlett-Packard — renamed Hiperformance Systems — other investments included percentage interests in M & PD Electronics and Q Data. Grinaker's share of earnings from associated companies leapt to R4,8m (R200 000).

For the total group, the share of earnings from associated companies increased to R12,5m (R5,7m).

Siltek has made a bid for the outstanding equity of M & PD and Grinaker has offered its shares for a takeover of cash shell Mooi River Textiles into which it intends to reverse its electronics interests in the form of Grintek, which Hersov expects to have a turnover of more than R1bn, and pre-tax profit of about R137m.

4/10/89 STAR 180

Assocom to take Govt to task on excessive taxation

By Michael Chester

The Association of Chambers of Commerce and Industry is planning to deliver a grave warning to the Government that excessive taxation lies at the root of South Africa's weak economic performance.

Demands that Finance Minister Mr Barend du Plessis starts an action programme with sweeping reform of the whole tax system are likely to be agreed by big business at Assocom's annual congress that starts in Port Elizabeth on October 17.

Assocom is likely to propose the lowering of marginal tax rates, the scrapping of taxation on fuel, the withdrawal of import surcharges, a halt to double taxation on dividend payments and the removal of ad valorem excise duties as first moves towards a new tax package.

A blistering attack on the relentless increase in the tax burden on business and individuals alike will be led by the Witwatersrand chamber and backed by the Cape Town delegation.

Witwatersrand president Mr Aubrey Pitt will propose that Assocom formally voices grave concern at the negative impact of tax levels on economic growth, the "gross violation of the canons of equity" in the present tax system, and the growing flow of revenue wasted on excessive government spending.

FORBIDDING

"The taxation landscape is dreary and overhung by forbidding clouds that cause concern," argues Mr Pitt in a background paper. "There is little apparent evidence of the existence of any definite or clear plan for tax reform."

The government had so far introduced little of the reform recommended by the Margo commission of inquiry after its exhaustive probe into problems and potential solutions.

High taxation and the amount ploughed into excessive government expenditure was undermining both corporate and consumer confidence and acting as a brake on new investment.

The whole tax system needed to be steered back to the fundamental canons of fair taxation, meaning clarity and simplicity and equal treatment for all taxpayers.

Tax levels had a key influence not only on day-to-day business management and administration but also on longer term development planning. It was crucial that fundamental principles in the system were honoured.

Projects must be justified — Durr

BDay 6/10/89. 180

PRETORIA — The days of grandiose capital projects not justified by sound economic criteria were over, Trade and Industry Minister Kent Durr said here last night.

GERALD REILLY

Speaking at a German Club function to mark the opening of the firm August Laepple, he said the President had put together a team of economic and financial men who had a clear vision of where to go and how to get there.

He could already sense an urgency rippling through the new government. Economic restructuring with constitutional reform was a great challenge, but without economic growth no lasting reform could be achieved.

Durr said it was gratifying that the manufacturing industry had grown by 6% last year and now accounted for nearly a quarter of GDP. A great constraint was the balance of payments and it was imperative that non-gold exports be increased.

He stressed the opportunities for foreign exchange earnings and job creation through local beneficiation of raw material.

On the motor industry, he said the start of Phase 6 of the local content programme this year was another milestone.

Components

Total investment in the industry and the motor trade amounted to R8,7bn and the industry as a whole employed 259 000 workers.

The components industry was a key element in the beneficiation process.

Government was aware that component manufacturers were not entirely happy with some aspects of the scheme. However, his department would maintain an open door policy.

Constructive discussions were now in progress to breach the shortfalls and to try to accommodate a components industry more equitably.

Durr conceded the Phase 6 programme was not without teething troubles. However, his department was currently trying to sort out the difficulties in consultation with other government authorities and the industry.

The new rules were expected to bring renewed investment and increased manufacturing activity in the industry. It was expected a minimum of R200m investment would be made this year rising to R1bn for the year 1997.

Likely too, he added, was further rationalisation of vehicle models and components.

stimulate the blood lust of fighting dogs.

A Mafia-style organisation — with members who have a secret code of conduct and who bet

Anybody with information is asked to Captain Tiny Nortje at (011) 834-4005 o

Indaba to launch black Who's Who

10/12/90

STAR

Political Reporter

The kwaZulu/Natal Indaba is soon to launch a comprehensive Who's Who of black achievers in the area, to be followed by similar publications for the eight other economic regions of South Africa.

Sponsored by donations from the private sector and advertisements in the book, it will feature between 2 000 and 3 000 names of people living in or originating from the area.

Fields to be covered include commerce and industry, health and social work, labour, education, medicine, the media, sport, music and entertainment, religion and conservation.

Inclusion in the black Who's Who will be decided by an independent editorial board drawn from all shades of political, academic, educational and professional opinion.

The purpose of the publication is to raise the profiles of key players in the black community and to make them more accessible to both the wider South African and international communities.

The kwaZulu/Natal Indaba said it would not seek to control the contents of the book. Support for the Indaba was not a prerequisite for inclusion.

It motivated its decision to focus on blacks only by saying white, Indian and coloured achievers were generally well-known.

"If negotiation is to stand a chance, relevant individuals must be drawn to the conference table. This requires their identification and adequate background detail," the Indaba said.

180

Manufacturers less optimistic

Star 12/10/89 . (180)

By Jabulani Sikhakhane

Manufacturers are feeling slightly less optimistic about volume sales in the next 12 months and the number of industrialists expecting capacity utilisation to increase fell in September compared with the previous month.

According to the latest opinion survey of the Federated Chamber of Industries released yesterday, the index for manufacturity activity declined from a final August level of 118 to 104 in September.

The recently announced R3 billion investment inlow cost housing is expected to contribute to economic activity and provide a stabilising influence on the economy. It could also contribute to an improvement in confidence levels in the sector.

A string of successful exports to overseas markets played a major role in boosting business confidence since July after a fall in the first six months of the year.

Even in the latest survey manufacturers were still expecting higher levels of production in the coming 12 months.

After a rise in the index of expected sales volumes to 126 in August, it moved sideways in September. The number of industrialists expecting capacity utilisation to increase has fallen.

"This suggests that stock levels will start to be eroded in some companies. During the previous downturn in the economy, production volumes fell by 4,5 percent and employment dropped 4,4 percent," the survey added.

It appears that most industrialists have improved their stock control systems and in expectation of a slowdown next year (particularly in sectors catering for local demand) will start to reduce their stock holdings in coming months, the survey said.

FCI senior economist, Roelof Botha said confidence levels in the manufacturing sector were still marginally optimistic.

B/Day 18/10/89

Tax and govt spending need attention — Relly

180

Own Correspondent

PORT ELIZABETH — Four areas needing continued effort to help improve SA's economy were oulined in Port Elizabeth last night by Anglo American Corporation chairman Gavin Relly.

Opening the annual Assocom congress which coincides with the 125th anniversary of the Port Elizabeth Chamber of Commerce, he said the list was by no means exhaustive.

The four areas comprised the tax system and government spending; establishing priorities for spending; deregulation and privatisation; and productivity.

He said there was a need to continue to restructure the tax system and to reform government spending. Much political will would be needed by the new administration to carry through this difficult task. He welcomed the reduction in spending by the President's Council as a token of good faith.

While overall government spending would have to be within the bounds of affordability, Relly said, spending in some areas would have to receive priority. This applied particularly to education.

"May I also make a plea for attention to more adequate funding ... so that both the calibre of recruits and the number of police can be increased to the advantage of the entire South African community."

Benefit

Government needed to make more progress on deregulation and privatisation. Its assurance that it would use the proceeds of privatisation primarily for paying off debts must be carried out.

The private sector, however, also had an important duty, together with government, in the area of deregulation and privatisation: to draw those who had been excluded from the economic mainstream into those processes through debate and explanation and by ensuring that they, too, benefited from the process.

"I think many in business have simply assumed that the virtues of the process of deregulation and privatisation are self-evident, and have not made an adequate attempt to understand ~~why~~ segments of the black community are highly critical of them or to reassure often legitimate fears."

Finally, he said, there was the issue of productivity. Attempts by the business community to impose productivity on the workforce in a top-down way were bound to fail.

"It is only by inviting the full participation of the workforce in generating schemes to improve the productivity of enterprises that the sort of improvement which is vital to the economic well-being of the country can be achieved."

Referring to the process of political change, which was accelerating, he said the primary role of the business community would be to continue to produce wealth and to engage in all the activities.

Business would not be able to produce wealth if it did not demonstrate that it was committed to a new SA.

Getting its own house in order meant meeting enormous challenges in the industrial relations and human resources areas, Relly said.

B|Day 20|10|87

(180)

Merged Assocom-FCI seen as lobbying force

PORT ELIZABETH — The narrowing majority seen in the recent elections meant government and the public sector would have to pay closer attention to lobby groups, especially large business organisations, said Assocom's new president Brian Kurz yesterday.

Kurz was inducted as president at the close of the Assocom conference yesterday.

Should the FCI approve the merger with Assocom at its annual meeting on November 1, the new organisation would become a major lobbying force in SA, said Kurz in an interview.

The business community would have to contribute to improving past performances and to political restructuring in which it had a vital interest.

Kurz, an attorney from Maritzburg, said he would like to see the installation of a number of key values in the political restructuring, including the right to own property, a bill of rights, Reserve Bank independence and decentralisa-

ZILLA EFRAT

tion of decision-making.

He would continue to promote the abolition of sanctions as they were counter-productive and could be largely circumvented. In this regard he congratulated the Rev Allan Boesak who called for a moratorium on sanctions in Kuala Lumpur on Tuesday.

Kurz said the carrot would work better than the stick, and encouragement was what SA needed at this time.

Productivity

The Assocom congress yesterday urged government to promote political changes essential to SA's economic performance and stability.

Other motions called for the structured implementation of the President's Council's report on productivity and an Assocom investigation on business representation on the Regional Services Councils and local authorities.

The congress, endorsing the recommendations of the President's Council's report on productivity, called for the immediate setting up of a national strategy involving all sectors of the economy to ensure the structured implementation of its recommendations.

In calling for constitutional reform, it called on government to implement its commitment to reconciliation and negotiation among all races to prepare the way for a new constitution.

It said government should accept in principle that a bill of rights ensured individual, as opposed to group, rights as part of the new constitution, and commit itself to the repeal or ammendment of all legislation that conflicted with the bill of rights ultimately agreed on.

The congress suppported the planned rationalisation and modernisation of the police force as proposed by the De Witt Committee. It urged government to revise budgetary allocations to substantially increase the strength of the SAP, thus ensuring crime was prevented and detected, and to improve the SAP's pay and working conditions.

S/Times 22/10/89.

30c discount to beat beer strike

181

By Robyn Chalmers

SA BREWERIES distribution lines were hit by a strike this week, forcing retailers to queue at depots to ensure drinkers of their weekend beer.

As compensation, SAB lowered its beer price by 30c a case for the many retailers who preferred fetching supplies to facing the wrath of pintless tipplers.

Retailers reported that some of the more popular brands of beer were in short supply, causing them to stock up on slower-moving lines.

Casuals

All hands in SAB were called in to help keep production going. SAB hired hundreds of casual workers to fill in for the 5 500 strikers.

SAB spokesman Adrian Botha said temporary staff were hired from all sections of the population. Black and white were working side by side in bottling plants to meet demand.

Mr Botha said: "The strike means that we cannot deliver as effectively as we would like.

"Unfortunately, we received widespread allegations of violence, some casual workers receiving bomb threats and monthly paid black staffers and sales representatives being intimidated.

"In some cases we were forced to call in the police to restore order among rowdy strikers. We regretted having to use the police, but circumstances forced our hand."

The strike started on October 11 after wage negotiations between the Food and Allied Workers Union (Fawu) and SAB broke down.

Members of Fawu demand a R1,80, or 38%, across-the-board increase in the hourly minimum wage of R4,70. The SAB final offer is 16%, boosting the minimum monthly wage to R1 063.

Violence

Police were called in at various plants to evict strikers carrying pangas, knobkieries and wooden replicas of AK47 rifles. A casual labourer was allegedly stabbed in Kimberley and several delivery trucks were stoned in Soweto.

Fawu said it rejected violence. If SAB could provide it with the names of union members allegedly involved, it would call on them to stop.

Fawu branch organiser Ernest Buthelezi said the company had to realise that the strikers had many sympathisers over which the union had little control.

If the company had not locked out workers and had allowed union members to remain on the premises, there would have been better control over them.

Assocom, FCI set to wed

(180)

S/Times 29/10/89

By Don Robertson

THE long-awaited marriage of the Association of Chambers of Commerce and the Federated Chamber of Industries could take place on Wednesday.

Assocom approved the merger in principle at its congress in Port Elizabeth on October 17 and the FCI is expected to announce acceptance at its Exco '89 conference in Johannesburg on Wednesday.

There will be economies in joint chambers of commerce and industry — but to get to the altar, some large differences have had to be overcome.

Pecking

Often the interests of commerce and industry clash. In addition, there are strong personalities on the executives of both organisations. Arranging a pecking order will be no picnic.

Ron Haywood is executive director and chief representative of the FCI, and Raymond Parsons holds a similar position at Assocom.

Mr Haywood, however, is confident that any areas of dispute can be resolved at committee level and a unified voice presented.

The two agree broadly on socio-political matters — so much so that they were removed from President PW Botha's Economic Advisory Council. But they have disagreed on several issues in the past and there could be problems in presenting a single voice on some subjects.

The new organisation — SA Chamber of Business — will be established early next year. It will represent about half of SA's manufacturers and businesses.

eclipsed by fine results from other banking groups. Allied eased 2c from the previous

whereas 100 Graphtecs at the bid price of R16 are worth R1 600.

Small firms get orders

S/Times 29/10/89

THE Small Business Development Corporation has set up a unit to promote closer links between between big business and small entrepreneurs. 820 180

The SBDC unit, funded by R250 000 in bridging finance from Anglo American's new small business unit, has helped to arrange contracts worth R1,4-million. Contracts worth R2-million are being adjudicated.

SA industry urged to stake European claim

180

S/Times 29/10/89

By Don Robertson

SOUTH African industrialists are urged to establish closer links with the 12 European countries which will form a huge trading bloc in 1992.

The Federated Chamber of Industries says it is vital for SA to protect its markets in Europe.

Executive director Ron Haywood says SA businesses should establish a presence in the EEC.

It can be done either by establishing a new business, forming strategic alliances, entering into joint ventures, merging with existing operations or establishing trade relations. However, the financing of these projects could be a problem.

Language

It will be necessary for each business to identify niche markets in terms of products and countries by recognising which companies can be approached. This can be done through the departments of trade in each country.

Language, location and manufacturing facilities will have to be studied and the question of possible double-tax will need investigation.

Mr Haywood says that if a company is established in Europe by 1992, the country of origin for funding will be of no importance. If SA is under increased sanctions, its businesses will still be able to trade in Europe.

Politics will also play a large role in SA's relations with Europe and it will be more difficult for people such as Margaret Thatcher to "go it alone" on this country's behalf.

When the new European market takes shape, its exports will represent 20% of world trade compared with the 15% of America and Japan's 9%.

Other benefits will include increases in gross domestic product, reduced inflation and the creation of between 2-million and 4-million jobs.

It will be achieved by the removal of frontier and technical barriers, fuller exploitation of economies of scale and gains from intensified competition.

Transport of goods will take place at almost twice the existing speed because of the elimination of border posts and controls.

There are also likely to be fewer companies as a result of mergers and this could affect multinationals in SA.

Strict

FCI chief economist Roelof Botha says because of these factors all companies which do not have a foothold in Europe will suffer a decline in competitiveness.

Of concern is the fact that SA's exports to Europe have been falling for many years, although off a low base.

However, exports to non-EEC nations have remained at between 25% and 30% of total exports to Europe and could be increased.

Because of the rand's decline, SA's competitiveness in Europe has improved by 1,3% annually for the past eight years. The result is that SA exports with a high labour content may be well placed to enter or expand in Europe. The advantage, however, could be temporary.

Mr Botha says: "SA will continue to experience strict monetary policy with signs of a general economic slowdown already evident.

"The probability, therefore, of declining import volumes coupled with a rand exchange rate which is fundamentally stronger than the the actual rate, will tend to stabilise the rand in the months ahead and price differentials will erode the competiveness of exporters."

Dairy + Milk

B/Day 15/11/89

Milk demand will soar 30% by 2000

GERALD REILLY

PRETORIA — The rapidly growing black population and increased urbanisation will send demand for milk soaring 30% to about 2,25-million tons a year by the close of the century.

At the Dairy Farmer of the Year function in Roodepoort last night Agriculture Development Minister Kraai van Niekerk said the industry should not plan only in terms of the SA market.

The needs of neighbouring territories should be taken into account.

"The total population of these countries is expected to increase to more than 67-million by the year 2000 — an increase of 63%."

The traditional supply of surplus dairy products from Europe and the UK to African states had declined substantially, Van Niekerk said.

Surpluses of butter and skimmed milk powder in the EC countries were something of the past.

Higher rates put damper on industrialists' outlook

B/Day 15/11/89.

180

KAY TURVEY

HIGHER interest rates introduced last month put a damper on the outlook of industrialists, according to the latest Federated Chamber of Industries (FCI) survey.

But in spite of indications economic conditions will be tough in the year ahead, sentiments are buoyed by a more positive socio-economic outlook, FCI economist Roelof Botha says.

The FCI's indices for expected sales levels supports forecasts for real economic growth of 1,5% to 2% for 1989, he says.

Ahead of the seasonal slowdown expected for November, positive influences should emanate from a higher gold price and signs that government is set to introduce tax relief and provide greater clarity in regard to the import surcharge and its export promotion policies.

FCI's survey of expectations among more than 300 MDs of manufacturing units shows the index of expected sales over the next 12 months falling to the lowest level since the survey was launched in July last year.

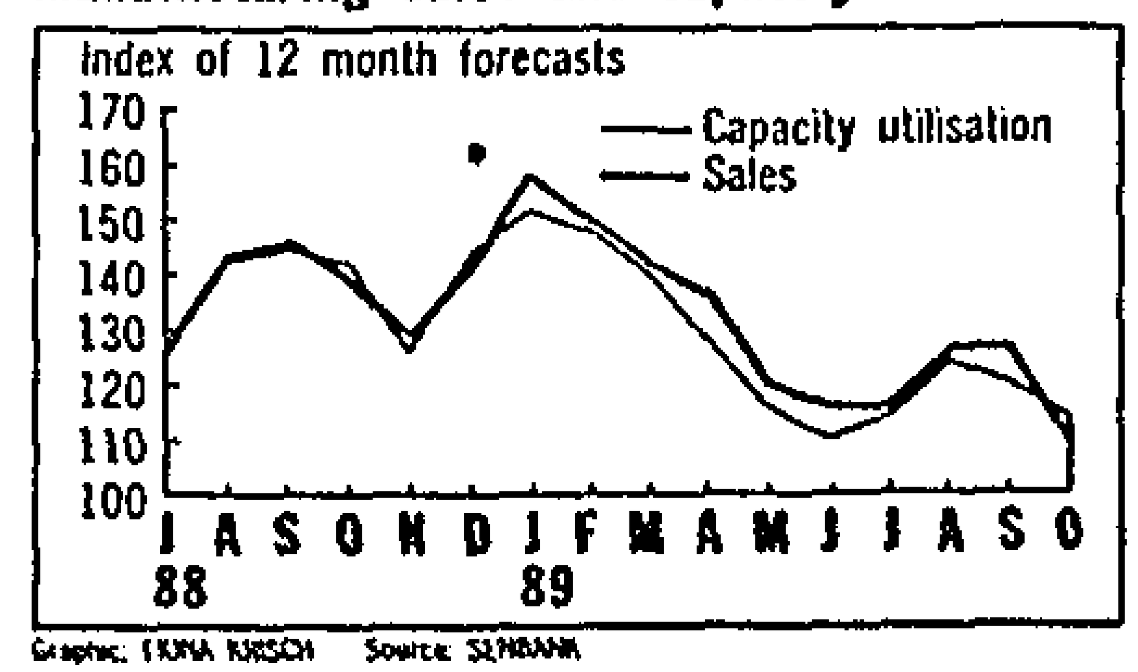
At 110, it remains on the optimistic side of the 100 border between optimism and pessimism.

The level of expected capacity utilisation remains above that of sales, possibly as manufacturers build up stock ahead of the Christmas shutdown.

If such a trend continues, it could indicate manufacturers are gearing up for an increase in consumer demand next year on the view that interest rates have peaked.

This is aligned to current economic forecasts of a prime rate of 17% to 18% by the end of next year.

Manufacturing sales and capacity utilisation



Municipal workers demand answers on privatisation

B/Day 15/10/89

ALAN FINE

THE SA Association of Municipal Employees (Saame), which represents 45 000 whites employees of local authorities in SA, yesterday demanded access to government's privatisation plans for municipal services.

Newly-elected Saame president Hans Deetlefs said the association sought assurances on the effects of privatisation on employment policies and on the quality of services.

He said government's plans could not succeed "without the stabilising influence of Saame participation".

Deetlefs pointed to concerns Saame had about employees' job security, their employment benefits, union rights, and about the standard of privatised services.

If employees' fears were not allayed this could lead to "a rush towards militant unions".

He said if the system in terms of which municipalities were graded was not changed this could lead to a downgrading of municipalities and consequent negative effects on employees' earnings and benefits — and possible mass resignations of employees.

Deetlefs said Saame also expected clear and honest answers on whether privatisation offered benefits for taxpayers; how cost-effective privatised services could be; whether services rendered would be of the same standard as those of local authorities and whether effective costing would be done regularly.

□ Comment has been requested from the council examing municipal privatisation.

Rethink on mining, agriculture BDay 16/11/89

Govt hints at revision of company tax

180

GRETA STEYN

DEPUTY Finance Minister Org Marais yesterday hinted at changes to personal and company taxation and a rethink of policy on mining and agriculture.

In a speech at the SA-British Trade Association annual meeting in Johannesburg, Marais said the incidence of taxes was so uneven it was detrimental to productivity and savings in the case of the individual and too high in the case of companies.

● MARAIS

It was of utmost importance that the bulge in personal income tax rates be levelled out and taxes on savings in the form of dividends and interest be adjusted.

Company taxes had to correspond more closely with company tax in other countries. A clearer definition of capital gains and operating income was required.

"We have to look at fringe benefit tax again," Marais said.

"We are giving serious attention to agriculture and mining. You can't promote new gold mines if you tax the richer ones more than 70%, or agriculture where the inefficient units may be oversubsidised."

This had led to the problem of capital-deepening instead of an increase in output as a result of capital investment.

"A micro-economic policy to increase productivity must receive prime attention."

On customs tariff protection of the manufacturing sector, he said many products enjoying protection were manufactured with capital-intensive techniques, leading to a demand for capital and highly skilled labour.

"The Board of Trade has changed its industrial policy to a more outward-looking approach to trade, by linking protection to a firm's export performance."

Marais said a free market approach was often simplistically summarised as a fight against inflation by means of high interest rates, a cut in the size of government by means of a decrease in government spending, a cut in tax rates, and a policy of deregulation and privatisation.

But "talk of a free market philosophy is cheap, economic growth buys the whisky. Forget that you can be 'a bit pregnant'. If you believe in a free market philosophy it must be applicable to all sectors of the economy where feasible."

He added, however, that SA was a country with a limited market and a distorted labour structure.

"Some intervention will always exist."

B/Day 16/11/87

Competition in SA 'unfair'

THEO RAWANA

SUN CITY — Competition was healthy for an economy, but the problem in SA was that competition was not fair, Law Review Project director Prof Louise Tager said yesterday.

Addressing the Sabta AGM at Sun City, Tager said concern that in a free economy there would be over-trading stemmed from a misunderstanding of the nature of an economy. 180

"Without competition, business cannot grow; it becomes complacent; services suffer; prices remain high; and businesses just deteriorate. Without competition everyone is affected. Consumers are prejudiced and the economy is frozen — it never grows because there is no incentive to grow. Competition benefits everyone."

Tager said the economy was not a "fixed size" cake that had to be shared by more and more people.

"The economy is market related; it is capable of continuing growth and the more it is stimulated the more it grows. That is why we do not have to speak of the distribution of wealth. In fact, the distribution of wealth will not solve our problems.

"Wealth has to be created, and it will be created if we free the economy of the controls and permit it to grow and prosper," Tager said.

"But competition has to be fair and this is the main problem in SA. How do we ensure that there will be fair competition when the odds are at present so unevenly balanced, because whites have all the privileges.

"The playing fields have to be levelled before there can be free and fair competition in this country."

Tager had high praise for the black taxi industry under Sabta.

Industrialists urged to make use of countertrade agreements

180

BDay 17/11/84

EDWARD WEST

SA INDUSTRIALISTS should make use of the benefits of import surcharge exemptions through countertrade agreements, Witwatersrand Chamber of Commerce & Industry (WCCI) chairman Pat Corbin said.

Speaking at a WCCI seminar yesterday, he said the substantial surcharge savings — up to 60% of the customs value — provided an attractive inducement for importers to export.

A delegate at the seminar said this benefit should not be used merely as a benefit to subsidise products.

He said importers should also be encouraged to open up their markets for potential exporters.

Countertrade Association Fred Bell said SA industrialists were not export orientated, mainly because many were afraid of the risks involved in international trade.

The management of a countertrade agreement was based on a protocol agreement in which there usually was no relationship between firms that buy and firms that sell.

Countertrade agreements were based on short-term gains and because the agreement usually entailed simultaneous negotiations, SA manufacturers were turned off by the management of the complex countertrade agreement, said Bell.

Only one in 12 countertrade deals ever worked, but there were organisations in SA able to provide assistance to the exporters, he said.

Though countertrade figures were difficult to come by, Bell estimated that at least 10% to 25% of world trade was done through this method.

Countertrade was viewed by some countries as disruptive to free market principles; however, the percentage of world trade done through countertrade agreements was increasing, he said.

Tough measures slow SA growth

BDay 17/11/89 180

GRETA STEYN

REAL economic growth has slowed down sharply in response to tough monetary and fiscal measures after reaching a peak in the third quarter of 1988.

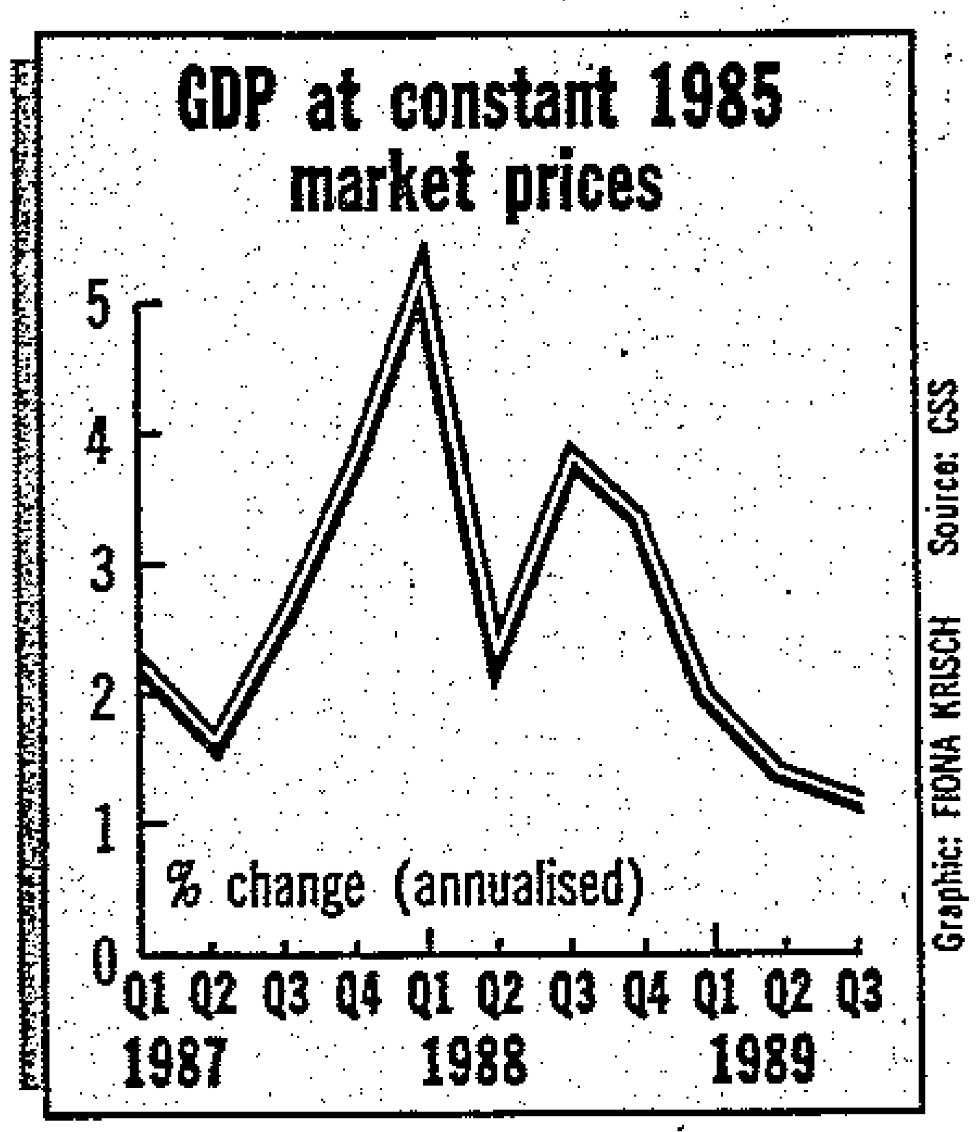
Central Statistical Services (CSS) figures released yesterday show the real rate of growth in Gross Domestic Product (GDP) slowed to 1,2% in the third quarter from a peak of 3,9% in the same quarter of 1988. All the figures provided by CSS reflect seasonally adjusted growth between quarters — annualised — and measured at market prices.

The slow-down in the third quarter was felt the most in the manufacturing sector, where output fell by 8,5%. But this decline was offset mainly by the surge in agricultural production — an annualised growth rate of almost 68%. In the non-agricultural sector, real GDP dropped by 2,8% — evidence of a sharp downswing.

Economists said the figures suggested SA could still achieve a 2% rate of growth for the year as a whole, but were divided about the outlook for next year.

TrustBank economist Nick Barnardt said: "The latest figures suggest there is a lag of 12 to 18 months between the implementation of restrictive policies and their effect on the real economy. Bearing in mind this lag, the slow-down could continue for a long time if the current level of interest rates remains in place until the middle of next year."

FCI economist Roelof Botha said he still



expected growth of 1,5%-2% for next year, but Econometrix's Azaar Jammine is less positive, expecting "virtually no growth" in 1990.

It was also disclosed yesterday that the level of growth was much higher than originally thought, although the trends remained the same. CSS announced sharp upward revisions: growth for 1988 as a whole was 3,7% (up from 3,2%), first quarter this year was 2% (1,6%) and second quarter growth was 1,2% (0,7%).

SA's population is growing at about 2,7% a year, and real GDP growth below that implies a reduction in per capita wealth.

DCM continues to lack institutional backing

11/89 180

ROBERT GREIG

THE *Development Capital Market's* lack of credibility with institutions could eventually inhibit the growth of developing businesses.

Major institutions avoid trading in DCM shares and often shares are tightly held, limiting their attractiveness.

The current major activity in the sector is reverse listing on which the JSE is sharply divided. Through reverse listings, original vendors are buying back their businesses and moving off the board, while new companies are coming on to the board through what some call the back door.

Although interest rates are high, which should theoretically make the cost of issue capital more inviting, there has been only one new DCM listing since June 1989.

In January 1988, 95 companies were listed on the DCM; this dropped to 63 in December; and to 53 in June 1989.

DCM defenders say the decline of new listings partly reflects the DCM's success as an incubator for the main board: by the end of 1988, 41 DCM companies had transferred to it.

The DCM has less stringent listing requirements than the main board: it was intended for smaller, emergent businesses with a profit history. For them, listing is a mechanism of development by raising capital and broadening equity bases.

For investors, the DCM represents higher-risk opportunities (and presumably higher rewards) at lower prices. When the DCM was launched, the JSE stressed the high-risk, high-reward nature of investment in so-called penny stocks.

Though major investing institutions believe the DCM is "a good thing", it is a no-no for them.

Sanlam portfolio manager Nel van Niekerk says DCM-listed companies have "blown their credibility for at least a generation" as far as the large institutions are concerned.

In an interview in Cape Town, Van Niekerk, one of three Sanlam fund managers, said: "We have scrutinised the small companies and as far as we are concerned, the risks outweigh the benefits.

"If investments come off, they are too small to enhance our performance. If they don't, we get crucified.

Volume

"In our experience, only about 20% of the companies listed during the 1986/7 listings boom have met their forecasts.

"But the result is small companies have blown their credibility with the institutions."

UAL corporate finance general manager Nico van Heerden amplifies: "The majority of DCM companies are trading below their issue price or did not meet their listing forecasts.

"In addition, major institutions are looking for the growth represented by volume trading, and this is why they are increasingly focusing on the blue-chip shares.

"The second-line stocks on the main board and the DCM stocks don't offer volume."

Nevertheless, Van Heerden believes the DCM remains a useful vehicle for raising funds and a showcase for emergent businesses, though he warns the JSE is likely to take a hard look at the growing practice of reverse listings on to the DCM.

DCM-watchers at Frankel, Kruger, Vinderine, noting recent "significant activity" in cash shell listings, see some merits in that process.

Writing in their July DCM newsletter, Nolan Menachemsom and Colin de Villiers outline reasons for more reverse listings.

They are:

- Low ratings restricting companies' abilities to raise funds through rights offers;
- Acquisitive growth being too expensive;
- The reputation of the DCM inhibiting new companies' access to listing capital;
- The inducement offered to original vendors to repurchase their businesses;
- The opportunity for DCM minorities to stay in "a generally more promising company" or get out at what is often a premium on the ruling price.

Menachemsom and De Villiers qualify the argument that reverse listing is backdoor listing.

"The new company still needs to comply with the initial listing requirements and as a result, these companies are in the main sound and viable propositions."

The JSE itself is convinced the DCM has successfully met its objectives. In a recent survey of corporate financial services, written by McGregor's On-Line Information and Rhonda Stewart, and sponsored by UAL and Kessel Feinstein, Humphrey Borkum, vice-chairman of the listings committee, says the DCM has met its objectives.

B/Day 24/11/89

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SA prosperity vanishing — CSIR

TO KEEP up with world standards, more money needed to be invested in research and development (R & D) and research equipment infrastructure was crumbling, the CSIR's Foundation for Research and Development found in a recent study.

EDWARD WEST

The report said SA's unchallenged wealth and prosperity were vanishing gradually, and its rich natural endowment and cheap labour were no longer the ingredients of economic prosperity for the country.

Internalised markets and increased investment in R & D by SA's competitors were dimishing SA's competitive edge. The export of primary products could no longer support the economy.

Producers of primary commodities had to produce 40% more in 1986 than in 1900 to buy the same quantity of manufactured goods.

SA's BoP was increasingly strained by high and medium technology deficits. During 1987, the deficit in high and medium technology was nearly R10bn, more than 6% of the GDP.

Productivity, which depended on R & D, had to be improved. In recent years SA's productivity increases averaged a scant 1,1% while countries once in lower levels of development were doing four to six times better, the report said.

Australian researchers were endowed with 50% more funds than South African researchers while Canadians received seven times as much. Only 18% of research equipment at universities could be considered up-to-date.

CSIR president Chris Garbers said yesterday the R & D funding mechanism for universities had as yet not been fully implemented, even though these funds had been increased by around 250% in the past few years.

Universities needed to be maintained as centres of excellence, especially considering government rationalisation of spending which had placed universities under pressure.

The R & D Foundation report added it was not surprising so many scientists left SA for greener pastures. More than 20 000 residents left the country permanently each year, a large proportion of whom took skills abroad.

National Productivity Institute (NPI) director for industries Jan Boer supported the view that not enough was invested in R & D. Industrialists often purchased technology overseas not suited to SA conditions.

Private businesses and government should work together on R & D programs, ensuring a focussed program which could be practically applied, said Boer.

Science and engineering were SA's only hopes to meet the challenges of international competition, the R & D Foundation report found.

MULTIPLE SHIFT MYTH DISPELLED

B Day 24/11/87

KAY TURVEY

THE results of a Safto survey into multiple-shift operations dispel the myth that scarce management and reluctant labour are major factors in preventing companies from introducing additional shifts.

The findings, released today, come at a time when it is widely recognised that lack of export production capacity is more of a constraint on the growth of SA's manufactured exports than foreign market restrictions.

Safto GM Ann Moore says a wider commitment by SA corporate managers to introducing multiple-shift operations would lift export capacity, give an immediate boost to employment and improve the industrial sector's capital productivity.

This would enable SA to make major strides towards achieving international competitiveness on a par with other aggressive, newly industrialising countries — without having to wait for the cycle of investment and plant construction to be completed.

Of the more than 1 000 companies surveyed, representing a broad cross-section of local manufacturers, 62% are already operating multiple shifts.

To illustrate that scarce management resources do not prevent companies from operating additional shifts, 75% of multiple-shift companies maintain no increase in the management team is required.

Cost savings

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Moore says the survey also contradicts another widely held theory: that there is labour resistance to additional shifts. About 61% of single-shift companies questioned believe there would not be opposition to multiple shifts. More than two-thirds of these companies have unionised or partly unionised work forces.

Cost savings to be derived from increased plant utilisation are clearly reflected in the survey results, as 61% of multi-shift companies record an increase in direct costs of 25% or less.

Moore says an encouraging sign is that 61% of companies surveyed felt, after research, that additional shifts could be introduced.

Investment firm tops companies list

BARRY SERGEANT

W & A Investment Corporation is Business Times's No 1 in its 1989 Top 100 Companies. The group, controlled by Jeff Liebesman's FSI Industries, has delivered investors an average annual return of 76,5% over the past five years.

The other top five rankings were occupied by Rembrandt Group (63%), Elcentre Corporation (61,9%), Trencor (60,4%) and Delta Electrical (57,4%). Including itself Anglovaal (52%), placed eighth, had a phenomenal 11 companies in the Top 100.

Companies that hold in the Top 20 for three years are dubbed "Royal" companies. In 1989 there are eight, compared with four last year: W & A, Rembrandt, Trencor, I & J, Anglovaal, Mutual & Federal, Waltons and De Beers.

Business Times's top five businessmen, named on Sunday, were Eric Sampson (Macsteel), John Hall (Middleburg Steel), Grant Thomas (Malbak), Peter Searle (Volkswagen) and Ian McRae (Eskom).

The stagnant gold price over the review period meant there were only 19 mining stocks (1988: 24) and nine (16) gold mines. Middle Wits (49,1%) was the only gold mining company in the top 20.

● Picture: Page 2 180

BDay 28/11/89

Call for small-business tax concessions

THEO RAWANA

GOVERNMENT had to consider introducing tax concessions for small business based on levels of inventories and debtors, said Len Walker of accounting firm Price Waterson at the weekend.

It should also look at the feasibility of tiered tax rebates on profits.

Walker was responding to last week's announcement by Deputy Finance Minister Org Marais that company tax was to be reviewed, but he stressed that the small business dilemma needed to be urgently addressed.

If a company's turnover increased from 100 to 200 and debtors increased from 50 to 100, a tax allowance should be given on the outstanding debtors' position, Walker said.

"A lot of small businesses only see paper profits and invariably have no money in the bank. Their lack of liquidity makes them sitting ducks for takeovers by bigger companies that have better cash flows."

In a developing country like SA, small business had to be stimulated through all possible means, including tax concessions, reduced red tape and other incentives, he said.

"It is also critical that small business proprietors regard bankers, lawyers and accountants as members of an advisory team to be used on a regular basis. All too frequently these specialists are only approached when the business is in dire straits."

Walker, whose Johannesburg-based company has had years of experience advising small business with cash flow problems, said small businesses needed tax concessions to improve their cash flows and enable them to make a greater contribution to the SA economy.

"The taxman has to find a way to ease the burden on small companies that are finding it extremely difficult to finance expansion with their after-tax income.

"Too many entrepreneurial enterprises, already battling with high interest rates, are building up loan accounts and struggling to pay the tax bills," he said.

Sowetan 28/11/95

(180)

Govt bid to restore private sector faith

(180) GRETA STEYN

IN A bid to restore credibility to government's economic policy-making, President F W de Klerk and five Ministers held a three-hour meeting with representatives from organised commerce and industry in Pretoria yesterday.

Government wanted input from the private sector on next year's Budget and on ways to combat inflation, and it stressed private sector support for economic policies was regarded as vital.

De Klerk chaired the first part and Finance Minister Barend du Plessis the second of a discussion in which the main issues were government's determination to control state spending and its wish to regain credibility.

In a statement Du Plessis said: "Subjects which enjoyed special attention were the combating of inflation, economic growth, creation of job opportunities and the necessity for concrete co-operation between the public and private sectors for the healthy development of our country's economy."

The business organisations present expressed their support for government efforts to control state spending. The statement said it was agreed that success in maintaining monetary and fiscal discipline was a key to determining SA's growth.

At the meeting were Transport Minister George Bartlett, Manpower Minister Eli Louw, Privatisation Minister Wim de Villiers, Agricultural Minister Jacob de Villiers and representatives from Assocom, the Afrikaanse Handelsinstituut, the Chamber of Mines, the Life Offices Association and others.

B/Day 28/11/89

COMPANIES

Massive drop in CMS attributable income

180

B/Day 29/11/89

SYLVIA DU PLESSIS

A DECLINE in operating income and a move to an interest-paying position has reduced attributable income for Corporate Management Services to R10 000 from R565 000 in the six months to September.

This is far off the R2,3m reported for the last full-year to March, but chairman and CE Alan Baxter remains confident of producing satisfactory results for the year overall.

The DCM-listed group, which serves the mainframe market with hardware, software and related services and lists the top 500 large corporations as its clients, has posted a 43% increase in sales to R16,6m.

Baxter describes this improvement as pleasing in view of the fact that it was achieved in an unsettled economic climate with difficult trading conditions.

However, growth at this level was marred by a a decline in operating income to R160 000 from R871 000, which he attributes to new technology products introduced during this period.

These products required an enhancement to the group's infrastructural levels, and associated costs were incurred ahead of revenue being generated, he says.

Another blot on the income statement is interest payments of R150 000, which compares with corresponding interest received of R70 000.

In view of the decrease in bottom-line profits, earnings of only 0,03c (2,09c) a share have been declared. Policy is to declare dividends at year-end.

Baxter says CMS continues to focus its activities in the mainframe sector of the information technology industry and has no plans to move into the PC market.

"The traditional core of the group's business — the sale of high performance information storage and retrieval solutions and independent maintenance services — is profitable and has good prospects for the balance of the year," he says.

However, the synergies anticipated in the software divisions have not yet fully materialised.

Baxter says CMS's second half is traditionally stronger than the first, and the group is well-poised to take advantage of the investment in its infrastructure and new technology products.

Impressive performance from trade-finance firm

BDay 29/11/89

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NEIL YORKE SMITH

GDM Finance, a trade finance company, has delivered a highly impressive performance for the six months to end-October.

At R4,6m (R3,8m) pre-tax profits reflect the group's substantial growth since 1986 when the corresponding figure was R0,7m.

For the period under review taxation at R1,1m was lower than the previous year's R1,4m.

The result was that attributable earnings increased to R3,5m, about 52% higher than last year's R2,3m.

This is in keeping with the 37,9% earnings increase for the corresponding period last year, and the 54% increase for the year ended April 1989.

At the per share level, interim earnings translate into 13,8c (9,1c). An interim dividend of 4c (2,5c) has been declared.

MD John Cowper said trade finance was not affected by an inflationary environment.

This was because demand for GDM's service, the provision of trade finance, simply increased in relation to the inflation rate, he said.

He added the service was always necessary , regardles of trading conditions and of the relative strength or weakness of the rand.

Expansion

Cowper said GDM was conservatively geared. "Our stated objective is a ratio of borrowings to shareholders funds of not more than 5:1."

At the interim stage this figure stands at 3,66:1, well below the stated objective, and even lower than the year-end figure of 3,9:1. This put the group in a strong position regarding future expansion, added Cowper.

Earlier this year GDM, with Finansbank, acquired the business of African Shipping, a clearing and forwarding business.

Although the acquisition took effect from July 1 1989, it is only based on Afship's balance sheet at Jan 31 1990.

The acquisition will thus have no effect on GDM earnings for the period to Jan 1 1990.

Cowper said earnings for the second half should exceed those for the first six months.

Shares in GDM, which was listed in September 1987, have recently been hovering around the 85c level.

This is slightly above the year's low of 80c reached last week, and well off the March high of 105c.

However, with no sellers to bidders offering 85c this week, the share price may have some upward potential.

At 80c, and with prospective annual earnings of 27c a share, GDM trades at a prospective earnings yield of more than 30%, well above the sector average.

Sable planning a transfer to the JSE industrial sector

B|DA 29/11/89

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LIZ ROUSE

SABLE Holdings intends to move its listing from the property sector to the industrial sector, now that its industrial interests are contributing half of group taxed profits.

Chairman John Nash says in his annual review that Steiner Services — the washroom services and linen and workwear rental division, which has now branched into manufacturing workwear garments in the Ciskei — should contribute about 50% of taxed profit in the current year.

Also, Sable is poised to enter the direct sales market for industial garments. Its Ciskei factory is producing 20 000 garments a month.

Steiner's turnover increased by 19%, and its operating profits before tax and interest were up 56% in 16 months to June.

Projected growth for the 1989/1990 year is an increase in revenue of 23% and a rise in earnings of 55%.

Nash says the property division, which has doubled its profits each year for the past three years, cannot be expected to continue growing at this rate. However, despite the slowdown he expects taxed profit to rise by 30%.

There have been significant changes in Sable's portfolio. Properties in the Hillbrow and Berea areas have been sold (where sales were advantageous) and the funds redeployed, either in better-performing properties or acquisitions in the industrial field.

Sable is looking at development of smaller industrial units, which the group believes have great potential because of changing economic trends.

Nash says these objectives have been achieved and the results speak for themselves — Sable's attributable net income for the 16-month period increased to R8,4m (112,6c a share) from the previous 12-months' R3m (39,6c a share). Dividend distribution was raised to 40c (20c).

Borrowings

The property trading division also had a successful year.

In the past this division acquired older properties and refurbished them for resale on sectional title. In future, efforts will be concentrated on new developments which will be undertaken in co-operation with other developers.

The group's debt has been handled carefully. Bank borrowings, which rose to about R32m following the acquisition of Steiner, were reduced to R13m at the end of June. Two property sales since the year-end have generated an additional R6,5m and part of these proceeds has been used to reduce borrowings.

Sable's property portfolio has been revalued to 957c a share. Net asset value of the portfolio was 587c a share at the end of February 1986.

BDay 30/11/89

Western Cape attracts foreign industrialists

180

CAPE TOWN — Growing interest from Hong Kong, Taiwanese and German industrialists and massive increases in Industrial Development Corporation (IDC) loans to Western Cape companies are expected to boost what is already regarded as one of SA's fastest growing regions.

Atlantis, the decentralised Western Cape industrial region which, up to now, has failed to live up to expectations, appears to be the beneficiary of much of the new interest.

Identity

RSC Atlantis project director Piet Burger reports between 60 and 70 "serious" inquiries from foreign and local companies for factory space in Atlantis. Hong Kong industrialists are understood to have shown particular interest in the Western Cape.

Burger will not disclose the identity of the interested parties, but says there will be a major announcement in January next year.

It is understood that one domestic

LESLEY LAMBERT

company recently borrowed R8m from the IDC to establish a project in Atlantis, and that some foreign companies have moved in quietly while others are waiting for more factories to be built to accommodate them.

There has also been a healthy increase in the value of loans provided by the IDC to Western Cape companies, particularly those in the clothing, food and, to a lesser extent, technology sectors.

During its last financial year ending June 1989, the IDC boosted the value of loans to Western Cape companies from R11m in 1987 and R29m in 1988 to R100m out of a national total of R396m — the largest sum ever received by the area from the IDC.

Of this amount, loans valued at R30m were approved for 11 Atlantis projects, four new and seven expanding or relocating existing operations.

The same trend seems to be emerging during the current financial year, with most of the emphasis on Atlantis.

IDC Western Cape manager Bertus de Vos reports ~~that~~ during the five months to November, loans valued at R39m were granted to Western Cape companies.

Of this amount, R24m was approved for three new projects and the expansion of six existing factories in Atlantis.

Export

De Vos attributes growth in the Western Cape to two factors. Firstly, the IDC's low interest rate scheme for small businesses, which, he says, has been effective in stimulating activity in the Western Cape where concentration of small businesses is high.

Secondly, structural changes in the economy as a result of the lower rand which have benefited the clothing and footwear industries by making them more competitive on local and export markets after years of competing with imported goods.

In an attempt to satisfy the demand for more existing facilities in Atlantis, the IDC has built two new factories of between 1 000m² and 2 000m², one of which has already been allocated.

Mums in striptease protest

6/11/89

C-Press

Police petrified by action

BY JAPIE MOKWEBO

HOMELESS Tembisa women this week took off their clothes and invited senior police officers to arrest them.

The local head of the SAP raid unit, a Captain Theron, turned pale and could not believe his eyes, witnesses said.

The incident took place near Oakmoor station where homeless families have been staying in the open since their shacks were demolished on October 2 by town council police, the SAP and the South African Defence Force.

As the police went to tell the families to move away from the area or face arrest, they were faced with an unexpected response.

A 54-year-old mother of nine, Doris Moema, told *City Press* the police arrived in the morning and told the squatters to vacate the area.

"We told them we were not moving an inch as we had nowhere to stay. Things got out of hand when the police started beating us with batons when we refused to be loaded into vans.

"One woman was grabbed by a policeman who dragged her towards a van. She pulled herself loose and started undressing.

"She was completely naked but police still hauled her into a van. Then we all took off our dresses and demanded to be arrested.

"The police were petrified. After some time the arrested woman was allowed to join us and the police drove off," she said.

Adjutant Pieter Nel confirmed the striptease had taken place.

He denied that anyone was arrested or baton-charged by the police.

"They were told to move from the area. There was no reason for them to strip naked," said Nel.

FINANCE

B|Day 30/11/89

(180)

Competition causes changes in corporate finance markets

ROBERT GREIG

COMPETITION has been the driving force behind recent changes in SA's corporate finance market.

But since the listings boom ended, competition has gradually yielded to a recognition that the competitive edge in corporate finance work lies in the innovation, creativity and thoroughness of execution of a team drawn from different disciplines.

In addition, there is a growing recognition that strength of teamwork also lies in the particular life experience of each member of the team, says a new survey of the SA corporate finance services market.

The survey is sponsored by UAL Merchant Bank and accountants Kessel Feinstein. It was researched and written by Rhonda Stewart & Associates and McGregor's On-Line Information.

Transactions

It reviews the listings boom of 1987, the subsequent crash and their effects on the corporate finance markets. It is aimed at the company considering listing. The survey was compiled during the second quarter of 1989 before the October mini-crash.

It names leading merchant banks, brokers, accountants and advisers in major transactions, describes the post-crash roles adopted by the major players, interviewing many executives and providing case-studies of major transactions.

Today the market is "characterised by plenty of corporate finance consultancies capable of processing documentations, on the one hand, and a shortage of skilled strategists on the other".

The survey says effects of changes include the entry of highly focused independents operating in niche markets; and the growing corporate finance capability of major conglomerates.

Blurring of roles in the corporate finance services market became pronounced during the strong bull runs of the '80s. The traditional divisions of functions of lawyers, reporting accountants, auditors, management consultants, stockbrokers became porous.

The survey continues: "Those brokers involved in going solo were quick to backpedal when they found their relationships with merchant banks suffering.

However the newly formed Venture Capital Market may "resuscitate the added-value broker".

The strength of the broking firms is their placing power, knowledge and understanding of market sentiment and ability to give crucial advice about pricing.

However, the survey says, potential conflict of interest limits the involvement of brokers in major transactions.

Another constraint on brokers is their smaller capital base, compared to merchant banks, and thus a limited underwriting capacity. Finally, according to Fergusson Brothers' Ian Davidson, brokers are limited by their agent role.

The scope for auditing firms' involvement in JSE-related corporate finance activities has "broadened significantly", says the McGregors survey.

Because they are closest to clients' financial affairs, "the experienced auditor is ideally placed to conceive and motivate the listing on behalf of the client".

Worldwide, the survey says, auditing firms are diversifying into non-audit work, because audit hours are shrinking — a by-product of audit technology efficiencies and merger activity among major clients.

The listings boom saw SA firms form corporate finance divisions competing on fees and skills for smaller corporate transactions. Their competitiveness lies in their overseas connections; their privileged position as auditors; and by the range of specialist skills assembled in auditing firms' management consulting divisions.

Limitations on the auditing firms, according to the survey, are: finance; inability to take equity in clients for fear of losing the audit; marketing constraints; and professional and financial services industry dissension about the propriety of independent auditors also acting as business partners.

Expertise

The survey sees a trend towards freer competition between merchant banks, with a gradual decline in *"favoured* nation" transactions provided through the structure of control of merchant banks.

The survey notes more major corporations are spreading their merchant banking business more as they develop in-house skills. Gradually, they are relying more on merchant bankers' expertise rather than their financial support.

The survey comments, citing the example of Barlow Rand's policy of leaving choice of merchant bank to group companies, that "tied business is more likely to be reinforced in the smaller groups . . ."

Rising cost of GDP outlined

BDay 30/11/89 (180)

TANIA LEVY

IT TOOK twice the investment to make a contribution of R1 to the GDP after 1974, as it had between 1946 and 1973, Privatisation Unit adviser Eugene van Rensburg said in Pretoria this week.

He was addressing a conference for representatives of self-governing territories.

Measured against the capital output ratio, investment had not met requirements of the norm of return on capital, Van Rensburg said.

Between 1981 and 1985 the public sector made no contribution to net domestic savings.

Government "dissaving" had reached critical proportions, Van Rensburg said. In 1988 government spent nearly R3bn more than it earned, compared with R44m dissaved in 1981.

He said this led to an inevitable reduction in net capital available for productive investment. In 1988 net capital available contributed a mere 3,8% to GDP, in contrast to its 19,4% contribution in 1981.

Van Rensburg said privatisation was an economic rather than a political issue. Its main goal was to reduce the public sector's share in the economy. By increasing the private sector's involvement, the tax base would be increased. This would eventually lead to a reduction in tax rates.

He said a shortage of skilled labour was one of the constraints facing privatisation in SA. Only 6% of the economically active population in SA were skilled or professionals, as opposed to 26% in the US.

For the next decade or two, SA would have to concentrate on equipping its scarce manpower resources to cope with the demands of the economy, he said.

Other constraints were monopolies and the over-concentration of economic power.

Van Rensburg said there were enough obstacles in the privatisation process to discourage any government.

However, he cast his vote in favour of the free enterprise system and market forces to regulate the provision of goods and services through the price and market mechanism.

Mood of business uncertain — index

180

SYLVIA DU PLESSIS

THE stronger gold price and the recovery on the JSE, underpinned by favourable perceptions of recent political initiatives in SA, helped repair business confidence in November after its sharp dip in October.

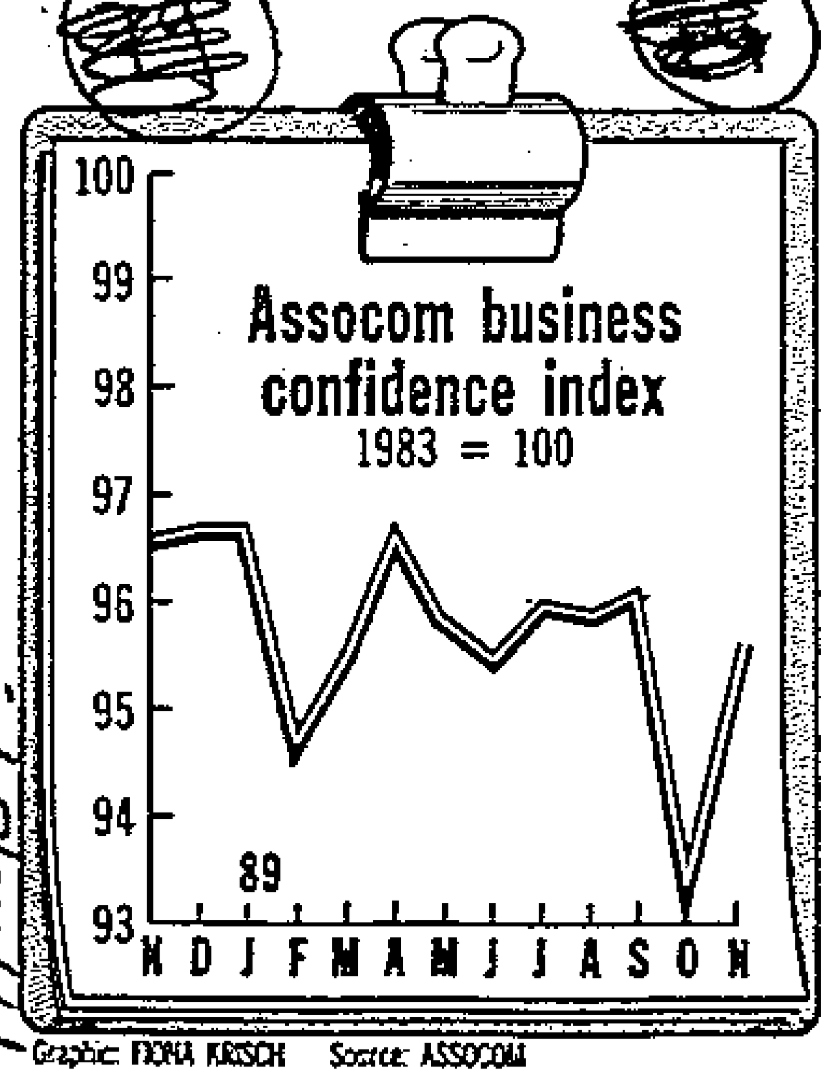
But Assocom, which measures business sentiment via the movements of 16 economic indicators, warns that the present mood is best described as one of "growing uncertainty" about business prospects in 1990.

The association's business confidence index (BCI) regained two points to 95,6 despite continued evidence — albeit uneven — of an economic slowdown.

Assocom says the improvement, in the face of "largely cheerless" short-term economic prospects, illustrates again the significant role which the gold price and political perceptions play in shaping the business mood.

"But the underlying trend is likely to be one in which business sentiment continues to adjust to changing economic realities," it says.

According to Assocom, overall business prospects for 1990 will be largely determined by the balance of payments situation and the need to cut inflation.



Graphic: FIONA KIRSCH Source: ASSOCOM

While there are signs of progress on these two fronts, economic policy is likely to remain one of restraint.

"The net forex position — bearing in mind in particular the foreign debt obligations in 1990 — will require the protection of monetary and fiscal discipline," Assocom says.

This is likely to have a negative impact on consumer demand, especially for durable goods.

"In 1990 new private fixed investment is likely to level off in response to tougher economic circumstances. Insolvencies may well rise further as business conditions deteriorate. On the other hand, many companies should be entering the current business downswing in a sounder financial position compared with 1984/5."

Factors contributing to the healthier BCI were increases in the dollar price of gold and the rand/dollar exchange rate, the JSE's overall share price index and merchandise imports and exports.

In addition, inflation — as measured by the CPI — declined marginally, while car sales, seasonally-adjusted real retail sales and the volume of manufacturing production all increased.

Negative developments included the October increase in the prime lending rate of commercial banks, the upward trend of insolvencies and a fall in real terms in the value of building plans passed.

W&A TOP OF THE PILE!

180

S/Times 3/12/89

By David Carte

W&A INVESTMENT Corporation is Business Times' top company for 1989.

The conglomerate — founded by Mannie Simchowitz and sold by the great entrepreneur to Jeff Liebesman's FS Industries two years ago — has given shareholders a return of 76,5%pa for the past five years.

A shareholder who invested R10 000 in W&A five years ago has seen his investment grow to R171 286.

W&A ranked ninth in last year's top company list. It replaces one of its own subsidiaries — National Bolt — at the top of the pile.

As the graph on page 13 shows, shareholders had to have strong nerves to stay with W&A for the full five years, for the share price slumped from R77 to R37 in the great crash of 1987 shortly after FSI took control. People laughed at the buyer and said: "Just like Mannie to get out at the very top."

Conventional wisdom was that Jeff Liebesman had overpaid. But somehow the Liebesman team managed to rationalise and sweat the assets, reduce the staff and pull off one of the more remarkable corporate restructures of recent times.

After a startling run-up from R38 to R80 in the past year, W&A is at dizzier heights than even the great Mannie Simchowitz remembers.

Between 1986 (before FSI took over) and 1988, W&A hoisted turnover from R720-million to R1,45-billion and operating profit spurted from R69-million to R177-million. Earnings a share have risen from R353c to 957c. Shareholders' funds have soared from R239-million to R661-million. And there is much better to come in the year to December 1989.

Runner-up in Business Times' great race between the best performing companies was Rembrandt Group. Remgro ranked third last year.

THE TOP TEAM: Terry Rolfe, Jeff Liebesman, Neville Cohen and Ivan Posniak of W&A

How strong nerves paid off

No 1 1984: R10 000 1989: R171 286

For the past five years, Remgro has been the ultimate rand hedge. It has also been creative domestically, sewing up control of and repairing Dorbyl, Volkskas, Momentum Life-Lifegro and other interests.

Remgro has rewarded the faithful with a return of 63%pa for the past five years. That means R10 000 invested in Remgro in 1984 has been transformed into R115 063.

Ten years ago, investors were prepared to pay only four or five times earnings for Rembrandt "because information about the earnings sources is so sketchy".

But the tobacco multinational's true value started shining through as hundreds of millions of dollars of cash held off-shore swelled in rand terms towards R1-billion.

The full value of the foreign assets was finally realised last year, when the foreign interests were put into Richemont and Richemont shares were distributed to Rembrandt shareholders on a one-for-one basis.

The transaction amounted to a capital reduction. Naturally, the share price of Rembrandt dipped after Richemont was hacked out, but since Remgro holders received a free Richemont for every Rembrandt share we have added back the value of a Richemont share in calculating our five-year return to shareholders.

Rembrandt, now representing South African assets only, has staggered many analysts by being able to improve earnings and dividends in spite of the excision of Richemont.

Johann Rupert has scored three triumphs in just over a year — first, the creation of Richemont, which added billions to shareholder wealth; second, acquiring effective control of Gold Fields of SA; and third, buying back outright control of Rothmans International from Philip Morris on bargain terms.

Business Times has frequently highlighted new corporate stars in the past. The Mowszowski brothers' Elcentre, which this year ranks third, is another. Those who bought shares worth R10 000 would by now have seen their investment grow to R111 233.

Elcentre is fundamentally an outstanding manufacturer, wholesaler and retailer of electrical goods. Through wise acquisition, it has come to dominate its markets.

One reason the share price performed so well this year is the proposed merger with the operations of Berzack Illman and the acquisition of H&J Cables.

The new company will have sales of more than R1-billion. And it will be a strong counterforce in cables to Bill Venter's Powertech. W&A's National Bolts, now named Teamcor, has 35% of Elcentre and, with such able operators in place, is content to be a sleeping partner.

Trencor, the Jowell family's remarkable Namaqualand transport-based conglomerate, came fourth in the rankings, returning 60,4%pa and boosting a R10 000 investment to R106 175 in five years.

Trencor has been prominent in Business Times' rankings for several years. Last year it ranked fifth. It is one of Business Times' Royal Companies.

Sales in the past three years leapt from R397-million to R690-million and taxed profit from R22,1-million to R48,1-million. In six years, earnings leapt from 50c to 338c.

Like Waltons, Trencor has nothing special going for it — besides exceptional management. The company has diversified out of transport into industry and has made a particular success of exporting trailers, tanks and tankers. Exports last year accounted for 40% of earnings.

Fifth place is occupied by a competitor of Elcentre and of Berzack Illman, Delta Electrical.

Formerly L H Marthinusen, this company — which supplies and services the electrical needs of the mines and of industry — has performed spectacularly in the

□ To Page 2

		3,7
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66	Assong	33,0
	Cement[illegible]	33,0
68	Proto[illegible]d	32,7
69	Afrik[illegible]	32,3
70	Dorby[illegible]	31,3
	Associa[illegible]ganese	31,3
72	Score Food Holdings	31,2
73	Chubb	31,0
	SWA Fishing Industries	31,0
75	Tollgate Group Holdings	30,9
76	Hartebeestfontein GM	30,5
	Genbel	30,5
78	Blue Circle	30,2
79	Metkor	29,4
	East Daggafontein GM	29,4
81	Kersaf	29,2
82	GFSA	29,1
83	Imperial Cold Storage	29,0
84	Farm-Ag	28,9
85	Commercial Union	28,3
	Village Main Reef GM	28,3
87	Doelkraal	27,9
88	Curries	27,6
89	Sentrachem	27,2
90	Edward L Bateman	26,7
91	Santam Insurance	26,5
92	Eureka	26,2
93	IGI	26,0
94	Tongaat-Hulotts	25,5
95	Anglo-Alpha	25,1
96	AECI	25,0
97	Lucem	24,8
98	Eastern Transvaal Cons	24,7
99	Sasol	24,6
100	Premier Group	24,3

• Share price September '89, less share price September '84 gives capital gain, plus dividends paid and interest on dividends at 12% pa gives total yield. This is expressed as an average compound return per annum on original share price.

Rembro runners-up

☐ From Page 1

past five years, lifting operating profit from R5-million to R22,5-million and earnings from R2,8-million to R11,5-million.

A low base year and acquisitions on favourable terms helped the company provide a return of 57,4%pa for shareholders in the five years to September.

That means R10 000 of Delta shares bought in 1984 would by now have yielded R96 610.

Messina, in sixth position, was the beneficiary of lower gearing brought about by the disposal of certain industrial interests, a much improved rand copper price, plus the prospect of a platinum development.

Impala has offered to buy 55% of the company. The company wisely sold copper forward when the London copper price was at a record £2 000 a ton.

Five years ago, with then-troubled Nissan in its stable, Messina made horrendous losses, so these improvements naturally catapulted it into the top five. Messina is the only mining stock in the top 10.

J J Williams' superstar in food, Irvin & Johnson, pipped its holding company — Anglovaal — into fifth position. Last year, I&J, another Royal company, was seventh.

I&J has flourished like no other company in food, despite fierce competition. Its genius is in marketing. It was first to discover the secret of adding value to commodity foods.

I&J this year achieved turnover of R1-billion for the first time and taxed profit of R65-million. It is fearless of recession, predicting "further growth in earnings", which most analysts reckon allows for inflation.

As the main distributor of Rainbow Chickens, I&J appeared to have an inside track when Rainbow came up for grabs this year. Rembrandt's Hunt Leuchars & Hepburn walked off with the spoils, though — at a very high price.

ST 3/12/89

Spectacular

Anglovaal — purchaser this year of Mooi River Textiles, Goodyear and other companies — displaced JCI as top mining house, returning 52%pa in the five-year period. It was placed 12th last year.

Anglovaal managed to maintain gold earnings better than most, thanks to good tax management and its industrial companies, notably I&J and Consol, were quite splendid. No fewer than 10 Anglovaal companies made it into the top 100.

Mutual & Federal went through a lean spell in the base year, 1984. Its problems continued into 1985, when it sustained an underwriting loss of R22,9-million and an overall profit before tax of R2,9-million. That year nearly every short-term insurer sustained underwriting losses, but M&F was a prime victim of suicidal competition.

After the bloodbath, insurers put their houses back in order, in most cases doubling premiums and not worrying about market share. The recovery was spectacular. In the year to June, M&F reported an underwriting surplus of R54-million and investment income of R91-million, for a pre-tax profit of R143,8-million. The steely nerved who bought R10 000 of shares in 1984 and stayed with them have seen their money increase to R122 000.

Gentyre, another FSI company, ranks 10th. As part of the FSI philosophy of keeping revenues and hacking costs, virtually the entire head office staff of 130 was fired last year.

With original equipment and replacement markets strong domestically, and export markets also beckoning, Gentyre has been in a seller's market for tyres this past year and its results have shown it.

The company has also engaged in creative market segmentation, aiming "Generals" at the run of the mill market and imported "Continental" tyres at the top of the range. Bottom of the range tyres are cheap enough to pose a major threat these days to retreaders.

Times Media, publisher of the Sunday Times, Business Day, Financial Mail and other publications, took 11th spot, also on the strength of a remarkable renaissance.

This company lost R6,8-million in 1984 and R22,8-million in 1985, before new broom Stephen Mulholland swept clean.

TML got rid of redundant printing equipment, entering into joint printing ventures with Argus. It sold an under-used vehicle fleet as well as several properties, thus liquidating all debt. The company also shed large numbers of people. It has taken care to grow its advertising and circulation revenues.

In doing all this, TML converted itself effectively into a service industry in which people are the main assets and information the major product. One problem facing the company is deployment of cash balances. This year, TML acquired Thompson Publications, MIMS, Transport Management, Wiel and entered a joint publishing arrangement with Leadership magazine.

Recovered

The company has recovered to a taxed profit of R26,9-million in 1988. Last month, TML announced earnings down 8,4%, mainly because of a doubled tax bill. Reassured by progress at the top line, the market lifted the shares 50c to 650c shortly after the results were announced. TML was one of the biggest movers on the year, moving up from 48th spot.

Berzack Brothers, ranked 12th, gained fame among cognoscenti as a family conglomerate importing and selling sewing machines and manufacturing electric cables. After many good years, the reticent, low-profiled company started plodding.

Then the older Berzacks and Illmans stood aside for their sons. The new generation of young blood really started delivering in 1988, when taxed profit spurted from R5,5-million to R7,7-million and, in 1989, to a stunning R17-million.

One of the secrets of Berzack's success has been the Rembrandt-Frame approach to ploughback. Dividend cover has always been enormous.

That, then, is the top 12. Each company is separately profiled.

Unit trusts won't let anyone down

180

By Julie Walker

UNIT TRUSTS had a remarkable year to September, attracting the discretionary investment funds of 70 000 new unitholders to bring the total to 556 466.

The total value of the 31 unit trust funds exceeded R6-billion at September 30, compared with just under R4-billion in 1988. During the year there was a net inflow of R544-million into unit trusts.

Over the past five years, general equity unit trusts have achieved an average compound annual return of 26,8% — well ahead of the inflation rate over the period.

The 13 general funds were 47% invested in industrials, 18% in mining finance and 12% in other mining.

The specialist equity funds are almost all mining and resources based funds. They have achieved a compound rate of return of 21,4% over the past five years.

The 10 funds were 24% invested in gold shares, 24% in mining finance and 17% in other mining shares.

The eight high income trusts held assets with a market capitalisation of R264-million at September 30. In the last year they achieved an average total return of only 15,1%.

According to figures furnished by the University of Pretoria's Graduate School of Management's unit trust survey, UAL's general equity fund achieved the best return on a one year repurchase to repurchase basis.

The JSE's All-Share index climbed by 55,83%, but UAL's unit trust outperformed it with a rise of 56,47%.

New fund Norwich NBS did extremely well to finish in second place, with a rise of 55,71 — just under the rise in the All-Share index.

UAL's unit holders had a good year because its mining and resources fund also came tops, with a rise of 53,92% in the 12 months to September 1989. The survey uses the JSE's Mining Producers index as the yardstick against which to measure the performance of specialist equity funds. This index rose by 46,61%, while the All-Gold was up 38,71%.

To make it three out of three, UAL's gilt fund made the best return for unitholders out of the eight income funds. It returned 17,9%, whereas the survey estimates the rate of rise in the consumer price index at 15,29% over the period.

The worst performers in the two equity categories still achieved good returns. The Standard Bank Mutual equity fund gave a return of 41,77%. Its management adopted a bearish view on the JSE and the fund remained highly liquid.

Standard Bank Gold — the sole gold-only portfolio — did worst of the specialist funds, with an all-in return of 36,92%. It will probably do best this quarter after the leap in the prices of gold shares.

The worst-performing income funds were both Senbank's. Its Gilt trust made 9,96%, while the High Yield fund achieved a paltry 9,21%.

According to the survey, Senbank's two funds will be placed elsewhere within the Bankorp group, probably before the end of the year.

The survey says that, since the announcement of the relaxation of prescribed asset requirements for pension funds earlier this year, Senbank's Gilt fund in particular has lost its raison d'etre. The two could be the first casualties in a wave of unit trusts launched in 1987 which have not made the grade.

The liquidity of the equity funds varies as much as does their composition.

At September 30, the liquidity among general funds ranged from Sanlam Index trust's 8% to Lifegro's 27%. Four funds were more than 20% liquid, while the second-lowest liquidity was Sygro's 12%.

Four funds were more liquid than a year ago, while eight were less so.

Among specialist funds the range of liquidity was from Sanlam Dividend's 6% to Guardbank's and newcomer Southern Mining's 22%. Here, eight funds were more fully invested than they were last year, only Sage holding more cash.

The survey also notes movements in the unit trust industry. It says Board of Executors and AA Mutual Life have announced their intentions to establish general equity funds next year.

It also notes negotiations with the Registrar of Unit Trust Companies for the relaxation of certain legal restrictions. More flexibility and autonomy for self-regulation is called for.

The major areas of dissatisfaction relate to the 5% rules — a fund may not own more than 5% of any company's shares, nor may it have more than 5% of its funds invested in one company.

Another issue is that unit trusts may not hedge themselves on the futures markets, yet pension funds may do so.

Unit trusts also seek a lightening of the rules whereby they may not compare their performance with that of other trusts — or, indeed, other investment channels. The survey has become a source of reference in this regard.

It also refers to the developments at UAL, whereby UAL offers the chance to invest in a customised basket of managed growth assets which will provide an investor with a guaranteed minimum return on his investments.

An investor selects a minimum guaranteed capital performance to suit his financial plan. UAL offers guarantees ranging from a return of the capital invested to a maximum rate of the original capital invested, escalated at a compound rate of 5% a year.

All guaranteed returns are after tax at a rate of 45%. The extent of the guarantee will affect the ultimate capital performance of the investment. A lower guarantee should yield higher capital growth.

The investor may select a fixed investment period between four and nine years. The assets of this product will produce a limited amount of annual taxable income, with the bulk of the income tax burden arising on the maturity date.

UAL trust also feature in Nedbank's home loan option introduced in May. Borrowers service only the interest on the home loan. Instead of reducing the capital portion, money is invested in UAL's unit trusts. The long-term proceeds from this investment should cover the capital liability and leave a surplus.

The general public may also in the near future be permitted to join specific pension funds which invest directly via a unit trust channel.

These funds will have to comply with the usual requirements, but the public will enjoy the same tax benefits as with a conventional pension fund.

Now there is a plan to link a retirement annuity fund to the 10 largest general unit trusts. Each members' contributions are, according to his own preference, invested in a specific trust. The usual tax benefits also apply here.

Unit trusts have let nobody down, and for the man in the street should continue to be the preferred investment vehicle for capital growth for the forseeable future.

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FSI in health care

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By Don Robertson

IN a series of deals involving subsidiaries, FSI will get a foothold in the R2-billion-a-year health-care market.

FSI subsidiary W&A will end up with a 20% stake in the growing Noristan Holdings group which makes and distributes pharmaceuticals.

Noristan was founded by the Snyckers family in 1953 and in the past five years turnover has grown by 18% a year to R75-million and operating profit by 23% annually to R9,9-million.

W&A subsidiary Aurochs Investment will become a subsidiary of Noristan. Aurochs will switch its activities to health care from property. Aurochs shareholders will be offered five preference shares in Noristan for each Aurochs. The prefs will be underpinned by W&A at 130c, putting value of Aurochs shares of 650c. This compares with the last trade of 430c a month ago.

Shell

Hunts, another W&A arm, will take cash for its 87% stake in Aurochs, releasing R13,7-million tied up in property. The money will be used to develop of other growth businesses.

The Snyckers family will sell ordinary shares in Noristan to W&A at 130c each to ensure that, after the offer to Aurochs minorities, W&A will have at least 20% of Noristan.

By December next year, the property subsidiaries of Aurochs will be sold to an FSI company at 650c a share, giving Aurochs a debt-free R15,7-million for investment in the health-care industry.

Noristan will have the right until January next year to acquire the 20% interest of Citizens Holdings — a listed subsidiary of W&A — in Crest Holdings on terms still to be decided. Crest makes and distributes medical equipment.

Citizens will become a cash shell. An announcement about its future will be made in February.

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(180)

It's all go into 1990!

Streamlining over the last two years pays off

No 1 1984: R10 000 1989: R171 286

By David Carte

W&A WATCHERS laughed admiringly at the timing of Mannie Simchowitz when the share price plunged from R75 to R36 a month after he sold in September 1987.

Jeff Liebesman's FSI paid R106-million cash for half of Waicor at R35 a share. The minority accepted what was supposed to be a standby offer, so FSI ended up R220-million out of pocket.

But as observers laughed, Mr Liebesman was buying more shares in the controlling pyramid Waicor for FSI.

"Through following rights in the R100-million rights issue at R14 and buying another 4% of the company when the share price was at the bottom, we reduced the average cost of our investment to R26 a Waicor share. That compares to the present R35."

W&A is a very different company today, from the one that Jeff Liebesman bought in September 1987.

Only a few names such as Burhose, Hygienia and Tarrys make it recognisable.

Today, with budgeted turnover of R1,45-billion, against R720-million under Mr Simchowitz and shareholders' funds up from R239-million to R661-million, W&A is a huge operation — but after this year's restructure and rights issue, it is quite neatly arranged.

Looking upwards, W&A is the biggest part of FSI. The other major bits are Form-scaff and Overseas.

Stockbroker Davis Borkum Hare estimates that W&A will contribute an attributable R46,3-million or 54% of FSI's taxed profit of R67,2-million this year. That implies that W&A itself can make R85-million after tax.

Looking downwards, there are three main listed subsidiaries. All the industrial companies have been slotted into Hunts. They are: Teamcor (formerly FS Team, Tarrys, Natbolt) Gentyre, Aurochs, Burhose and Hygienia.

Hunts is a huge operation, capable, says DB&H, of a taxed profit of R64-million this year.

The furniture and fabrics division (Joshua Doore, Milstan, Fabric Library and Housewares) has been consolidated into Homemakers.

Energy

Then there are free-standing MacPhail, the coal merchant, and AAF, the London listed subsidiary which has £22-million of cash and a small building products company. McPhail is slated to become the group's energy arm.

Mr Liebesman reports that all is going well with the turnaround of Edworks, acquired from creditors less than six months ago for R39,6-million.

There is more than hectic acquisition and streamlining company structures behind the transformation of W&A.

One of the most important reforms is that entrepreneurial managers who have a stake in the success of their businesses are running operations.

Mr Liebesman has surrounded himself with bright, free-thinking CAs. At head office, he has Terry Rolfe, Ivan Posniak, Neville Cohen and Alan Chonowitz. There is a fair sprinkling of accountants and top notch traders all the way down to the bottom of the group.

Alan Schlesinger heads up Teamcor. The heads of the various Homemakers' companies have outstanding track records. The proven team is David Sussman, Melvyn Gutkin and the Milton brothers in Milstan. In smaller operations, such as MacPhail, there are also razor sharp traders.

Mr Liebesman explains: "We have spent the past two years streamlining corporate management, focusing on our strengths and eliminating weaknesses.

"In World, for instance, we found a company that was locked into an increasing debt spiral with a debtors book that was less than rock solid.

"We saw the present downturn coming, so we have tidied up assets in all the trading companies, and forged alliances where they work, for instance in the establishment of Homemakers, where World, Bradlows, Joshua Doore, Housewares, Milstan and Semble-It fit together very well.

"AAF is set to become our offshore equivalent. Initially it had £28-million cash, of which we have spent £5,6-million on a modular building company.

"W&A was unfocused. Now it is focused on retail through Homemakers and on industry through Hunts. We have increased our stake in Hunts from 45% to effectively 77%. The quality of Hunts' earnings have been improved through the injection of Teamcor and Burhose/Hygienia."

Shrunk

The FSI head office comprises 25 people, a third of the number in Mannie Simchowitz's time. Gentyre head office has shrunk from 135 to 3. Group philosophy is that no-one should be employed unless he or she adds value to a product or service.

Mr Simchowitz did not run a business, say today's managers. He ran an investment portfolio. Dividends were paramount and ploughback was neglected.

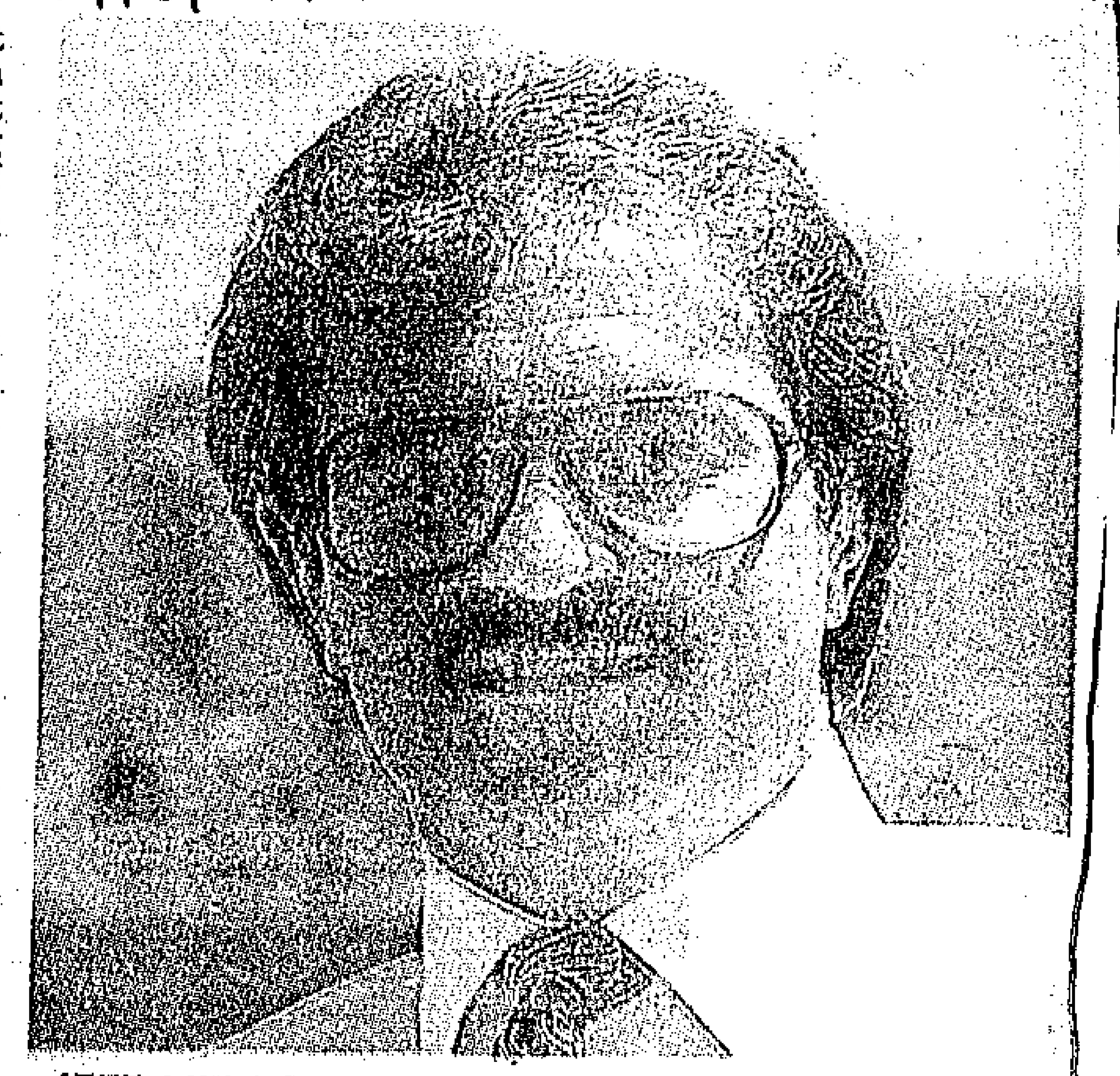
"Our aim is growth. A lot of people reckon our growth comes from acquisitions. At the interim, our operating profit, without the effect of last year's reorganisation rose 47%. So there is a lot of organic growth going on."

Group philosophy is to excel in basic industry "where the inventory will never date".

The good news is that 1990 is expected to be a good year in spite of the threat of recession.

Says Mr Liebesman: "We don't throw up our hands at recession. We go out and meet it. We work out how we can make the best of it. We have done our rationalisation, cut our overheads and tightened asset management — 1990 doesn't scare me."

A number of institutions and stock brokers analysts still have reservations about FSI and W&A.



JEFF LIEBESMAN ... "1990 doesn't scare me"

Jeff's the muscle behind FSI

JEFF LIEBESMAN personally controls one of SA's Big Ten business empires.

There are numerous bigger companies, such as Barlows and SA Breweries but they are controlled ultimately by Old Mutual and Anglo.

The big groupings, in order of size appear to be: Anglo American Corp, Old Mutual, Sanlam, Rembrandt, Liberty Life and Anglovaal.

Then one gets to Sasol and Iscor. You could argue that they are not totally independent of government. Pick 'n Pay has ties to Sanlam and Altron to Anglo. FSI Corporation appears to rank next.

Nine years ago Mr Liebesman was an articled clerk at Kessel Feinstein, the auditing firm that gave the world Donald Gordon, Mannie Simchowitz, Louis Shill, Derek Keys, Bruce McInnes and other luminaries.

Mr Liebesman was the audit clerk for Form-Scaff when that company was in trouble and looking for a new MD. Virtually as he qualified as a chartered accountant, he bought the company and never looked back.

He rationalised the scaffolding business by acquiring opposition, putting scaffolding out to rent instead of up for sale — exporting and building up scaffolding companies offshore. Neville Cohen, the next auditor put on the Form-Scaff account joined Mr Liebesman in 1985. Profits soared. Then the partners turned their attention to nuts and bolts.

Anglovaal sold National Bolts to FSI because it was a low tech industry and competition was cut-throat. Mr Liebesman bought the main opposition, plus Universal Clips, to get the services of right hand man Terry Rolfe.

Jossie Marcus took over from Mr Rolfe as MD of Natbolt but died in the Helderberg disaster in 1987. Mr Rolfe replaced him temporarily.

Natbolt's new management costed and priced realistically, cut back the work force drastically and implemented a policy of diversification and exporting.

And after seven years of stagnation, gross domestic fixed investment picked up in 1988 and 1989, increasing demand for nuts and bolts. Natbolt's results were outstanding and the company topped Business Times rankings last year.

The next big deal was the purchase of control of W&A via Waicor from Mannie Simchowitz for R106-million cash which became R224-million when minorities accepted the offer.

Since then, FSI, W&A and their subsidiaries have been reshuffled and there have been numerous acquisitions. There has also been a R100-million rights issue. The profits and assets of all companies have continued to boom.

It's ... ideas flow fast ...

Strangely, considering he's an accountant, what sets him apart is his strategic and operational thinking — not finance.

"I guess I'm trying to do what Hanson Trust has done so successfully in the UK — to buy undervalued companies in unfashionable basic industries, then to maximise value by turning them around and working the assets.

Concept

"I am also an accumulator of good management. We have instilled a partnership concept that really works. I think we have succeeded in spanning the gap between the entrepreneur-trader and the professional manager of a big corporation."

While FSI companies prefer basic industries, where stocks don't date, they make a point of employing modern technology. The next step is to obtain market dominance, if necessary by acquisition.

The company adds value by rationalising production and distribution, by making sure that every man counts.

Then FSI gets good people to push the profits along.

"We don't need an autocratic head office. Mainly we leave it to entrepreneurial managers to look after us by looking after themselves."

Mr Liebesman reckons his company can avoid the pitfalls of conglomerates such as Protea, through superior structure and through giving management a stake.

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The Top 100 Companies 1989

Investors keep eye on SA's dynamic dozen

SA ENTREPRENEURS have once again figured strongly in the UK stock market over the past year.

They have, in fact, become such a prominent part of the local scene that at least one broker runs a fund which invests in expatriate South Africans.

The 12 individual SA entrepreneurs who have set up or acquired UK businesses in the past three years now control companies capitalised at £400-million on the London stock exchange.

That figure excludes operations like those controlled by major SA concerns such as the Liberty group's Transatlantic, Barlows' J Bibby and Altech's Telemetrix.

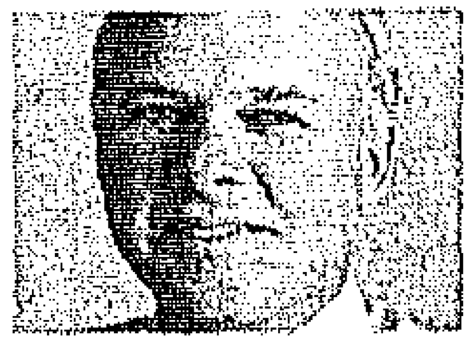
Biggest to date of the UK groups assembled by SA entrepreneurs is Acsis, the vehicle of Darryl Phillips.

Assisted now by Owen Dindsale, late of ICS, and Ralf Degni from GreyGroup, Mr Phillips' SA company, Acsis is capitalised at £75-million.

Mr Phillips' family trust owns 8% of the Acsis equity, worth about £6-million.

Acsis is highly rated by the UK investment community and Mr Phillips has been able to place shares in order to fund a number of deals, most recently the £23-million acquisition of five design and consultancy-related concerns.

Richard Rolfe reports from London



Despite a background in advertising in SA, Mr Phillips has concentrated on a different strategy in the UK. He is building up a major marketing services group, with divisions engaged in media sales, design and recruitment.

Next biggest of the companies built up by individual entrepreneurs is Peek, which has been created by Ken Maud. Unlike Mr Phillips, Mr Maud, a former director of Altech, stuck to the field he knew best — electronics.

A shell when Mr Maud took it over in September 1986, Peek is now valued at £66-million in London.

Its key strategic move was the acquisition of Dubilier International, which doubled Peek's size 18 months ago.

This year, Peek bid £18-million for Polytechnic, a world leader in electronic marine and air navigation equipment. It also paid £9-milion for Saratec, a Florida-based manufacturer of traffic control systems.

Peek is expected to make about £12-million in pre-tax profits in the current year, but its shares have been a weak spot as growth prospects seem to have slowed down.

Goode Durrant, controlled by Michael Waring, has been in the news more for Mr Waring's fight with the Nash family trusts than for any recent deal-making.

Winnedael, the largest shareholder of Goode Durrant, is headed by Tim Nash and controls 15% of the company. However, Mr Waring has resisted Winnedael's attempts to gain board representation.

Capitalised at £58-million, Goode Durrant has diversified into car dealerships, house building and financial services and is cash rich — too much so, say some City of London analysts, who criticise Mr Waring for being insufficiently bold in expanding.

Ivor Schlosberg's Pickwick Group has become established as the market leader in the production and distribution of home entertainment items such as videos, compact discs and audio cassettes.

Its range of products is usually described as "spanning the range from Thomas the Tank Engine to Herbert von Karajan".

Pickwick has attracted the attentions of Pearson Group, which holds 21% of the shares. Pearson is publisher of the Financial Times newspaper and also owns Penguin Books.

Mr Schlosberg has focused Pickwick increasingly on videos, which account for 60% of turnover and has just done a major deal with Walt Disney Co to distribute its products in the UK.

Capitalised at £50-million, Pickwick is seen as a largely recession proof stock capable of extending its penetration of the UK and international market. Like Mr Maud, Mr Schlosberg, who formerly ran RPM Records in SA, has stuck to doing what he knows best.

Bruce McInnes took control of Charles Baynes in a deal just before the October 1987 crash. Baynes' shares were ramped up to 280p, but have since slumped as low as 24p.

Baynes has been able to make some acquisitions in the past year, but Dr McInnes has concentrated on organic growth. The share price has crept back up to 38p, capitalising the group at £39-million.

Associated-Henriques, the vehicle of Milton Levine, has also grown steadily and unspectacularly in its chosen field of trade finance. Profits doubled this year and the group is flourishing despite the high interest rate environment.

Associated-Henriques is capitalised at £32-million. Placed at 71,5p in January 1988, the shares now stand at 100p.

A strong debut earlier this year was made by Le Creuset, controlled by SA-born Paul van Zuydam, former chief of the Prestige group, the housewares concern in which he became involved by selling his family concern.

Le Creuset makes enamelled cast iron cooking pots in France and is expected to grow rapidly in other markets.

Mr van Zuydam owns 73% of the Le Creuset shares and the company is capitalised at £30-million.

Former SA student leader and political detainee Phillipe le Roux took a major step forward earlier this year when his Norton Group pulled off the reverse takeover of the much larger Minty, the furniture manufacturer.

Norton has revived the UK motor cycle market and also developed a range of rotary engines for manned and unmanned flight.

Mr Le Roux is developing the group into a conglomerate with the absorption of Minty, which also obtained for Norton a primary listing in London. Market capitalisation is now £17-million.

Still in the minor league are Fairway (£8-million), S W Wood (£8-million), Brewmaker (£6-million) and Mining and Allied (£3-million).

Fairway, a distributor of business stationery, is under the control of former JCI chief Gordon Waddell and John Munro, late of Reunert and Lenz.

They took control in May at 40p per share and the price moved smartly up to 100p on the news. It has since fallen to 58p.

S W Wood is the vehicle of Rob Matthews, wh[...] tinues to run [...] nesburg.

Wood's sha[...] earlier this y[...] brothers' Apr[...] been a casual[...] crash, slippin[...]

Brewmaker[...] Acton, origi[...] brewing kits. [...] it into retiren[...] Allied, contro[...] developing as[...] handling equi[...] Canada.

Still to ma[...] several SA b[...] UK, including [...] ly took a stak[...] by Cedric H[...] Hull with bac[...]

First Natio[...] en control of[...] called The Pri[...] owned by the [...]

Charles Fid[...] Sangster cont[...] file at Roseb[...] venture capit[...] trepreneur D[...] recently wen[...] Bullers, a quo[...]

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The Top 100 Companies 1989


MIKE LEVETT ...top businessman

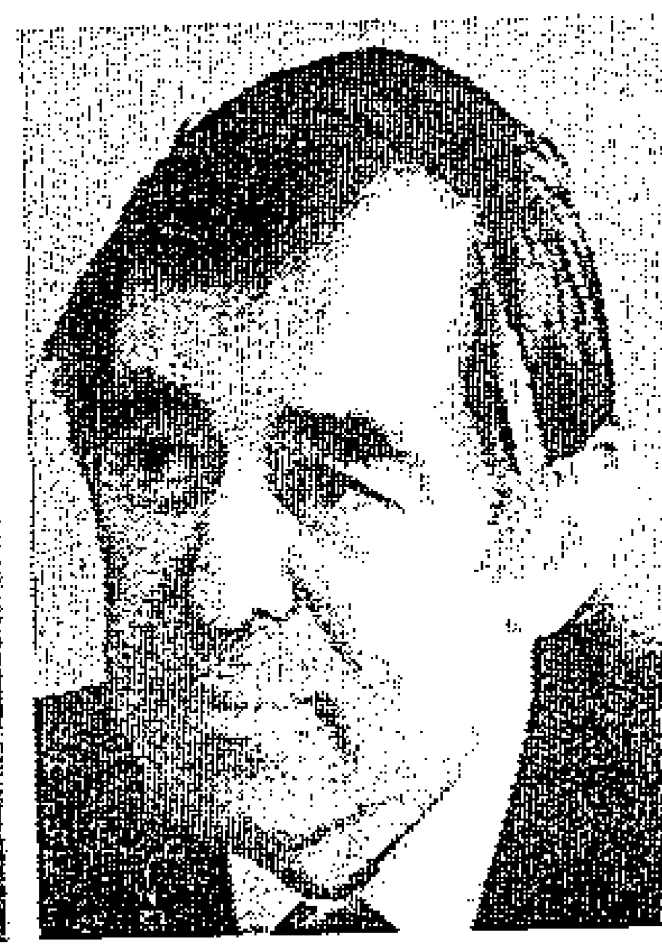

AARON SEARLE ...top businessman


DAVID BRINK ...top businessman


JACK SAULEZ ...top businessman


EUGENE VAN AS ...top businessman


DONALD GORDON ...top businessman


DAVID MOSTERT ...top businessman


TJART VAN DER WALT ...top businessman

Tables that tell almost all of the turnover tale

THESE tables ranking companies by turnover and taxed profit illustrate the dominance of Anglo, Old Mutual-Barlows, Sanlam and Rembrandt of the private sector.

Anglovaal and Iscor are the only private sector companies not controlled by these behemoths that manage to squeeze into the top 20 of either list.

Roll on privatisation, which will put bits of dissected SA Transport Services and Eskom near the top of the pile, at least in the turnover league.

Perhaps one should take some comfort from private sector companies occupying the top three slots, though it should be remembered that consolidation leads to a measure of double counting. C G Smith's turnover, for instance, is in Barlows' and Tiger Oats is in both.

The turnover list is incomplete because so many companies do not reveal their sales to outside parties.

Most gold mining companies fail to provide turnover, while for many mining houses, banks, investment trusts and shipping and forwarding companies, turnover is meaningless.

Sales

Rembrandt is a conspicuous omission from the sales list. It could argue that its investments in associates — such as Gencor Controlling, GFSA, Volkskas and Momentum — make turnover meaningless as well.

We are hoping that by running this list annually we shall encourage companies hiding turnover for outdated reasons to change their minds.

We include these lists to give a rough idea of relative size and return on sales. The trouble with total assets as a measure of size is that they are valued so differently. Sales are audited, and in every case are to outside parties.

Looking at the two tables, there is some correlation between the positions of Barlows, Iscor, Eskom and Amic's positions in both lists. Regrettably, there are no turnover figures for Anglo, De Beers, Rembrandt or JCI.

Tradegro, as everybody knows, is achieving minimal returns on its R6-billion of turnover, not even featuring in the top 100 companies by earnings.

Even star companies in food achieve low margins. Tiger ranks 10th by sales and 28 by taxed profit, while rival I&J ranks 52 by sales and 78 by taxed profit.

But the worst return on sales must surely be SA Transport Services, which makes a pitiful R74-million (no tax) on sales of R9,3-billion.

Tables

Most of the information in the tables was provided by Flesch Publications of Cape Town, publishers of the Stock Exchange Handbook.

We updated the numbers for companies reporting for the year to September. For interest's sake we also added gross premium income of the life assurers — i.e., their sales to outside parties and, of course, the numbers of Sats and Eskom.

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TOP COMPANIES RANKED BY TAXED PROFIT AS AT OCTOBER

		Taxed profit (Rm)
1	De Beers Consolidated Mines	3 251
2	Anglo American Corp of SA	2 645
3	Barlow Rand	1 001
4	Eskom	816
5	Iscor	812
6	Rustenburg Platinum Holdings	605
7	Rembrandt Group	601
8	Johannesburg Consolidated Investment Co	571
9	Anglo American Industrial Corporation	561
10	SA Pulp and Paper Ind	523
11	Free State Consolidated Gold Mines	520
12	SA Breweries	502
13	Sasol	473
14	Driefontein Consolidated	410
15	Nedcor	388
16	Rand Selection Corp	376
17	Vaal Reefs Exploration and Mining Co	365
18	CG Smith	350
19	Gold Fields of South Africa	343
20	Anglo American Gold Investment Co	330
21	General Mining Union Corp	318
22	Impala Platinum Holdings	300
23	First National Bank	274
24	Standard Bank Investment Corp	264
25	AECI	256
26	Union Corp	248
27	Nampak	222
28	Tiger Oats	219
29	Safmarine & Rennies Holdings	213
30	Randfontein Estates Gold Mining Co	202
	Hartbeesfontein Gold Mining Co	202
32	Samancor	188
33	Southvaal Holdings	184
34	Malbak	180
35	Palabora Mining Co	175
36	Anglo American Coal Corp	166
37	Anglovaal Industries	165
38	Rand Mines	164
39	Tongaat-Hulett Group	157
40	Kloof Gold Mining Co	151
	Western Deep Levels	151
	UBS Holdings	151
43	Allied Electronics Corp	142
44	Anglovaal	131
45	Liberty Life Association of Africa	130
	Federale Volksbeleggings	130
47	Plateglass and Shatterprufe Industries	124
48	Highveld Steel & Vanadium Corp	121
49	Dorbyl	78
50	East Rand Gold and Uranium Co	104
51	Buffelsfontein Gold Mining Co	103
52	Consolidated Mettalurgical Industries	100
53	Bank Holding Corporation of SA	98
54	Genbel Investments	97
55	Edgars Stores	95
	Southern Life Association	95
57	Stellenbosch Farmers' Winery	94
58	Premier Group Holdings	92
	Sentrachem	92
60	Volkskas Group	91
	Mutual & Federal Insurance	91
62	Toyota South Africa	89
63	Murray & Roberts Holdings	87
	Technology Systems International	87
	Allied Technologies	87
66	Kersaf Investments	83
67	Deelkraal Gold Mining Co	80
68	Pretoria Portland Cement Co	79
	Anglo-Alpha	78
70	Hunt Leuchars & Hepburn Holdings	75
71	Pep Stores	74
	SA Transport Services	74
73	Distillers Corp	71
74	African and European Investment Co	69
	Sun International Bophutatswana	69
76	Pick 'n Pay Stores	68
77	African Oxygen	67
78	Irvin & Johnson	65
	Rainbow Chicken	65
	Consol	65
81	Witbank Colliery	64
	Haggie	64
83	FS Industries	63
	Blue Circle	63
85	Wooltru	61
86	Gold Fields Namibia	60
87	Trust Bank of Africa	58
	Volkskas	58
89	Associated Manganese Mines of SA	57
90	Imperial Cold Storage & Supply Co	56
91	W&A Investment Corpo	54
	Kinross Mines	54
	Tradegro	54
94	Da Gama Textile Co	53
	Barlows Mining Holding and Estates	53
	Allied Group	53
97	Romatex	52
98	Argus Printing and Publishing	51
99	Elcentre Corp	49
100	Eastern Transvaal Consolidated.	48
	Robor	48

TOP 100 COMPANIES RANKED BY TURNOVER

		(Rm)
1	Barlow Rand	26 341
2	CG Smith	12 424
3	SA Breweries	10 597
4	De Beers Cons Diamond Mines	9 476
5	SA Transport Services	9 264
6	Eskom	8 159
7	Sanlam	6 036
8	Tradegro	6 116
9	Iscor	5 951
10	Tiger Oats	5 743
11	Old Mutual	5 600
12	Malbak	5 234
13	Orange Free State Investments	5 190
14	Anglo American Industrial Corp	4 728
15	Anglovaal Industries	4 575
16	Premier Group	4 150
17	AECI	4 083
18	Anglovaal	3 913
19	Pick 'n Pay Stores	3 869
20	Safmarine & Rennies Holdings	3 807
21	OK Bazaars	3 726
22	Sasol	3 478
23	Federale Volksbeleggings	3 371
24	Tongaat	3 158
25	Nampak	3 092
26	Murray & Roberts Holdings	3 039
27	Rustenburg Platinum Holdings	2 931
28	Plateglass & Shatterprufe Ind	2 762
29	Metro Group	2 719
30	Toyota South Africa	2 511
31	Dorbyl	2 504
32	SA Pulp & Paper Ind	2 469
33	Metkor Group	2 417
34	FSI Corporation	2 382
35	Allied Electronics Corp	2 154
36	Imperial Cold Storage	1 877
37	Wooltru	1 668
38	LTA	1 662
39	Impala Platinum Holdings	1 589
40	Edgars Stores	1 580
41	Liberty Life	1 460
42	W&A Investment Corp	1 450
43	Anglo American Coal Corp	1 446
44	Southern Life	1 389
45	Technology Systems International	1 352
46	Score-Clicks	1 346
47	Argus Printing & Publishing	1 345
48	Saficon Investments	1 298
49	Grinaker Holdings	1 219
50	Highveld Steel & Vanadium Corp	1 189
51	Hunts	1 098
52	Irvin & Johnson	1 094
53	Stocks & Stocks	1 074
54	Kersaf Investments	948
55	Trans-Natal Coal Corp	935
56	Palabora Mining Co	921
57	Samancor	913
58	Haggie	875
59	Kanhym Investments	862
60	Boumat	842
61	Mutual & Federal Insurance Co	826
62	SA Freight Corp	824
63	Pep Stores	805
64	Rand Mines	796
65	South African Druggists	791
66	Kohler	775
67	Group Five	765
68	Robor Industrial Holdings	764
69	Amalgamated Retail	760
70	Allied Technologies	754
71	Romatex	746
72	Consol	738
73	Edward L Bateman	735
74	Rusfurn Group	730
75	Afrox	728
76	Currie Finance Corp	703
77	Consolidated Frame Textiles	701
78	Incorporated General Insurances	684
79	Santam Insurance	668
80	Gresham Industries	665
81	National Bolts	619
82	Pretoria Portland Cement Co	589
83	Vaderland Beleggings	582
84	Associated Furniture Co	567
85	Seardel Investment Corp	566
86	Amalgamated Beverage Ind	552
87	CNA-Gallo	550
88	Waltons Stationery Co	548
89	Rainbow Chickens	546
90	Witbank Colliery	543
91	Fintech	542
92	Hulett Aluminium	538
93	Anglo-Alpha	531
94	BTR Dunlop	529
95	Foschini	528
96	Blue Circle	527
97	Elcentre Corp	518
98	Trencor	514
99	Homemakers	507
100	Picardi Holdings	488

Diversity is group key...

(180)

S. Times 3/12/89

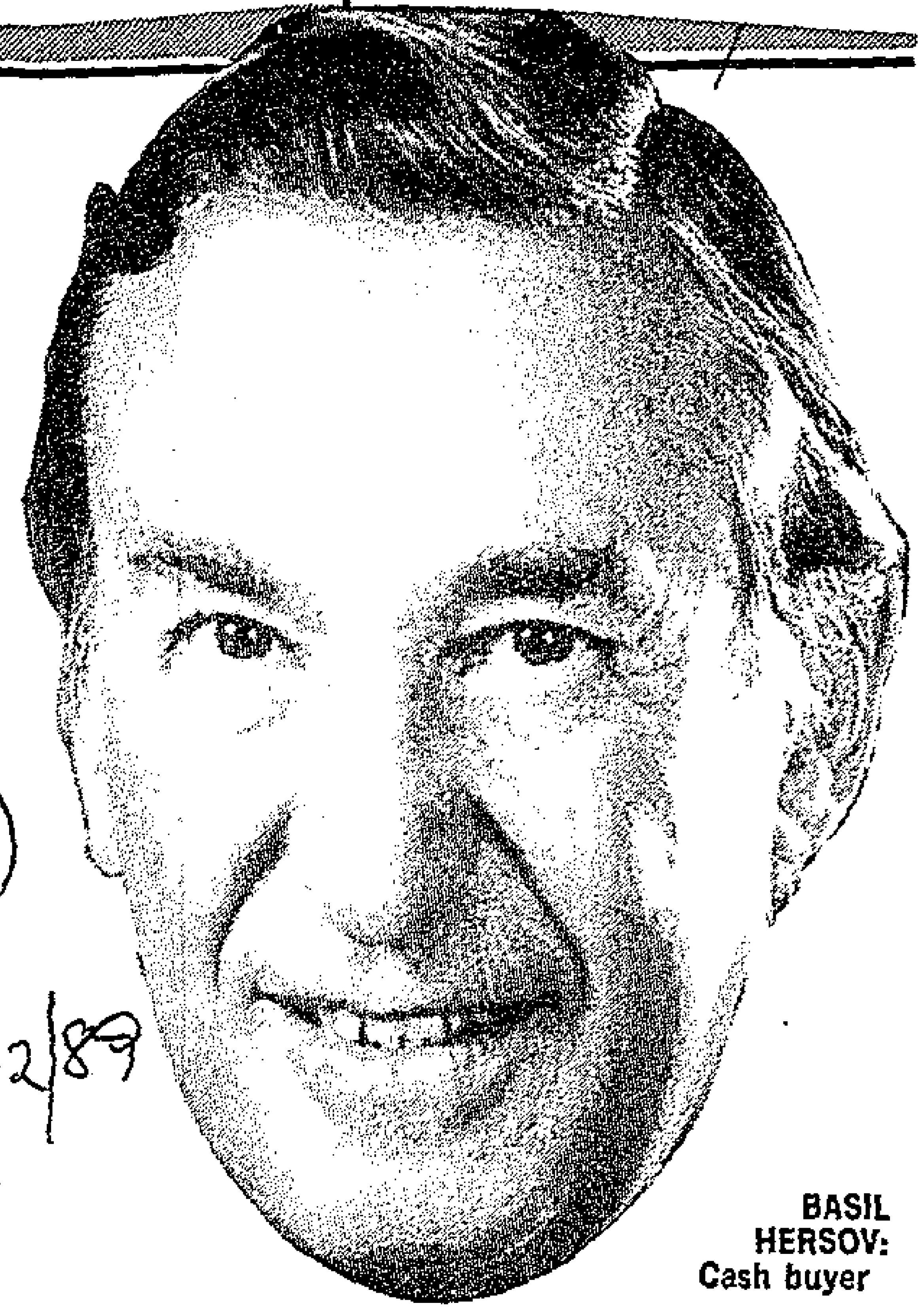
A TWO-PRONGED approach to both mining and industry from the outset has stood Anglovaal in good stead over the last 55 years.

During the last five years the family-controlled investment house was the eighth best performer in terms of annual compound return to shareholders. Off the top of one's head it is unlikely that Anglovaal's name would spring to mind as the best of the mining houses.

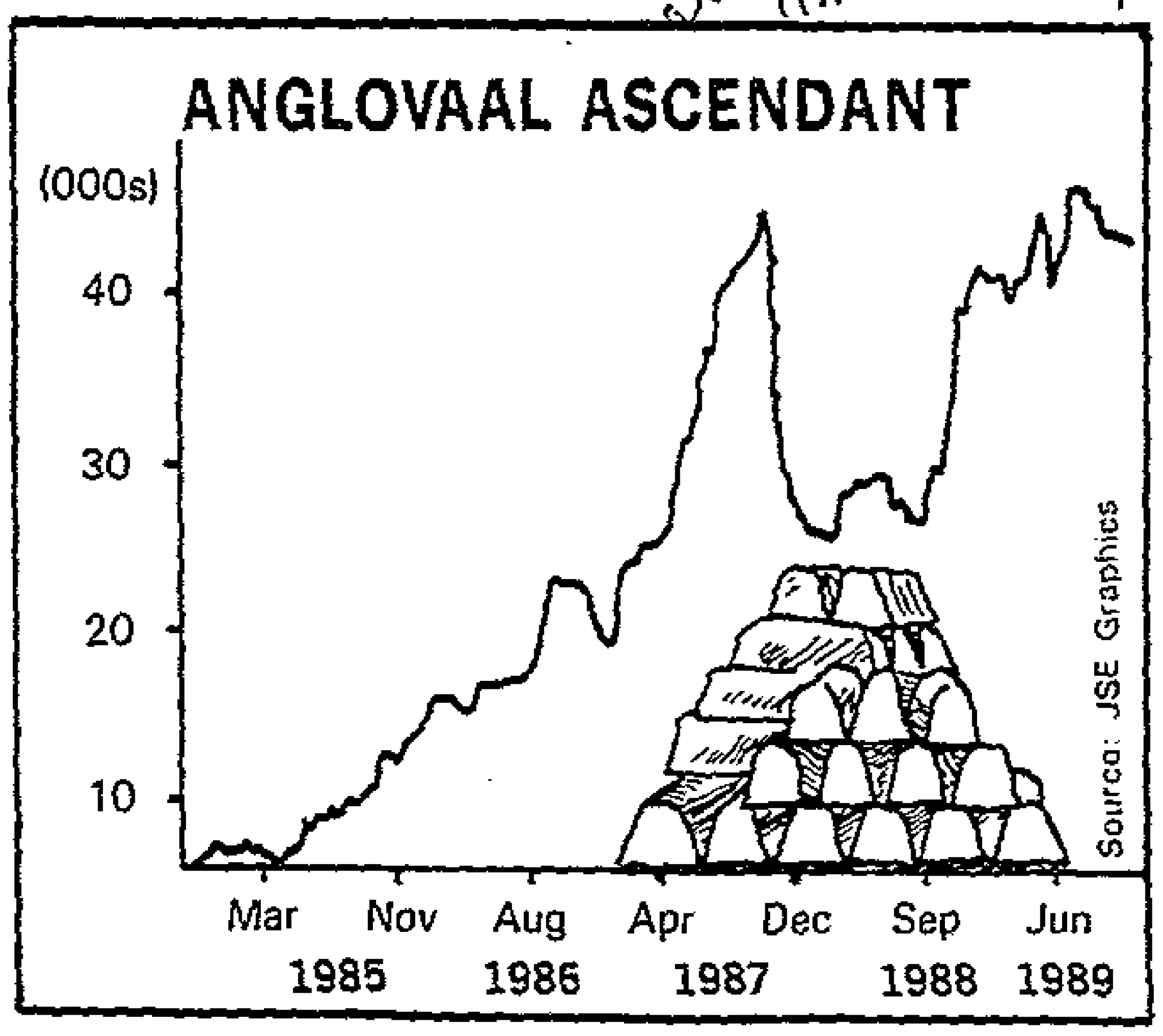
Anglovaal's chairman Basil Hersov is the son of one of the original co-founders, and deputy chairman Clive Menell is the son of the other. The fathers established Anglovaal in 1933 with a single gold mine — Mr Hersov senior was a mining engineer — but within the first year a cement business had been established too.

And so it developed, almost 50/50, whereas it is only recently that SA's other major mining houses have climbed on to the industrial bandwagon.

Basil Hersov says he joined the group when he was born, but more tangibly in 1949 following the death of his father. He says the group's philosophy has been instrumental in giving it room to grow, especially with regard to the long-term nature of mining projects.



BASIL HERSOV: Cash buyer



Time horizon

With industrial ventures, it is easier to define a market, consider a time horizon and establish a company, but the development of mining projects can take years. This becomes more pertinent today, when most of the shallow, easily mined ore bodies have already been exploited.

"Exploration takes a lot of patience, a lot of seed money to grow the right crops and these can take a long time to germinate," says Mr Hersov. Acquisitions are carefully considered. Although Anglovaal appears to have been on a spending spree during the last year, Mr Hersov says that some of the companies bought had been on the shopping list for several years.

No 8 1984: R10 000 1989: R81 137

By Julie Walker

Almost everything is bought for cash, to which Mr Hersov attaches some importance. He believes that companies which issue shares for acquisitions often adopt an "it-costs-nothing" approach and over-dilute their assets.

Many of the businesses have been family-owned concerns themselves. The downside of all this is that it is very difficult to deal in Anglovaal shares, and indeed in almost all of its operating companies.

Today the diversified interests comprise a microcosm of SA's own economy.

On the mining side there are four managed gold mines — Eastern Transvaal Consolidated, Hartebeestfontein, Loraine and Village Main — which together with income from non-group mines supplied 19% of group income in the year to June 1989 and represented 23% of Anglovaal's investments.

Gold is also produced at the Consolidated Murchison antimony mine. Other metals and minerals include chrome-ore mining at Lavino, copper and zinc at Prieska, manganese and iron ore at Associated Manganese, ferro-alloys through Feralloys, as well as Transvaal coal deposits.

Non-gold mining and metal production earned 17% of Anglovaal's income while representing 26% of investments.

Operations at Prieska are being wound down, but another door should soon be opening at Venetia. De Beers has completed a feasibility study on the opening of a diamond mine on the Northern-Transvaal farm. Prospects for a mine producing 4-million carats of medium-quality diamonds a year have improved.

There is also a strong likelihood of new gold developments in the northern Orange Free State in the not-too-distant future.

Frozen food chipped in 13% of income while standing for 11% of investment. Irvin & Johnson is one of the market leaders in the manufacture, distribution and marketing of frozen food.

The dry food and beverage division also earned 13% of Anglovaal's income, being 12% of its investment. Its products include biscuits, breakfast cereals, canned food, teas, coffees, desserts, spices and so on.

Subsidiary Pleasure Foods has yet to bring home the bacon after two years of flat earnings. It franchises and operates Wimpy, Golden Egg, Golden Grill, Juicy Lucy, Pizza Hut, Milky Lane and BJ's Pantry chains.

Another grouping of companies includes Anglo-Alpha, the Grinaker companies, and Siltek and its interests. Between them they represent 6% of Anglovaal's investments and earned the same in profit.

Siltek took control of 76% of Hewlett Packard — now Hi-Performance Systems — a few months ago.

Since the June year-end Grinaker's and Siltek's interests have been regrouped, and a new company Grintek has been listed through a reverse takeover of Mooi River Textiles.

Mooi River's business was sold to Avtex, whose subsidiaries make various textiles. It falls under a division labelled AVI Diversified Holdings, which is exactly that.

Diversified businesses include Claude Neon, Globe Engineering, Steelmetals, Gearmax and Tristel. Between them and Avtex, they made 17% of Anglovaal's bottom line.

During the year, minority shareholders in five Anglovaal Industries (AVI) companies were taken out in generous exchange for AVI shares.

The last but not least major arm of Anglovaal is Consol, the packaging giant. It makes glass, plastic and paper packaging, plastic sheeting, finished tableware and industrial minerals.

Effective from July 1 this year, it bought Goodyear which makes tyres, industrial rubber products, PVC food packaging and other films, thereby complementing Consol's existing operations.

Anglovaal's other large local acquisition this year is 42% of AA Life Assurance.

Overseas there have been developments. Anglovaal bought 29,9% of North Sea & General — now renamed Anglo Pacific Resources. At present it is made up of a block of cash and some mineral rights in the United Kingdom and in Australia. It is Anglovaal's intention to develop the mineral interests.

Mr Hersov says it is possible that a parallel group of industrial interests could be nurtured offshore.

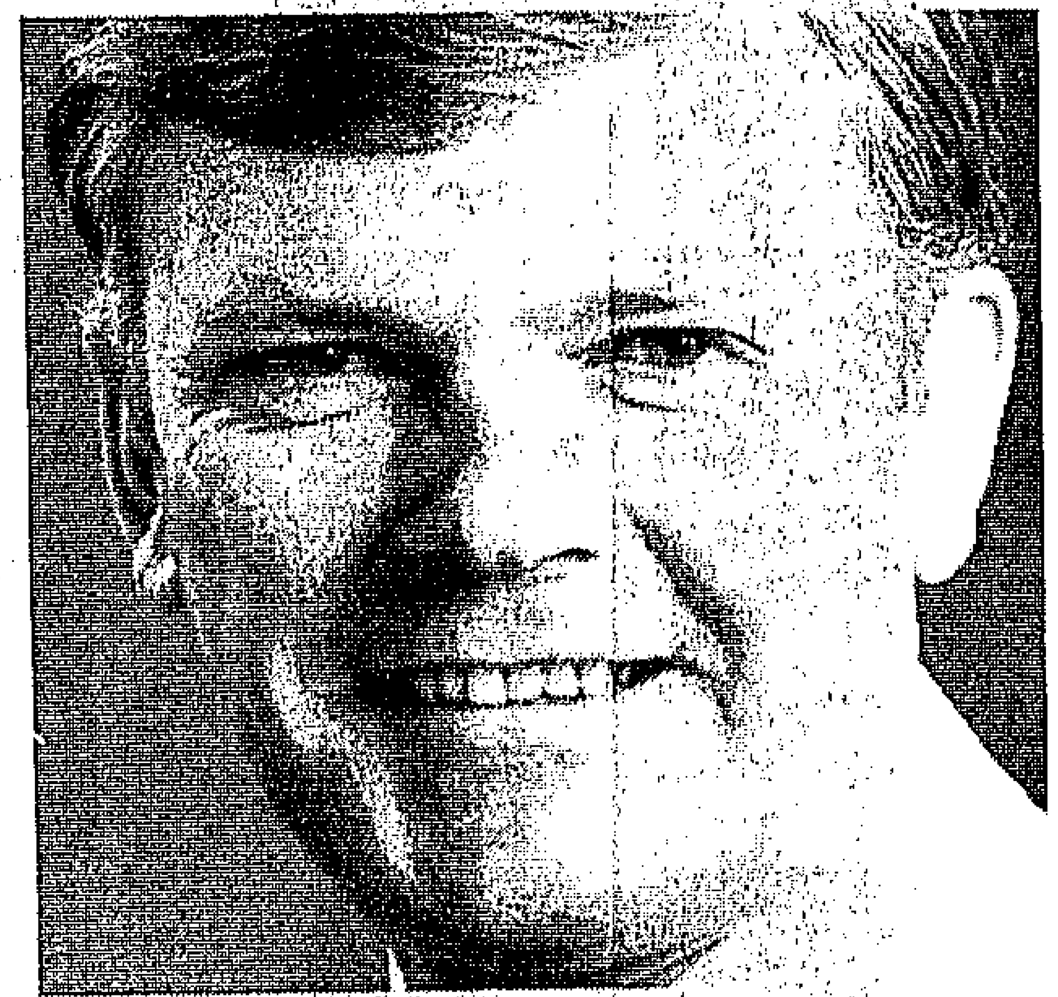
Capital expenditure over the next three years is planned at R1,1-billion aside from the on-going costs of mining exploration.

80

Top 100 Companies 1989

Eric Sampson of Macsteel

CHOSEN: John Hall of Middelberg Steel



CHOSEN: Grant Thomas of Malbak

CHOSEN: Peter Searle of Volkswagen

CHOSEN: Ian McRae of Eskom

ew heroes in top-five club

d reward ment in s no easy Business sinessmen ere able to 50 worthy f Macsteel;

By David Carte

- Grant Thomas of Malbak;
- Ian McRae of Eskom;
- John Hall of Middleberg Steel; and
- Peter Searle of Volkswagen

and left 45 good men and true for consideration next year.

We have to acknowledge that many worthies will never get the nod.

Fortunately, members of the top-five club can be nominated only once, or our list of outstanding achievers would have extended to 70 or 80.

Such is the calibre of business leadership in SA.

It seems that there are essentially three types of business achiever.

The first category includes those who start with virtually nothing and build up something substantial that lasts, for their own account and enriches minority shareholders.

One could put Donald Gordon, Anton Rupert, Bill Venter, Sol Kerzner, Aaron Searle and many others in this category.

The second category comprises those who climb through corporate ranks, get the top job — in itself no mean feat — and then proceed to move mountains.

They are professional managers, generally in charge of multi-billion rand corporations.

Men who come to mind in this category are Dick Goss, Derek Keys, the late Fred du Plessis and more recently Piet Liebenberg.

A third type is the business statesmen — those who foster the environment in which free enterprise operates — the Jan Steyns and Gerhard de Kocks of this world.

To their names should this year be added that of Wim de Villiers, run out of Gencor after differences with Sanlam some years ago and the author of several devastatingly effective reports on public corporations.

The appointment this year of Dr De Villiers to the Cabinet was interpreted by many as clear evidence of the commitment of State President F W de Klerk to sound economic policies.

Another quasi-Government hero this year is Marius de Waal chairman of the IDC and of Iscor, whose turnaround these past five years and the listing this year was an unqualified success.

Members of Business Times' top-five club tend to have been around a number of years.

Over the years there have been many shooting stars, those who have performed for five or six years, then disappeared into the firmament.

Remember Joe Berardo, Loucas Pouroulis and Natie Kirsh?

Mature

Business Times likes its entrepreneurs and its professional managers to mature before giving them the nod.

In the annual Top Companies survey we pay tribute to TODAY's heroes, whether or not they have received recognition in the past.

We applaud them in the hope that they will prosper for many more years, thereby enriching thousands of followers.

In doing so, we are conscious that some have been omitted and some will fall by the wayside.

Jeff Liebesman has to be recognised as the man of the past two years.

His amazing feats as a South African Lord Hanson are chronicled at length elsewhere in this survey.

Suffice it to say, that provided he keeps going at this pace and avoids the Slater Walker syndrome, Mr Liebesman could yet be the next Donald Gordon.

Few recipients of a top-five nomination have justified their selection in the year as emphatically as Johann Rupert of Rembrandt and Richemont, chosen last year.

Since stripping out Richemont, Mr Rupert has grabbed control of Rainbow Chickens, GFSA and Rothmans International, the latter on incredibly reasonable terms.

Elsewhere in this survey Mr Rupert says the GFSA investment should pay for itself in two-and-a-half years.

Not bad work for one year.

In another Rembrandt company, Dorbyl, the self-effacing Dawid Mostert has wrought wonders in heavy engineering.

Mr Mostert is a great believer in education and training and set an example by going off to Harvard this year to do the advanced management programme.

A little-known achiever in the Rembrandt Group is Hoffie Hofmeyr, who built Trans-Hex Diamonds from nothing into a mini-DeBeers.

Another miner of note is Brian Gilbertson, once of JCI, now of Genmin.

The Mowszowski brothers of Elcentre and their partners in electrical manufacture, the Berzacks and Illmans have performed outstandingly, as have Cecil and Neil Jowell of Trencor.

Come to think of it, the heads of all the top 12 companies deserve the special praise they receive on other pages.

Waltons slipped out of the top 12 this year and experienced its first operational setbacks but what a company Frank Robarts has built up! He is a kind of Gary Player of business and can be expected to claw his way back to the top.

Figures

Judging by spectacular figures published in Business Times recently, the Sankorp trio of Marinus Daling, Derek Keys and Grant Thomas goes from strength to strength.

Another hero in the booming Sankorp empire is Eugene van As of Sappi, who built and brought to fruition the Ngodwana plant then grabbed control of Usutu and Saiicor while Anglo was napping.

Another Sankorp man showing great promise is David Brink, who has done so much to revive Murray & Roberts.

Sanlam itself has had a wonderful run these past five years. It has increased its already-huge market share and its investment performance has been exceptional.

Even Old Mutual and Liberty Life would acknowledge it, albeit grudgingly.

All credit to the late Fred du Plessis and the men he inspired, notably Pierre Steyn, MD of the life offices association, who has had precious little recognition for an outstanding job.

Tjaart van der Walt, who took the helm at short notice when Mr Du Plessis died so tragically last year, made way this year for Abie van der Berg, who is going to have to sparkle brightly to be noticed alongside the stars lower down.

Giant

During the year that giant of life assurance, Jan van der Horst stepped down as chairman of Old Mutual when it was on a high.

Mike Levett, managing director of distinction for some years, took the helm.

The Anglovaal group has more than its fair share of stars, starting at the top with Basil Hersov and Clive Menell, working through low-profiled David Crowe of the mining division and Jan Robbertze, overseer of the fine industrial portfolio.

Within the industrial portfolio are such wizards as J J Williams of Irvin & Johnson and Piet Neethling of Consol, which this year became the unlikely repository for Goodyear.

Another great achiever in Anglovaal is Jack Saulez of Grinaker.

An unsung hero of short term insurance is Fred Haslett of SA Eagle, for years the blue chip of the sector.

Ken Saggers of Mutual & Federal has effected one of the more remarkable turnarounds in his company.

Albert Leroy of Palabora Mining is an American businessman who has done much for this country through the success of Palamin.

Vic Hammond has been feted many times for his success at Edgars, which vies with Graham Mackay's beer division as the most consistent and profitable of SAB's subsidiaries.

Mike Sander of AECI and Johan van der Walt of Sentrachem have both steered their competing companies in chemicals to new heights without much fuss or recognition.

Paul Kruger in Sasol battled manfully against low oil prices and a slightly stronger rand.

Warren Clewlow had to wait years for recognition of his work at the helm of Barlows but after three years of strong growth he has started to emerge as a worthy successor to Barlow Rand's greats Punch Barlow and Mike Rosholt.

Ian Heron filled the enormous shoes of Sol Kerzner in Kersaf with distinction.

Surprisingly, most Kersaf share ratings, with the exception of Transkei Sun, whose monopoly is under question, were unaffected by the resignation of Mr Kerzner.

Operations did not miss a beat.

Mr Heron has shown himself to be as bold a thinker as Mr Kerzner.

One R130-million new hotel is about to go ahead and a second middle-market unit is under serious consideration.

That would bring Sun City to four hotels, the cabanas, the entertainment centre.

Mr Heron tells me one day Sun City could comprise seven hotels, three golf courses and an international airport.

Rating

Peter Joubert has restored Afrox's blue chip rating through a customer-driven approach to gases, favourable conditions in welding and exceptional manage- ment in hospitals.

Every year John Hall and John Gomersall of Middelburg Steel enjoy releasing their results more.

This year a profit of R200-million confirmed Middelburg's status as the best operation in the Barlows group.

Peter Wrighton of Premier took the helm after the sudden departure of Tony Bloom and quickly added tens of millions to the group market capitalisation.

This was achieved by stripping out the group's SAB investment.

Investors could then see how undervalued the food and other operations were.

Splits see shares star

180

SHARE splits and subsequent reratings by investors were one of the features of the JSE during 1989.

A 10-for-one subdivision helped York Timber into top slot in the year to September 30 1989 on an all-in return consideration. The unsplit shares were the equivalent of 80c a year ago and are currently 250c, after touching 300c early in September.

There were fewer than 900 000 shares in issue before the split, and trade averaged three small deals a month. The shares continue to be tightly held by family and management, but the directors hope tradeability will improve.

Another share to star following a 20-for-one split is Berzack, which made fourth place among the biggest returns over 12 months.

Berzack shares were R60 — the equivalent of 300c — in January 1989 the day before the shares split.

Initially, the market was unable to value Berzack's prospects because it had been largely ignored by investment analysts on the grounds of poor tradeability. It had traded at a large discount to book net asset value.

Yet early in October, Berzack shares changed hands at 1 050c — 250% higher in only nine months. Even at the present 950c, Berzack trades on eight times historic earnings.

Its holding company Bivec split its shares five-for-one, and has gone from 240c to 750c, before easing to 640c.

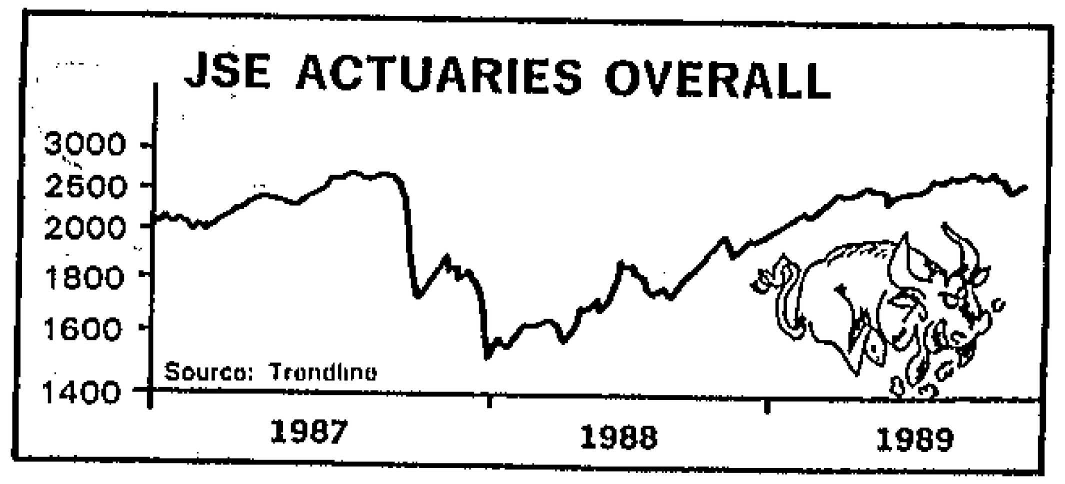
Tradeability in Berzack is now in the hundreds of thousands rather than the few thousands which previously changed hands. Much of the scrip was held by family members who lived outside SA. The share split and rerating of Berzack gave them an opportunity to sell their holdings at realistic prices.

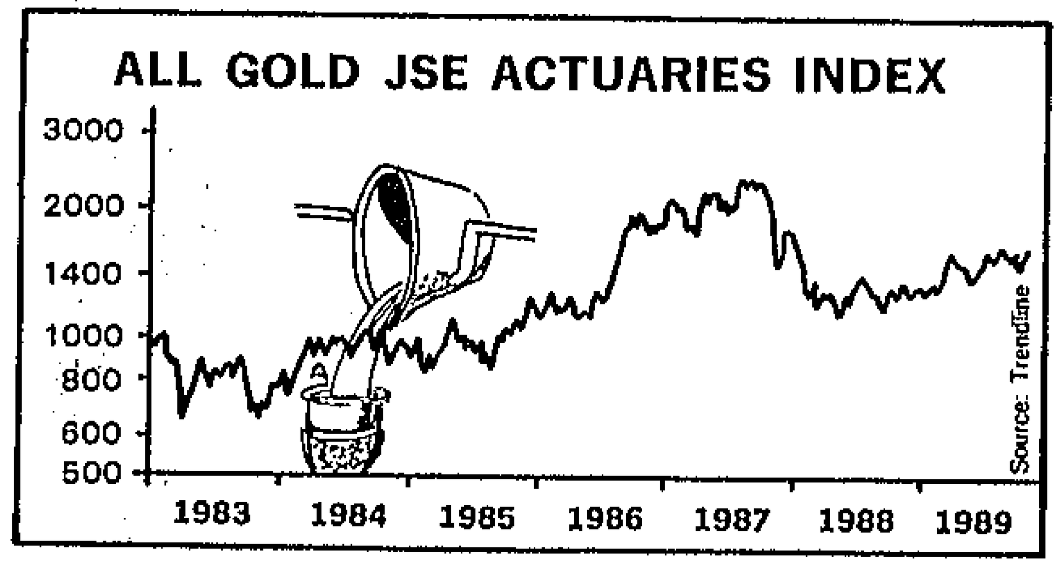
By Julie Walker

Two base metal mines occupy second and third positions among the year's biggest climbers.

Zaaiplaats Tin was only 130c in December last year, but speculation about its use as a vehicle for the listing of bigger things helped to push the shares to R8 apiece by May. They are now 450c.

It bought the 49,9% balance of Annesley Andalusite which it did not already own from Ledger Trustee for R6,7-million, settled by the issue of 941 100 shares, so valuing them above R7.





Msauli Asbestos zoomed under new ownership after a management buyout from Gencor. It climbed from 230c in December to 860c in June, now 560c.

A boom in demand for Msauli's products from Eastern buyers, improved efficiency from a recently refurbished mine and its 25% stake in the Von Brandis gold prospect all helped to boost the share price.

Its sister mine Gefco filled sixth slot. It rose from 90c to 375c, now 250c. It, too, was bought out by management in August last year, and it also owns a quarter of Von Brandis.

Eighth place went to another metal company Usko — formerly Union Steel Corporation. During the year, Usko entered into a joint venture with Rho-Ex and launched Rho-Van — a vanadium mine in Bophuthatswana. Usko will buy the vanadium for use in its steelworks.

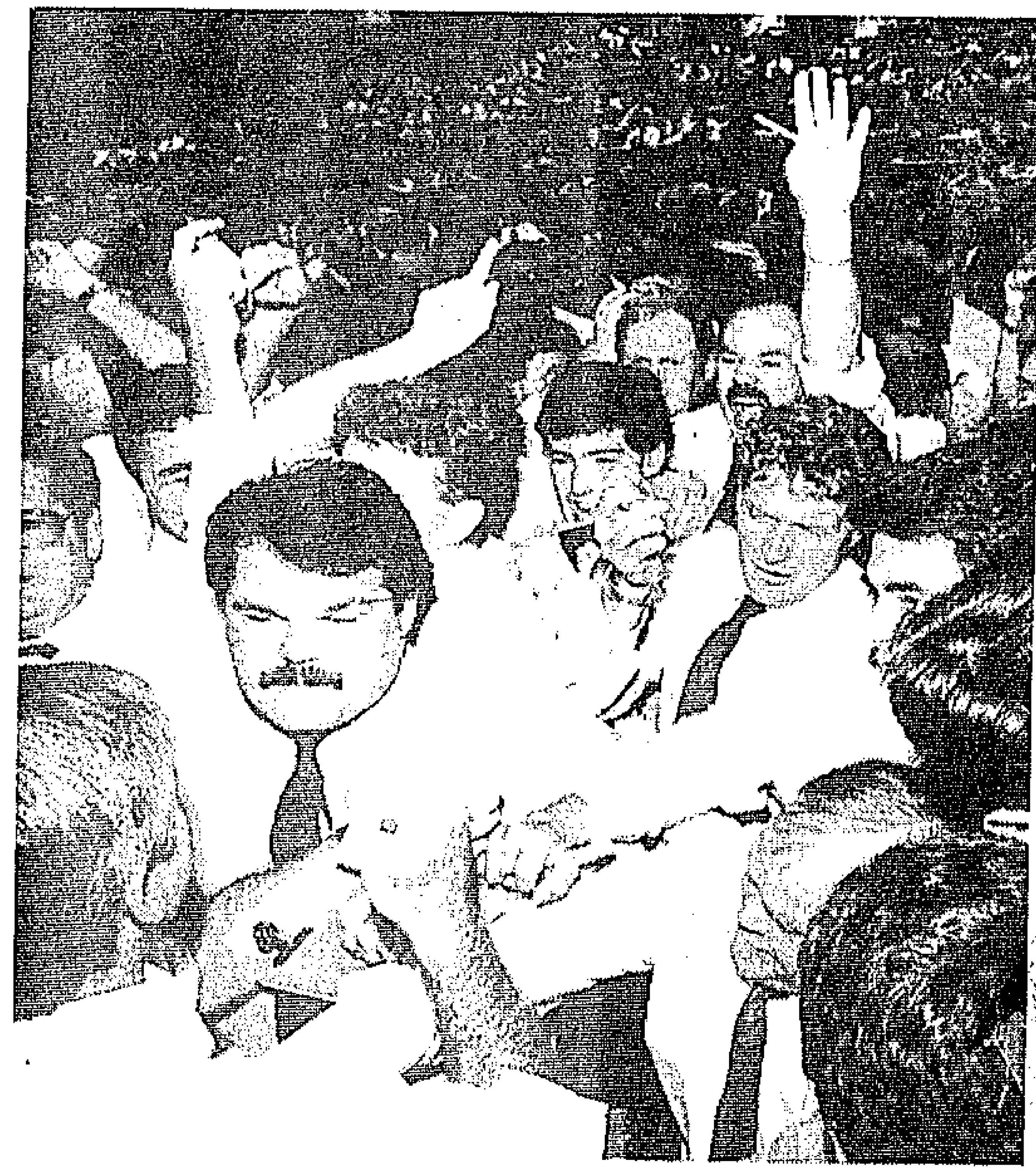
Usko's shares climbed from 200c in December to 650c in May, but slipped to 300c after a decline in the price of vanadium on world markets.

Channel Mining managed to take fifth place after considerable underperformance in the past. Management changed during the year, and the shares were rerated.

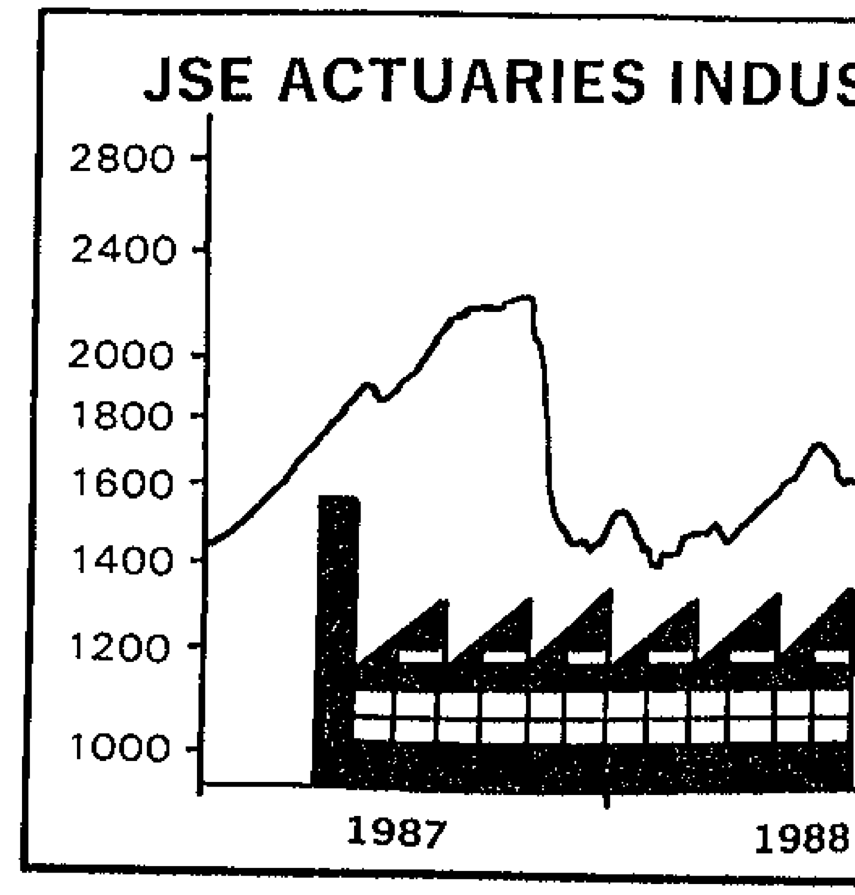
Timing of the cutoff date was an important factor in Channel's inclusion among the climbers. Its shares went from 8c in November last year to 35c on September 21. They are now 25c.

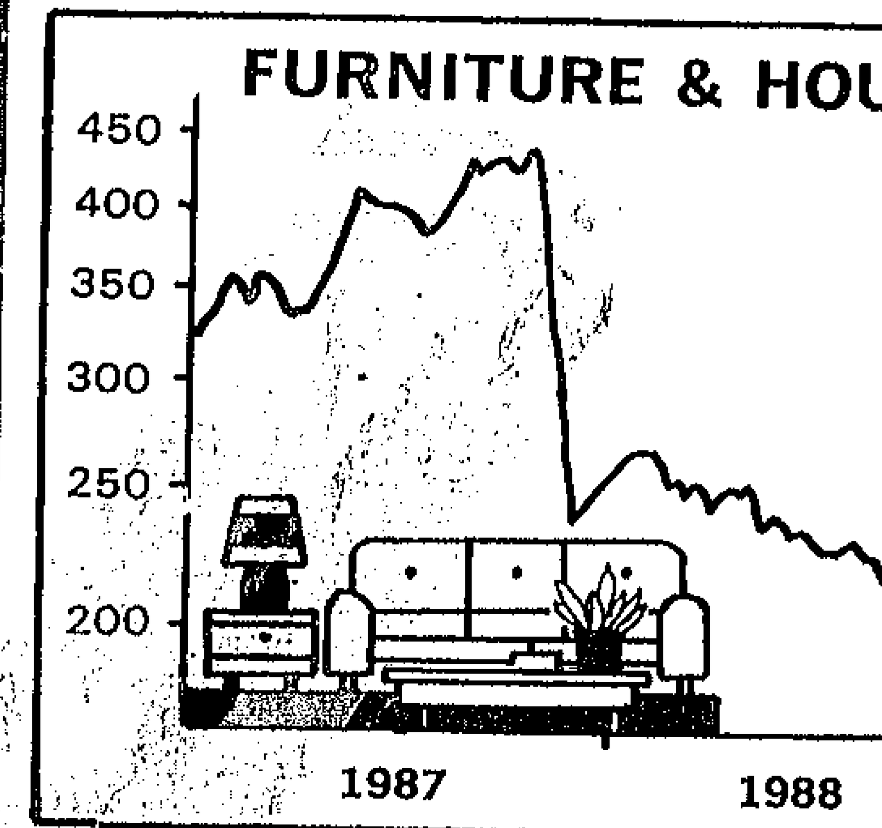
Sunbop was the gambler's darling. Earnings from the Bophuthatswana hotel chain climbed by 67% to 105,6c a share in the year to June 1989, boosted not only by the continued success of Sun City but more by the highly profitable Marula Sun.

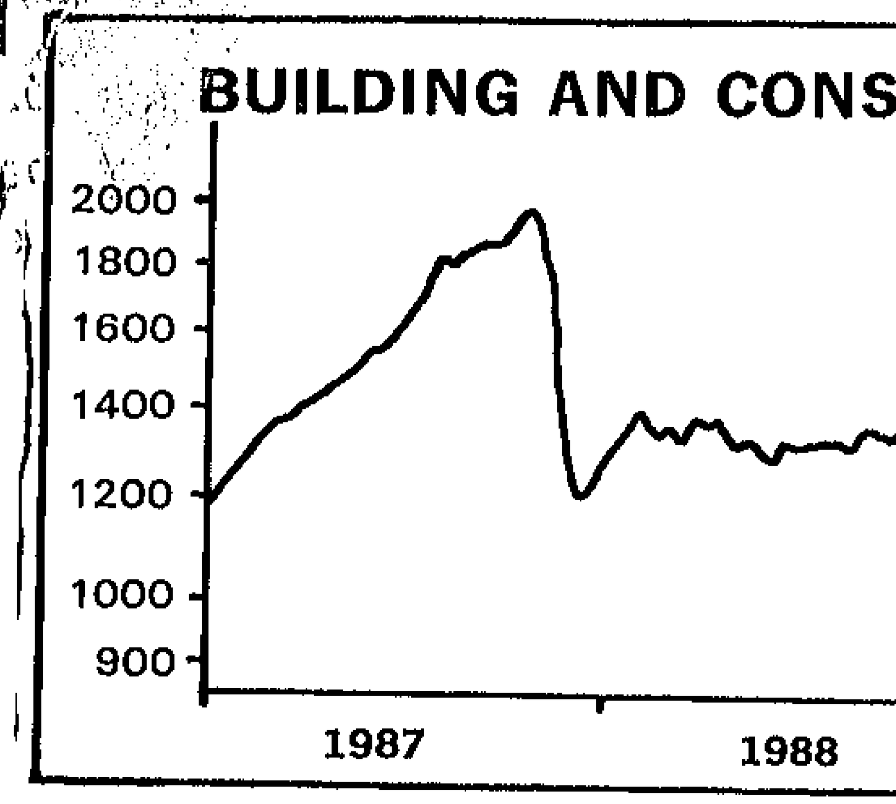
Sunbop's shares went from 620c a year ago to the current high of 1 675c.

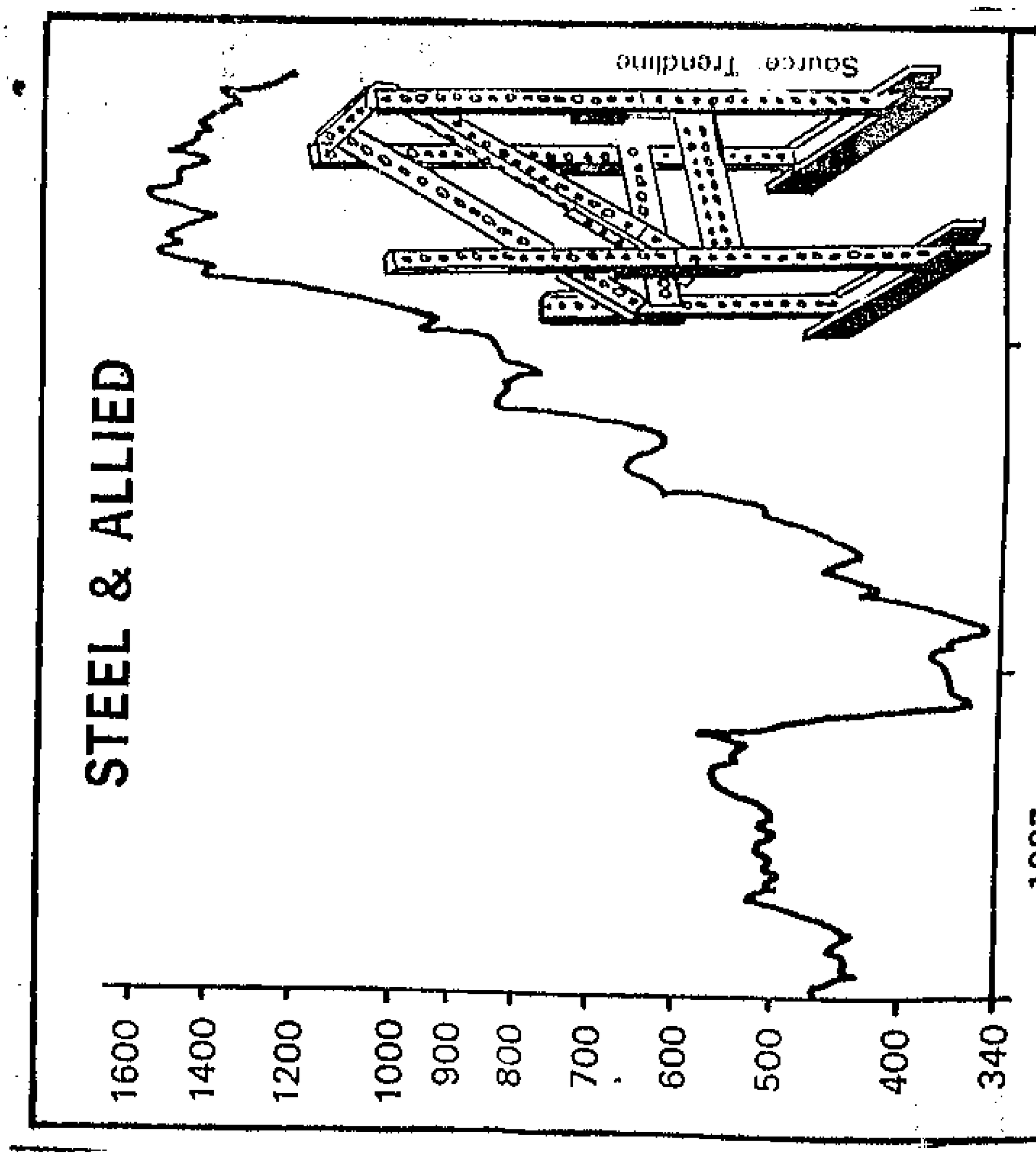


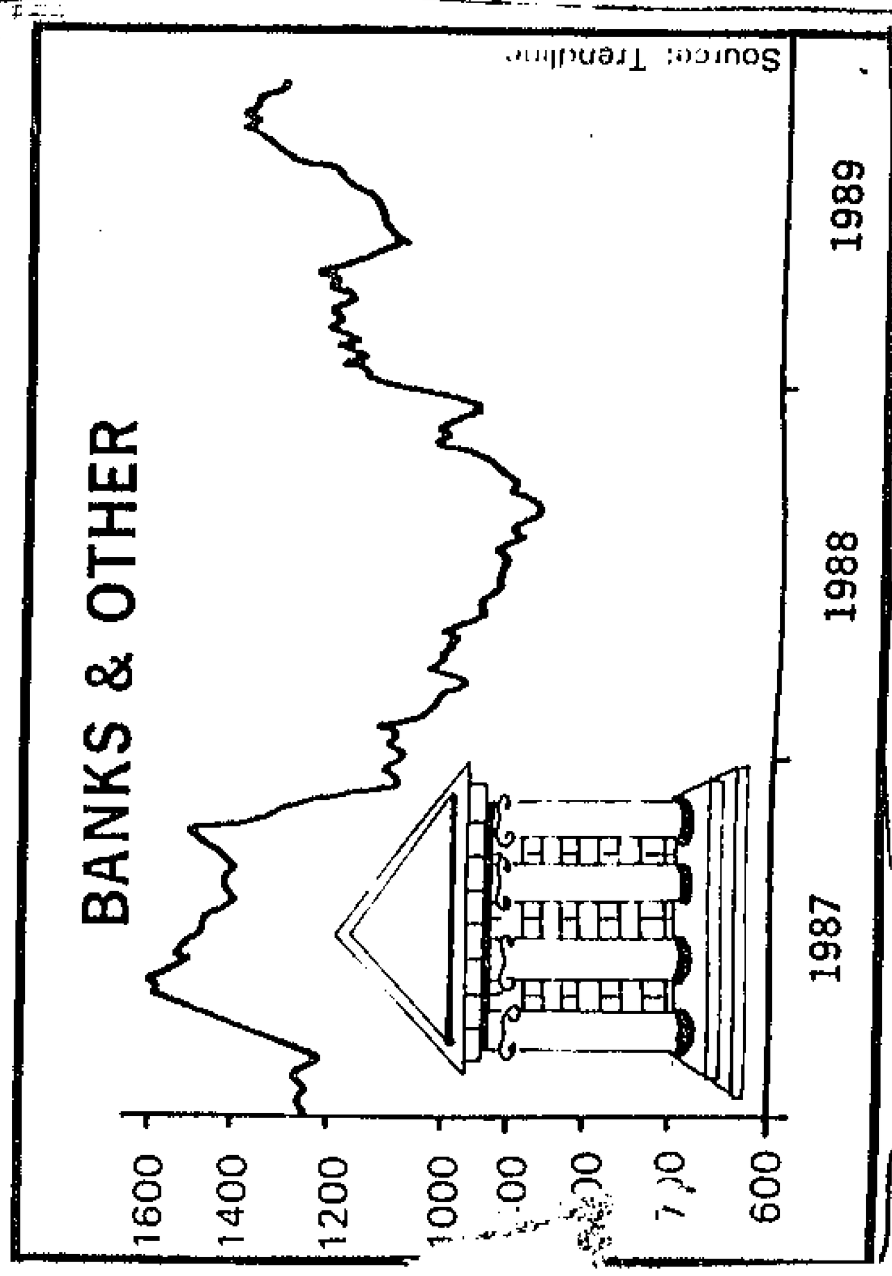
LISTING FRENZY . . . frantic bidding for Iscor stock on the JSE











Top this year

Rank	Company	Return (%)
1	York Timber Organisation	320,5
2	Zaaiplaats Tin Mining Co	274,8
3	[illegible]	251,7
4	[illegible] Brothers Holdings	223,8
5	Channel Mining Investments	210,8
6	Griqualand Exploration and Finance Co	200,4
7	Sun International Bophuthatswana	184,8
8	[illegible] Steel Co	178,1
9	Cementation Company (Africa)	173,9
10	[illegible]	163,8
11	[illegible]	160,2
12	Micor Holdings	158,8
13	Highveld Steel & Vanadium Corp	148,8
14	McCarthy Group	148,7
15	[illegible] Supreme Cables	146,5
16	Trans-Hex Diamonds	146,2
17	[illegible]	143,1
18	[illegible] Diamonds	142,8
19	[illegible] Industries	141,8
20	[illegible] Investments	138,2
21	W&A Investment Corp	132,9
22	FS-Team	131,8
23	[illegible] Holdings	130,7
24	[illegible] Group	130,3
25	[illegible]	128,1
26	[illegible] Corp	128,0
27	[illegible]	126,8
28	United Transport Co	125,8
	[illegible] Holdings	125,8
30	MacPhail Holdings	123,7
31	[illegible]	123,5
32	General Tyre & Rubber Co	118,2
33	[illegible]	118,0
34	[illegible] Group Holdings	117,2
35	Adcock Ingram	117,1
36	Motorvia	115,4
37	[illegible]	115,3
38	Elandsrand Gold Mining Co	113,1
39	[illegible] Corp	112,5
40	[illegible]	111,4
41	[illegible]	111,1
42	[illegible] Group	109,3
43	[illegible]	108,8
44	Johannesburg Consolidated Investment	108,8
45	Curries Motors	105,9
46	[illegible]	103,1
47	Messina	102,8
48	BTR Dunlop	102,5
49	[illegible]	101,8
50	Board of Executors	101,0
51	Witwatersrand Gold Mining	100,4
52	[illegible] Investments	100,3
53	Standard Engineering	100,2
54	South Wits	100,0
55	[illegible] Holdings	99,8
56	[illegible] Holdings	98,1
57	[illegible]	97,5
58	Royal	96,1
59	CNA-Gallo	95,9
60	Cadbury Schweppes (SA)	95,8
61	[illegible]	95,4
62	Anglo American Coal Corp	94,8
63	[illegible]	94,1
64	Standard Bank Investment Corp	93,5
65	Anglo American Industrial Corp	93,2
66	Consolidated Frame Textiles	93,1
67	Egoli Consolidated Mines	92,3
68	Barlow Rand	91,5
69	Imperial Group	91,5
70	Bristol Industrial Corp	91,1
71	[illegible]	88,4
72	[illegible] Properties	89,3
73	[illegible] Holdings	88,8
74	[illegible] Investments	88,8
75	General Mining Union Corp	88,3
76	Tiger Oats	88,2
77	[illegible]	88,7
78	Knights	88,4
79	Mutual & Federal Insurance	88,2
80	Da Gama Textile Co	87,8
81	Fraser Alexander	87,3
82	[illegible]	87,10
83	Southern Sun Hotel Holdings	86,8
84	Rustenburg Platinum Holdings	86,0
85	Kersaf Investments	85,9
86	[illegible]	85,5
87	Sentrachem	85,4
88	[illegible] Stores	84,8
89	SA Pulp & Paper Industries	84,0
90	[illegible] Holdings	83,8
91	[illegible]	83,0
92	Witwatersrand [illegible]	82,9
93	Shield Trading Corp	82,5
94	[illegible]	82,4
95	Sasol	81,5
96	Edgars Stores	80,4
97	Argus Printing & Publishing	79,8
98	Trek Beleggings	79,2
99	[illegible] Rubber	79,0
100	[illegible]	78,5
	[illegible] Holdings	78,5
	[illegible] Colliery	78,5

(180)

Investors celebrate

S/Times 3/12/89

FEWER mining stocks this year compared with '87 and '88 — thanks to a stagnant rand gold price and rising costs — make it tougher to analyse this year's list.

In 1987 there were 21 mining stocks, including 17 gold mines in the top 100.

In 1988 there were 24 mining stocks and 16 golds. This year there are only 19 mining stocks and nine gold mines. Middle Wits is the only gold mining company in the top 20, though there are five non-gold mining companies.

Industrial company profits have been good and share values have tested new highs this year.

As a result, returns for shareholders overall have been better than last year, when the top company returned 62,2% pa against W&A's 76,5% pa this year. Last year the company ranking 100th gave a return of only 11% pa against this year's 23,8%. Last year many shares were still suffering the after-shocks of the October 1987 crash.

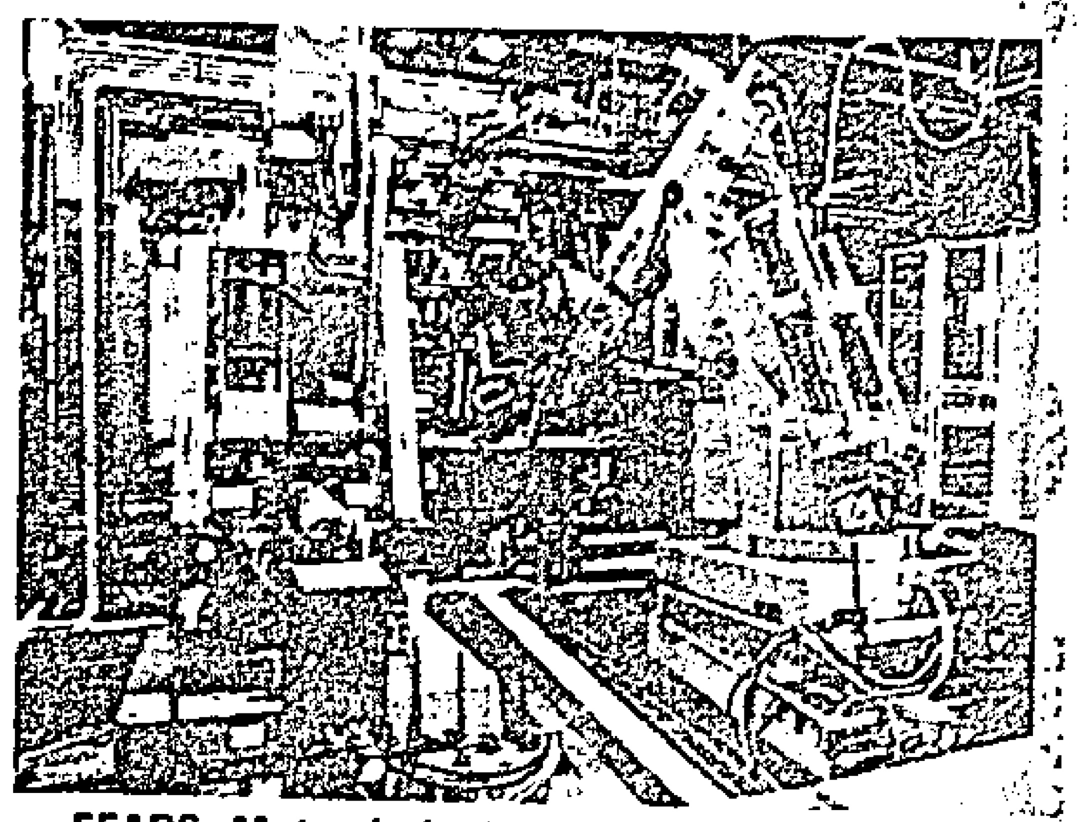
Investors

Motor companies have been less prominent this year because investors see clouds ahead. McCarthy was top motor stock, moving up from 64th spot to 18th. Asseng at 62 and Curries at 83, were the only others that made the list.

Because of tight margins, the financial services sector has been out of favour for the past year, so no bank made the top 100. Stanbic gave a return of 22% pa in the five-year period, Volkskas 12,1%, First National 11,1% and Bankorp 2,6%.

Nedbank had a good year, rising from 620c well above 800c — but the five-year record is not so impressive — nearly precisely zero percent per annum. But once Nedbank's low point becomes the base year, watch it scream up the rankings.

Last year's top company, Natbolt has fallen down the list to 26th spot. All goes well for the FSI company, which is now part of Teamcor, profiled elsewhere.



FEARS: Motor industry automated but static

By David Carte

Natbolt was the beneficiary last year of a poor base year in 1984.

Waltons, winner for two years and runner-up last year, has continued to produce good results — but things are running less buoyantly these days.

It is also up against a higher base year, which explains why it ranked "only" 12th this year. Waltons is nevertheless a Royal company, having made the top 20 for three years in a row.

A reflection of harder times in motoring is that Toyota, holder of two hat-tricks as top company, and two-time winner Metair, did not make the top 100 at all.

Two other great companies that did not make the list were Altech and Pick 'n Pay, which ran into high base years and tougher competition in their sectors. Thanks largely to a continuing good performance in electronics, Grinaker moved up from 73 to 38 with a return for shareholders of 39%. Nampak moved up from 78 to 60. Edward Bateman plunged down the list from 23 to 88.

When big companies, such as Rembrandt and De Beers perform, more investors benefit. It is more difficult for the giants to get to the top of the list because they have been highly rated for years.

The thing to bear in mind is that getting into the top 100 is an achievement in itself. It puts one in the top 20% of companies on the JSE.

Rewarded

Several large companies have performed outstandingly. While it is only in 39th position, SA Breweries has rewarded thousands of shareholders with a 39% return. Anglo and Amic investors must be happy with the annual returns of 37% and 36%.

Barlow Rand improved its position from 75 to 54 with an annual compound return of 35%, while Sasol fell from 73 to 97 with a still-good 24,2% pa growth.

T H E P G G R O U P

180

S/Times 3/12/89

Investors celebrate

...is year	Return (%)
	329,5
	234,5
	215,7
	223,8
	210,8
a ta	201,4
	184,8
	178,1
	173,8
	163,8
	160,2
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j	148,8
	148,7
	146,5
	148,2
	143,1
	142,8
	141,8
	138,2
	132,8
	131,8
	130,7
	131,3
	130,1
	128,8
	129,8
	125,8
	125,0
	121,7
	123,5
	118,2
	118,8
	117,2
	117,1
	116,4
	115,3
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	108,3
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rmland	108,8
	105,8
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	82,8
	82,5
	82,4
	81,5
	80,4
	79,8
	79,2
	78,8
	78,6
	78,5
	78,5

FEWER mining stocks this year compared with '87 and '88 — thanks to a stagnant rand gold price and rising costs — make it tougher to analyse this year's list.

In 1987 there were 21 mining stocks, including 17 gold mines in the top 100.

In 1988 there were 24 mining stocks and 16 golds. This year there are only 19 mining stocks and nine gold mines. Middle Wits is the only gold mining company in the top 20, though there are five non-gold mining companies.

Industrial company profits have been good and share values have tested new highs this year.

As a result, returns for shareholders overall have been better than last year, when the top company returned 62,2% pa against W&A's 76,5% pa this year. Last year the company ranking 100th gave a return of only 11% pa against this year's 23,8%. Last year many shares were still suffering the after-shocks of the October 1987 crash.

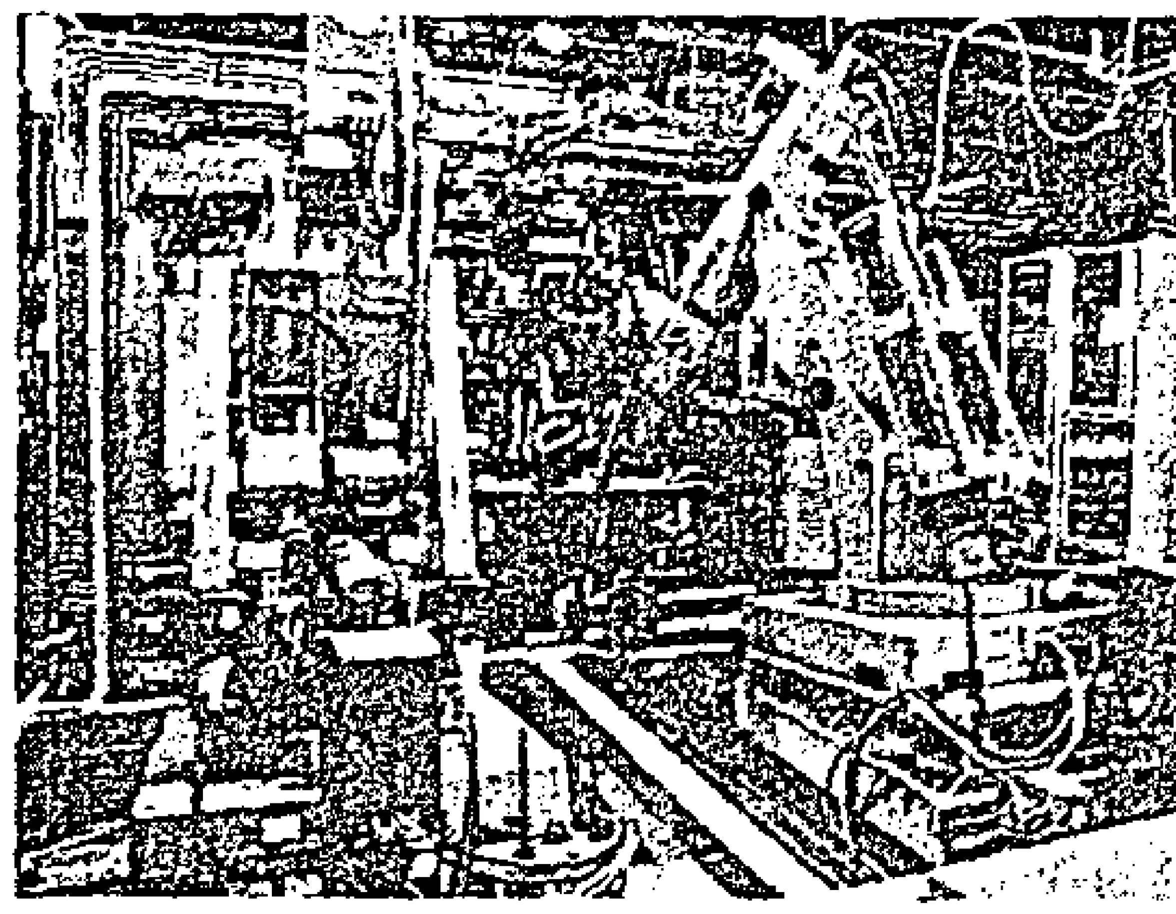
Investors

Motor companies have been less prominent this year because investors see clouds ahead. McCarthy was top motor stock, moving up from 64th spot to 18th. Asseng at 62 and Curries at 83, were the only others that made the list.

Because of tight margins, the financial services sector has been out of favour for the past year, so no bank made the top 100. Stanbic gave a return of 22% pa in the five-year period, Volkskas 12,1%, First National 11,1% and Bankorp 2,6%.

Nedbank had a good year, rising from 620c well above 800c — but the five-year record is not so impressive — nearly precisely zero percent per annum. But once Nedbank's low point becomes the base year, watch it scream up the rankings.

Last year's top company, Natbolt has fallen down the list to 26th spot. All goes well for the FSI company, which is now part of Teamcor, profiled elsewhere.



FEARS: Motor industry automated but static

By David Carte

Natbolt was the beneficiary last year of a poor base year in 1984.

Waltons, winner for two years and runner-up last year, has continued to produce good results — but things are running less buoyantly these days.

It is also up against a higher base year, which explains why it ranked "only" 12th this year. Waltons is nevertheless a Royal company, having made the top 20 for three years in a row.

A reflection of harder times in motoring is that Toyota, holder of two hat-tricks as top company, and two-time winner Metair, did not make the top 100 at all.

Two other great companies that did not make the list were Altech and Pick 'n Pay, which ran into high base years and tougher competition in their sectors. Thanks largely to a continuing good performance in electronics, Grinaker moved up from 73 to 38 with a return for shareholders of 39%. Nampak moved up from 78 to 60. Edward Bateman plunged down the list from 23 to 88.

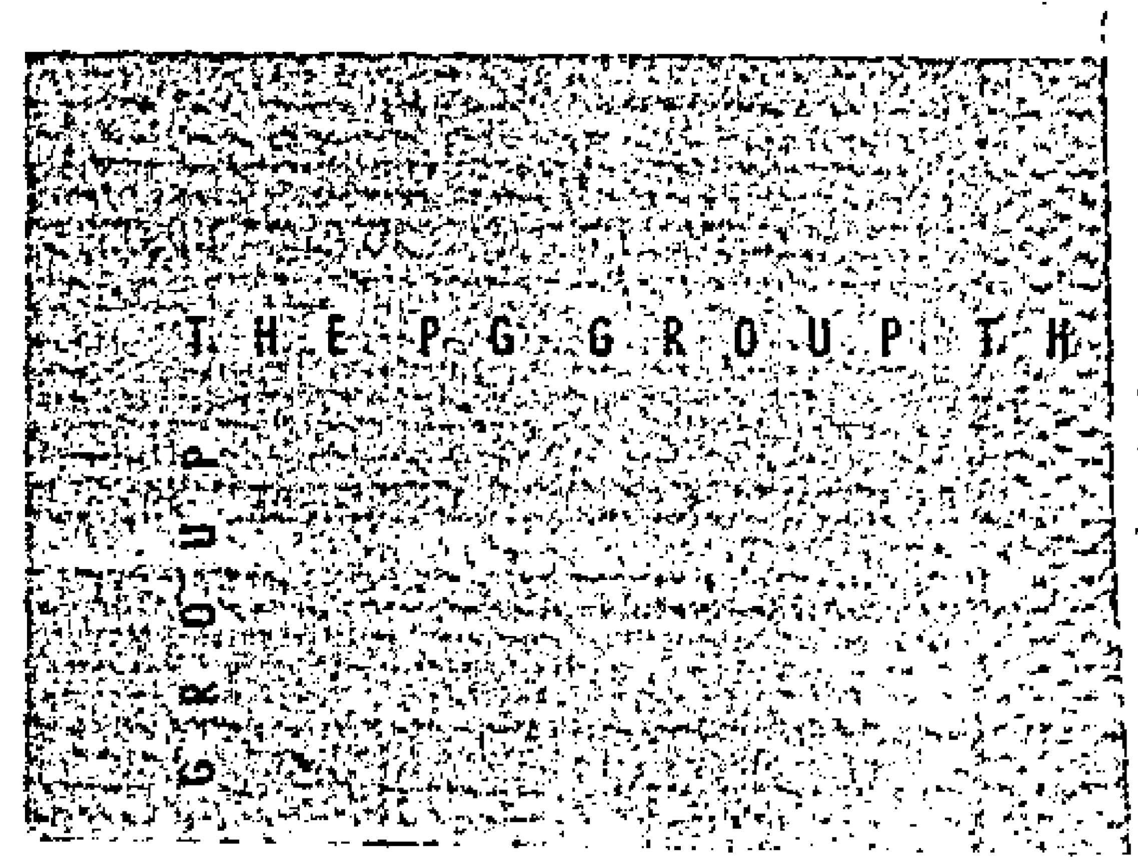
When big companies, such as Rembrandt and De Beers perform, more investors benefit. It is more difficult for the giants to get to the top of the list because they have been highly rated for years.

The thing to bear in mind is that getting into the top 100 is an achievement in itself. It puts one in the top 20% of companies on the JSE.

Rewarded

Several large companies have performed outstandingly. While it is only in 39th position, SA Breweries has rewarded thousands of shareholders with a 39% return. Anglo and Amic investors must be happy with the annual returns of 37% and 36%.

Barlow Rand improved its position from 75 to 54 with an annual compound return of 35%, while Sasol fell from 73 to 97 with a still-good 24,2% pa growth.



B/Day 5/12/89 (180)

Futures are set to go formal

GRETA STEYN

SA'S financial futures industry will come of age in a fully regulated formal market, with floor and screen trading, some time next year. But the road to respectability has not been without controversy.

The delays in getting the formal market going have caused frustration. There have been disputes over the need for both floor and screen trading, the costs of setting up an exchange, proposed trading hours and exams dealers have to write. There have been veiled accusations that "vested interests" were dominating the development of the market.

The difficulty in getting the SA Futures Exchange (Safex) off the ground begs the question: are formalisation and regulation necessary when the informal market is thriving?

Reserve Bank senior deputy governor Japie Jacobs is emphatic that regulation is essential. He criticises "self-styled" adherents of free markets "who contend that financial markets should not be regulated by the authorities at all and that they should best be left to themselves."

"Concern for competition and efficiency should be tempered with concern for the safety and soundness of financial markets," he said.

The authorities are limiting their regulatory role in favour of self-regulation. Rand Merchant Bank started the informal market, and its MD, G T Ferreira, says: "I hate regulation for regulation's sake, but with a formal market there is an important difference in perceptions of how safe the market is."

The self-regulators have come under fire, with Cape Investment Bank MD Andy Swartz accusing them of "a severe lack of vision." He called on them to come to grips with the real issues. This was a reference, among others, to the cost of setting up a floor which most of the market does not want.

Contribution

On the issue of a R2m Reserve Bank subsidy for setting up the market, Swartz said: "It seems to be assumed in many quarters that this subsidy will be applied to create and maintain archaic medieval concrete structures, the age of which is long past in sophisticated financial markets." He appealed to them to get rid of their fears of change and technology.

Although many traders were happy with the existing system of trading by telephone on information from screens, the JSE insisted there should be an open outcry floor market.

However, says Safex spokesman Stuart Rees: "I believe with the Reserve Bank's generous contribution of R2m, the whole controversy about costs should die down."

Asked whether the exams to be written by dealers on the exchange were not a case of over-regulation, Swartz said he did not question the validity of the system.

"The crux of the issue, however, is the content of the exams. If the content is going to be of a nature to test the academic skills of dealers — economic or mathematical — the examination committee will be going beyond their mandate since the decision on the level of competence of dealers should lie with their employees."

SA Futures Industry Association (Safia) spokesman Brenda Greyling says, however, the exams give the industry teeth to get rid of the bad apples. It is the need to protect the public that makes such apparently extreme regulation necessary.

Despite the controversies, the market has flourished. For instance, open contracts in interest rate futures have swollen from about 1 000 in August 1988 to 20 000 in September 1989.

B/Day 5/12/89

Strong demand for 'open' land

MOST of the land in the first phase of development in the recently opened Free Settlement Area at Country View in Midrand has already been sold.

The first 120 plots were sold within a matter of hours, a spokesman for a major utility company involved in the development, Lesley Abrahams, said yesterday.

He said 90% of the land had been sold to Indians, mostly from Laudium outside Pretoria.

Country View is alongside the Ben Schoeman freeway, midway between Pretoria and Johannesburg.

Prices ranged from between R30 000 to R40 000 on average, for 800m² plots.

Laudium Management Committee chairman and Free Settlement Areas Board member Sattar Cassim said he believed Indians were flocking to the new area because of the crying need for land among the local community.

He said Country View would not ease the housing shortage in Laudium. There were more than 2 000 people on the council's official waiting list. — Sapa.

FCI sees benefits in multiple shift system

Finance Staff

The introduction of a multiple shift system in the manufacturing sector could be one of the answers to South Africa's economic problems, says the Federated Chamber of Industries (FCI).

In a combined report with the Steel & Engineering Industries Federation of South Africa (Seifsa), the FCI says extending the number of shifts would:

- Result in capital equipment being used more productively.
- Increase the number of job opportunities.
- Reduce the need to import expensive machinery and equipment to expand production within the existing shift system.
- Enable manufacturers to dedicate more of their output to exports.

The FCI says 70 percent of manufacturers operate less than two shifts.

Of 1 700 surveyed, only 10 percent operate three full shifts. Star 6/12/89

Official capacity utilisation figures are based on the concept of an eight-hour day, which puts the figure for the second quarter of the year at 85,6 percent.

If a full day is used for calculations, the figure for capacity utilisation could be as low as 50 percent.

"It is clear that on the supply side, the availability of skilled labour constitutes one of the most important constraints on the economy today."

The second major constraint is inadequate present and future demand for industrial goods.

This leads the FCI to conclude that it would not be feasible for all industries to operate multiple shifts.

"There are, however, clear indications that in South Africa where the up-front cost of plant and machinery is 60 percent to 100 percent higher than is the case in our major international competitors, increased shifts will tend to reduce the fixed-cost component of units and succeed in making South African manufactured goods more competitive on international markets," the FCI says. (180)

"While the weak rand has helped to make the prices of our raw materials and beneficiated raw materials competitive on international markets, manufactured goods have found it difficult to compete because of the lack on an economy of scale."

Multiple shifts the right muti

180

By Don Robertson

S/Times 10/12/85

A CONCERTED effort to increase exports by manufacturers working multiple shifts is necessary if SA's economic ills are to be cured.

A capacity utilisation survey by the Federated Chamber of Industries (FCI) and the Steel Engineering Industries Federation of SA (Seifsa) shows that about 70% of manufacturers work less than two shifts. Less than 10% work three shifts.

The survey found that the main problems facing SA are a shortage of capital, the failure to create sufficient jobs, high inflation and balance of payment constraints.

By extending the number of shifts worked, most of these problems could be resolved.

Equipment would be used more productively, job opportunities would increase, the need to import expensive machinery to expand production would be reduced and manufacturers could dedicate more of their output for export.

Inflation would also fall because capital equipment would be more effectively used. SA would become more competitive in world markets.

However, several factors prevent more shifts being worked, the main one being the lack of skilled workers and supervisory staff.

To overcome this, education and training must be improved. It is suggested that as much as 5% of company profits be spent on training.

FCI executive director Ron Haywood says: "If by the year 2000 we have hordes of hungry people, there could be unrest and businessmen would be to blame."

In tough times, spending on advertising and training is the first to be trimmed. It would be better for companies to forfeit profits, but maintain training programmes, says Mr Haywood.

Education also has to be improved. But it is not necessary for everyone to have a matriculation certificate. People should be trained to do a particular job.

The second major problem preventing multiple shift work is current and future demand for products.

A solution, says the survey, is import replacement and export development. Exports would increase demand and help to cushion cyclical movements in SA's economy.

Apart from this, a common market is needed in Southern Africa, although political problems have prevented it. Trading houses should be established to help the small producer and barter trade should be considered.

The survey says it is vital that the importance and size of the manufacturing sector be increased, exports expanded and training improved.

there were net extraordinary through Mr Brownlees.

Saficon and Reunert

SAFICON Investments should have ranked 46th in last week's Top Companies survey with an average annual return to shareholders of 37,1%. (180)

The computer fundis forgot to adjust for a one-for-one share split in 1987 and a 50-for-100 capitalisation issue in August this year. S Times 10/12/89

Another omission was Reunert, which achieved a return of 25,1% a year and would have ranked 96th — ahead of AECI. The capital reduction implicit in the TSI deal threw out the original calculation.

Low-key Sankorp hits No 5 in profits

(180) S/Times 10/12/89.

SANKORP, the unlisted holding company for Sanlam's controlled interests, is SA's fifth most profitable group.

After hoisting taxed profit by 55% to R823-million in the year to September 1989, Sankorp's equity-accounted earnings rank after those of De Beers, Anglo American, Barlow Rand and Gencor.

By David Carte

The little-known behemoth narrowly shaded the taxed profits of Eskom and Iscor. In 1985, the group had numerous problem companies and reported a loss of R5,2-million.

With most underlying share prices, notably those of Gencor and Messina, up sharply, the market value of Sanlam's huge conglomerate soared by 79% to R5,9-billion.

Plums

Business Times reported earlier this year that many Sanlam-controlled lemons, such as Tedelex, Kanhym, Kohler, Messina, Abercom, Protea, Nissan and Tradegro, had turned into plums.

Well, as the above number demonstrates, the fruit has continued to sweeten. The performance of Sankorp has been an important reason for the good investment results achieved by the life assurer in the past five years.

Still, returns from several subsidiaries, such as Bankorp, Tradegro, Sentrachem and Federale Volksbeleggings, are not up to scratch.

Chief executive Marinus Daling hopes that by bringing these operations to satisfactory profitability, Sankorp can counter the effects of the looming economic slowdown.

Mr Daling says: "Much of the improvement comes from Gencor. Gencor contributed R287-million, or fully 35% of equity-accounted earnings.

"Our investment in Gencor is worth R3,2-billion after we followed our rights at a cost of R416-million."

Distressed

Second-biggest profit source was former loser Automakers, holding company for Nissan and its b..ly-pressing shops." Automakers turned over R2-billion and made more than R100-million after (minimal) tax in its most recent year.

Mr Daling says: "John Newbury and team have done a fantastic job at Automakers. Return on assets is still not outstanding, but you must remember we acquired Nissan in a distressed state through Messina. Our return on investment is looking pretty good even though we had to inject a lot of new money. There is much better to come."

Other major contributors to Sankorp in the past year were Bankorp (R68-million, or 8%), Anchusa (R50-million, 6%), Messina (R50-million, 6%), Sentrachem (R30-million, 3,6%), Santam (R23-million, 2,8%) and Tradegro (R22-million, 2,7%).

Sankorp received dividends and interest of R250-million last year, but Mr Daling warns that there is an anomaly in the numbers because Gencor Controlling paid three dividends in the year, not two.

For comparative purposes, dividend income was R200-million — up 33% from R150-million and there is every prospect of 30% growth in the current year. Dividends are paid straight to Sanlam.

The cash does not flow one way. Before he died, chairman Fred du Plessis announced that in the interests of greenfields real investment, the life assurer would make R2-billion of new money available to Sankorp companies in the next five years.

It will be up to them to find investment projects that create jobs and at the same time yield a good long-term return. Sankorp and its subsidiaries will draw the money only as it is needed.

Divergent

The R416-million spent on the Gencor rights is not included in the R2-billion, which has yet to be touched. The Impala-Messina platinum venture will soon require large amounts of money.

In spite of the success of its underlying investments, Sankorp paid out more money last year than it received. It will spend R200-million to R250-million on recapitalising Bankorp.

Six weeks ago, when Clive Weil became the seventh top man to leave Tradegro, I affronted Mr Daling by suggesting that Sanlam's (and by implication Sankorp's) bureaucratic style might have been a cause.

He says: "Bureaucratic is what we try hard not to be. We lay down no group policies of any kind and we don't ask downline companies for reports every month.

"We permit widely diverging company philosophies and cultures in the Sankorp group. We make it our business to keep out of the way, unless our intervention is absolutely necessary.

Foster

"We try to foster an environment in which management can flourish. As board members, we try to help with strategy.

"There are 21 people at head office, including support staff. There are only 10 managers on this staff, hardly enough to monitor every move our companies make."

Sankorp will never be listed because investment holding companies always trade at a discount. Already Gencor, Federale, Sentrachem and Tradegro stand at dis-

● To Page 3

Over my shoulder in Johannesburg headquarters . . . Sankorp chief executive Marinus Daling and portrait of former Sanlam chief executive Fred du Plessis Picture: Pierre Oosthuysen

Mid Wits soars on Venetia stake

By Julie Walker

MIDDLE Wits shares leapt by 25% to 650c this week when development of the R1,1-billion Venetia diamond mine was confirmed.

The Anglovaal mining holding company has been one of the stars of the sector on the strength of its mineral rights, having more than doubled in price this year. Announcements are expected soon on gold mining in the Northern Free State where Mid Wits has extensive interests.

The Venetia go-ahead spurred buying of Mid Wits on a soaring JSE. Its shares were the equivalent of R3 in January, having split 25 for one recently.

Venetia will bring much-needed employment to the North-western Transvaal. Open-cast mining will be used to exploit two of the kimberlite pipes while another 12 are studied. An application has been made for Messina — the closest town to Venetia — to be declared a free settlement area.

Diamond production should begin next year when the pilot plant has been upgraded. The main recovery plant should be completed in 1992, full production being reached the following year.

More than 3-million tons of ore will be treated annually, and 4-million carats of medium-quality stones produced.

Although De Beers will provide the capital and operate the mine, the holder of the rights to precious stones over the farm is Saturn Mining. It is 22% owned by Anglovaal and 65% by Mid Wits. S/Times 10/12/89

After recoupment of the initial capital outlay, profits will be shared equally between De Beers and Saturn.

Conscript cut could save a billion rands

S/Times 10/12/89

By Charmain Naidoo

HALVING of national service could result in an annual saving of R1-billion for taxpayers.

This is the opinion of James Self, President's Council member and Democratic Party director of communications.

Government sources refuse to confirm the figure, saying announcements will be made soon about the restructuring of national service.

Mr Self says that determining the direct and indirect costs of national service is difficult. The amount spent on conscripts when compared with the total defence budget is minuscule.

Engineer

"This year's defence budget is slightly more than R9-billion. The lion's share goes on salaries for the Permanent Force, equipment purchases, research and development."

He arrives at the R1-billion savings figure by looking broadly at national service-man intake figures — an average of 27 000 a year — pay, accommodation, food, entertainment, transport and arms.

"It's difficult to put a price on the indirect cost savings that will result from a year less in the army. Take an engineer who's invested a lot of money and time to get a degree. He then spends two years in the armed forces. You cannot easily put a price on his non-productivity as an engineer."

Confidence

Assocom statistician Ed Verburg says: "Considering that between 350 000 and 400 000 people come on the job market every year, the estimated 27 000 people taken in by the army amounts to a very small percentage."

Assocom manpower secretary Vincent Brett welcomes the reduction "from the point of view of the confidence that it engenders — it shows that our country is no longer at war".

This confidence will have a spin-off, working its way into the economy.

"But most of the people destined for national service are unskilled school leavers. This means a larger number of school leavers looking for jobs."

University of SA head of strategic Studies Deon Fourie says: "More people will be available for the economy much more quickly. But limits are placed on the number of newcomers that universities and technikons can accept.

"From what the State President has said, I presume that the national service intake cuts will be phased in over a year. Will this be enough time for institutions to find the facilities to cope with additional students? Is the economy in the position to absorb a larger workforce?"

Professor Fourie adds: "On the other hand, it might be that these problems were there all the time. They were merely deferred."

He believes money that would have been spent on national servicemen will be channelled into equipment and research and development.

Another consequence of the change will be that the Receiver of Revenue will have the use of enlisted chartered accountants for only a year. The much-feared "army worms" have been a force for honesty in tax affairs and have increased tax collections hugely in the past four years.

TV flicks without flicker

By Don Robertson

A NEW TV system — D2-Mac — is due to replace ageing PAL in the next two years. But it will not make existing TV sets obsolete.

The SABC is expected to start testing the D2-Mac in the next 18 months and could introduce it six months later.

High-density television (HDTV) using satellites for beaming programmes could be introduced in 10 years. HDTV doubles the number of lines on a TV screen to 1 250 to give a flicker-free picture.

D2-Mac was developed by the French Thomson Grand Public group, the world's third-largest electronic company. It also developed PAL.

Federale Volksbeleggings subsidiary Tek has access to the new technology.

The SABC will change to D2-Mac without much expense.

Tek will start production of CD disc players in February and will consider the production of VCRs early next year. S/Times 10/12/89

Tek is considering the introduction of digital technology at its Port Elizabeth plant to meet the demands of the entertainment electronics industry.

The centre was sold because the bank now has its Sandown management training centre.

Mr Hoffmann says: "We think R20-million was reasonable. There is potential for expansion."

From Page 1

Sankorp

180

counts to net asset value. There is little sense in being penalised further.

What is Sankorp's function? Why did it not stay part of the Sanlam life company portfolio? S Times

Mr Daling says: "As you know, these investments were part of the investment portfolio and it is only after we stripped them out and exercised our control function through Sankorp that we managed to turn so many around. 16/12/89

"I used to run Sanlam's portfolio investments and I can tell you there is a huge difference between merely investing and overseeing going concerns. A portfolio manager is more concerned about what the market will think of a company's performance than its actual performance. He also cannot take the long-term view that a controlling company can.

"When the market is high, a portfolio manager is thinking about selling shares. At that stage, a company's management is often considering a rights issue, so there is often a contradiction in direction.

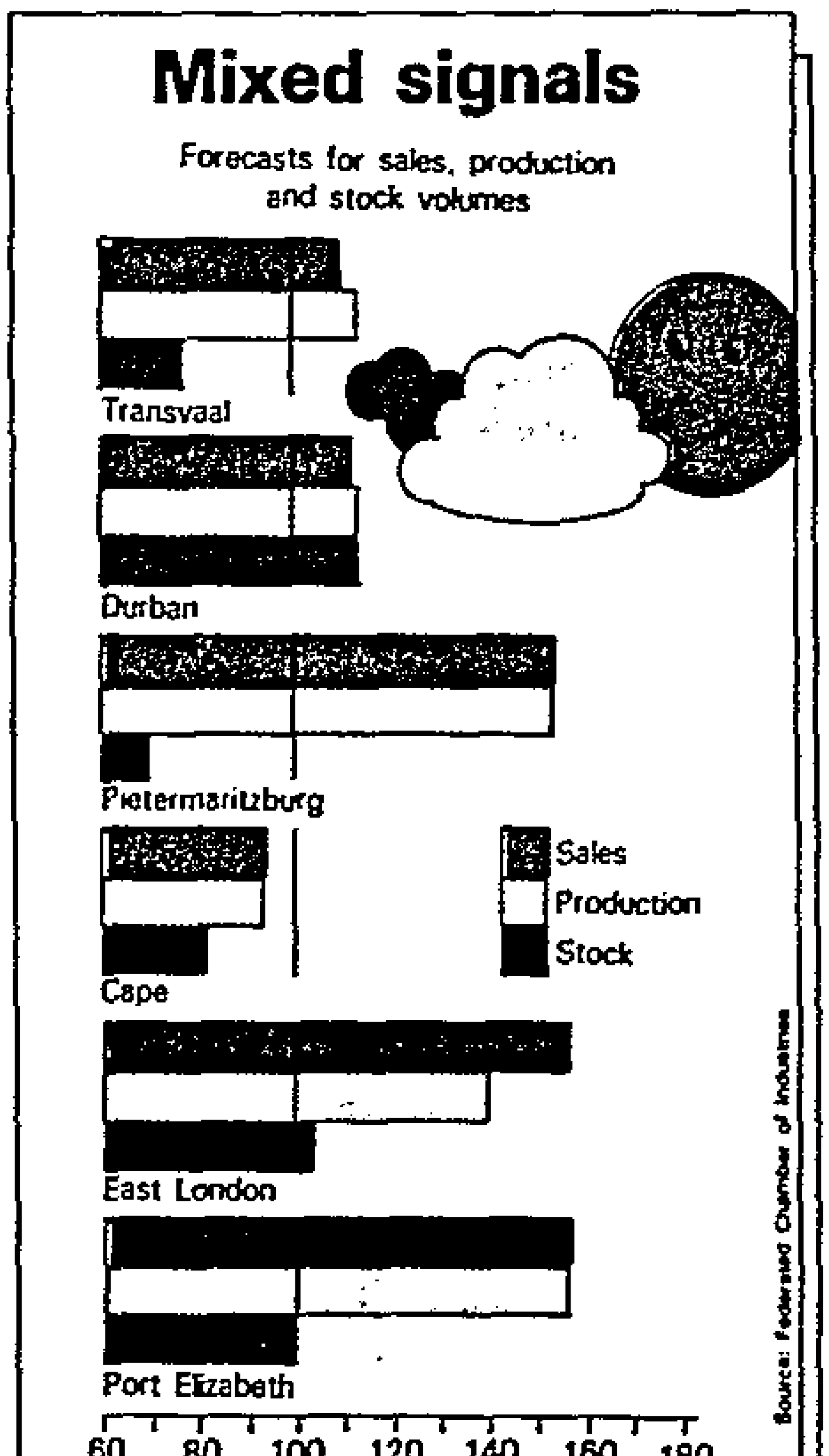
"I have no doubt that the establishment of Sankorp was one of Sanlam's better strategic moves."

15/12/89 FM.

INDUSTRIAL CONFIDENCE (180)

Trimming stocks

The latest FCI report on manufacturing confidence is a mixed bag. At first glance, industrialists are more optimistic about the outlook for the next 12 months. The monthly index for expected sales volumes rose from 110 in October to 118 in November — well into the optimism range. But industrialists also signalled caution by projecting reduced stock holdings.



The higher the figures over 100, the brighter the forecast. The period is for 12 months ending October 1990.

Regional director Ken Mason says the reduced stock expectations could point to improved control, with management beginning to have a more direct role in keeping stocks at reasonable levels.

"One could also deduce that increased computerisation is assisting management in keeping stock levels down, thus saving interest on unutilised stock," adds FCI economist Keith Lockwood.

Whatever the explanation, industrialists are clearly keeping their powder dry for an expected tightening in demand, though they are now more optimistic about the year ahead than they were in October.

FCI economist Roelof Botha says the improved political climate, coupled with the higher gold price and "clear indications that government is exercising greater financial discipline," led to more optimism for the year ahead. Other positive developments, such as gold's continued strong performance and the halving of conscription (see cover story), won't show up until December's report.

"Industrialists expect interest rates to come down after April, with a high probability of a positive growth rate in 1990," Botha says.

While industrialists are more optimistic about sales and production volumes, the lower stock forecasts countrywide reveal a combination of healthy caution and the effect of higher interest rates, in addition to improved stock management. Only in Durban do the expected stock levels forecast steady growth for the year ahead.

Cape industrialists were the most pessimistic. The Cape was the only region where manufacturers forecast reduced sales, production and stock volumes for the year ahead.

"This is because of the large number of industries manufacturing consumables like clothing and footwear that are concentrated in the Peninsula," says Lockwood. ■

McGregor looks at

looks at

BTimes 17/12/89

services

McGREGOR'S survey of corporate finance services in SA 1989 should interest businessmen and investors.

The survey, researched by McGregor's and Rhonda Stewart and sponsored by UAL and Kessel Feinstein, covers the JSE's listings boom until the October 1987 crash, and its effect on SA's corporate finance market.

The competition among merchant banks, issuing houses, stockbrokers and auditing firms is discussed.

Robin McGregor's foreward says it is designed to help companies planning to list, or simply wishing for more insight into the role of professional advisers.

FEES

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The role of a sponsoring broker is highlighted. The survey says "brokers could charge more competitive fees because they made money on the subsequent trading of the shares". That suggestion will not go down too well in Diagonal Street.

The choice of professional advisers also receives a chapter. Large companies needing underwriting facilities tend to use merchant banks, whereas small or novice firms can be served by a stockbroker.

The survey is available from the sponsors.

R250 000 for SA business chamber boss

(180)

17/12/89. S/Times

By Don Robertson

THE soon-to-be-formed SA Chamber of Business (SACB) is looking for a business superman to head its operations.

Heading the committee which will decide who takes on the onerous task is Barlow Rand chairman Mike Rosholt.

The SACB will come into operation in January and will consist of the merged Federated Chamber of Industry (FCI) and the Association of Chambers of Commerce and Industry (Assocom).

It will represent about 37 000 companies employing about 1,2-million people.

Lateral

An advertisement in Business Times gives some of the qualifications needed to fill the R250 000-a-year post: "He will be a man who can challenge conventional thinking ... a lateral thinker who will achieve the objectives of the Chamber of Business. He will attend to macro-issues which will be of common interest to all constituent bodies.

"He will therefore manage select committees of both business chamber staff and co-opted experts to ensure that opinion is fully debated and mandated before expression.

"He, or she, will be a diplomat and gifted communicator who is well known in Government and business circles. Key elements to success will be social conscience which is finely balanced with a practical feel for all aspects of business, commercial, financial and other related principles."

Duty

The advertisement says contenders for the position are already under consideration. The reference is to FCI chief executive Ron Haywood and his opposite number at Assocom, Raymond Parsons.

Mr Haywood has business experience, having been managing director of Midmacor, but Mr Parsons has little experience outside Assocom.

Although it is expected that Mr Haywood or Mr Parsons will get the post, it was decided to cast the net wider.

Industry sources believe that the man who gets the job will not necessarily need the R250 000 package, but will be attracted to it by "a sense of duty and commitment to a better cause".

The other selection committee members are the FCI's Hugo Snyckers and Andy Warner and Assocom's Alex Rogoff and Denis Paxton.

The SACB is also looking for a chief economist, who will presumably replace Roelof Botha, currently head of economics at the FCI. Mr Botha moves to the Rand Afrikaans University next year as chief lecturer in economics.

● From Page 1

Sankorp

1987 when it was Mercedes Datakor.

TR Services shares hit 390c soon after listing, and have been as low as 120c. They are currently 200c, in line with the stand-by offer.

Datakor was the market's darling in the glamour electronics sector until the 1987 crash. It traded as high as 560c, but has since plumbed the depths. At the current 80c the shares are only 5c above the all-time low of October this year.

Thorough overhaul of tax system needed — Assocom

STAR 23/12/89

(180)

THE tax structure does not need minor tinkering with and running adjustments to keep the fiscal machine on the road, but rather a thorough overhaul, says an article in the latest *Assocom Review*.

The article refers to the 500-page report of the Margo Commission of Inquiry into the tax structure that was submitted to the State President in 1986.

"Except for the decision to replace GST with VAT, the labours of Margo and his fellow commissioners appear to have been forgotten, overlooked and disregarded — which is a pity because there was much in the report of merit . . .

"South Africa's tax structure needs not minor tinkering with and running adjustments to keep the fiscal machine on the road, but a thorough overhaul . . .

"Next year's Budget speech will provide the Minister of Finance, Barend du Plessis, with the opportunity to assure the country that the Margo Commission did not labour in vain, and that the report is not gathering dust in the archives."

Assocom maintains that the present tax burden is inequitable.

"It must be reduced and it must take cognisance of inflation, particularly its influence on fiscal drag, which penalises the wage-earner and stifles initiative.

"Both the income tax threshold and the ceiling on the top marginal rate must be raised and the gradients smoothed.

"Company tax must be reduced and allowances clearly defined and equitable.

"Impulsive taxes such as the import surcharges, imposed without thought or consultation, must be relegated to the ashcan; they destroy sound business planning.

"The undesirable tendency — so marked last year — of introducing retroactive taxes, must be stopped."

Assocom goes on: "We don't need a capital gains tax, but what is necessary is more clarity in the definition of what is a capital gain and what is income.

"This cannot be left to the whims of local receivers of revenue because it often leads to inconsistancy.

"It is unfair on them and on taxpayers, and leads to uncertainty.

"Cuting direct taxes and replacing them with indirect taxes is fiscal sleight of hand.

"It fools nobody and only earns disrespect for the fiscus."

Assocom concludes that the spirit of reform is a growing force in South Africa.

Mr du Plessis should follow the State President's lead and introduce constructive reforms into the tax system, it says. — Sapa.

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Optimism for closer links with Government

Business cheered by FW talks

Staff Reporter

President de Klerk's recent meetings with organised business have raised hope for a closer relationship with the Government, says the Witwatersrand Chamber of Commerce and Industry's latest bulletin.

Meetings with the President and Cabinet Ministers demonstrated clearly "a fresh attitude of co-operation with the private sector and a sensitivity towards the views and needs of business", the bulletin said.

It added that Mr de Klerk *agreed with the view of the Association of Chambers of Commerce and Industry (Assocom) for that the need for evolutionary* constitutional reform linked to a sound economy, and acknowledged that South Africa's economic problems were partly because of political problems.

On the issue of the State President's Economic Advisory Council, Mr de Klerk said he was sympathetic to arguments *for the inclusion* of business representatives.

Privatisation, productivity, and "the inordinate size of the civil service" were the basis of talks with the business delegates and Minister for Administration and Privatisation Dr Wim de Villiers.

Dr de Villiers outlined his *plans to revise the public sector's* financial management system and introduce more cost-effective principles in the running of the service.

Inflation was the country's biggest problem, he said. Concerted efforts to combat inflation by both the public and private sectors would result in greater productivity.

Discussing current economic conditions and the impact of the import surcharge, Minister of Trade and Industry Mr Kent Durr said he intended co-operating as closely as possible with the private sector.

Delegates conveyed the business sector's view that the next Budget should provide for the upgrading of the police force.

Arguments for the implementation of a Bill of Rights were discussed with Dr Gerrit Viljoen, the Minister of Constitutional Development, and Minister of Justice Mr Kobie Coetsee.

Pressing needs to reduce the high rates of personal and corporate income tax, scrap the double taxation of dividends, and address the problem of the impact of "fiscal drag" on the tax burden carried for those with moderate incomes, were also discussed.

Delegates stressed that real tax reform depended on effective cuts in Government expenditure, and welcomed indications that the issue "was now being addressed".

Other matters discussed included surviving instances of retroactive tax legislation; delays experienced with appeals to the Income Tax Special Court.

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Industrial rentals 'too low'

By Tom Hood

Manufacturing production volumes slowed slightly this year but are still at levels last seen in the 1981 gold boom, says Mr Derek Stuart-Findlay, property services manager at Old Mutual.

The use of production capacity is running at well above 84 percent, which is close to theoretical full capacity, after reaching a low point of 77 percent in mid-1986 and 83 percent last year, he says in a review of industrial rentals.

Overtime hours worked are still at their highest levels since 1982, although the trend is slightly lower than it was at the end of last year.

These factors, coupled with no upturn in the building of factories, has boosted rentals this year — up 20 percent in Cape Town and Pretoria, between 20 and 40 percent in Johannesburg and between 40 and 50 percent in Durban.

However, in some cases industrial rentals only recently moved to higher levels than they were in 1983. Rentals actually dropped between 1982 and 1987.

Old Mutual, one of the country's largest owners of industrial property with about one million sq m of rentable area, has a vacancy factor of ~~only~~ two percent compared with 21 percent two years ago.

"By any standards, this is an incredible turnaround and this performance has been repeated all over the country by other property owners," says Mr Stuart-Findlay.

"Although we are delighted to be in this position, in some ways it is an embarrassment. In the property market a three percent vacancy factor is considered to indicate a fully let position. Here we are sitting on less than that and this indicates only one thing — industrial rentals are still too low."

Rentals of at least R8 sq m were needed to produce a realistic return on current building costs but only in selected areas was R8 being paid — generally for small areas below 1 500 sq m.

Mr Findlay said he believed industrial companies could afford to pay higher rentals even though the economy was expected to slow down.

Since 1986 earnings of industrial companies quoted on the JSE have almost trebled while rents have lagged far behind. In addition company margins improved.

"Perhaps a reason for this lag in rentals was the lingering memory of those enormous 500 000 to 600 000 sq m of vacant space only a few years ago in the Transvaal. There were few people around in those days who would have dared to forecast the extent of the turnaround in the industrial property market.

New formula to boost tax coffers

W/t Argus 30/12/89 (180)

From DEREK TOMMEY

JOHANNESBURG. — The surprise change in the formula for assessing depreciation allowances in the manufacturing industry, announced earlier this month by the Deputy Minister of Finance, Dr Org Marais, should sharply boost the government's tax revenues.

Figures issued by Central Statistical Services indicate that the 50-30-20 percent depreciation formula — which was introduced in January 1 this year and has now been terminated — cost the government about R2 billion in lost tax revenues.

Capital equipment

On the other side of the coin, the tax savings boosted manufacturing company profits on average by about 20 percent and went a long way to help sustain the boom on the Johannesburg Stock Exchange in industrial shares.

But now manufacturers will have to depreciate new capital equipment over five years on a straight-line basis, reversing this situation.

On the assumption that the level of capital investment by manufacturing is maintained in 1990, the fiscus can expect to receive an additional R1,8 billion from manufacturing companies in the form of extra tax.

Central Statistical Services figures show that capital expenditure by the manufacturing sector in the first half of this year totalled R3,25 billion.

On the 50-30-20 formula companies in this sector were able to write off about R1,6 billion of this expenditure against tax instead of R650 million under the five-year formula.

Therefore the introduction of the 50-30-20 percent formula saved manufacturing companies about R1 billion in tax in the first six months and cost the Treasury a similar amount.

For the full year it seems that the tax savings to manufacturing and the tax loss to the Treasury will be about R2 billion.

The effect of the 50-30-20 percent tax formula on profits was significant.

Pre-tax profits for the manufacturing sector for the six months ended June were R8,72 billion while tax payments were R3,0billion leaving taxed profits of R5,71 billion.

However, if the 20 percent five-year depreciation formula had been in operation, tax payments would have been R1 billion higher and taxed profits would have been only R4,71 billion.

The introduction of the 50-30-20 formula on average, therefore, helped to boost taxed profits by more than 20 percent.

There can be no doubt that next year the profits of capital intensive companies such as Iscor are likely to suffer from the new depreciation formula.

The government has been sharply criticised by commerce and industry for its bumbling approach to depreciation allowances and for the great uncertainty it has created with these changes.

Although the government has attempted to defend the ending of the 50-30-20 percent formula with a claim that it was being greatly abused, there seems no doubt that the introduction of this formula was probably a great mistake.

It was a most costly concession and an unnecessary one, says tax expert Costa Divaris. No one had asked for it.

He had been greatly surprised at the Government's generosity, he said.

"It was the most extraordinary concession it has ever made."

Mr Chris Frame of Price Waterhouse said the decision to change the depreciation formula was not a good one in the present circumstances.

Changing the depreciation rates simply because the Treasury was unable to counter particular systems was like using a hammer to shell a peanut, he said.

It would increase the cost of capital for companies making new investments and also reduce their cash flows. It most certainly would lead to reduced capital expenditure, he said.

However, while many company officials are mostly unhappy about the changes, they may have a silver lining in the next Budget.

The government has made it known on a number of occasions that it wants to lower company tax.

It may be that the government is considering using the savings arising from the new depreciation formula to reduce tax rates generally.